# Alliander's Proposed Hybrid Instrument Rated 'BBB+'; Equity Content Intermediate

**June 20, 2024**

- Alliander N.V. has announced the launch of a single-tranche hybrid instrument of benchmark size.
- The company intends to use the proceeds to refinance its €500 million instrument that has a first redemption option in March 2025.
- We assigned our 'BBB+' issue rating to the proposed security, which we assess as having intermediate equity content until its first reset date, to reflect its subordination and optional interest deferability.

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PARIS (S&P Global Ratings) June 20, 2024--S&P Global Ratings today said it assigned its 'BBB+' long-term issue rating to the proposed undated, optionally deferrable, and subordinated hybrid capital securities to be issued by Dutch-based energy distribution system operator Alliander N.V. (A+/Stable/A-1).

The transaction remains subject to market conditions. We also anticipate that after this transaction, the overall amount of hybrid instruments with intermediate equity content will not change, at €1.1 billion (about 12% of the company's capitalization, including the €600 million optionally convertible shareholder loan maturing in 2081 that we evaluate as having intermediate equity content).

We believe the proposed hybrid will have intermediate equity content until the first reset date, which we understand will fall no earlier than five years from issuance, in addition to the three-month par call period (5.25 years from issuance). During this period, the securities meet our criteria in terms of ability to absorb losses or conserve cash if needed.

We view this issuance as a refinancing transaction that will enable Alliander to fully replace its €500 million 1.625% hybrid, first callable in March 2025. As a result, we now view the equity content of the hybrid to be replaced as minimal. This does not change our view of Alliander's intent regarding the other hybrids in the company's capital structure.

We derive our 'BBB+' issue rating on the proposed securities by notching down from our 'a' stand-alone credit profile on Alliander. As per our methodology, the two-notch differential reflects:

- A one-notch deduction for subordination because the rating on the company is above 'BBB-'; and
- An additional one-notch deduction to reflect payment flexibility--the deferral of interest is optional.

The number of downward notches applied to the securities reflects our view that the issuer is relatively unlikely to defer interest. Should our view change, we may deduct additional notches to derive the issue rating. We notch down from Alliander's stand-alone credit profile because we do not believe hybrid instruments are likely to benefit from government support.

Furthermore, to capture our view of the proposed securities' intermediate equity content, we allocate 50% of the related payments on these securities as a fixed charge and 50% as equivalent to a common dividend, in line with our hybrid capital criteria. The 50% treatment of principal and accrued interest also applies to our adjustment of debt.

Alliander can redeem the securities for cash any point in the three months immediately before the first reset date, then annually on every interest payment date. In our view, the company's statement of intent has underscored its willingness to maintain or replace the securities and reduces the likelihood that the issuer will repurchase the notes on the open market. Although the proposed securities are perpetual, they can be called at any time for events that we deem external or remote (such as changes in taxes, accounting, or rating). In addition, Alliander can call the instrument any time before the first call date at a make-whole premium (the make-whole call). We understand the company does not intend to redeem the instrument during this make-whole period, and do not consider that this clause creates an expectation that the issue will be redeemed in that time. Accordingly, we do not view it as a call feature in our hybrid analysis, even if it is referred to as a make-whole call clause in the documentation.

We understand that the interest on the proposed securities will increase 25 basis points (bps) five years after the first reset date, then an additional 75 bps at the second step-up 20 years after the first reset date. We view any step-up above 25 bps as presenting an incentive to redeem the instrument, and therefore treat the date of the second step-up as the instrument's effective maturity.

## Key Factors In Our Assessment Of The Instrument's Deferability

In our view, Alliander's option to defer payment on the proposed securities is discretionary. This means that the issuer may elect not to pay accrued interest on an interest payment date because doing so is not an event of default. However, any deferred interest payment will have to be settled in cash if Alliander declares or pays an equity dividend or interest on junior or equally ranking securities, and if the issuer redeems or repurchases shares or equally ranking securities. Still, this condition remains acceptable under our methodology, because once the issuer has settled the deferred amount, it can still choose to defer on the next interest payment date.

## Key Factors In Our Assessment Of The Instrument's Subordination

The proposed securities (and coupons) are intended to constitute Alliander's direct, unsecured, and subordinated obligations, ranking senior to their common shares.

## Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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 | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- 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

- Dutch DSO Alliander 'A+/A-1' Ratings Affirmed; Outlook Stable; Off CreditWatch Positive On Capex Increase, Feb. 2, 2024
- Utilities Handbook 2023: Western Europe Regulated Power, Oct. 18, 2023