

Rating Action: Moody's assigns (P)A2 rating to RESA; stable outlook

Global Credit Research - 01 Jul 2016

First-time rating

London, 01 July 2016 -- Moody's Investors Service (Moody's) has today assigned a provisional long-term (P)A2 issuer rating to RESA S.A. (RESA) and a provisional long-term senior unsecured (P)A2 rating to the company's proposed bond issuance. The outlook on the ratings is stable.

The provisional ratings reflect Moody's preliminary credit opinion regarding the capital structure of the company, pending confirmation of final terms of the transaction. Upon completion of the issuance of the new notes and conclusive review of the final documentation, Moody's will endeavor to assign definitive ratings. A definitive rating may differ from a provisional rating.

RATINGS RATIONALE

RESA's ratings are supported by the low-risk business profile of its monopoly regulated electricity and gas distribution network operations in the Walloon region of Belgium. These are underpinned by a relatively transparent and supportive regulatory framework, although the latter displays a short track record in the context of European peers due to the recent transfer of tariff setting responsibilities from the national to the regional regulator. Moody's further notes that there are uncertainties associated with the transition from the current cost-plus regulatory regime to an incentive-based framework from 2018. Nevertheless, the ratings take into account that the methodologies to set tariffs are designed to follow established principles comparable to other incentive-based frameworks in Europe, and that the proposed five-year tariff period from 2018 will provide significant revenue visibility.

The ratings also reflect RESA's relatively modest leverage post-transaction for the sector and moderate investment requirements. In addition, Moody's expects that the company will maintain a conservative dividend policy, further supported by the restriction under the bond documentation to limit dividend distributions to 60% of net income. As a result, Moody's anticipates that RESA will maintain net debt/fixed assets (which is a close proxy for the Regulated Asset Base) around 40% over the medium term.

These factors are balanced by RESA's exposure to the weaker credit quality of its direct parent, Nethys SA (Nethys), which is involved in higher-risk telecom and energy activities. This is partly mitigated by (1) the proposed bond covenant package which restricts distributions if RESA's leverage ratio (expressed as net debt to Regulated Asset Base) rises above 55%; and (2) the benefits from the ultimate ownership by the Province of Liege and other municipalities, which result in a conservative financial policy. Under the 2001 Walloon electricity and gas decrees, the share capital of a Distribution System Operator such as RESA must be held at least 70% by municipalities or provinces.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that (1) RESA will maintain a standalone leverage ratio around 40% in the medium term; and (2) the consolidated credit quality of Nethys will remain broadly in line the current level.

WHAT COULD CHANGE THE RATING UP/DOWN

Given that RESA's rating is currently constrained by the credit quality of its parent, there is limited potential for an upgrade in the intermediate term. Nevertheless, upward pressure on the rating could develop in the medium to long term if the consolidated credit quality of Nethys were to improve, most likely as a result of material gross debt reduction at parent company level.

Conversely, the rating could be downgraded if (1) leverage at RESA were to exceed 55%; or (2) the consolidated credit quality of Nethys were to deteriorate materially, notably as a result of additional debt raised at parent company level.

RESA S.A. owns and operates gas and electricity distribution networks in the province of Liege (Belgium) with a combined Regulated Asset Base in excess of EUR1.2 billion at year-end 2015. It is fully owned by Nethys SA, whose ultimate shareholders include the Province of Liege (54%) and 76 municipalities in the region of Liege.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Regulated Electric and Gas Networks published in November 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

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