

Tear Sheet:

Stedin Holding N.V.

January 30, 2025

We forecast that Stedin will maintain funds from operations (FFO) above our 9% expectation for the 'A-' rating in 2024-2026. We forecast Stedin will accelerate its investments, in line with its Dutch peers, to support the Netherlands' energy transition by increasing grid capacity to reduce heavy congestion. This translates into annual gross capital expenditure (capex) of about €1.3 billion over 2024-2026, compared with €0.8 billion in 2023. We expect EBITDA will increase to about €750 million-€800 million by 2026 from about €575 million in 2024, based on a higher remuneration of previous costs and an increasing regulated asset base, despite operational expenditure (opex) increasing. Opex for the sector is under inflationary pressure due to the scarcity of materials and rising demand for technical workforce from all power infrastructure operators. We expect Stedin will use the additional revenue to finance capex, leading to adjusted FFO to debt of about 10% on average in 2024-2026. The rating reflects Stedin's firm commitment to an 'A-' rating.

Uncertainties remain about whether remuneration for the 2027-2031 regulatory period will improve Dutch DSOs' ability to fund large capex plans. Stedin's remuneration benefits from the supportive Dutch regulatory framework, and we expect some continuity for the 2027-2031 period, although a cost-plus model, which is equally credit supportive, is under consideration. The Dutch regulator, the ACM, implemented several positive changes to the remuneration calculation last year, which supported a higher level of remuneration for Stedin, with about €600 million in additional revenue in 2024-2026. Uncertainty remains regarding changes for the next regulatory period at a time of rapid acceleration in investments for power system operators.

Our rating reflects a moderate likelihood of extraordinary support from the Dutch state, which has been a shareholder in Stedin since December 2023, when the state acquired a 11.9% stake after injecting €500 million in common equity. We still think Stedin could benefit from further extraordinary government support to enhance its capacity to meet its financial commitments as they come due, although additional equity support is not currently part of our base case. We incorporate our view of government support by applying a one-notch uplift to the 'bbb+' stand-alone credit profile (SACP), leading to our 'A-' rating on Stedin. In 2024, 23 new shareholders in the form of municipalities and provinces provided an additional €33 million equity support for Stedin.

We expect Stedin will refinance its €830 million debt maturing in 2025 by the end of February, and this will be key to ensuring adequate liquidity. We understand the company is in the finalization phase of signing a €500 million bilateral committed credit facility with a large

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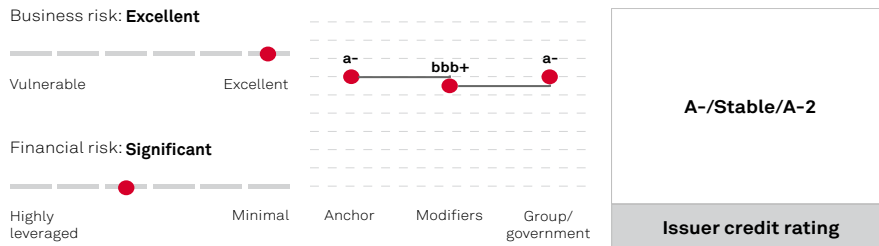
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financial institution. We expect Stedin will refinance the remaining large maturities in 2025. The company's good standing in credit markets and recent positive track record on bond issuance supports our view. We will monitor this situation closely over the next few months.

Ratings Score Snapshot



Recent Research

- The Netherlands, Oct. 21, 2024
- Dutch DSO Stedin Holding Affirmed At 'A-/A-2' On Restored Financial Headroom Despite High Capex Plan; Outlook Stable, Feb. 8, 2024
- Dutch Networks Stedin, Alliander And Enexis Ratings Affirmed On Government Support; Enexis Outlook Revised To Positive, Feb. 14, 2023

Company Description

Stedin Group was formed on Feb. 1, 2017, from the unbundling of Eneco Holding N.V. into an energy company of the same name and a network company, Stedin Holding N.V.

Stedin Group, through its subsidiaries, is the third-largest electricity and gas distribution grid operator in the Netherlands. It operates as a monopoly in a large part of the provinces of South Holland, Utrecht, and Zeeland, and in parts of North Holland and Friesland. As a grid operator, Stedin constructs, manages, and maintains power grids to ensure a reliable energy supply for more than 2 million customers.

In addition, Stedin offers electricity and gas infrastructure services under the name DNWG Infra. It also builds and maintains other energy infrastructure besides gas and electricity, through its subsidiary NetVerder. We expect the company's unregulated businesses, DNWG Infra and NetVerder, will account for only a minimal portion of consolidated EBITDA over the next few years.

Stedin is owned by the Dutch state (11.82%) and by 61 Dutch municipalities and two provinces, the largest municipality being the City of Rotterdam, followed by The Hague. By law, Stedin must be owned by a public entity.

Outlook

Our stable outlook on Stedin captures the company's financial policy of retaining at least an 'A-' rating and our view of the shareholders' supportiveness of this goal. We think Stedin will maintain FFO to debt sustainably above 9% over the regulatory period through 2026. It also reflects our expectation that Stedin's cash flow generation will remain stable and predictable due to solid operational performance, supported by the Dutch regulatory framework and despite growing pressure from increasing opex and capex needs.

Downside scenario

The rating could come under pressure if our forecast FFO to debt approached or fell below 9% with no immediate likelihood of recovery. This could result from:

- Adverse regulatory decisions;
- Further material increases in investments; and
- No timely and sufficient implementation of remedial measures from Stedin's shareholders, including the Dutch state.

If we were to revise the SACP down by one notch, it would lead us to lower the issuer credit rating by one notch, all else being equal. In contrast, a one-notch downgrade of the Netherlands would not result in a downgrade of Stedin, all else being equal.

We would downgrade the company if we considered that the likelihood of support from the state had weakened.

Upside scenario

We would consider an upgrade if, all else being equal, Stedin were to achieve and sustain FFO to debt comfortably above 11%, backed by the company's financial policy.

Key Metrics

Stedin Holding N.V.--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2022a	2023a	2024e	2025f	2026f
Revenue	1,333	1,770	2,000-2,300	2,200-2,500	2,300-2,600
EBITDA	415	577	560-590	690-730	750-800
Less: Cash interest paid	(49)	(77)	(100)-(110)	(90)-(110)	(120)-(160)
Less: Cash taxes paid	(17)	(14)	(15)-(25)	(80)-(100)	(80)-(110)
Funds from operations (FFO)	350	486	425-475	480-560	480-600
Capital expenditure (capex)	593	683	900-1,000	1,100-1,300	1,300-1,500
Dividends	8	26	50-70	40-60	60-90
Debt	3,678	3,479	3,800-4,200	4,500-4,900	5,400-5,800
Adjusted ratios					
Debt/EBITDA (x)	8.9	6.0	6.7-6.9	6.5-6.7	7.1-7.5
FFO/debt (%)	9.5	14.0	10.8-11.6	10.6-11.4	9-10.0

Stedin Holding N.V.

Stedin Holding N.V.--Forecast summary

FOCF/debt (%)	(8.6)	(4.4)	(13.0)-(12.0)	(15.0)-(13.0)	(17.0)-(13.0)
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Financial Summary

Stedin Holding N.V.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	1,286	1,234	1,229	1,279	1,333	1,770
EBITDA	516	470	442	466	415	577
Funds from operations (FFO)	362	374	383	368	350	486
Interest expense	98	77	68	106	52	78
Cash interest paid	100	80	69	99	49	77
Operating cash flow (OCF)	358	365	397	365	276	530
Capital expenditure	489	544	505	570	593	683
Free operating cash flow (FOCF)	(131)	(179)	(108)	(205)	(318)	(153)
Discretionary cash flow (DCF)	(153)	(219)	(154)	(743)	(325)	(179)
Cash and short-term investments	169	72	83	133	53	188
Gross available cash	169	72	83	133	53	188
Debt	3,237	3,194	3,361	3,408	3,678	3,479
Common equity	2,449	2,699	2,641	3,020	3,092	2,971
Adjusted ratios						
EBITDA margin (%)	40.1	38.1	36.0	36.4	31.1	32.6
Return on capital (%)	4.1	7.3	2.2	2.0	1.5	4.5
EBITDA interest coverage (x)	5.3	6.1	6.5	4.4	8.0	7.4
FFO cash interest coverage (x)	4.6	5.7	6.6	4.7	8.2	7.3
Debt/EBITDA (x)	6.3	6.8	7.6	7.3	8.9	6.0
FFO/debt (%)	11.2	11.7	11.4	10.8	9.5	14.0
OCF/debt (%)	11.0	11.4	11.8	10.7	7.5	15.2
FOCF/debt (%)	(4.1)	(5.6)	(3.2)	(6.0)	(8.6)	(4.4)
DCF/debt (%)	(4.7)	(6.9)	(4.6)	(21.8)	(8.8)	(5.1)

Peer Comparison

Stedin Holding N.V.--Peer Comparisons

	Stedin Holding N.V.	Alliander N.V.	Enexis Holding N.V.	TenneT Holding B.V.	N.V. Nederlandse Gasunie
Foreign currency issuer credit rating	A-/Stable/A-2	A+/Stable/A-1	AA-/Stable/A-1+	A-/Stable/A-2	AA-/Stable/A-1+
Local currency issuer credit rating	A-/Stable/A-2	A+/Stable/A-1	AA-/Stable/A-1+	A-/Stable/A-2	AA-/Stable/A-1+

Stedin Holding N.V.

Stedin Holding N.V.--Peer Comparisons

Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	1,770	2,725	2,014	2,293	2,165
EBITDA	577	877	542	563	1,121
Funds from operations (FFO)	486	798	502	(49)	848
Interest	78	73	38	455	79
Cash interest paid	77	77	29	472	117
Operating cash flow (OCF)	530	714	503	147	851
Capital expenditure	683	1,411	1,014	7,294	695
Free operating cash flow (FOCF)	(153)	(697)	(511)	(7,148)	156
Discretionary cash flow (DCF)	(179)	(777)	(709)	(7,400)	(53)
Cash and short-term investments	188	244	127	298	335
Gross available cash	188	244	127	298	335
Debt	3,479	3,896	2,714	25,330	3,371
Equity	2,971	4,801	5,570	6,979	6,596
EBITDA margin (%)	32.6	32.2	26.9	24.6	51.8
Return on capital (%)	4.5	5.1	1.6	0.7	7.1
EBITDA interest coverage (x)	7.4	12.1	14.1	1.2	14.3
FFO cash interest coverage (x)	7.3	11.3	18.1	0.9	8.3
Debt/EBITDA (x)	6.0	4.4	5.0	45.0	3.0
FFO/debt (%)	14.0	20.5	18.5	(0.2)	25.1
OCF/debt (%)	15.2	18.3	18.5	0.6	25.2
FOCF/debt (%)	(4.4)	(17.9)	(18.8)	(28.2)	4.6
DCF/debt (%)	(5.1)	(19.9)	(26.1)	(29.2)	(1.6)

Rating Component Scores

Foreign currency issuer credit rating	A-/Stable/A-2
Local currency issuer credit rating	A-/Stable/A-2
Business risk	Excellent
Country risk	Very Low
Industry risk	Very Low
Competitive position	Excellent
Financial risk	Significant
Cash flow/leverage	Significant (Low volatility table)
Anchor	a-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	bbb+
Related government rating	AAA/Stable/A-1+
Likelihood of government support	Moderate (+1 notch)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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

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- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

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