Czech Gas Networks Investments Outlook Revised To Negative Reflecting Action On Majority Owner CEZ; Ratings Affirmed

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Rating Action Overview

- On April 28, 2026, we revised our outlook on Czech integrated energy company CEZ a.s. to negative from stable, reflecting that the company could divest part of its regulated gas and electricity distribution operations. This could lead to a reduction in regulated earnings beyond our previous base case, and may be a step toward further state control in CEZ.
- We see Czech Gas Networks Investments S.a.r.l. (CGNI) as moderately strategic for CEZ, and as such, we revised the outlook on our 'A-' issuer credit rating on CGNI to negative from stable.
- We affirmed our 'A-' long-term issuer credit rating on CGNI.

Rating Action Rationale

The outlook revision to negative from stable on CGNI reflects the same action on its 55.21% owner CEZ. We see CGNI as a moderately strategic subsidiary of CEZ with insufficient insulating measures in place to rate it above our group credit profile (GCP) for CEZ. While CEZ benefits from stable regulated revenue from CGNI, the latter serves a strategic role in stabilizing the electricity grid. Because we assess the insulating measures as insufficient to rate CGNI above our GCP for CEZ, a one-notch downgrade on CEZ will result in a one-notch downgrade on CGNI. On a stand-alone basis our view of CGNI remains unchanged from when we upgraded the rating to A- in February.

We will monitor any dilution of CEZ's stake in CGNI following the planned divestments. Following CEZ's announcement on April 23, 2026, stating its intent to seek approval from owners to divest up to 49.9% of its regulated assets, we do not yet know how much of CEZ's gas distribution assets, owned through CGNI, will be divested. However, CEZ intends to transfer both gas and electricity assets to a new subsidiary set up to be partially divested. The intention is to retain at least a 51% stake in each tier of the ownership chain leading to strategic companies such as CGNI. At this stage we believe that, if approved by the general meeting in June, the divestment of regulated assets would not lead to a loss of control over CGNI.

Outlook

The negative outlook reflects the likelihood that we could lower our rating on CGNI if we downgrade its majority shareholder CEZ.

Downside scenario

We would downgrade CGNI if we downgraded CEZ.

A downgrade could also occur if we were to forecast that CGNI's funds from operations (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 dividend policy.

Upside scenario

We could revise the outlook to stable if we take the same action on CEZ.

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 kilometers (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 s.r.o from E.ON in January 2026 expands GasNet’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.

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

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 from 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 Czech koruna (CZK) 3.6 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
• CZK2.7 billion available cash. • Undrawn committed facilities of about CZK14.1 billion. • FFO of about CZK12.0 billion.	• Debt maturity of about CZK6.8 billion in the next 12 months and around CZK14.6 billion in the subsequent 12 months. • Debt funding of the Gas Distribution acquisition. • About CZK7 billion capital expenditure. • About CZK2.7 billion of shareholder distributions, including interest on the shareholder loan.

Rating Component Scores

Component	
Foreign currency issuer credit rating	A-/Negative/--
Local currency issuer credit rating	A-/Negative/--
Business risk	Excellent
Country risk	Intermediate risk
Industry risk	Very low risk
Competitive position	Strong
Financial risk	Significant (low volatility)
Cash flow/leverage	Significant
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 Rating Methodology	Moderately strategic (no impact)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- 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

- Czech Energy Company CEZ a.s. Outlook Revised To Negative On Potential Divestment Of Regulated Operations, April 28, 2026
- Czechia's Electricity And Gas Distribution Regulatory Framework: Supportive, Jan. 27, 2026

Ratings List

Ratings List

Ratings Affirmed; Outlook Action		
	To	**From**
Czech Gas Networks Investments S.a.r.l.		
Issuer Credit Rating	A-/Negative/--	A-/Stable/--
Senior Unsecured	A-	