



## Fitch Places Eurohold's IDR on Watch Negative on CEZ Deal

Fitch Ratings-London-27 June 2019: Fitch Ratings has placed Eurohold Bulgaria AD's (Eurohold) Long-Term Issuer Default Rating (IDR) and Insurance Company Euroins AD's (Euroins Bulgaria), Euroins Romania Asigurare Reasigurare S.A.'s, and Insurance Company EIG Re AD's Insurer Financial Strength (IFS) Ratings on Rating Watch Negative (RWN).

The RWN follows the announcement that Eurohold plans to acquire the Bulgarian assets of the Czech power utility company CEZ a.s. (CEZ assets) for EUR335 million (BGN655 million). The completion of the transaction is subject to approvals from the Bulgarian Competition Authority and the Bulgarian energy regulator.

### KEY RATING DRIVERS

The RWN reflects Fitch's view that the proposed acquisition of CEZ assets could give rise to financial risks due to the expected high debt proportion in the financing structure as well as integration and execution risks.

The planned high debt proportion in the financing structure (minimum 75% of the acquisition price) could significantly reduce distributable earnings from CEZ assets especially in the initial period. However, power distribution, the largest and most profitable business in the transaction, is regulated and produces stable cash flows, and therefore the acquisition of CEZ assets should over time contribute to higher stability and predictability of Eurohold's earnings. This could contribute positively to the group's credit profile in the medium- to long-term.

Eurohold lacks previous management experience in power utilities and will therefore rely on current management of CEZ assets to ensure smooth operations. Fitch understands from management that Eurohold aims to retain the existing management team of CEZ assets. Additionally, Eurohold has formed an advisory board of energy experts, which is supporting the company on the acquisition process and will oversee the integration of CEZ assets during and after transaction closing.

However, we expect the integration will also require significant management resources from Eurohold. As a predominantly financial investor, Eurohold is also likely to look for cost-saving opportunities to further improve its return on investment, which could give rise to additional execution risks.

Fitch expects the transaction to be broadly neutral to Eurohold's insurance-related financial leverage ratio and capitalisation, which would exclude both the equity and debt financing relating to the acquisition of CEZ assets. Eurohold's capitalisation based on Fitch's Prism Factor Based Model was 'Weak' and the group's Fitch-calculated financial leverage stood at 65% at end-2018 (2017: 64%).

However, Fitch expects the transaction to increase financial leverage at consolidated Eurohold level due to the highly leveraged nature of the transaction. Fitch also believes Eurohold would provide additional support to the financing structure (with or without a legal obligation) if necessary to protect its investment. Such a scenario could put additional pressure on Eurohold's capitalisation and/or financial leverage.

Eurohold plans to issue EUR80 million (BGN156 million) preferred shares to partly fund the acquisition of CEZ assets. These shares would carry fixed dividends to be covered by Eurohold's net or retained

earnings. Fitch expects this to be slightly negative for Eurohold's insurance-related fixed charge coverage ratio, which would have been 1.2x calculated on a pro-forma basis at end-2018 after inclusion of these expenses (end-2018 actual: 1.3x).

Fitch expects interest costs arising from financial debt related to the transaction to be covered by revenues generated by CEZ assets. However, Fitch sees high execution risk associated with the debt servicing capability of CEZ assets.

#### RATING SENSITIVITIES

Fitch will resolve the RWN on the regulatory approvals of the transaction and after completing its assessment of the standalone credit profile of CEZ assets and the final financing structure.

#### FULL LIST OF RATING ACTIONS

Insurance Company Euroins AD

--IFS Rating 'BB-' placed on RWN

Euroins Romania Asigurare Reasigurare S.A.

--IFS Rating 'BB-' placed on RWN

Insurance Company EIG Re AD

--IFS Rating 'BB-' placed on RWN

Eurohold Bulgaria AD

--Long-Term IDR 'B' placed on RWN

--Long-term senior debt 'B'/RR4' rating placed on RWN

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Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019)

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