

Hungarian Integrated Utility MVM's Proposed Benchmark Unsecured Notes Rated 'BBB-'

November 4, 2021

PARIS (S&P Global Ratings) Nov. 4, 2021--S&P Global Ratings today assigned its 'BBB-' issue rating to Hungarian utility MVM Energy Private LLC's (MVM's; BBB-/Stable/--) proposed benchmark senior unsecured notes with a tenor of six or seven years. The 'BBB-' rating reflects that the notes rank equally with MVM's existing unsecured debt in the capital structure and that priority debt is well below our 50% threshold. The issuance is MVM's first euro-denominated bond on the capital markets and we expect it will use the proceeds for general corporate purposes.

Our rating on MVM reflects its leading position in the Hungarian energy market, as well as its vertically integrated business model, which protects the company from current high gas and power price volatility. We believe that MVM's high share of regulated and contracted portfolio activities protects its current profitability, notably with Hungary's supportive regulatory framework for gas and electricity networks that helps to pass cost increases to customers. For example, in first-half 2021, the spike in commodity prices resulted in a 30% rise in the company's gas sales and 37% increase in cost of purchases. We expect 2021 results will be in line with our expectations with EBITDA increasing above Hungarian forint (HUF) 250 billion, including the full year integration of Innogy's Czech retail activities. We view the company's exit from coal operations and transition toward a low-carbon-dioxide generation fleet, focusing on nuclear and solar; inherently stable cash flow in its regulated transmission and distribution activities; and track record of government support as key credit strengths.

We expect MVM will significantly increase its leverage in the next two-to-three years with funds from operations to debt at about 35% in 2021 and decreasing to almost 30% by 2024, compared with 47% in 2020 and about 44% in first-half 2021. At the same time, we expect debt to EBITDA of about 2x before increasing and remaining at about 2.4x from 2022. This is because management's focus on acquisitive growth in its core infrastructure and renewables activities will keep adjusted debt as high as €600 million on average in 2021-2023, while a rise in net capital expenditure to about €240 million annually will lead to negative discretionary cash flow.

A complete issuer credit rating rationale is available in our most recent research update (see "Hungarian Public Integrated Utility MVM Group Assigned 'BBB-' Rating; Outlook Stable," published June 22, 2021, on RatingsDirect).

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019

PRIMARY CREDIT ANALYST

Pauline Pasquier
Paris
+ 33 14 420 6771
pauline.pasquier
@spglobal.com

SECONDARY CONTACT

Elena Anankina, CFA
Moscow
+ 7 49 5783 4130
elena.anankina
@spglobal.com

Hungarian Integrated Utility MVM's Proposed Benchmark Unsecured Notes Rated 'BBB-'

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Hungarian Public Integrated Utility MVM Group Assigned 'BBB-' Rating; Outlook Stable, June 22, 2021

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.