



**Rating Action: Moody's changes outlook on eustream and SPP-distribucia to stable, on EPIF to positive; affirms ratings**

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26 Jan 2024

Frankfurt am Main, January 26, 2024 – Moody's Investors Service (Moody's) has today affirmed the long term Ba1 Corporate Family Rating (CFR), the Ba1-PD probability of default rating and the Ba1 senior unsecured debt rating of eustream, a.s. (eustream) as well as the Ba1 rating of the backed senior unsecured notes issued by SPP Infrastructure Financing B.V. and backed by eustream. The outlook for both issuers was changed to stable from negative.

Moody's has also affirmed the Baa2 senior unsecured debt and long-term issuer ratings of SPP-distribúcia, a.s. (SPP-distribucia). The outlook was changed to stable from negative.

Finally, Moody's has affirmed the long term Ba1 CFR, the Ba1-PD probability of default rating and the Ba2 senior unsecured debt ratings of EP Infrastructure, a.s. (EPIF). The outlook was changed to positive from negative.

## RATINGS RATIONALE

### eustream

The change in outlook to stable primarily reflects eustream's improved liquidity position. Despite lower volumes of Russian gas shipped through eustream's gas transit pipeline since the start of the military conflict in Ukraine, the company has continued to receive capacity payments under the long-term contract with its main Russian shipper. As a result, and in the absence of dividend payments, eustream has accumulated an unrestricted cash position of more than EUR300 million at year-end 2023, up from an estimated EUR100 million at the end of March 2022.

The rating action also reflects that the company has reduced significantly its exposure to out-of-the-money derivatives entered into before the start of the military conflict in Ukraine to hedge forward sales of gas-in-kind because of the gradual run-off of these positions. Accordingly, Moody's expects that eustream will continue to build up its cash position in the next 12 months, subject to ongoing receipt of capacity payments, so that it is able to repay the forthcoming EUR500 million bond maturity in February 2025 from cash in hand.

The rating affirmation reflects that eustream's credit quality remains constrained by (1) geopolitical risks, including the risk of cessation of Russian gas flows and capacity payments, and (2) its high exposure to a single Russian shipper. Although the company might be able to compensate over time for the reduced gas flow from Russia through other bookings, there is at this stage little visibility over the potential timing and quantum of such alternative gas flows.

Nonetheless, the rating affirmation also reflects Moody's expectation that eustream's parent SPP Infrastructure, a.s. would likely provide support to eustream in case of financial distress. eustream is participating in the cash pooling arrangements of the SPP Infrastructure group, which had an overall cash position of more than EUR900 million at year-end 2023 (including eustream's own cash).

Because eustream's credit quality is driven by its exposure to geopolitical risks, Moody's has raised the company's ESG Credit Impact Score to CIS-2 from CIS-3, reflecting that ESG considerations do not have a material impact on the current rating.

#### SPP-distribucia

The change in outlook to stable follows the change in outlook on eustream to stable, given the credit linkages between the two companies. The rating affirmation reflects that the credit quality of SPP-distribucia continues to be supported by the company's position as the quasi-monopoly provider of gas distribution services in Slovakia; a fairly supportive regulatory framework; and very strong credit metrics with funds from operations (FFO)/net debt of 98% as of July 2023. At the same time, SPP-distribucia's rating remains constrained by the potential need to provide financial support to eustream, its sister company within the SPP Infrastructure group.

Because SPP-distribucia's credit quality is mostly influenced by that of eustream, Moody's has raised the company's ESG Credit Impact Score to CIS-2 from CIS-3, reflecting that ESG considerations do not have a material impact on the current rating.

#### EPIF

The change in outlook to positive reflects the improved credit quality of EPIF's gas transit subsidiary eustream, which has continued to receive capacity payment since the beginning of the military conflict in Ukraine and has accordingly been building up a larger cash pile which positions it well to address its forthcoming bond maturity in 2025. It also reflects EPIF's own improved liquidity position, which Moody's estimates at approximately EUR900 million at year-end 2023, including cash pooled with its subsidiary EP Energy and an undrawn EUR400 million revolving credit facility expiring in January 2025. This provides EPIF with sufficient flexibility to repay its EUR750 million bond (of which around EUR550 million are outstanding) due April 2024. Finally, the outlook change factors in EPIF management's decision to tighten the group's financial leverage target (expressed as proportionally consolidated net debt/ EBITDA) to a maximum of 3.5x, down from 4.3x previously.

The rating affirmation reflects that the credit quality of EPIF continues to be underpinned by (1) the strong business risk profiles of its regulated monopoly energy distribution activities and quasi-monopoly heating infrastructure, which generate relatively stable and predictable cash flow; and (2) its diversified business model characterized by a mix of activities including gas transit, gas distribution and electricity distribution networks in Slovakia, as well as district heating in Czech Republic and gas storage. The resilience of EPIF's business model was demonstrated by lower earnings at eustream being partly offset by growth in the gas storage and heat infrastructure businesses. At the same time, the ratings remain constrained by (1) the ongoing exposure to geopolitical risks of eustream; (2) the reliance of EPIF on dividend flows from its operating subsidiaries; and (3) a high level of debt at the holding company.

Because EPIF's credit quality is driven by that of its subsidiaries, Moody's has raised the company's ESG Credit Impact Score to CIS-2 from CIS-3, reflecting that ESG considerations do not have a material impact on the current rating..

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

### eustream

Given the prevailing geopolitical uncertainties and the current customer concentration on a single Russian shipper, an upgrade of eustream's ratings is unlikely. The ratings could be downgraded if Russian capacity payments ceased and were not offset by alternative gas contracts and/or support by the SPP Infrastructure group.

### SPP-distribucia

An upgrade of SPP-distribucia's ratings is unlikely given the company's credit linkages with the wider SPP-Infrastructure group, which includes eustream. SPP-distribucia's ratings could be downgraded if cash requirements from eustream were to lead to a significantly weaker financial profile, including FFO/debt below 25%.

### EPIF

EPIF's ratings could be upgraded if the company (1) strengthens its liquidity profile; and (2) maintains leverage (proportional net debt/ proportional EBITDA) not in excess of 3.5x and FFO/net debt on a fully consolidated basis (as per IFRS reporting) above 30% on a sustained basis. Any upgrade would further factor in the credit quality of eustream. The ratings could be downgraded if EPIF's financial profile deteriorates because either its proportional net debt/proportional EBITDA exceeds 4.5x or its FFO/net debt on a fully consolidated basis (as per IFRS reporting) drops below the low twenties in percentage terms.

## PRINCIPAL METHODOLOGIES

The principal methodology used in rating EP Infrastructure, a.s. and SPP-distribucia, a.s. was Regulated Electric and Gas Networks published in April 2022 and available at <https://ratings.moody.com/rmc-documents/386754>. The principal methodology used in rating eustream, a.s. and SPP Infrastructure Financing B.V. was Natural Gas Pipelines published in July 2018 and available at <https://ratings.moody.com/rmc-documents/64961>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of these methodologies.

eustream, a.s., is the owner and operator of the natural gas transmission and transit pipeline that runs through Slovakia. In the financial year 2022/23 the company reported EUR226 million of revenues.

SPP-distribúcia, a.s. is the monopoly provider of regulated gas distribution services in Slovakia. In the financial year 2022/23 the company reported EUR469 million of revenues.

EP Infrastructure, a.s. is a Czech holding company with shareholdings in core Slovak gas and electricity infrastructure, including (1) eustream, a.s.; (2) SPP-distribúcia, a.s.; and (3) Stredoslovenska Energetika group. The group also holds stakes in regional gas storage entities SPP Storage, NAFTA, NAFTA Speicher and Pozagas, as well as a number of

district heating infrastructure providers in the Czech Republic.

## 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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