

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns first-time Baa2 rating to MVM Energetika Zartkoruen Mukodo Reszvenytarsasag; outlook negative**

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04 Feb 2025

Frankfurt am Main, February 04, 2025 -- Moody's Ratings (Moody's) has today assigned a first-time Baa2 long-term issuer rating to MVM Energetika Zartkoruen Mukodo Reszvenytarsasag (MVM Zrt.). Concurrently, we have assigned a Baseline Credit Assessment (BCA) of baa3. The outlook is negative.

#### RATINGS RATIONALE

MVM Zrt.'s baa3 BCA, which reflects its standalone credit quality, is underpinned by the company's (1) competitive low-carbon generation mix with more than 80% of power output coming from nuclear and renewable plants which continue to benefit from wholesale prices above historical averages (via the company's wholesale segments); (2) significant share of earnings from the regulated infrastructure business, supported by a fair regulatory regime; (3) leading market positions across significant parts of the value chains in electricity and gas in Hungary; (4) 100% ownership by the solidly rated and generally supportive Government of Hungary (Baa2 negative).

We expect MVM Zrt.'s financial profile to remain strong in the coming years, with funds from operations (FFO) to net debt above the mid-30s in percentage terms, surpassing our guidance for the current rating. This view takes into account (1) solid and improving performance in the generation segment and retail supported by the compensation scheme for its universal supply provision (USP) activities; and (2) a solid EBITDA contribution from the Infrastructure segment supported by higher tariffs to compensate for elevated costs for grid losses and balancing services.

However, MVM Zrt.'s rating is constrained by: (1) the group's exposure to volatile commodity prices as a result of its pivotal role in Hungary's wholesale electricity and gas markets and the associated funding requirements for working capital; (2) tariff determinations in the regulated USP segment which fail to incorporate actual energy costs, but mitigated by a compensation scheme that will remain valid until further

notice; (3) exposure to adverse changes in domestic energy policy, mitigated by a track record of tangible government support including repeated equity contributions to fund capital expenditures and acquisitions; (4) uncertainty around the company's future dividend policy, underpinned by high distributions in 2023/24; and (5) increasing contributions from higher risk businesses, e.g. gas exploration (incl. the acquisition of a stake in the Azerbaijanian Shah Deniz gas field).

MVM Zrt. falls under our Government-Related Issuers methodology due to its 100% ownership by the government. The company's Baa2 rating currently incorporates one notch of uplift from its baa3 BCA, reflecting the combination of: (1) high default dependence (given the company's strong domestic focus and close linkage to the government); and (2) moderate likelihood of extraordinary support being provided by the Hungarian government in case of financial distress.

## LIQUIDITY

As of end-June 2024, MVM Zrt. had cash and cash equivalents on balance sheet of around HUF384 billion. Additionally, the company has access to various Revolving Credit Facilities (RCF) with different tenors, of which HUF1,625 billion were undrawn on 30 June 2024. Despite elevated dividend payments above historical averages and increasing capital expenditures, we anticipate that MVM Zrt. will maintain a good liquidity buffer throughout 2025. We further expect, that the government would provide liquidity if this were to become necessary.

## ESG CONSIDERATIONS

MVM Zrt. benefits from low-carbon nuclear and renewable generation. However, around one third of its generation capacity is still based on lignite, gas and oil, a negative environmental consideration. Lignite and oil shall be phased out after the construction and commissioning of new, yet to be built combined cycle gas turbine plants, expected by late 2028. As is typical for utilities, the company is exposed to social risks, mainly concerning affordability of energy due to its role as universal service provider, as demonstrated with the introduction of a price cap on electricity and gas in 2022. This is however mitigated with a compensation scheme that covers all losses arising from the cap. On governance, MVM Zrt.'s structure has a degree of complexity which results, for example, in limited visibility on intercompany transactions. At the same time the group maintains generally stable operations and a financial policy that is clearly focused on retaining an investment grade credit rating. We assume, that the moderately negative aspects are balanced by government intervention, if needed.

## RATING OUTLOOK

The negative outlook is in line with the negative outlook on the Government of Hungary. Any downgrade in the rating of the Government of Hungary would likely result in a downgrade of MVM Zrt.'s rating.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of the BCA is currently unlikely in the absence of material changes to the company's business profile. An upgrade of MVM Zrt.'s rating above the level of the Hungarian sovereign is not anticipated given the government's 100% ownership and the company's exposure to macroeconomic conditions in Hungary.

Downward pressure on MVM Zrt.'s BCA could develop in the event of: (1) a sustained deterioration in the company's financial profile resulting in FFO to net debt below the high-20s in percentage terms on a sustained basis; or (2) a significant deterioration of business risk characteristics, potentially as a result of adverse changes to the USP compensation scheme, that lead to a more challenging operating or regulatory environment; or a combination of the above.

The rating could be downgraded if the BCA or the rating of the Government of Hungary were downgraded or if our support assumptions currently incorporated into MVM Zrt.'s rating were reduced.

## PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Unregulated Utilities and Unregulated Power Companies published in December 2023 and available at <https://ratings.moodys.com/rmc-documents/412151>, and Government-Related Issuers methodology published in January 2024 and available at <https://ratings.moodys.com/rmc-documents/406502>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

## PROFILE

Headquartered in Budapest, Hungary, MVM Zrt. is the largest integrated utility group in the country and fully owned by the Hungarian state. The company is active along the entire energy value chain, including electricity generation, transmission and distribution; electricity and gas wholesale and retail; as well as gas storage, distribution and exploration. In the first half of 2024, MVM Zrt. reported sales revenues of HUF2,156 billion (EUR5.2 billion) and EBITDA of HUF450 billion (EUR1,085 million).

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at <https://ratings.moodys.com/rmc-documents/435880>.

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