



FitchRatings

## Credit quality of Polish and CEE corporates



# CEE Region – Sovereign Ratings



Country	LT IDR	Country Ceiling
Czech	A+, stable	AA+
Slovakia	A+, stable	AAA
Estonia	A+, stable	AAA
<b>Poland</b>	<b>A-, stable</b>	<b>AA-</b>
Lithuania	A-, stable	AAA
Latvia	A-, stable	AAA
Slovenia	BBB+, positive	AA+
Bulgaria	BBB-, stable	BBB+
Hungary	BBB-, stable	A-
Macedonia	BB, negative	BB+
Croatia	BB, negative	BBB-
Serbia	BB-, stable	BB-

# Corporate Market Share in CEE

Fitch Corporate Coverage in CEE		
Fitch Only	Fitch + 1	Fitch + 2
Tauron (BBB, negative)	PKN Orlen (BBB -, stable)	P4/Play (B +, stable)
ENEA (BBB, stable)	PGE (BBB +, stable)	CEZ (A -, stable)
Bulgarian Energy Holding (BB, negative)	MOL (BBB -, stable)	-
Polskie Koleje Panstwowe (BBB, stable)	ENERGA (BBB, stable)	-
Aquanet (BBB, stable)	Nitrogenmuvek (B +, stable)	-
MWIK Bydgoszcz (BBB-, stable)	RPG Byty (B +, stable)	-
PKP Intercity (BBB, stable)	SPP distribucia (A -, stable)	-
SmVaK (BB +, stable)	Net4Gas (BBB, stable)	-
ZKM Gdansk (BBB, stable)	EP Energy (B +, stable)	-
MPK Lodz (BBB -, stable)	Eustream (A -, stable)	-
-	-	-

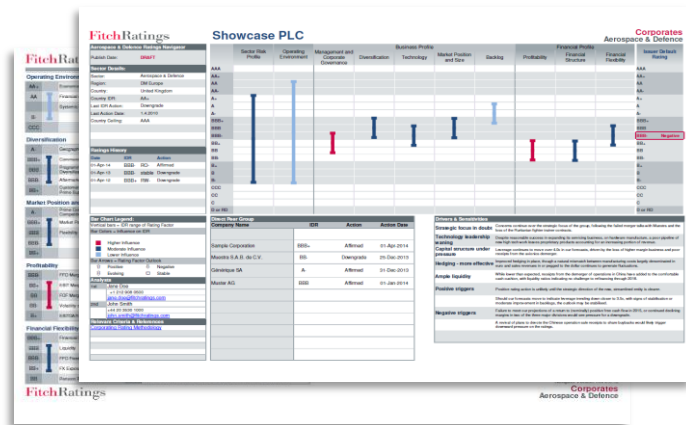
# National Rating Scale

Fitch is the **only** rating agency to introduce a national Polish scale which is recognised and used by local banks and investors, showing a deeper knowledge and understanding of the local market

Corporates	International Ratings				National Ratings
	Long term IDR		Short Term IDR		Long Term
	Foreign Currency	Local Currency	Foreign Currency	Local Currency	
Aquanet	BBB	-	-	-	A (pol)
ENEA	BBB	BBB	-	-	A (pol)
ENERGA	BBB	BBB	-	-	A (pol)
P4	B+	-	-	-	BBB- (pol)
PGE Polska Grupa Energetyczna	BBB+	BBB+	-	-	AA- (pol)
PKN Orlen	BBB-	BBB+	F3	F3	A- (pol)
PKP Intercity	BBB	BBB+	-	-	A+ (pol)
Polskie Koleje Panstwowe	BBB	BBB+	-	-	A+ (pol)
Tauron Polska Energia	BBB	BBB	F3	F3	A (pol)
Zakład Komunikacji Miejskiej w Gdańsku	-	BBB	-	-	A+ (pol)

# Navigator: *Getting you closer to our key drivers*

## Navigator Snapshots



Navigator Snapshots are profiles of Fitch rated issuers that gives a clear view of the rating drivers

- Available in multi sector formats, all Navigators share a common structure and approach which allows for easy peer comparison
- Supported by **Navigator companion reports** describing the basis for our observations for each sector

## Navigator Interactive



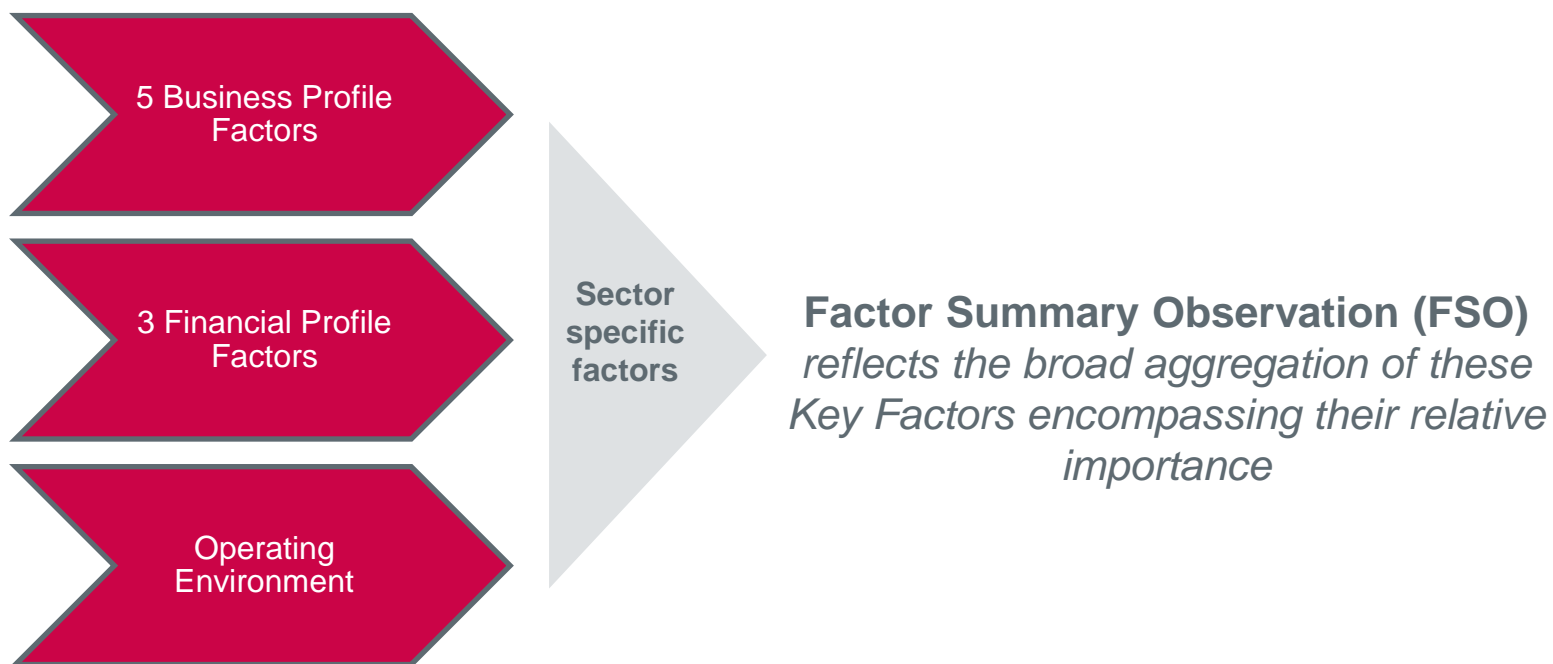
Navigator Interactive is a new tool that allows users to estimate the likely rating range for any unrated issuer and perform rating scenario analysis on any Fitch rated issuer

- **Sector-specific** factors give a better assessment of the issuer's credit profile
- **Country risk** impact is included for all Emerging Markets
- **Free to use**

# Navigator Interactive

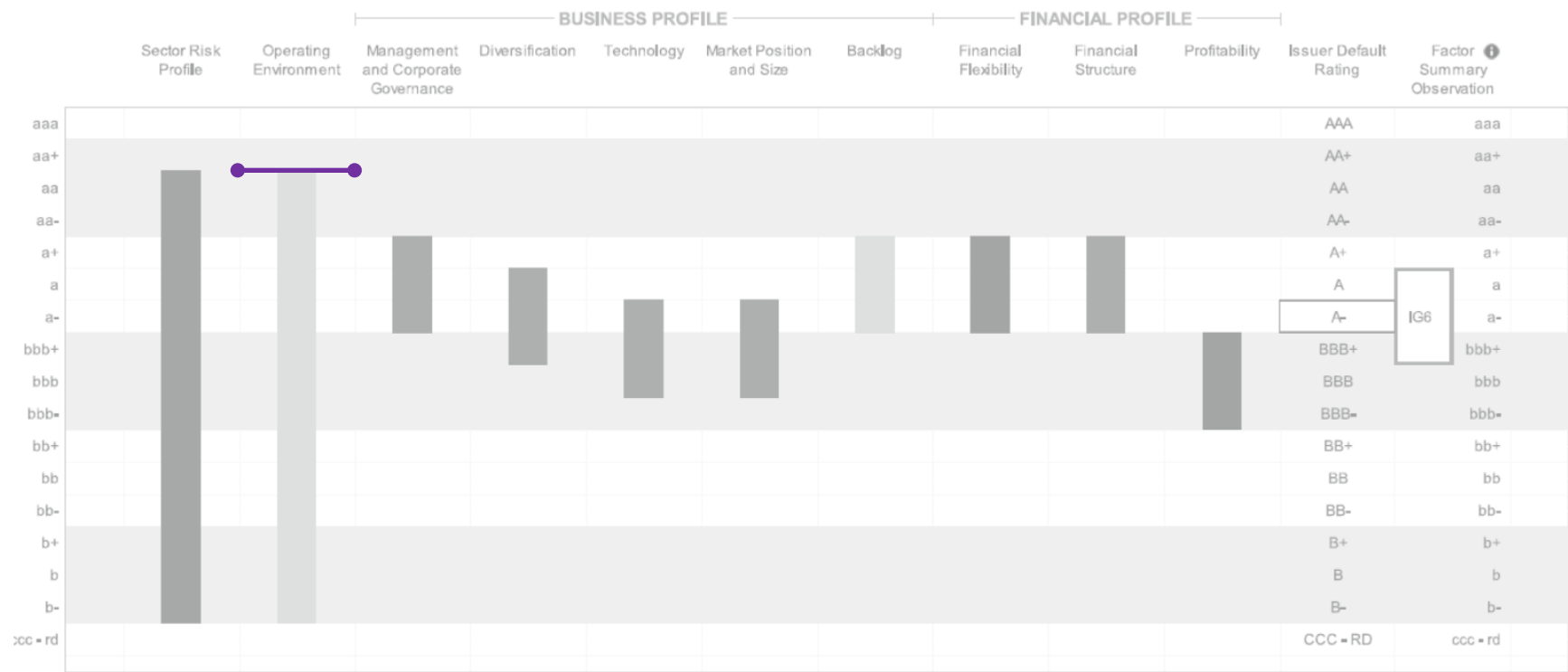
Designed to provide transparency for the key drivers of corporate issuer ratings

Navigator Interactive allows for peer comparisons, rating impact scenario analysis for rated issuers and an estimate of the likely rated range for currently unrated issuers



# Factor Summary Observation

## Operating Environment set for Issuer



# Factor Summary Observation

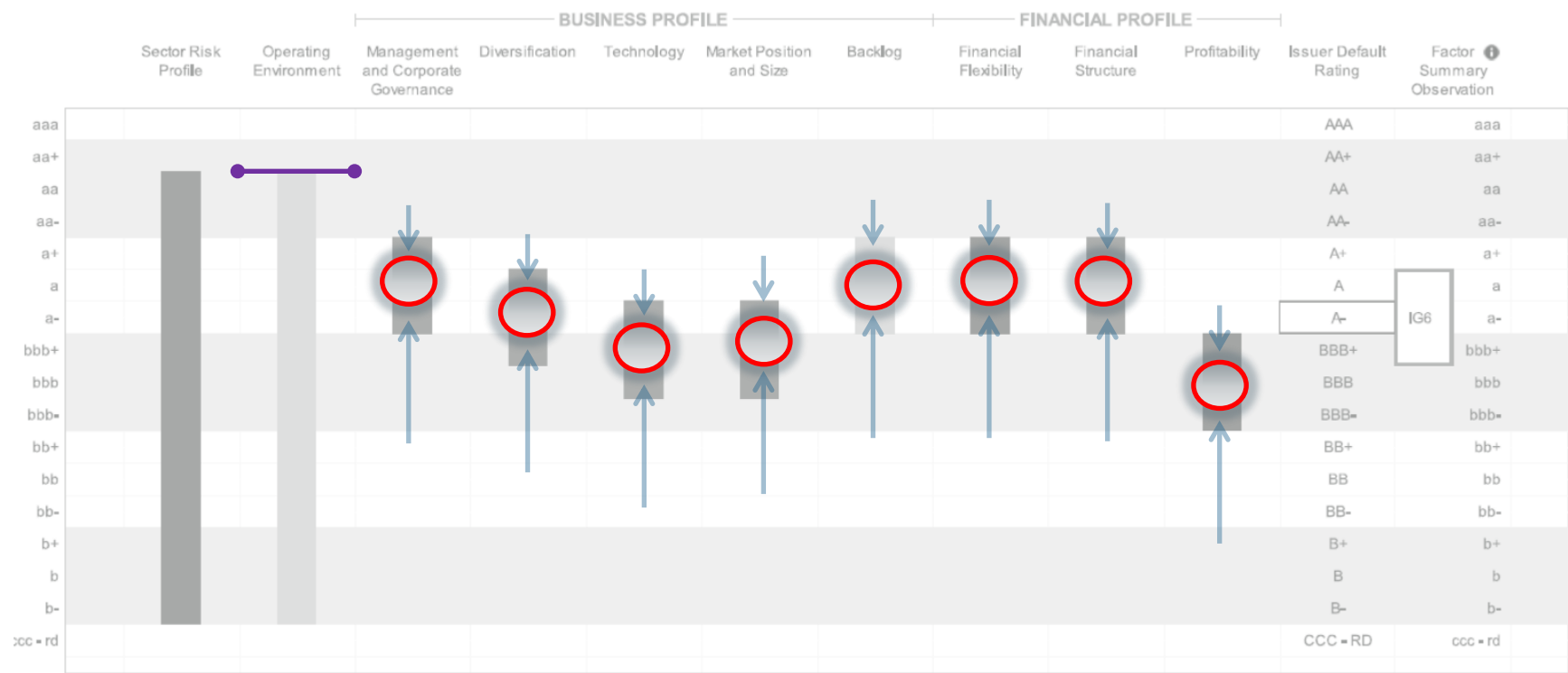
Sub-Factors form a range...





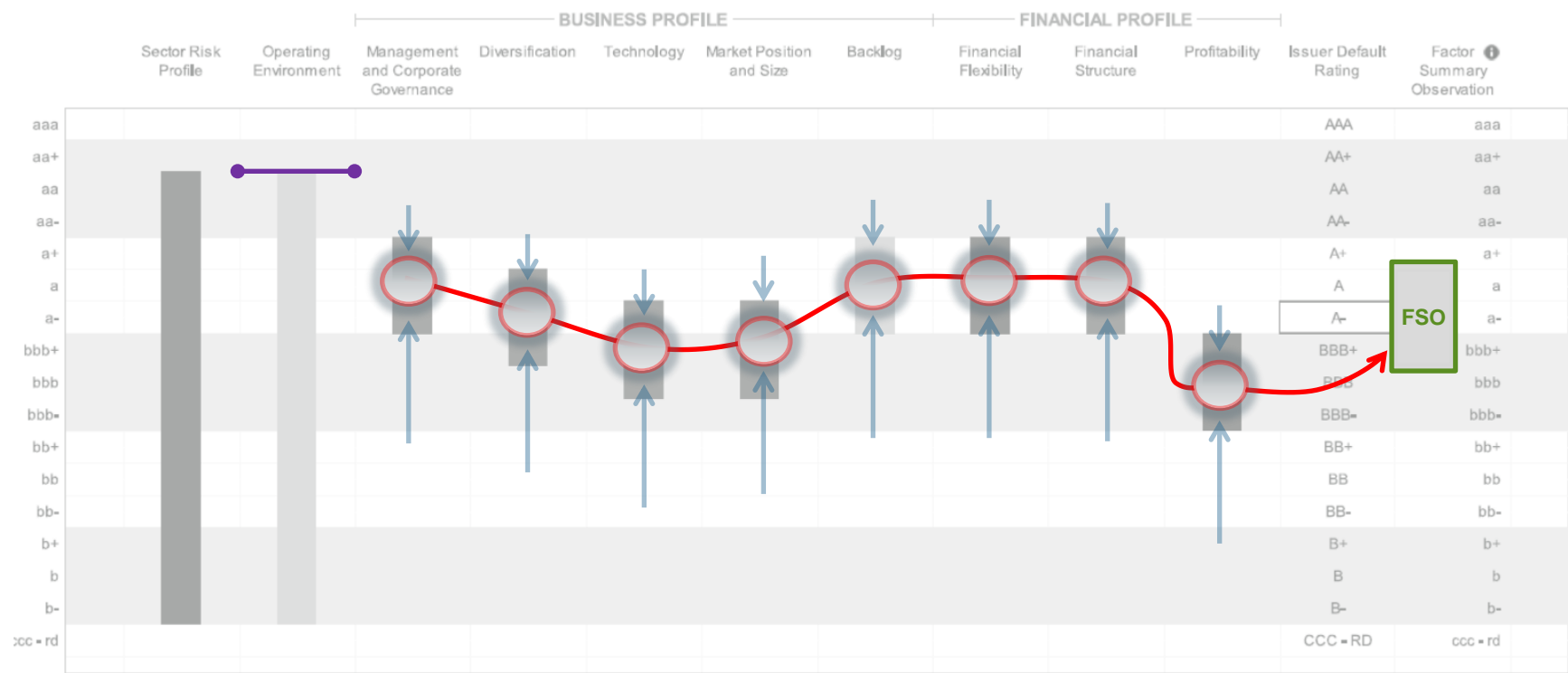
# Factor Summary Observation

Sub-Factors roll up to Factors...



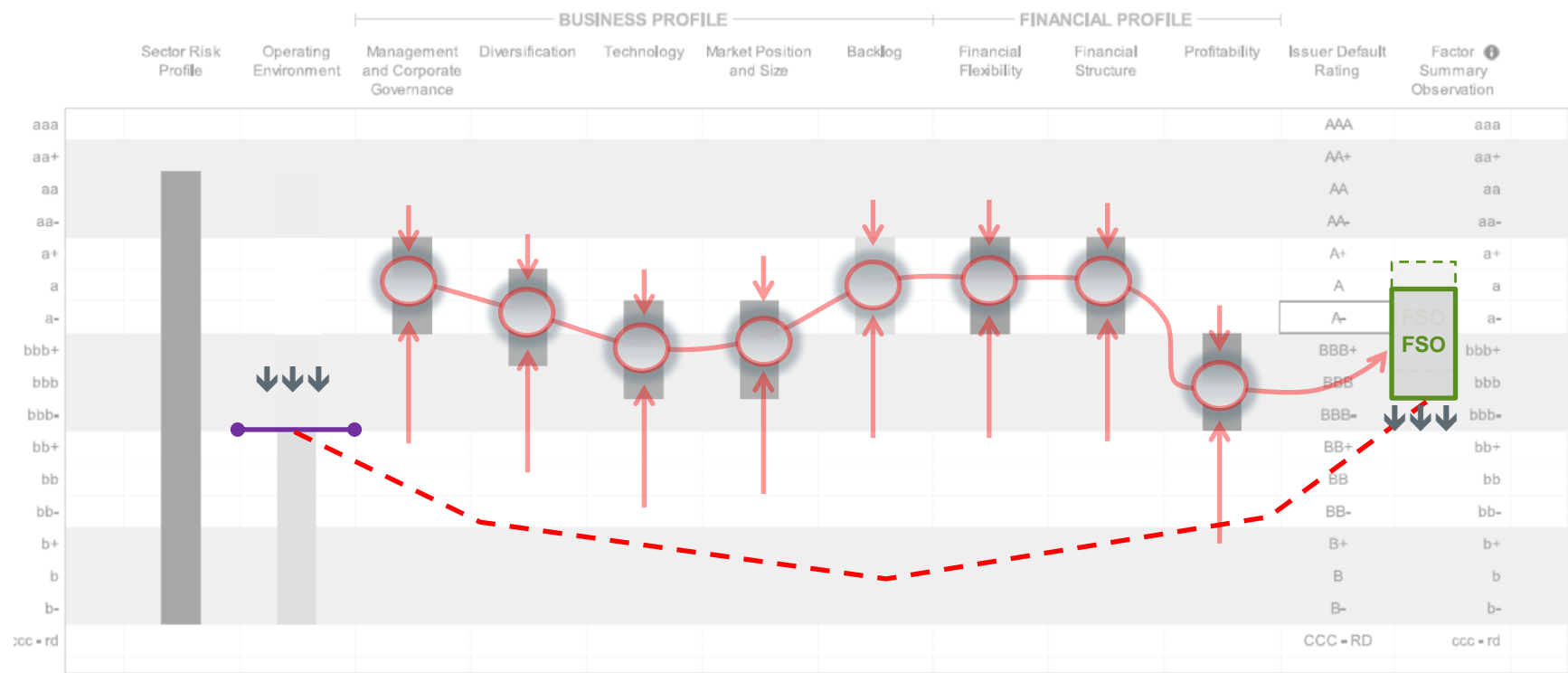
# Factor Summary Observation

Factors roll into FSO...










# Factor Summary Observation

Lower Operating Environment may “pull down” FSO



Corporates Ratings Navigator			
Publish Date:	22-Sep-16		
Sector Details:			
Sector:	EMEA Regulated Utilities		
Region:	Developed Markets - Europe		
Country:	Czech Republic		
Country IDR:	A+	Stable	
Country IDR Action:	Affirmed		
Country Action Date:	15-Apr-16		
Country Ceiling:	AA+		
Ratings History			
Date	IDR	Action	
27-Jun-16	BBB	Stable	Affirmed
07-Mar-16	BBB	Positive	Review - No Action
27-Jul-15	BBB	Positive	Affirmed
06-Nov-14	BBB	Positive	Affirmed
08-Jul-14	BBB	Positive	New Rating

Bar Chart Legend:		
Vertical Bars = Range of Rating Factor		
Bar Colors =Relative Importance		
	Higher Importance	
	Average Importance	
	Lower Importance	
Bar Arrows = Rating Factor Outlook		
	Positive	 Negative
	Evolving	 Stable
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Relevant Criteria & References		
Introducing Ratings Navigators for Corporates		
<a href="#">Corporate Rating Methodology</a>		
EMEA Regulated Utilities: Ratings Navigator Companion		

Factor Levels	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Sector Positioning	Business Profile	Regulatory Environment	Asset Base	Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility	Issuer Default Rating
aaa												AAA
aa+												AA+
aa												AA
aa-												AA-
a+												A+
a												A
a-												A-
bbb+												BBB+
bbb												BBB Stable
bbb-												BBB-
bb+												BB+
bb												BB
bb-												BB-
b+												B+
b												B
b-												B-
ccc												CCC
cc												CC
c												C
d or rd												D or RD

Direct Peer Group				
Company Name	IDR	Action	Action Date	
eustream, a.s.	A- Stable	Affirmed	22-Aug-2016	
Enagas S.A.	A- Stable	Affirmed	23-Dec-2015	
REN - Redes Energeticas Nacionales, SGPS, S.A.	BBB Stable	Affirmed	24-Mar-2016	
National Grid Gas plc	A- Stable	Affirmed	07-Mar-2016	

Drivers & Sensitivities	
Tighter Rating Sensitivities	Fitch tightened NET4GAS's leverage metrics guideline on the back of an increasing share of transit earnings from short-term contracts, especially after 2020. Predictability of NET4GAS's cash flows is expected to decline accordingly.
Shareholder Loan Redemption Rating Neutral	We expect a temporary increase in leverage due to a timing difference in equity injections toward the Czech-Polish interconnector. The overall trend of leverage metrics will still sit within our revised sensitivity for the rating.
Final Determination Rating Positive	Domestic transmission regulatory parameters set for the 2016-2018 regulatory period (RP4) are favourable, with the pre-tax nominal weighted average cost of capital at 7.94%, fixed for the entire period.
Concentration of Contracts	Significant counterparty concentration is a risk for NET4GAS, reflecting the company's direct exposure to Gazprom (BBB-Negative) as the largest counterparty.
Expiry of Long-Term Contracts	Four long-term contracts expire over our rating horizon (2016-2021), and we believe they are unlikely to be renewed. However, we expect some of the reverse gas flows (West-East) to be sustained on an uncontracted/short-term contract.
Positive Rating Sensitivities	FFO net adjusted leverage sustainably below 4.7x and FFO coverage above 3.5x, together with better predictability and visibility in the domestic business, would be rating positive.
Negative Rating Sensitivities	FFO net adjusted leverage above 5.2x and FFO coverage below 2.5x on a sustained basis, an adverse change in NET4GAS's contract portfolio or failure of counterparties to perform under the contracts, would be rating negative.

## Operating Environment

aa-	Economic Environment	a	Strong combination of countries where economic value is created and where assets are located.
a+	Financial Access	a	Strong combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	a	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'a'.
b-			
ccc			

## Sector Positioning

a	Operation Type	a	National or regional monopolies, transmission or distribution asset owners.
a-	Non-Regulated Earnings (% of Total Earnings)	b	up to 25%
bbb+			
bbb			
bbb-			

## Asset Base

aa-	Diversification	bbb	Limited diversification by geography without regulatory diversification; regional utility.
a+	Critical Mass	a	Critical mass in one regulated asset; does not affect efficiency of operations (cost base, customer base, key personnel).
a	Asset Quality	a	High asset quality likely to benefit opex and capex requirements compared with peers.
a-			
bbb+			

## Profitability and Cash Flow

a-	Return on Capital	a	Return on capital at, or comfortably above, the regulatory benchmark.
bbb+	Volatility of Profitability	bb	Less stability and predictability of profit than utility peers.
bbb	Investment Cycle	a	Investment cycle position not leading to significantly negative free cash flow.
bbb-			
bb+			

## Financial Flexibility

a+	Financial Discipline	bbb	Financial policies less conservative than peers but generally applied consistently.
a	Liquidity	bbb	One-year liquidity ratio above 1.25x. Well spread debt maturity schedule but funding may be less diversified.
a-	FFO Fixed-Charge Cover	bbb	3.5x
bbb+	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging.
bbb	PMICR: (CFO - Maintenance Capex)/Interest	a	1.75x

## Management and Corporate Governance

a+	Management Strategy	a	Coherent strategy and good track record in implementation.
a	Governance Structure	a	Experienced board exercising effective checks and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	a	Group structure has some complexity but mitigated by transparent reporting.
bbb+	Financial Transparency	bbb	Good-quality reporting without significant failings. Consistent with the average of listed companies in major exchanges.
bbb			

## Regulatory Environment

a	Independence, Transparency, Licensing, Ring-Fencing, Concessioning	bbb	Less transparent frameworks, with emerging track record and multi-year tariffs; exposed to political risk. Medium-term predictability.
a-	Cost and Investment Recovery	bbb	Less demanding licensing and ring-fencing provisions; moderate concession renewal risk.
bbb+	Volume and Price Risk	bbb	Tariff setting with challenge mechanisms that may limit efficiently incurred cost and investment recovery, with moderate regulatory lag.
bbb		bbb	Moderate insulation from price and volume risk and revenue under-recovery.
bbb-			

## Operations

a	Performance Measures	a	Key performance measures in line with or above sector average and/or regulatory target.
a-	Counterparty Risk	bbb	Medium counterparty risk. Less diversified, with high prepayment rates; medium collection rates for water suppliers.
bbb+	Revenue Profile and Market Risk	bbb	Medium revenue profile and market risk. Some exposure to cyclical industries and/or customers.
bbb			
bbb-			

## Financial Structure

a	Lease-Adjusted FFO Gross Leverage	bbb	6.0x
a-	Lease-Adjusted FFO Net Leverage	bbb	5.5x
bbb+	Net Debt/Asset Base	a	60%
bbb			
bbb-			

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

## Benefits of Navigator Interactive

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- Pre-loaded with the majority of Fitch rated issuers and requested unrated names (with more being added)
- Sector-specific factors give a better assessment of the issuer's credit profile
- Good match of FSOs to Fitch ratings (75%+ of existing ratings will fall inside FSO)
- **Country risk impact is key for Emerging Markets**
- Easy access and free to use (No username or login required)

**[navigator.fitchratings.com](http://navigator.fitchratings.com)**

# Contacts

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