Scope Hamburg upgrades issuer rating and corresponding debt instrument rating of OPUS TIGÁZ from BB+/under review to BBB+/Stable due to changes in methodologies

The upgrades reflect a change in how Scope Hamburg assesses European utility companies under the methodologies introduced on 2 May 2022. Key drivers are stable business operations in a state-regulated market environment, a history of strong credit metrics and an overall strong liquidity profile.

The latest information on the rating, including rating reports and related methodologies, is available on this **LINK**.

Rating action

Scope Hamburg GmbH (Scope) has upgraded the issuer rating of Hungarian gas distribution system operator OPUS TIGÁZ Gázhálózati Zrt. (OPUS TIGÁZ) and the corresponding debt instrument rating for the HUF 50bn senior unsecured bond from BB+/under review for changes in methodologies to BBB+/Stable. Simultaneously, Scope Hamburg has assigned a S-2 short-term debt rating and a senior unsecured debt category rating of BBB+.

Rating rationale

OPUS TIGÁZ' business risk profile, assessed at BBB+, mainly benefits from the territory-based public gas distribution licence and the usually stable gas distribution volumes, which together ensure an overall strong visibility in operating cash flow, underpinned by well-established and reliable tariff-regulations within the Hungarian gas distribution sector. This allows OPUS TIGÁZ to recover all operating and capital costs incurred, and to ensure an overall stable profitability pattern. Further supportive factors include the strong market position as the largest gas distribution system operator in Hungary and a well-maintained regulatory asset base with capital expenditures well covered by operating cash flow. On the other hand, Scope thinks that the limited geographical outreach, Hungary's high dependence on gas supplies from currently sanctioned Russia and the high revenue concentration of >90% with the state-owned gas supplier MVM are burdening OPUS TIGÁZ' overall credit profile. Our counterparty risk assessment for MVM is directly linked to the sovereign credit rating of Hungary (rated BBB+/stable by Scope).

Following the two recent ownership changes (2018 and 2021) the company also faces moderate structural, strategic and operational challenges in our opinion, as the newly appointed management aims for making OPUS Group's energy division a notable member of the domestic energy chain. Overall, however, Scope thinks that OPUS TIGÁZ' risk-profile and corporate strategy are fairly aligned, ensuring that the company keeps its leading operational benchmark position within the regulated Hungarian gas distribution sector.

OPUS TIGÁZ' financial risk profile, assessed at BBB+, is mainly driven by our expectation that the company's leverage – as measured by SaD/EBITDA – will comfortably stay within the range of 3.0x-3.5x over the next two years. Overall we believe that OPUS TIGÁZ' discretionary cash flow will allow a gradual scaling back of indebtedness in conjunction with the long-term debt maturity profile, and after capex of up to HUF 9.5bn have been comfortably covered by robust operating cash flow, thereby not requiring additional external bank/capital market financing.

The company's current liquidity profile is adequate as expected capex and upcoming debt maturities are fully covered by operating cash flow and available liquid funds. Despite the fact, that OPUS TIGÁZ has a clear focus on distributing unutilised funds to its shareholders, either through loan repayments or dividend distributions, the company has built up a notable liquidity position over the course of 2020 and 2021 (31/12/2021: HUF 12.7 bn) as the shareholders agreed to suspend distributions as a response to the uncertainty around the pandemic situation and the upcoming ownership change. Furthermore, we acknowledge the existence of an additional working capital facility (EUR 9m; currently unutilised) provided by the shareholders. In Scope's view, OPUS TIGÁZ has built its own and independent external credit reputation by tapping capital markets (bond issue March 2021) and by maintaining established relationships with domestic and foreign banks.

No drivers in this credit rating action are considered as ESG-related factors with a substantial impact on the overall assessment on credit risk.

Outlook and rating-change drivers

The stable outlook reflects Scope's expectation that OPUS TIGÁZ is able to maintain high and regulated free operating and discretionary cash flow levels over the medium-term, covering the budgeted capex levels to large extents. The outlook also incorporates our expectation that the shareholders will follow a credit-risk adjusted financial policy, notably in terms of dividend payments, shareholder loan repayments and discretionary spending, helping to keep Scope-adjusted debt/Scope-adjusted EBITDA below 4.0x over the long-term.

A negative rating action could result from a deterioration of SaD/EBITDA to >4.0x on a sustained basis notably with a view to the concentration of activities with state-owned gas supplier MVM. A negative rating action may also be warranted if the shareholders demonstrated less willingness to follow a credit-risk adjusted financial policy, or in the event of regulatory changes with an adverse impact on the expected operating cash flows (e.g. WACC / RAB regulation).

A positive rating action could be warranted in the case of significant growth in OPUS TIGAZ' size and improved diversification profile, contributing to less concentration risks, or should we see further improvements in credit metrics such as Scope-adjusted leverage of substantially less than 3.0x on a sustained basis.

Long-term and short-term debt ratings

In 2021 OPUS TIGÁZ has issued senior unsecured bonds (HUF 50bn; ISIN: HU0000360292) under the Hungarian National Bank's Bond Funding for Growth Scheme. The bonds are structured as partially amortising balloon notes with a term of 10 years. Allocation and settlement took place on 24 Mar 2021. Since 18 Jun 2021 the bonds are registered with the Budapest Stock Exchange (BÉT Xbond). The net proceeds were used to fully replace all existing third-party financial liabilities and large parts of (subordinated) shareholder loans.

Reflecting Scope's view of OPUS TIGÁZ' ability to meet contractual and financial debt obligations as a going concern, on time, and in full out of its operating business, we rate senior unsecured debt issued by the company at BBB+, the same level as the issuer rating. Consequently, this translates into an upgrade for the debt instrument rating of the HUF 50bn senior unsecured bonds from BB+/under review for changes in methodologies to BBB+, based on an assumed average recovery rate for investment grade issuers according to our Corporate Rating Methodology.

The assigned S-2 short-term debt rating reflects the company's liquidity profile and Scope's view on OPUS TIGÁZ' good access to external funding, if needed.

Stress testing & cash flow analysis

No stress testing was performed. Scope Hamburg performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for these Credit Ratings and/or Outlook, (Corporate Rating Methodology, 15 July 2022; European Utilities Rating Methodology, 17 March 2022), are available on **https://scoperatings.com/governance-and-policies/rating-governance/methodologies**. Scope Ratings GmbH, Scope Ratings UK Limited and Scope Hamburg GmbH apply the same methodologies/models and key rating assumptions for their credit rating services. Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Basic Principles for Assigning Credit Ratings and Other Services 8 June 2022', published on **https://scopehamburg.com/seiten/SH_Basic_Principles_July_2022.pdf**. Historical default rates of the entities rated by Scope Hamburg can be viewed in the 'Credit Rating Transition and Default Study Feb. 2021' at **https://scopehamburg.com/seiten/Default_Study_2022_Scope_Hamburg.pdf**. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): **https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml**. A comprehensive clarification of Scope Hamburg's definitions of default and Credit Rating notations can be found at **https://scopehamburg.com/seiten/SH_Basic_Principles_July_2022.pdf**. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on **https://scoperatings.com/governance-and-policies/rating-governance/methodologies**. The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Hamburg's internal sources.

Scope Hamburg considers the quality of information available to Scope Hamburg on the Rated Entity or instrument to be satisfactory. The information and data supporting the Credit Ratings originate from sources Scope Hamburg considers to be reliable and accurate. Scope Hamburg does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlook are issued by Scope Hamburg GmbH, Ferdinandstraße 29-33, D-20095 Hamburg, Tel +49 40 60 77 81 200.

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The Credit Ratings/Outlook were first released by Scope Hamburg or its predecessor on 14 August 2019. The Credit Ratings/Outlook were last up-dated on 2 May 2022.

Potential conflicts

See **www.scoperatings.com** under Governance & Policies/EU Regulation/Disclosures for a list of potential conflicts of interest related to the issuance of Credit Ratings.

Conditions of use/exclusion of liability

About Scope Group

With more than 250 employees operating from offices in Berlin, Frankfurt, Hamburg, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG and fund analysis. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors world-wide. **Scope Ratings** is the largest European credit rating agency, registered in accordance with EU and UK rating agency regulation, offering opinion-driven and non-mechanistic credit risk analysis. **Scope ESG Analysis** provides tools for analysing and reporting on ESG impact and risk, as well as second-party opinions on green, social and sustainable bonds. **Scope Fund Analysis** rates more than 10,000 funds and asset managers across all major asset classes. The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several Europe-an countries. More on **www.scopegroup.com**

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