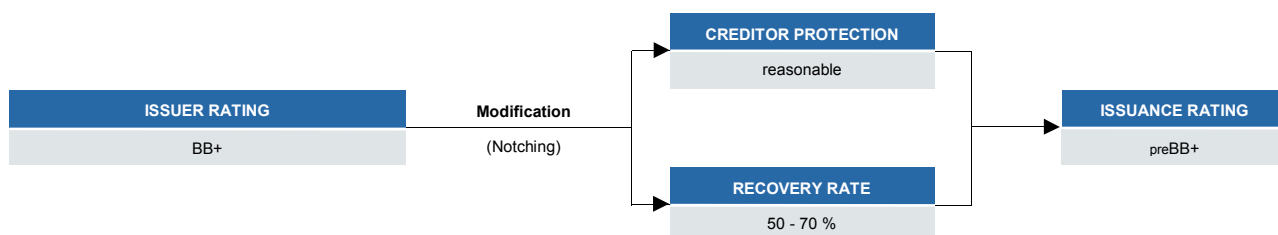


# Preliminary Issuance Rating

<b>TIGÁZ Földgázelosztó Zrt.</b> <b>Proposed senior unsecured bond issue (2020/2030)</b>		07 September 2020	<b>preBB+</b>
		Issuance rating	
Industry	Regulated Utility Companies	Issuance volume	HUF 34bn-50bn (target range)
		Coupon (% p.a.)	tba.



<b>ISSUER RATING</b>	<b>BB+</b>
<ul style="list-style-type: none"> <li>Low to moderate business risks due to established market regulation, distribution license and predictable operations</li> <li>Slightly increased financial risks due to restricted earnings potential and moderate financial flexibility</li> <li>No modification for operational risks or external influence</li> </ul>	

<b>CREDITOR PROTECTION</b>	<b>reasonable</b>
<ul style="list-style-type: none"> <li>Preliminary bond terms and conditions in preparation</li> <li>Reasonable, market standard terms expected, esp. with view to termination rights, covenants and negative clauses</li> </ul>	

<b>BOND RANKING</b>	<b>senior unsecured</b>
<ul style="list-style-type: none"> <li>Private placement process expected for Q4/2020</li> <li>Bond proceeds to fully replace existing senior lenders</li> </ul>	

<b>RECOVERY</b>	<b>50 – 70 %</b>
<ul style="list-style-type: none"> <li>Hypothetical default scenario based on going concern assumption</li> <li>Expected recovery rate: 50% - 70%</li> </ul>	

KEY DATA		
Listing	no	Private placement (Q4/2020), secondary market listing 180 days post issuance
Issuance volume	HUF 34bn – 50bn	Subject to market conditions (target range)
Fixed coupon	tba.	Subject to market conditions; based on 10y govt. bond yield + risk spread
Repayment	bullet	Full redemption / refinancing at maturity (Q4/2030)
Term to maturity	10 years	Expected maturity date in Q4/2030
Collateral	none	Senior unsecured bond

# Rating rationale

**Euler Hermes Rating assigns a preliminary BB+ issuance rating to TIGÁZ' proposed 2020/30 bond issue maturing in 2030 with a total expected issuance volume of between HUF 34bn and 50bn. The rating was derived from TIGÁZ' current issuer credit rating (BB+), the bond's proposed senior ranking, assumed reasonable creditor protections and adequate recovery expectations in a hypothetical bond default scenario.**

***Robust senior ranking within post issuance capital structure***

TIGÁZ has announced that, subject to market conditions, it intends to issue HUF 34bn-50bn of unsecured fixed rate notes ("senior unsecured bonds") with a term of 10 years and governed by Hungarian law. Overall we expect the proposed bond issue to be subject of a robust senior ranking, as the net proceeds from the offering shall be used to fully replace the current providers of external senior (secured) debt financing (MKB Bank). This will bring the relative ranking of the future bond holders into the most senior position, as the proportion of higher ranking secured debt shall be zero post issuance while the second source of funding ranks subordinated (shareholder loan/facility).

***Reasonable creditor protection assumed***

TIGÁZ' asset base will be unpledged post issuance, representing a notable long-term borrowing base. For holders of unsecured debt it is important to mitigate the risk of becoming significantly disadvantaged in the event of additional (secured) debt issues, when permitted. For regulated utilities we generally expect lower risks, as structural protection rules often limit their ability to raise new debt by requiring a certain amount of unencumbered assets. To ensure equal rights of payment and equal seniority with potentially new debt issues, we also assume a standard set of reasonable creditor protection clauses to be included in the proposed bond terms, such as pari passu / negative pledge clauses or financial covenants.

***50%-70% expected recovery rate based on hypothetical default scenario***

Our recovery expectation on TIGÁZ' proposed bond issue follows a hypothetical default scenario based on a going concern assumption. At present, TIGÁZ' overall creditworthiness is driven by an already low probability of default mainly as a result of a perpetual territory-based gas distribution license, highly predictable operating cash flows and reliable market regulations, which is supportive in sustaining the typically high long-term debt levels of regulated utilities (cp. BB+ issuer rating). In a hypothetical default scenario, however, we assume a material deterioration of the issuer's overall creditworthiness as a cause of adverse market regulation leading up to depressed long-term profit prospects and stressed going concern values. We also assume that ranking and size of debt claims will usually change prior to default, and that the issuer would be forced to pledge its assets to raise new debt as its credit quality gradually deteriorates. As a consequence, loss given default usually rises disproportionately the higher the probability of default is. This is especially true for unsecured debt. Nevertheless, we still expect adequate recovery rates of between 50%-70% for the proposed unsecured senior bond of TIGÁZ', as regulated utilities have proven to maintain higher values in distressed situations due to its integral assets which provide essential, public services that cannot be easily replaced. Our assessments leads to the equalization of the bond issuance rating with the current issuer rating of TIGÁZ Földgázelosztó Zrt. (BB+).

## Rating History

	03 September 2019	07 September 2020
<b>Issuer rating</b>	BB+	BB+
<b>Issuance rating</b>	preBB+	preBB+
<b>Outlook</b>	stable	stable

## Upgrade / Downgrade Factors

### **Factors that could lead to an Upgrade**

- Upgrade of TIGÁZ' issuer credit rating
- Lasting improvement of the bond's expected recovery rate

### **Factors that could lead to a Downgrade**

- Downgrade of TIGÁZ' issuer credit rating
- Lasting deterioration of the bond's expected recovery rate

## Issuance

### **HUF 34bn – 50bn issue to refinance existing financial debt**

TIGÁZ has announced that, subject to market conditions, it intends to issue HUF 34bn-50bn of unsecured fixed rate notes ("senior unsecured bonds") with a term of 10 years and governed by Hungarian law. The net proceeds from the proposed offering shall be used to refinance existing financial debt of the company. As of 30.06.2020 the company's capital structure contained secured long-term loans provided by a consortium of three commercial banks lead by MKB Bank (HUF 32.5bn) and subordinated loans provided by the shareholders (HUF 25bn). Depending on the final issuance volume, a fractional amount of subordinated shareholder loans will remain post issuance.

### **Private placement process announced for Q4 2020**

TIGÁZ aims to raise the funds via a private placement process involving the Central Bank of Hungary (MNB) and up to ten additional institutional investors. Therefore, TIGÁZ applied for MNB's "Bond Funding for Growth Scheme" (BGS) and carried out a bond roadshow and market sounding process during 2019/20. At a later stage (180 days post issuance), a secondary market listing of the proposed notes at the corporate bond market in Hungary is obligatory. We expect further announcements to be made upon pricing of the offering.

### **Preliminary issuance rating assigned**

During our assessment the actual bond terms and conditions were still in preparation. However, based on current proposals we made assumptions and assigned a preliminary issuance rating to the proposed issue at this stage. Assigning a final issuance rating depends on the provision of the terms and conditions for the proposed bond issue.

## Appendix 1: Execution

### Notice

This report represents a supplement to the issuer rating report from 07 September 2020. The issuance rating is derived from the current issuer rating. The full rationale for the issuer rating notation can be found in the issuer rating report.

### Analysts

- Matthias Peetz, Senior Analyst / Lead Analyst
- István Braun, Senior Analyst

### Contact:

Tel.: +49 (0) 40/60 77 81 200  
info@eulerhermes-rating.com

### Rating committee

- Dörte Mähmann, Director
- Holger Ludewig, Director

### Rating, Solicitation, Principal Sources of Information

- This credit rating has been issued in accordance with the CRA Regulation.
  - Solicited Rating
  - Unsolicited Rating
    - No participation of the issuer or related third party
    - With participation of the issuer or related third party
      - Access to internal documents
      - Access to management
- Prior to its publication the rating was disclosed to the issuer. During this period, the issuer had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended.
- Principal sources of information:
  - Preliminary information on the envisaged bond structure
  - Use of the proceeds - Scenario analysis provided by the issuer
  - Management interview

### Rating methodologies and definitions

- Euler Hermes Rating GmbH Issue Rating Methodology as of December 2014 ([https://www.ehrq.de/seiten/Methodology\\_Issue%20Rating\\_20171114.pdf](https://www.ehrq.de/seiten/Methodology_Issue%20Rating_20171114.pdf))
- Basic principles for Assigning Credit Ratings and Other Services as of July 2020 ([https://www.ehrq.de/seiten/Principles\\_200701.pdf](https://www.ehrq.de/seiten/Principles_200701.pdf))
- Guidance Regarding the Consideration of ESG Factors in Euler Hermes Rating Credit Ratings as of March 2020 ([https://www.ehrq.de/seiten/ESG\\_2020.pdf](https://www.ehrq.de/seiten/ESG_2020.pdf))

### Euler Hermes Rating GmbH

Stadthausbrücke 5  
20355 Hamburg  
Tel.: +49 (0) 40/60 77 81 200

info@eulerhermes-rating.com  
www.eulerhermes-rating.com

## Appendix 2: Rating categories\*

Category	Explanation
<b>AAA</b>	In the opinion of EHR, AAA rated obligations demonstrate an excellent credit quality and the lowest default risk.
<b>AA</b>	In the opinion of EHR, AA rated obligations demonstrate a very high credit quality with a very low default risk.
<b>A</b>	In the opinion of EHR, A rated obligations demonstrate a high credit quality with a low default risk.
<b>BBB</b>	In the opinion of EHR, BBB rated obligations demonstrate a medium credit quality with a moderate default risk.
<b>BB</b>	In the opinion of EHR, BB rated obligations demonstrate a medium-low credit quality with a slightly increased default risk.
<b>B</b>	In the opinion of EHR, B rated obligations demonstrate a low credit quality with an increased default risk.
<b>CCC</b>	In the opinion of EHR, CCC rated obligations demonstrate a very low credit quality with a high default risk.
<b>CC</b>	In the opinion of EHR, CC rated obligations demonstrate a very low credit quality, an event of default is very likely.
<b>C</b>	In the opinion of EHR, C rated obligations demonstrate a very low credit quality, an event of default is imminent.
<b>D</b>	D rated obligations have defaulted, as defined by the rating agency.
<b>PLUS (+) MINUS (-)</b>	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

\* For more explanations and definitions please refer to: Basic principles for Assigning Credit Ratings and Other Services ([https://www.ehrg.de/seiten/Principles\\_200701.pdf](https://www.ehrg.de/seiten/Principles_200701.pdf))

## Disclaimer

Magyar Nemzeti Bank (client) engaged Euler Hermes Rating GmbH to review the rating of the envisaged bond issuance (rated obligation) of TIGÁZ Földgázelosztó Zrt. (issuer) on 25 May 2020. An interview with the issuer was conducted on 26 August 2020.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 07 September 2020. This rating report was given to the client on 11 September 2020, thereby concluding the rating process.

The rating is Euler Hermes Rating GmbH's opinion of the creditworthiness of a certain obligation. It is not a statement of fact. Euler Hermes Rating GmbH is not engaged in buying or selling securities. Its rating report is neither a prospectus nor a substitute for information assembled and presented by companies or issuers for investors regarding the purchase of a security or for assessing the creditworthiness of a rated entity. The rating is not a recommendation to participate in certain facilities. All recipients of the information must conduct their own independent analyses, credit assessments and other verifications and evaluations that are customary and necessary in order to reach a final decision about participating in any facility.

The issuer is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The issuer has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the issuer exercising reasonable and commercial care. The issuer's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the issuer cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Euler Hermes Rating GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

The rating is published on Euler Hermes Rating GmbH's website ([www.eulerhermes-rating.com](http://www.eulerhermes-rating.com)) or published for subscribers (e.g. on a portal) and will be followed by a subsequent one-year monitoring process. During this period, the issuance, the issuer and the sector and business environment in which it operates will remain under observation. The representatives of the issuer remain subject to a full disclosure obligation during this period. Any change in Euler Hermes Rating GmbH's rating assessment will result in a change in the published rating notation, meaning that this notation represents the current rating assessment at all times. The rating will only remain published after the end of the monitoring period if a follow-up rating is performed.

Please note that summaries of contracts, laws and other documents contained in the rating report cannot replace careful study of the complete texts. Euler Hermes Rating GmbH cannot guarantee that the information used to prepare this report has not changed since it was collected and is still accurate at the time of publication. Euler Hermes Rating GmbH is under no obligation to complete the information that it considered when issuing the rating.

The dissemination and use of this rating report may be prohibited by law in certain jurisdictions. Euler Hermes Rating GmbH therefore recommends that any persons who come into the possession of this information inquire about and comply with any prohibitions that may be in place. Euler Hermes Rating GmbH assumes no liability of any kind with respect to the dissemination and use of the rating in any jurisdiction whatsoever.

Euler Hermes Rating GmbH

Hamburg, 11 September 2020