Slovak Utilities eustream And SPP-distribucia Downgraded After Similar Action On Slovakia; Outlook Stable

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- On April 24, 2026, S&P Global Ratings lowered the sovereign credit rating on Slovakia to 'A' from 'A+', due to elevated fiscal deficits and a rising debt burden.
- The downgrade has a mirroring effect on SPP-Infrastructure's (SPP-I's) group credit profile (GCP), which is now at 'bbb+', from 'a-' previously.
- Both eustream and SPP - distribúcia (SPP-d) are part of the SPP-I group, which is jointly owned by Slovensky plynarensky priemysel a.s. (51%), in turn wholly owned by the Slovak Ministry of Economy, and Energeticky a prumyslovy holding a.s. (49%) through its ownership of EP Infrastructure.
- Consequently, we lowered our long-term issuer credit ratings on eustream and SPP-d to 'BBB+' from 'A-'. The stand-alone credit profile (SACP) remains unchanged for both companies: eustream at 'bbb' and SPP-d at 'a+'
- We assigned a stable outlook to both companies, in line with the outlook on Slovakia.

STOCKHOLM (S&P Global Ratings) May 4, 2026--S&P Global Ratings today downgraded the two Slovak entities eustream a.s. and SPP-d and assigned stable outlooks.

The downgrades mirror our rating action on Slovakia to 'A' from 'A+' (see "Slovakia Downgraded To 'A' On Elevated Fiscal Deficits And Rising Debt Burden; Outlook Stable,"April 24, 2026.

The downgrade of Slovakia follows weaker economic growth and high spending on social transfers and defense. The upcoming parliamentary elections will make fiscal consolidation more challenging than we previously expected. This is the principal driver of our rating action on Slovakia. After measures to mitigate the adverse effects of the global pandemic and the Russia-Ukraine war, Slovakia's general government spending of 47.5% of GDP is almost 7 percentage points above its 2019 level. Given the rigidity of spending, we now expect the fiscal deficit to remain elevated for longer, keeping net general government debt on an upward path.

We project GDP to grow by 0.5% in 2026, down from 0.8% in 2025. This is also lower than our previous estimate of 1.3% six months ago. Still-high inflation and fiscal consolidation are weighing on domestic demand, while external demand remains subdued due to geopolitical uncertainties. This is only partly compensated for by EU-funded investments as the Recovery and Resilience Program comes to an end. We project real GDP growth will gradually recover from 2027, and average 1.9% over 2027-2029, supported by a pickup in domestic and external demand, and an increase in auto production from the second half of 2027 as Volvo starts production in Slovakia. However, this growth rate will remain well below that seen in the decade preceding the pandemic.

SPP-I's GCP is now at 'bbb+' from 'a-' previously. We currently assess SPP-I's supported GCP at 'bbb+'. As a consequence of the downgrade of Slovakia to 'A', we no longer add any notches of uplift to the GCP. Previously, we included one notch; however, we still have the expectation of moderately high support from Slovakia as the 51% owner of SPP-I. This reflects SPP-I's essential role in Slovakia's energy security and its contribution to the national economy. We see SPP-d as sufficiently insulated from EP Infrastructure (BBB-/Positive/--), allowing us to rate it and SPP-I three notches above the 49% owner. This insulation is supported by a shareholder agreement that defines a maximum leverage ratio of 2.5x for all SPP-I subsidiaries, and by the Slovak state acting as a controlling party, requiring approval from both shareholders for any upstreaming of cashflow.

eustream a.s.

Eustream's 'bbb' SACP reflects our view of the business risk as satisfactory, driven by the high revenue contribution from regulated and predictable domestic gas transit. With Russian gas transit via Ukraine halted, overall gas flows have declined, and we continue to expect eustream's throughput to fall to approximately 6.3 billion cubic meters (cm) per year through 2027, and then to around 5.2 billion cm from 2028. These gas flows, however, will primarily be domestic transmission, with limited cross-border transit services. Positively, we see the regulated domestic gas transmission business exhibits limited exposure to geopolitical and counterparty risks, and we view the related regulatory framework as largely supportive--characterized by limited volume risk, inflation indexation, timely cost recovery, and tariff increases--partially offsetting the expected decline in international flows. Overall, we see the framework as strong/adequate.

Therefore, we anticipate eustream's gas transit activities will remain highly profitable, with an average EBITDA margin of approximately 75%, supporting our forecast of €160 million average EBITDA for fiscal years 2026-2028 (fiscal year ends July 31). Capital expenditure (capex) requirements are modest, at €5 million-€10 million annually, leading us to forecast robust free operating cash flow (FOCF) of €100 million-€120 million. Dividend reinstatement is projected to begin in 2026. However, we believe eustream will carefully evaluate any dividend distributions prior to refinancing its €500 million bond due in June 2027.

Additionally, in light of reduced earnings resulting from the halt of Russian gas flows, we understand the management is prioritizing deleveraging. Therefore, we expect the €500 million bond will be partially refinanced through a combination of €300 million in bank debt and €200 million from eustream's cash reserves. This approach targets maintaining leverage below 2.0x, consistent with an agreement among SPP-I shareholders--the Slovak government and EP Infrastructure--that all SPP-I subsidiaries maintain a leverage ratio below 2.5x. In the coming years, we expect SPP-I's leverage to remain contained, with S&P Global Ratings-adjusted debt to EBITDA of about 1.1x over 2026-2028, while eustream's is expected to remain about 1.6x during the same period. At the same time, we do not rule out the possibility that dividends could push leverage closer to 2.5x at either the eustream or SPP-I level, and we also understand that all SPP-I's subsidiaries (eustream, SPP-d, and Nafta) are subject to a cash-pooling mechanism.

We view Eustream as a core subsidiary of its parent company, SPP-I, with its gas transmission assets fully aligned with SPP-I's strategy and highly integrated within the group. We believe eustream plays a crucial role in the energy sector in Slovakia, where the government owns 51% of SPP-I. Therefore, we consider eustream central to SPP-I's strategy and closely linked to the operations of its other subsidiaries.

Outlook

The stable outlook reflects that we anticipate a stable regulatory environment for eustream during the regulatory period that ends by Dec. 31, 2027. We foresee that the company will report funds from operations of at least €100 million during 2026-2028 and that debt will reduce to about €250 million and remain in that territory. This is well in line with the debt-to-EBITDA ratio below 2.5x stipulated in the shareholder agreement.

Downside scenario

We would likely lower the rating on eustream if:

- We took a similar action on Slovakia.
- 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.
- We downgraded EP Infrastructure, for which we currently allow a maximum three-notch rating differential with SPP-I.

Furthermore, the GCP and, consequently, the rating on eustream could come under pressure if government support declines or if we think that our current two-notch differential between our issuer credit ratings on SPP-I and EP Infrastructure is 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 GCP.

We could also downgrade the company if we believed that the likelihood of government support would weaken from the current moderately high assessment.

Upside scenario

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

We consider an upward revision of eustream's SACP to 'bbb+' unlikely because 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.

SPP - distribúcia

The 'a+' SACP of SPP-d reflects our view of the business risk profile as strong, reflecting SPP-d's monopoly position as the sole gas distribution system operator in Slovakia and that 100% of its EBITDA comes from supportive regulated activities. SPP-d operates under a stable and mostly supportive regulatory framework. All in all, we see the framework as strong/adequate. For 2026, the nominal pre-tax weighted average cost of capital for gas networks is set at 5.47%, up from 5.39% in 2025, and is expected to rise to about 5.90% by 2029. The framework also involves limited exposure to price and volume risk, which supports strong revenue stability and high earnings predictability, although some risk of political interference remains.

Therefore, we expect SPP-d's EBITDA to be about €350 million on average over fiscal years 2026-2028 (fiscal year ends July 31), with an EBITDA margin of about 65%-70% on average over the same period. SPP-d's credit quality is further supported by a very efficient and reasonably new network (average age of assets is 32 years) enhanced by modern technology, limiting capex needs over our forecast period. We forecast FOCF at about €190 million-€210 million annually in fiscal 2026-2028. However, the dividend policy is relatively aggressive, with a 100% payout ratio, and will be the key driver for debt increase. But it is flexible enough to allow SPP-d to maintain a leverage ratio below 2.5x, as stipulated in the group's shareholder's agreement. Nevertheless, we expect that the cash-pooling mechanism across SPP-I's subsidiaries (eustream, SPP-d, and Nafta) will be supportive of the group's leverage profile.

We view SPP-d as a core subsidiary of its parent company, SPP-I, and expect it will contribute to about half of SPP-I's EBITDA over 2026-2028. It will remain fully owned by, and closely integrated with, its parent. It is a strategic asset, given it is a low-risk, high-performing business that has consistently delivered resilient results, even amid elevated gas prices and the long-term structural decline in demand for gas.

Outlook

The stable outlook reflects that we anticipate stable regulatory environment for SPP-d during the regulatory period that ends by Dec. 31, 2027. We foresee the company's EBITDA at €340 million-€370 million during fiscal 2026-2028 and we expect debt to increase materially However, we foresee debt to EBITDA remaining below 2.5x, which is stipulated in the shareholder agreement.

Downside scenario

We would likely lower the rating on SPP-d if:

- We took a similar action on Slovakia.
- SPP-I's credit quality deteriorated while SPP-d 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 if 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.
- We downgraded EP Infrastructure, for which we currently allow a maximum three-notch ratings differential with SPP-I.

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

Given SPP-d'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 GCP.

We could also downgrade the company if we believed that the likelihood of government support would weaken from the current moderately high assessment.

Upside scenario

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

We consider an upward revision to the SACP on SPP-d to 'aa-' as unlikely because it would require a change in the group's financial policy or material positive improvements in the regulatory framework.

Rating Component Scores

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

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- 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
- 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

- Slovak Gas Transmission Company Eustream Assigned 'A-' Rating; Outlook Negative, May 21, 2025.
- Slovak Gas Distribution Company SPP–Distribucia Assigned 'A-' Rating; Outlook Negative, May 21, 2025.