S&P Global
Ratings

RatingsDirect®

Research Update:

Slovak Gas Transmission Company Eustream Assigned 'A-' Rating; Outlook Negative

May 21, 2025

Primary contact

Pauline Pasquier, CFA
Paris
33-14-420-6771
pauline.pasquier
@spglobal.com

Secondary contact

Per Karlsson
Stockholm
46-84-40-5927
per.karlsson
@spglobal.com

Rating Action Overview

- Eustream is Slovakia's gas transmission system operator (TSO), it transported about 18 billion cubic meters (bcm) of natural gas in 2024, or about 3% of Europe's gas consumption.
- We expect most of its EBITDA, which we forecast at €140 million-€160 million for the next year, will come from regulated and predictable domestic gas transit. We forecast its S&P Global Ratings-adjusted debt to EBITDA to remain at about 2.0x for Eustream and 1.0x for its owner SPP-I, despite increasing dividends.
- We assigned our 'A-' long-term issuer credit rating to Eustream, incorporating a stand-alone credit profile (SACP) of 'bbb' then notched up to 'A-' because of its core status within the SPP-I group. The negative outlook mirrors that on the long-term sovereign rating on Slovakia and does not reflect any particular stand-alone credit-negative developments at Eustream.
- The outlook reflects the risk that global trade tensions could weigh on our projections for Slovakia's medium-term growth, given the economy's high exposure to exports. This could hamper the government's fiscal consolidation efforts and keep its debt ratio trending upward.

Rating Action Rationale

Our assessment of Eustream's business risk profile as satisfactory reflects the high revenue contribution from regulated and predictable domestic gas transit. We expect its regulated domestic gas transmission, which has limited exposure to geopolitical and counterparty risks, will represent about 70% of adjusted EBITDA from 2025. We assess the related regulatory framework as mostly supportive—with limited volume risk, inflation indexation, timely cost recovery, and a tariff increase in 2025—and partially offsetting lower international flows. We foresee Eustream's gas transit activities remaining highly profitable, with an about 75% EBITDA margin on average. Its capital expenditure (capex) requirements are limited at €10 million-€15 million annually, so we forecast robust free operating cash flow (FOCF) of €80 million-€100 million.

We anticipate reduced earnings risk at Eustream since it no longer depends on gas flows from Russia. Gas flows from Russia shipped through Ukraine stopped on Jan. 1, 2025. As a result, we assume about 6 billion cubic meters (bcm) of gas transit through Eustream's gas transmission grid in 2025-2027 with 4 bcm-5 bcm coming from stable Slovak domestic gas demand and 1 bcm-2 bcm from cross-border transit with Hungary and Czech Republic. No transit of gas to Ukraine was assumed in our base case scenario. This supports our forecast of €180 million EBITDA on average in 2025-2027 (fiscal year-end July 31), which incorporates reduced exposure to main Russian counterparty Gazprom.

We view Eustream as a core subsidiary of parent SPP-I. With Russian gas streams stopping in January 2025, Eustream's operations have been limited to domestic gas transit in Slovakia and transiting small volumes to neighboring countries, mostly the Czech Republic and Hungary. At least 50% of its EBITDA will therefore come from stable and predictable domestic gas demand. Consequently, Eustream's risk profile is more in line with that of the group's other gas infrastructure activities. We view its gas transmission assets as fully in line with SPP-I's strategy and assume it will remain highly integrated with the group. We believe Eustream plays a crucial role in the energy sector in Slovakia, the government of which owns 51% of SPP-I. We therefore regard Eustream as a central element of SPP-I's strategy, and closely related to the operations of SPP-I's other subsidiaries. We understand that all SPP-I’s subsidiaries (Eustream, SPP-d, and Nafta) are subject to a cash-pooling mechanism.

The supportive financial policy and low leverage throughout the SPP-I group, as well as government support, drive the 'A-' rating on Eustream. All SPP-I subsidiaries must maintain a leverage ratio below 2.5x as per an agreement between SPP-I shareholders, the Slovak government (51% owner; A+/Negative/--), and EP Infrastructure (49%; BBB-/Stable/--). We see a significant likelihood that the Slovak state would support the group in a stressed scenario as its gas infrastructure is important for security of supply. Eustream, like the whole SPP-I group, remains an essential element of Slovakia’s energy security and a key contributor to the national economy; as such, we incorporate one notch of government support in our analysis of SPP-I. In the coming year, we expect SPP-I’s leverage will remain contained, with S&P Global Ratings-adjusted debt to EBITDA of about 1.0x, while Eustream’s stays at about 2.0x in 2025-2027. However, we do not exclude the possibility that dividends could increase leverage closer to 2.5x at either the Eustream or SPP-I level.

Outlook

The negative outlook on Eustream mirrors our outlook on the long-term sovereign credit ratings on Slovakia. It also reflects the risk that global trade tensions could weigh on projections for Slovakia's medium-term growth given the economy's high export exposure. This could hamper the government's fiscal consolidation efforts and see its debt ratio increase.

Downside scenario

We would likely lower the rating on Eustream if:

- We took a similar action on Slovakia; or
- SPP-I’s credit quality deteriorated while Eustream remained a highly integrated part of the group. This could happen if, for example, Eustream and SPP-I’s earnings became less regulated with more volatility due to higher cross-border gas transit, or adverse regulatory decisions weakened the regulated gas activities' profitability and predictability. Given the

high flexibility of the group’s dividend policy and maximum leverage of 2.5x, we would expect a downgrade to be limited to one notch; or

- We downgraded EP Infrastructure, for which we currently allow a maximum three-notch gap with SPP-I.

Furthermore, the group credit profile and, consequently, the rating on Eustream could come under pressure if government support declines or if we think that our current three notches of insulation between our issuer credit ratings on SPP-I and EP Infrastructure are no longer warranted. Neither of these is part of our base-case scenario.

Given Eustream’s core role in the SPP-I group, a weakening of its SACP would not automatically lead to a lower rating if any decline is offset at the SPP-I level, because we expect to continue equalizing the rating with the group credit profile.

Upside scenario

We could revise the outlook to stable should we take a similar action on Slovakia.

We consider revising Eustream's SACP upward to 'bbb+' unlikely as it would require a change in the group's financial policy, material positive improvements in the regulatory framework, or a fully domestic gas transit activity with high volume resiliency.

Company Description

Eustream is a Slovakian gas TSO. The transmission system acts as an important link between Russia and the EU and is connected to the primary transmission routes in Ukraine, Czech Republic, Austria, Hungary, and Poland.

Eustream transported 18 bcm of natural gas in 2024, or about 3% of Europe's gas consumption, and shipped 15 bcm of Russian gas representing about 26% of Europe's imports from Russia. The transmission system includes four-to-five parallel pipes and four compressor stations, the biggest one being Velke Kapusany on the Slovakian-Ukrainian border.

Eustream is part of the SPP-I group, which is jointly owned by:

- Slovensky plynarensky priemysel a.s. (51%), solely owned by the Ministry of Economy of Slovakia (A+/Stable/A-1); and
- Enereticky a prumyslovy holding a.s. (49%; BBB-/Stable/--), via its ownership of EP Infrastructure (BBB-/Stable/--).

Our Base-Case Scenario

Assumptions

We have updated our calendar-year forecasts for Eustream to reflect the company's fiscal year, which runs from August to July.

- Drop in volumes of gas transit to 6 bcm-7 bcm over the next two years, compared with 18, 16 and 26 bcm in calendar years 2024, 2023 and 2022 respectively, comprising:
- --No Russian gas flows under the ship-or-pay contract with Gazprom maturing in 2028. Gas shipped internationally stabilizing at 1 bcm-2 bcm per year from 2025. No demand from Ukraine. No gas-in-kind volumes hedged.

- --Stable domestic gas transit volumes of 4 bcm-5 bcm per year (broadly the yearly gas demand of Slovakia). Supportive regulatory environment with track record of transmission tariff stability and a weighted average cost of capital (WACC) of 5.24% (nominal pre-tax) plus a 0.8% risk premium applicable from the start of 2025.
- EBITDA margin of 70%-75% from 2025 onward.
- Annual capital expenditure (capex) of €10 million-€15 million over the forecast period.
- Dividends to be calibrated to a leverage ratio below 2.5x. Cash dividends result from the payment of net income from the previous fiscal year, with a contribution from retained earnings.

Key metrics

eustream, a.s.--Forecast summary

Period ending	July 31-2023	July 31-2024	July 31-2025	July 31-2026	July 31-2027
(Mil. EUR)	2023a	2024a	2025e	2026f	2027f
EBITDA	131	317	270-290	140-160	140-160
Funds from operations (FFO)	50	280	220-240	70-100	90-130
Capital expenditure (capex)	17	4	5-10	10-15	10-15
Dividends	0	0	0	0	100-120
Debt	860	552	310-340	250-290	280-320
Adjusted ratios					
Debt/EBITDA (x)	6.6	1.7	1.0-1.5	1.5-2.0	1.8-2.2
FFO/debt (%)	5.8	50.7	65-75	25-35	30-40
DCF/debt (%)	3.2	55.1	60-70	25-35	(10)-0
EBITDA margin (%)	57.7	83.5	80-90	70-80	70-80
All metrics are S&P Global Ratings adjusted. a--Actual. e--Estimate. f--Forecast.					

Liquidity

We assess Eustream's liquidity as strong to account for the accumulation of cash throughout SPP-I cash pooling, with liquidity sources that will cover uses by more than 2x over the next 24 months. We forecast that sources would cover uses even if EBITDA were to decline by 30% over the next 12 months. We also factor in Eustream's sound relationships with banks, cash pooling with SPP-I group entities, and no upcoming debt maturities within the next two years.

Liquidity sources for the 12 months from March 31, 2025, include:

Principal liquidity sources

- €226 million in cash and liquid assets; and
- About €195 million of cash from operations.

Principal liquidity uses

- No large debt maturities;
- About €10 million in capex; and
- No dividend payments in 2025 and 2026.

Covenants

There are no financial covenants within Eustream’s bond documentation.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	A-/Negative/--
Local currency issuer credit rating	A-/Negative/--
Business risk	Satisfactory
Country risk	Intermediate
Industry risk	Very low
Competitive position	Satisfactory
Financial risk	Modest
Cash flow/leverage	Modest (Medial volatility table)
Anchor	bbb+
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	bbb-
Group credit profile	a-
Entity status within group	Core (+3 notches)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- 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: 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
- 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
- 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

Related Research

Slovakia Outlook Revised To Negative On Rising Economic Risks; 'A+/A-1' Ratings Affirmed, April 25, 2025 EP Infrastructure 'BBB-' Ratings Affirmed On Derisking And More Regulated Earnings; Outlook Stable, April 15, 2025

Ratings List

Ratings list	
New Rating	
eustream, a.s.	
Issuer Credit Rating	A-/Negative/--