MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
7 January 2016

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RATINGS

Backed Issuer Rating	A1
Backed Senior Unsecured	A1
Outlook	Negative

Source: Moody's

KEY METRICS:

	2012	2013	2014
FFO Interest Cover	3.9x	4.0x	3.6x
Net Debt / Fixed Assets	67.1%	68.0%	80.5%
FFO / Net Debt	11.2%	11.2%	8.3%
RCF / Net Debt	6.8%	6.8%	5.3%

Source: Moody's Financial Metrics

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Eandis System Operator CVBA

DSO merger does not have any credit implications

The recent merger of the seven electricity and gas distribution system operators (DSOs) that form part of the Eandis economic group and own the distribution network operator Eandis System Operator CVBA (previously Eandis CVBA) does not have any credit implications. However, it simplifies the group's organisational structure and facilitates the introduction of a new private equity investor, which could improve the group's financial flexibility, a potential credit positive.

On 30 December 2015, Eandis announced that extraordinary general assemblies of the DSOs Imewo, Gaselwest, Intergem, Iveka, IMEA, Iverlek and Sibelgas had formally approved the merger of these seven entities with effect from 1 January 2016. The merged entity, called Eandis Assets, will own the distribution network assets while Eandis (renamed as Eandis System Operator with effect from 1 January 2016) will continue to operate the assets on behalf of the merged DSO.

Eandis raises finance to maintain and enhance the distribution network assets under a EUR5 billion medium-term note programme. Until December, the seven DSOs severally guaranteed the debt raised by Eandis under this programme. These guarantees have now been assumed by the merged entity Eandis Assets.

Eandis's current A1 rating reflects Moody's assessment of the credit quality of the guaranteeing DSO owning the company. The stand-alone credit quality of the Eandis economic group (comprising the consolidated credit quality of the DSO and Eandis) is in the high-Baa range.

The assigned A1 rating also reflects a three-notch uplift from this stand-alone credit quality, considering the high probability that the Community of Flanders (Aa2 stable) will ultimately support the DSO should that become necessary in exceptional circumstances, given the strategic and economic importance of the provided services for the region.

The credit quality of the Eandis economic group is underpinned by the low business risk profile of their regulated electricity and gas distribution operations in the Flemish region, where the DSO generates substantially all of its cash flows. The regulatory framework is supportive and transparent, albeit relatively new and untested in the context of European regulated peers. The ongoing transition of tariff setting responsibilities from the national to the regional regulators continues to create some uncertainty on cash flow generation capability in the medium term, but the proposed tariff setting methodology maintains established principles.

The negative outlook on the rating reflects a currently weak financial profile given under-recovery of costs through revenues in previous regulatory periods and EUR965 million of debt incurred due to the exit of Electrabel S.A. (A3 negative) as shareholder in the DSOs in December 2014.

While during 2015 Eandis received equity contributions from the municipalities and provinces owning the seven DSOs, these amounts were insufficient to restore the consolidated leverage of the Eandis economic group to pre-Electrabel-exit levels.

Therefore, following on from the completed DSO merger, Eandis intends to tender a minority ownership stake in the merged DSO to interested long-term investors.

The coalition agreement of the new Flemish government considered the possibility of third party financial investor participation in the waste treatment and energy sectors, but the related decree has still to be ratified. We understand that the draft decree restricts external equity ownership to a maximum of 49% of total share capital and 25% of voting rights, thus maintaining significant influence from local or regional government.

Subject to all approvals being in place and the tender process being concluded as envisaged by Eandis's management, we expect additional equity capital to be raised during the first half of 2016. However, the exact timing, amount and identity of the provider of any such potential additional equity capital remains uncertain. Even under a scenario of full recovery of the current tariff deficit and green certificate costs, which we expect over the period to 2020, a substantial amount may need to be raised to ensure that the consolidated financial metrics of the Eandis economic group improve to levels within our guidance for the current rating, in particular leverage (measured as net debt to RAB) comfortably below 70% and funds from operations (FFO)/net debt in the low teens.

Peer Group:

» Alliander N.V.

» Enexis Holding N.V.

Moody's Related Research

Credit Opinion:

» Eandis CVBA

Industry Outlook:

» EMEA Regulated Electricity & Gas Networks: 2016 Outlook - Stable, but pressures from low inflation persist, November 2015 (1009819)

Rating Methodology:

» Regulated Electric and Gas Networks, November 2014 (159570)

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