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Research Update:

Dutch Network Operator Alliander's Proposed Junior Subordinated Notes Assigned 'A' Issue Rating

Primary Credit Analyst:
Beatrice de Taisne, CFA, London (44) 20-7176-3938; beatrice.de.taisne@spglobal.com

Secondary Contact:
Bjoern Schurich, Frankfurt (49) 69-33-999-237; bjoern.schurich@spglobal.com

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- Dutch electricity and gas distribution network operator Alliander N.V. plans to issue a new hybrid instrument totaling up to €500 million.
- The company is proposing to tender its existing capital security issued in 2013 and replace it with the new perpetual capital security.
- We assess the proposed security as having intermediate equity content, and are assigning it our 'A' issue rating to reflect its subordination and optional deferability.
- We understand that the existing €500 million subordinated perpetual capital security issued in November 2013 will be tendered as part of the process of issuing the new hybrid security. We will revise the equity content assessment on Alliander's existing €500 million subordinated perpetual capital security, or on any remaining outstanding amount following the tender offer, to minimal from intermediate when the new security is issued.

On Jan. 29, 2018, S&P Global Ratings assigned its 'A' issue rating to the proposed perpetual, optionally deferrable, and subordinated hybrid capital security to be issued by Dutch electricity and gas distribution network operator Alliander N.V. (the issuer; AA-/Stable/A-1+).

We understand that the issuer intends to use the proceeds to tender and replace its existing €500 million subordinated perpetual capital security, issued in November 2013. Due to the proposed early repayment of Alliander's existing €500 million subordinated perpetual capital security issued in 2013 once the proposed security is issued, and the subsequent increased likelihood of Alliander exercising the call option on any remaining outstanding amount, we believe that this instrument now lacks permanence. As a result, we will revise our assessment of the equity content on this security to minimal from intermediate when the new security is issued.

We consider the new proposed security to have intermediate equity content until its first reset date (June 30, 2025) because it meets our hybrid capital criteria in terms of its subordination, permanence, and optional deferability during this period.

We arrive at our 'A' issue rating on the proposed security by notching down from our 'AA-' corporate credit rating (CCR) on Alliander. The two-notch differential between the issue rating and the CCR reflects:
- A one-notch deduction for subordination because the CCR on Alliander is investment grade (that is, 'BBB-' or above); and
- An additional one-notch deduction for payment flexibility to reflect that

the deferral of interest is optional.

The notching of the proposed security reflects our view that there is a relatively low likelihood that the issuer will defer interest. Should our view change, we may increase the number of downward notches that we apply to the issue rating.

In addition, to reflect our view of the intermediate equity content of the proposed security, we allocate 50% of the related payments on these security 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.

KEY FACTORS IN OUR ASSESSMENT OF THE INSTRUMENT'S PERMANENCE

Although the proposed security is perpetual, it can be called at any time for tax, rating, or accounting events. Furthermore, the issuer can redeem it for cash at any time during the 90 days before the first reset date, which we understand will not be earlier than five years and three months from issuance, and on every reset date thereafter. If any of these events occur, Alliander intends, but is not obliged, to replace the instrument. In our view, this statement of intent mitigates the issuer's ability to repurchase the notes on the open market.

We understand that the interest to be paid on the proposed security will increase by 25 basis points 12 years from issuance (2030), and by a further 75 basis points 20 years after the first reset date, which is in 2025. We consider the cumulative 100 basis points as a material step-up, which is currently unmitigated by any commitment to replace the instrument at that time. This step-up provides an incentive for the issuer to redeem the security at its first call date.

Consequently, in accordance with our criteria, we will no longer recognize the instrument as having intermediate equity content after the first call date, because the remaining periods until the economic maturity would, by then, be less than 20 years. However, we classify the instrument's equity content as intermediate until its first call date, as long as we believe that the loss of the beneficial intermediate equity content treatment will not cause the issuer to call the instrument at that point. The issuer's willingness to maintain or replace the instrument in the event of a reclassification of equity content to minimal is underpinned by its statement of intent.

KEY FACTORS IN OUR ASSESSMENT OF THE INSTRUMENT'S DEFERABILITY

In our view, the issuer's option to defer payment on the proposed security is discretionary. This means that the issuer may elect not to pay accrued interest on an interest payment date because it has no obligation to do so. However, any outstanding deferred interest payment will have to be settled in cash if Alliander declares or pays an equity dividend or interest on equally ranking securities, and if Alliander redeems or repurchases shares or equally ranking securities. We see this as a negative factor. That said, 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.

The issuer retains the option to defer coupons throughout the instrument's life. The deferred interest on the proposed security is cash cumulative, and will ultimately be settled in cash.

KEY FACTORS IN OUR ASSESSMENT OF THE INSTRUMENT'S SUBORDINATION

The proposed security (and coupons) is intended to constitute direct, unsecured, and subordinated obligations of the issuer, ranking senior to its common shares.

Related Criteria

- General Criteria: Methodology And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued By Corporate Entities And Other Issuers Not Subject To Prudential Regulation, Jan. 16, 2018
- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- 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
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 1, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

New Rating

Alliander N.V.	
Junior Subordinated	A

Additional Contact:
Infrastructure Finance Ratings Europe; InfrastructureEurope@spglobal.com

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. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the 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.