

Research Update:

# Czech Gas Networks Investments Upgraded To 'A-' On Strong Financial Performance And Supportive Regulation

February 19, 2026

## Rating Action Overview

- With the recent acquisition of E.ON's Czech gas distribution system operator (DSO) assets in January 2026, Czech Gas Networks Investments S.a.r.l. (CGNI) has cemented its position as the dominant gas DSO in the country.
- We see the current regulatory period for gas distribution (RP6; 2026-2030) as supportive, with a pre-tax nominal weighted-average cost of capital (WACC) of 6.9%, subject to an additional annual motivational bonus element of 1.5 percentage points.
- We expect CGNI to continue strengthening its credit metrics during RP6, with funds from operations (FFO) to debt nearing 16%-17% over 2025-2027, up from about 15% in 2024.
- We therefore raised our long-term issuer credit rating on CGNI to 'A-' from 'BBB+'.
- The stable outlook reflects that we expect the company will continue generating stable cash flow from its regulated gas distribution operations over 2025-2027, above the 13% downside threshold for the rating, while maintaining an aggressive financial policy.

## Rating Action Rationale

**CGNI's business risk profile benefits from a supportive regulatory regime for gas distribution in the Czech Republic (Czechia) and a dominant market position in the country, strengthened by the recent bolt-on acquisition of E.ON's Czech gas DSO assets.** We see Czechia's regulatory framework for electricity and gas distribution networks as stable, consistent, and supportive, providing operators with a strong regulatory advantage that we think CNGI will benefit from during the current regulatory period. With a potential total pre-tax nominal WACC of 8.4% (including the 1.5% bonus WACC), we think the utility's financial metrics will continue strengthening during the regulatory period. This compares to RP5, where base WACC was 6.43% for 2021-2024 (and 6.52% in 2025 due to an increase in the corporate tax rate). In addition, operators can obtain a partial bonus WACC of 1.05% for 2025 if their investment-to-depreciation ratio is at least 145%, excluding accelerated depreciation. This will be paid out during RP6. We

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view CGNI's ability to fulfill the bonus WACC key performance indicator as likely, supported by the company's dominant market position, as the sole gas DSO in Czechia outside of the Prague region.

**The upgrade mainly follows our expectations that CGNI's FFO to debt will remain above 15% over 2025-2027, supported by gas remaining strategic while Czechia transitions away from coal.** We forecast S&P Global Ratings-adjusted EBITDA at approximately Czech koruna (CZK) 11.4 billion (€470 million) in 2025 and CZK13.5 billion-CZK14.5 billion annually in 2026-2027 (versus CZK10.7 billion in 2024). This increase comes from higher allowed remuneration under RP6 and an expected increase in gas consumption as the country switches from coal, which should see a large number of gas-fired heat and power plants connecting to the gas grid. We expect cash flow to cover annual capital expenditure (capex), which we assume will be CZK6 billion-CZK7 billion over 2025-2027, up from CZK4.8 billion in 2024, with the majority of investment being into the grid. Despite this increase, a larger-than-normal dividend planned for 2026, and the acquisition of Gas Distribution s.r.o. from E.ON, we expect CGNI's FFO to debt to remain above 15%, approaching 17% in 2027. We continue to measure the utility's financial metrics against our low volatility table, but we do not rule out moving to the medial volatility table eventually if we were to perceive the risk associated with gas operations increases, in the form of, for instance, stranded assets as Europe transitions away from fossil fuels.

**With the recent acquisition of E.ON's Czech gas DSO assets in January 2026, CGNI has strengthened its position as the largest gas DSO in Czechia, with an 85% market share.** Given Gas Distribution's relatively small size, we do not expect this acquisition to more than slightly affect CGNI's business risk or financial risk profile beyond a slight weakening in FFO to debt forecast in 2026, which we expect will recover in 2027. We expect the acquisition will add about CZK1 billion in EBITDA and CZK0.6 billion of capex annually. The deal closed in January 2026 following regulatory approvals. Gas Distribution operates the gas distribution network in the South Bohemian region and parts of the Vysocina region, and the acquisition adds about 4,600 kilometers (km) to CGNI's 65,000 km network, with much of Gas Distribution's assets being hydrogen-ready (up to 20% blend). We expect CGNI to secure long-term funding of the deal during the first half of 2026, replacing the temporary facilities.

**With an aggressive dividend and leverage target, we think CGNI's financial policy continues leading to uncertainty about financial headroom under the 'A-' rating.** We expect the company's discretionary cash flow to be approximately negative CZK1 billion in 2026 because of a planned extraordinary dividend of about CZK3.6 billion in addition to the ordinary payout. CGNI's financial policy is to distribute all reasonably available cash to shareholders and achieve a leverage of 85% net debt-to-regulatory asset base over time, so we do not rule out the possibility for additional extraordinary dividends. This introduces a level of volatility to the financial metrics and constrains our view of the company's stand-alone credit profile, as it could consume much of the current headroom in the next few years. However, shareholders have shown willingness to adjust or suspend dividends if needed to uphold a strong investment-grade rating, most recently in 2022. Also, the company has a track record of keeping the ratios well above the rating downside trigger.

**We continue to view CGNI as moderately strategic for parent CEZ a.s.** This is because CEZ (A-/Stable/--) benefits from stable regulated revenue from CGNI, while the latter serves a strategic role in stabilizing the electricity grid. Our view accounts for the relatively small size of CGNI within the larger CEZ group (less than 10% of EBITDA).

## Outlook

Our stable outlook reflects our view that CGNI will continue generating stable cash flow from its regulated gas distribution operations and that FFO to debt will approach 16%-17% over 2025-2027, above the 13% downside threshold for the rating.

### **Downside scenario**

A downgrade could occur if we were to forecast that CGNI's FFO to debt would move below 13%, which could occur because of:

- Weaker operating performance or reduced profitability, from, for example, cost overruns compared with regulatory assumptions; or
- A more aggressive shareholder policy.

We would also downgrade CGNI if we downgraded CEZ.

### **Upside scenario**

We see the likelihood of an upgrade as remote because this would depend on CEZ being upgraded to 'A' as the rating on CGNI is capped at the ICR level on its parent. Moreover, on a stand-alone basis, we do not see any potential rating upside at this time.

## **Company Description**

CGNI has two operating subsidiaries, GasNet (representing 90% of revenue) and Grid Services (10%). GasNet is the country's largest gas distribution system operator, with a market share of over 80%. It owns and operates about 65,000 km of distribution networks, effectively distributing about 60 terawatt-hours of gas per year to more than 2.3 million customers. The acquisition of Gas Distribution from E.ON in January 2026 expands CGNI's operations with 4,600 km of networks and 110,000 customers. Grid Services provides maintenance, development, metering, and dispatch for GasNet's distribution infrastructure.

CEZ owns CGNI, with a majority stake of 55.21%. BCI and Allianz are the other two shareholders, holding respective shares of 26.29% and 18.5%.

## **Our Base-Case Scenario**

### **Assumptions**

- GDP growth in Czechia of 2.3% in 2026 and 2.5% in 2027.
- Consumer price index growth of 2.3% in 2026, and 2.5% in 2027.
- High predictability of earnings from CGNI's gas distribution activities during the current regulatory period, with a WACC of 6.9% with an additional bonus of 1.5 percentage points assumed to be achieved.
- An EBITDA margin of 54% in 2025, which we expect will increase to 61%-62% in the current regulatory period.
- Average cost of debt of 2.6% over 2025-2027.
- Our treatment of shareholder loans as equity and the interest paid on it as dividends.

- Significantly higher dividend payment in 2026 of about CZK 5.6 billion excluding interest paid on the shareholder loan. Excluding the extraordinary dividend in 2026, annual average dividend will be about CZK2.5 billion from 2025-2027.
- Annual capex growing to over CZK7 billion in 2027 from about CZK5.8 billion in 2025.
- The fully debt-funded acquisition of Gas Distribution, which closed in January 2026, being the only acquisition in our base-case scenario.

## Key metrics

### Czech Gas Networks Investments S.a.r.l.--Key metrics

(Mil. CZK)	--Fiscal year ended Dec.31--				
	2023a	2024a	2025e	2026f	2027f
EBITDA	7,861	10,722	11,300-11,500	13,400-13,900	14,100-14,600
Funds from operations (FFO)	5,818	8,650	9,100-9,300	10,000-10,500	10,200-10,700
Capital expenditure	4,414	4,755	5,700-5,900	6,700-7,200	7,000-7,500
Free operating cash flow	595	3,245	4,400-4,600	5,000-5,500	5,300-5,800
Dividends*	3,463	3,406	3,400-3,600	6,000-6,500	2,800-3,300
Discretionary cash flow	(2,868)	(161)	1,000-1,200	(1,300)-(800)	2,400-2,900
Debt	56,693	57,135	56,100-56,300	65,600-66,100	63,200-63,700
<b>Adjusted ratios</b>					
Debt/EBITDA (x)	7.2	5.3	4.9-5.0	4.7-4.9	4.3-4.5
FFO/debt (%)	10.3	15.1	16.2-16.6	15.1-16.0	16.0-16.9

\*Including interest on shareholder loans. CZK--Czech krona. a--Actual. e--Estimate. f--Forecast.

## Liquidity

We assess CGNI's liquidity as adequate, because we anticipate that liquidity sources will exceed uses slightly above 1.1x over the 12 months started Jan. 1, 2026, even in the event of a 10% decline in EBITDA. The headroom under the adequate assessment is limited primarily due to the aggressive dividend policy. We think the group has a sound relationship with banks, and so long as the credit rating remains investment-grade, no financial covenants apply.

An extraordinary dividend of CZK3.6 billion is planned for 2026, in addition to the ordinary dividend and interest payment on the shareholder loan totaling CZK2.7 billion. However, management has clearly signaled that this extraordinary dividend is contingent upon the refinancing of the CZK6.8 billion bond before the dividend payout date.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> <li>• CZK2.7 billion available cash.</li> <li>• Undrawn committed facilities of about CZK14.1 billion.</li> <li>• FFO of about CZK12.0 billion.</li> </ul>	<ul style="list-style-type: none"> <li>• A debt maturity of about CZK6.8 billion in the next 12 months and around CZK14.6 billion in the subsequent 12 months.</li> <li>• About CZK7 billion of capex.</li> </ul>

- Debt funding of the Gas Distribution acquisition.
- Approximately CZK2.7 billion of shareholder distributions, including interest on the shareholder loan.

## Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit analysis of CGNI, similar to other European gas networks. CGNI is Czechia's largest gas distribution system operator and represents about 85% of gas distributed in the country. We see the company as exposed to uncertainty surrounding the role of gas in Europe as countries reduce carbon dioxide emissions. That said, the country will rely on gas to replace coal in the energy mix as it works toward completely eliminating coal generation by 2033. We therefore see the risk of stranded assets as lower for CGNI than European peers in countries where renewable generation has reached a higher market share.

## Rating Component Scores

### Rating Component Scores

Rating Component Scores	
Component	
Foreign currency issuer credit rating	A-/Stable/--
Local currency issuer credit rating	A-/Stable/--
Business risk	Excellent
Country risk	Intermediate risk
Industry risk	Very low risk
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant (low volatility table)
Anchor	a-

### Modifiers

Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	a-
Group credit profile	a-
Entity status within the group	Moderately strategic (no impact)

## Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [Criteria | Corporates | General: Methodology For Assessing Financing Contributed By Controlling Shareholders](#), May 15, 2025

- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011
- [General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating](#), Oct. 1, 2010

## Related Research

- [Czechia’s Electricity And Gas Distribution Regulatory Framework: Supportive](#), Jan. 27, 2026
- [CEZ, a. s.](#), April 3, 2025

## Ratings List

### Ratings List

#### Upgraded

	To	From
<b><a href="#">Czech Gas Networks Investments S.a.r.l.</a></b>		
Issuer Credit Rating	A-/Stable/--	BBB+/Stable/--
Foreign Currency	A-/Stable/--	BBB+/Stable/--
Senior Unsecured	A-	BBB+

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