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Fitch Affirms Czech Gas Networks Investments' IDR at 'BBB+'/Stable; SCP Improved

Fitch Ratings - Madrid - 01 Apr 2026: Fitch Ratings has affirmed Czech Gas Networks Investments S.a.r.l.'s **(**CGNI)'s Long-Term Issuer Default Rating (IDR) at 'BBB+' with Stable Outlook and senior unsecured rating at 'A-'. Fitch has also revised the company's standalone credit profile (SCP) to 'bbb+' from 'bbb'.

CGNI's ratings benefit from a defensive business profile as the largest gas distribution network in Czechia operating under a supportive regulatory regime, entering its sixth regulatory period.

The SCP improvement is supported by CGNI's updated financial policy anchored on maintaining stable external debt after the refinancing of 2026 while reducing leverage towards 85% net debt/regulated asset base by 2030.

The Stable Outlook reflects our view that funds from operations (FFO) net leverage will average 5.3x over 2026-2030 in our updated rating case, well below our prior expectation of 6.3x and implying comfortable headroom under the SCP leverage guidelines.

Key Rating Drivers

Lower Leverage, SCP Improvement: We have revised our assessment of CGNI's SCP to 'bbb+' from 'bbb' due to structurally lower leverage in our updated forecasts. We now expect FFO net leverage to average 5.3x over 2026-2030, based on the absence of special dividends after 2026 in our updated rating case, which results in slightly negative free cash flow (FCF) generation and limits incremental debt needs during 2027-2030. The improvement implies that the SCP of CGNI is now commensurate with the creditworthiness of its parent CEZ, a.s.

Updated Financial Policy: CGNI's dividend plan reflects a large payout in 2026 of CZK6.3 billion (including a base dividend of CZK2.6 billion and the rest as a one-off distribution) while from 2027 we expect annual dividends of CZK2.8 billion-3.4 billion. The absence of extraordinary dividends after 2026 reflects management's intention to reach a net debt/regulated asset base ratio of 85% by 2030. We see it as a positive development compared with the previous policy of maximising dividends under the leverage sensitivity.

Supportive Regulatory Framework: We see regulation for gas distribution in Czechia as predictable and underpinning cash flow visibility. The determination of operating principles for the sixth regulatory period (RP6, 2026-2030) was completed in spring 2025. The base regulatory weighted average cost of capital (WACC) is set at 6.9% and a bonus WACC of up to 1.5% has been included, linked to the achievement of certain investments targets. RP6 also introduces accelerated depreciation and remuneration on fully depreciated assets, which the company expects to support allowed revenues and FCF generation.

Earnings Growth Driven by GD and RP6: Gas Distribution s.r.o. (GD) became a 100% subsidiary of GasNet, a subsidiary of CGNI, in January 2026. Fitch views leverage effect (+0.3x) as manageable, while the acquisition is neutral in terms of business risk as GD operates in the same regulated activity and is smaller (CZK0.9 billion EBITDA in 2025). We expect CGNI's EBITDA to rise to about CZK14 billion in 2030 from CZK11 billion in 2025, driven by the contribution of GD and revenue growth expected during RP6.

Refinancing Under Way: In 2025 CGNI concluded bilateral credit facility agreements totalling about EUR595 million (CZK14.6 billion) to support refinancing of Czech koruna and eurobonds maturing in 2026-2027 and to finance the acquisition of GD. The process of raising long-term financing has already started.

Updated Capex Plan, Predominantly Regulated: Management's updated plan indicates rising investment needs under RP6, with cumulative investments over 2026-2030 totaling CZK37 billion and remaining predominantly regulated capex. In parallel, management has reduced exposure to non-regulated activities with the exclusion of hydrogen investments from the plan, and by halting investment decisions related to new LNG stations.

Peer Analysis

NET4GAS, s.r.o. (BBB+/Stable) is CGNI's closest peer following its transition to a regulated gas transmission systems operator. CGNI has slightly higher debt capacity given its longer record of fully regulated revenue and larger scale. However, NET4GAS's stronger financial profile supports a similar assessment to CGNI's SCP.

CGNI has a solid business profile and a similar debt capacity to that of E.ON SE (BBB+/Stable), We believe the two companies benefit from similarly supportive regulations (Germany and Sweden, the Czech Republic), while E.ON's large exposure to supply is mitigated by its unique diversification and size.

We view CGNI's business profile as more defensive than that of central and eastern European peer SPP - distribucia, a.s. (SPPD; A-/Stable; SCP: a). This is because the Czech regulatory system is well protected from volume risk and less exposed to political risk. However, SPPD benefits from a conservative capital structure, which mostly explains the SCP difference. SPPD's IDR is capped at one notch above the consolidated credit profile of its immediate parent, SPP Infrastructure, a.s., in line with our Parent and Subsidiary Linkage Rating Criteria.

Fitch’s Key Rating-Case Assumptions

Fitch's Key Assumptions within our Rating Case for the Issuer

-- Revenue based on the RP6 regulatory principles for 2026-2030, with base WACC set at 6.9% and 1.5% WACC bonus on capex targets, allowing the company to recover increases in the cost of capital

-- Annual EBITDA to increase to about CZK14.4 billion by 2030 from about CZK11 billion in 2024 based on the consolidation of GD and the growth in allowed revenues foreseen during RP6

-- Average annual capex of CZK7.4 billion in 2026-2030

-- Dividends distribution of about CZK6.3 billion in 2026 (including the CZK3.4 billion special dividend) and annual dividends averaging CZK3 billion over 2027-2030

Corporate Rating Tool Inputs and Scores

Fitch scored the issuer as follows, using its Corporate Rating Tool to produce the SCP:

-- Business and financial profile factors (assessment, relative importance): Management (bbb, Lower), Sector Characteristics (bbb+, Higher), Market and Competitive Positioning (a, Moderate), Diversification and Asset Quality (a-, Moderate), Company Operational Characteristics (a, Lower), Profitability (a-, Moderate), Financial Structure (bbb, Higher), and Financial Flexibility (a-, Moderate).

-- The quantitative financial subfactors are based on custom Corporate Rating Tool financial period parameters: 20% weight for the forecast year 2026, 20% for the forecast year 2027, 20% for the forecast year 2028, 20% for the forecast year 2029 and 20% for the forecast year 2030.

-- The Governance assessment of 'Good' results in no adjustment.

-- The Operating Environment assessment of 'a' results in no adjustment.

-- The SCP is 'bbb+'.

To derive the IDR:

-- Application of Fitch's Parent and Subsidiary Linkage Rating Criteria results in a standalone approach.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- A deterioration of the SCP together with a weakening of CEZ's creditworthiness

-- A multi-notch downward revision of the SCP

-- A weakening of the business risk profile, due to a less predictable regulatory framework

We could revise the SCP downwards if FFO net leverage rises above 6.0x or if FFO interest coverage falls below 4.2x over an extended period.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- FFO net leverage falling below 5.0x on a sustained basis, assuming an unchanged business risk profile

Liquidity and Debt Structure

At end-2025, CGNI had CZK1.9 billion of cash on its balance sheet and undrawn committed credit facilities of about CZK16 billion (of which CZK8.8 billion are due in 2027, CZK1.5 billion in 2028, and CZK5.8 billion in 2029). The company will refinance in 2026: short-term maturities of CZK6.7 billion; CZK8.2 billion for the acquisition of GD; and the special dividend of CZK3.6 billion. We expect the company to generate positive pre-dividend FCF of about CZK2.2 billion per year over 2026-2030.

Issuer Profile

CGNI is the largest gas distribution operator in the Czech Republic with about over 85% of the volumes distributed in the country. Almost 100% of revenues are regulated based a revenue cap regulation with very limited volume and no price risk.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Sector Forecasts Monitor data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

Climate Vulnerability Signals

The 2025 revenue-weighted Climate.VS for CGNI for 2035 is 45 out of 100, suggesting material exposure to climate-related risks in that year. This is mitigated by characteristics of the Czech Republic's energy system (reliance on fossil fuels) and constraints of alternative technologies in the country, likely leading to gaseous fuels playing a significant role across all decarbonisation scenarios.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Czech Gas Networks Investments S.a r.l.	LT IDR	BBB+ (Rating Outlook Stable)	Affirmed		BBB+ (Rating Outlook Stable)
• senior unsecured	LT	A-	Affirmed		A-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙

RATINGS KEY	OUTLOOK	WATCH
EVOLVING	◆	◆
STABLE	●	

Applicable Criteria

Corporate Rating Criteria (pub.09 Jan 2026) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub.02 Aug 2024) (including rating assumption sensitivity)

Country-Specific Treatment of Recovery Ratings Criteria (pub.20 Feb 2026)

Government-Related Entities Rating Criteria (pub.18 Jul 2025)

Parent and Subsidiary Linkage Rating Criteria (pub.27 Jun 2025)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.09 Jan 2026)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Czech Gas Networks Investments S.a r.l.	EU Issued, UK Endorsed

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