MOODY'S
RATINGS

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

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.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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 .

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Maurice Loewe, CFA

Asst Vice President - Analyst

Neil Griffiths-Lambeth
Associate Managing Director

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

---

independently verify or validate information received in the credit rating process or in preparing its Materials.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY’S.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY’S IN ANY FORM OR MANNER WHATSOEVER.

Moody’s Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody’s Corporation (“MCO”), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody’s Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay Moody’s Investors Service, Inc. for credit ratings opinions and services rendered by it. MCO and all MCO entities that issue ratings under the “Moody’s Ratings” brand name (“Moody’s Ratings”), also maintain policies and procedures to address the independence of Moody’s Ratings’ credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody’s Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at ir.moodys.com under the heading “Investor Relations — Corporate Governance — Charter and Governance Documents - Director and Shareholder Affiliation Policy.”