

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns A3 rating to Alliander's hybrid notes

20 Jun 2024

Frankfurt am Main, June 20, 2024 -- Moody's Ratings (Moody's) has today assigned an A3 long-term junior subordinated rating to the proposed EUR benchmark-size resettable, fixed rate hybrid notes (the Hybrid) to be issued by Alliander N.V. (Alliander). The size and completion of the Hybrid is subject to market conditions. The outlook is stable.

RATINGS RATIONALE

The A3 rating assigned to the Hybrid is three notches below Alliander's Aa3 long-term issuer rating, and one notch below its Baseline Credit Assessment (BCA) of a2, reflecting its deeply subordinated nature, ranking senior only to ordinary shares. The rating is in line with that of the existing hybrid notes issued by the company.

In our view, the Hybrid has equity-like features that allows it to receive Basket 'M' treatment (please refer to Moody's Hybrid Equity Credit methodology published in February 2024), i.e. 50% equity credit and 50% debt for financial leverage purposes. The features of the Hybrid include (1) the optional coupon deferral with cumulative settlement; (2) the perpetual maturity; and (3) no step-up in coupon prior to year 10 and the step-up will not exceed a total of 100 basis points thereafter. Furthermore, it ranks pari passu with Alliander's outstanding shareholder loan.

As the Hybrid's rating is positioned relative to another rating of Alliander, a change in either (1) Moody's relative notching practice; or (2) the Aa3 issuer rating of Alliander, could affect the rating of the Hybrid.

Alliander's credit quality is underpinned by the company's low business risk as the monopoly provider of electricity and gas distribution network services within its service area; stable and predictable cash flow, generated under a well-established and transparent regulatory framework; and strong financial profile, with modest leverage (as measured by net debt/fixed assets) compared with other European networks.

For the remaining current regulatory period until 2026, we expect a decline in financial metrics because of growing capital spending, primarily related to facilitating the delivery of the Netherlands' (Aaa/P-1, stable) ambitious energy transition objectives.

Alliander's Aa3 rating incorporates a two-notch uplift from its standalone credit quality, defined as a BCA of a2, reflecting the strong probability of extraordinary financial support from its owners — the largest of which is the province of Gelderland, holding around 45% of Alliander's shares — or the Dutch state, if needed.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects our expectation that Alliander will continue to derive most of its revenue and cash flow from low-risk regulated activities and maintain a financial profile in line with the minimum guidance for the current rating as outlined below.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

A rating upgrade is currently unlikely, taking into account the expected weakening in Alliander's financial profile as a result of significantly growing investment requirements in the context of the country's ambitious energy transition objectives.

A rating downgrade could be triggered if Alliander fails to maintain minimum credit metrics for its rating, with a deterioration in its financial metrics, such as funds from operations (FFO)/net debt persistently below 16% and net debt/fixed assets significantly above 50%.

The rating could also be subject to downward pressure if the credit quality of the municipalities and provinces owning Alliander were to significantly weaken or if our assessment of extraordinary support weakened.

The methodologies used in this rating were Regulated Electric and Gas Networks published in April 2022 and available at <https://ratings.moodys.com/rmc-documents/386754>, 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.

Headquartered in Arnhem, Netherlands, Alliander owns and manages low and medium voltage electricity and gas distribution networks in the Dutch provinces of Gelderland, Noord-Holland, Flevoland and large parts of Friesland and Zuid-Holland. The company is the largest electricity and gas network operator in the Netherlands, with approximately 3.3 million electricity and 2.5 million gas connections, covering around 35% of the Netherlands.

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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