S&P Global
Ratings

# RatingsDirect®

# Czech Gas Networks Investments S.a.r.l.

**Primary Credit Analyst:**
Emeline Vinot, Paris + 33 014 075 2569; emeline.vinot@spglobal.com

**Secondary Contacts:**
Per Karlsson, Stockholm + 46 84 40 5927; per.karlsson@spglobal.com
Renata Gottliebova, Dublin + 00353 (1) 5680608; renata.gottliebova@spglobal.com

## Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Peer Comparison

Business Risk

Financial Risk

Liquidity

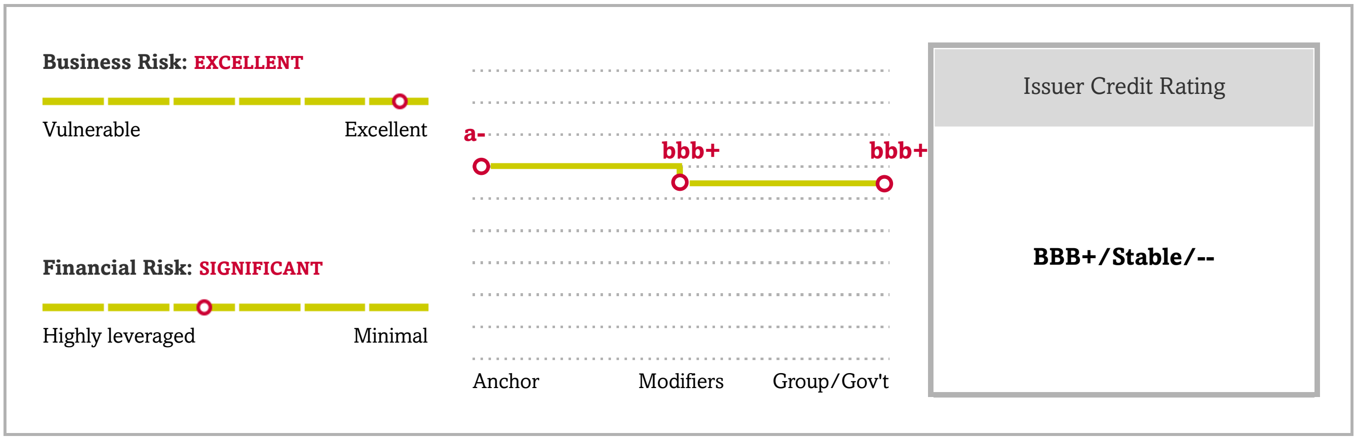
Environmental, Social, And Governance

Issue Ratings - Subordination Risk Analysis

Ratings Score Snapshot

Related Criteria

# Czech Gas Networks Investments S.a.r.l.




## Credit Highlights

### Overview

| Key strengths | Key risks |
|---|---|
| Largest gas distribution operator (DSO) in the Czech Republic, with about an 80% market share. | Aggressive financial policy, distributing all cash generated while keeping funds from operations (FFO) to debt above 9%, resulting in increasing leverage toward 6.3x-6.6x in 2022-2023, compared with 4.8x in 2020 |
| A high share of generation, 90% of EBITDA, from stable, low-risk, regulated gas distribution operations under a regulatory framework that we view as credit supportive, with the next reset in January 2026. | Reduction in rating headroom could come from further shareholder remunerations, as was the case in 2021 when distribution €500 million equivalent from CGNI to its owner, Czech Gas Networks S.a r.l. |
| Our view that Czech Gas Networks Investments S.a.r.l. (CGNI) will operate with significant headroom over our forecast period with FFO to debt of 12.5%-13.5%, well above our 9% trigger and despite high dividend distributions in 2021. | The uncertain long-term prospects of gas not weighing on our analysis of CGNI because we believe gas will be key for the Czech energy transition to phase out from coal while securing supply. |
| Willingness of the owner, Macquarie Infrastructure and Real Assets, to maintain the 'BBB+' rating. | |

***CGNI has a strong position as the main DSO for natural gas in the Czech Republic.*** CGNI's low-risk gas distribution activities in a predictable and supportive regulatory environment support our 'BBB+' long-term issuer credit rating on the company. In 2020, CGNI generated about Czech koruna (CZK) 14.6 billion (about €570 million) in sales and CZK9.2 billion (€360 million) in EBITDA. CGNI, through subsidiary GasNet, is the largest gas distribution company in the Czech Republic. It covers 80% of the Czech market and services 2.3 million off-take points. About 10% of CGNI's EBITDA comes from its other subsidiary, Grid Services, of which 95% derives from services to GasNet and the remaining 5% stems from gas-related services provided to other DSOs. We view Grid Services' business risk profile as weaker than that of GasNet, but believe that its cash flow is fairly stable and contribution to the wider group is limited.

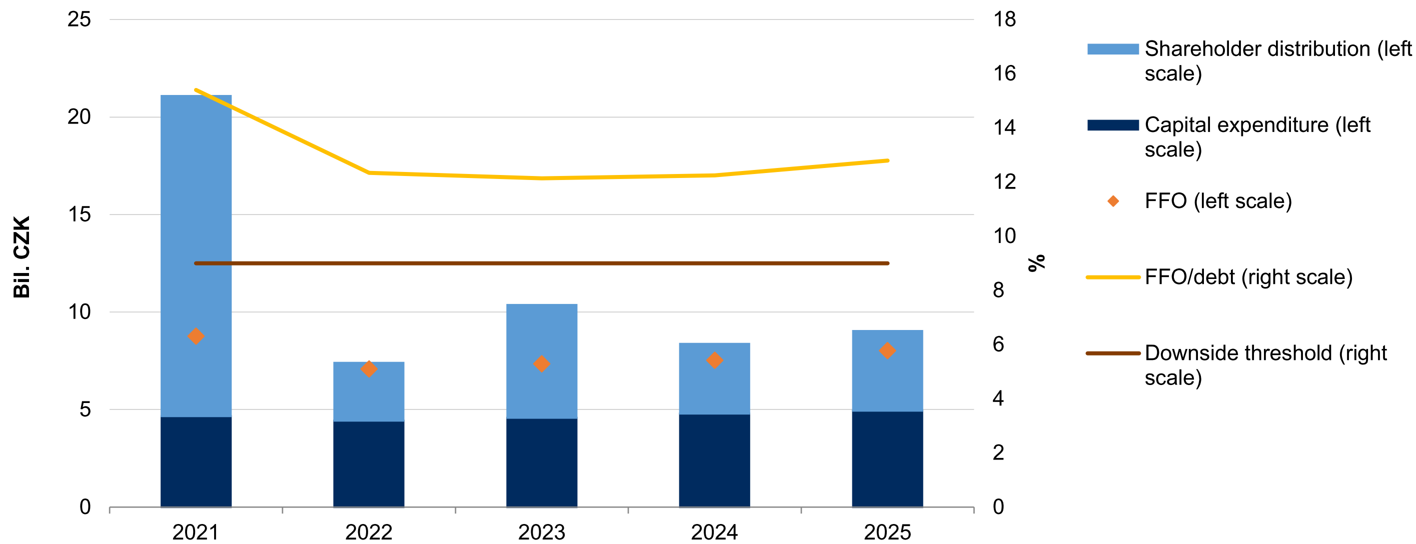
***A supportive framework provides full coverage of costs and protection against volume and commodity risk.*** We see the Czech Republic's regulatory framework for gas networks as very supportive, as it is transparent, relatively stable, and predictable (see "Czech Republic's Electricity And Gas Regulatory Frameworks: Very Supportive," published Oct. 6, 2020, on RatingsDirect). These characteristics result in credit-supportive operating conditions for gas network operators. The framework is supervised by an independent regulator--the Energy Regulatory Office (ERO)--which was established in 2001 and is a legally autonomous body in charge of regulating the electricity, gas, and district heating sectors. The framework is in its fifth regulatory period (2021-2025), which started in Jan. 1, 2021. Following the escalation in the tensions between Russia and Ukraine, we believe CGNI would face limited impact of lower distribution volumes should gas stop flowing. However, we understand that a mild winter and half-full gas storage levels in the Czech Republic would prevent a material impact on revenue. The company collects this revenue with a two-year delay, which can cause some cash flow volatility. We expect the RAB to increase in line with trajectory agreed with the ERO to about CZK70 billion in 2025 from CZK56.6 billion at year-end 2021.

***With the fifth regulatory period, we do not see any regulatory reset risk for Czech network operators.*** The framework uses a revenue-cap model based on the regulatory asset base (RAB), whereby the maximum allowed revenue is linked to cost and profit allowances. Since the beginning of the fifth period, allowed operating expenses come from the arithmetic average of the last three years of incurred operating expenses corrected for the time value of money and reduced by extraordinary costs. The indexation is done based on an escalation factor, itself decreased by the efficiency factor. CGNI can retain 50% of the difference between allowed and incurred operating expenses as incentive because it is reflected in the next three years allowed operating expenses with a two-year lag.. The nominal, pretax, weighted-average cost of capital (WACC) is set for the whole regulatory period (6.43% for 2021-2025). CGNI is exposed to some volume risk because it collects 40% of revenue from fixed charges. The regulatory formula includes a corrective mechanism that adjusts revenue, so CGNI recoups all the revenue that was allowed but not collected at the time, for example, due to lower consumption or a mild winter.

***Capital expenditure (capex) needs and dividend distributions will consume CGNI's cash resources and increase funding needs.*** Our view of the company's financial risk profile is constrained by the policy to distribute high dividends, which we expect will lead to negative discretionary cash flow (DCF) to debt of 2%-10% over the next two years leading. This will lead to a gradual increase in S&P Global Ratings-adjusted debt, which we expect will approach CZK60 billion by 2023 from CZK43 billion in 2020. Nevertheless, we believe that CGNI will maintain credit ratios in line with the rating for the next few years, with FFO to debt of 12.5%-13.5%, which is still above our downgrade trigger of 9.0% but with less headroom than before. The low volatility and high predictability of its cash flows in each regulatory period remains supportive. We also expect the company's free operating cash flow to remain positive, given its strong cash flow and relatively low capex that we expect will consume 65%-75% of operating cash flow, compared with 85%-90% on average for gas networks operating in Europe.

**Chart 1**

**High Capex And Shareholder Distribution Will Consume CGNI's FFO**
Combo chart subtitle




Source: S&P Global Ratings. CZK--Czech koruna. FFO--Funds from operations.

**Outlook: Stable**

The stable outlook reflects our view that CGNI will continue generating stable cash flows from its regulated gas operations. We expect the company to maintain sufficient financial headroom at the rating during the next regulatory period, although its financial risk profile will weaken somewhat, with FFO to debt of 12.5%-13.5%.

### Downside scenario

We would consider a downgrade if we believed that CGNI's FFO to debt would move below 9%, or if its debt to EBITDA stayed above 7.0x, which could occur because of:

- Weaker operating performance or reduced profitability, from, for example, cost overruns compared with the regulatory assumptions or a very harsh set of assumptions in the next regulatory period, which we do not foresee.
- A more aggressive shareholder policy.

### Upside scenario

Given CGNI's financial headroom, an upgrade would depend on the company maintaining its ratios while establishing a longer track record as an independent entity, provided there is no decline in operating performance or profitability. We could consider an upgrade if the company's financial policy implied a commitment to maintaining the ratios, including FFO to debt of at least 14% sustainably.

## Our Base-Case Scenario

**Assumptions**

- High predictability of earnings from CGNI's gas distribution activities for the current regulatory period, with a WACC of 6.43%.
- EBITDA margin of 60%-65% over 2022-2025.
- Average cost of debt of 2%-2.5% over 2022-2025.
- Dividend payout ratio of about 100%, although this is flexible to maintain the rating and liquidity.
- Our treatment of the shareholder loan as equity and the interest paid on it as dividends.
- Annual capex of CZK4.5 billion-CZK5 billion over 2022-2025.
- No acquisitions.

## Key metrics

**Czech Gas Networks Investments S.a.r.l.--Key Metrics***

| | --Fiscal year ended Dec. 31-- | | | |
|---|---|---|---|---|
| **(Mil. CZK)** | **2020a** | **2021e** | **2022f** | **2023f** |
| EBITDA | 9,156.0 | 10,000-10,500 | 8,500-9,000 | 8,500-9,000 |
| Funds from operations (FFO) | 7,227 | 8,500-9,000 | 7,000-7,500 | 7,000-7,500 |
| Capital expenditure | | | | |
| Shareholder remuneration* | 1,920 | 16,000-16,500 | 2,500-3,000 | 5,500-6,000 |
| Debt | 43,630 | 55,000-60,000 | 55,000-60,000 | 60,000-65,000 |
| Debt to EBITDA (x) | 4.8 | 5.5-6.0 | 6.5-7.0 | 6.5-7.0 |
| FFO to debt (%) | 16.6 | 15.0-15.5 | 12.0-12.5 | 12.0-12.5 |

*All figures adjusted by S&P Global Ratings. *Shareholder remuneration includes partial repayment of shareholder loan in 2021. CZK--Czech koruna. a--Actual. e--Estimate. f--Forecast.

***The higher EBITDA in 2021 comes from an unpredictable regulatory K-factor that will negatively affect EBITDA until 2025.*** While we expected stable EBITDA around CZK9 billion over our forecast period, we understand that the newly generated K-factor from 2021 increasing allowed revenue by about CZK1 billion, increasing EBITDA to CZK10.0 billion-CZK10.5 billion in 2021. This will be reflected in lower allowed revenue from 2022 onward, reducing EBITDA to CZK8.5 billion-CZK9.0 billion.

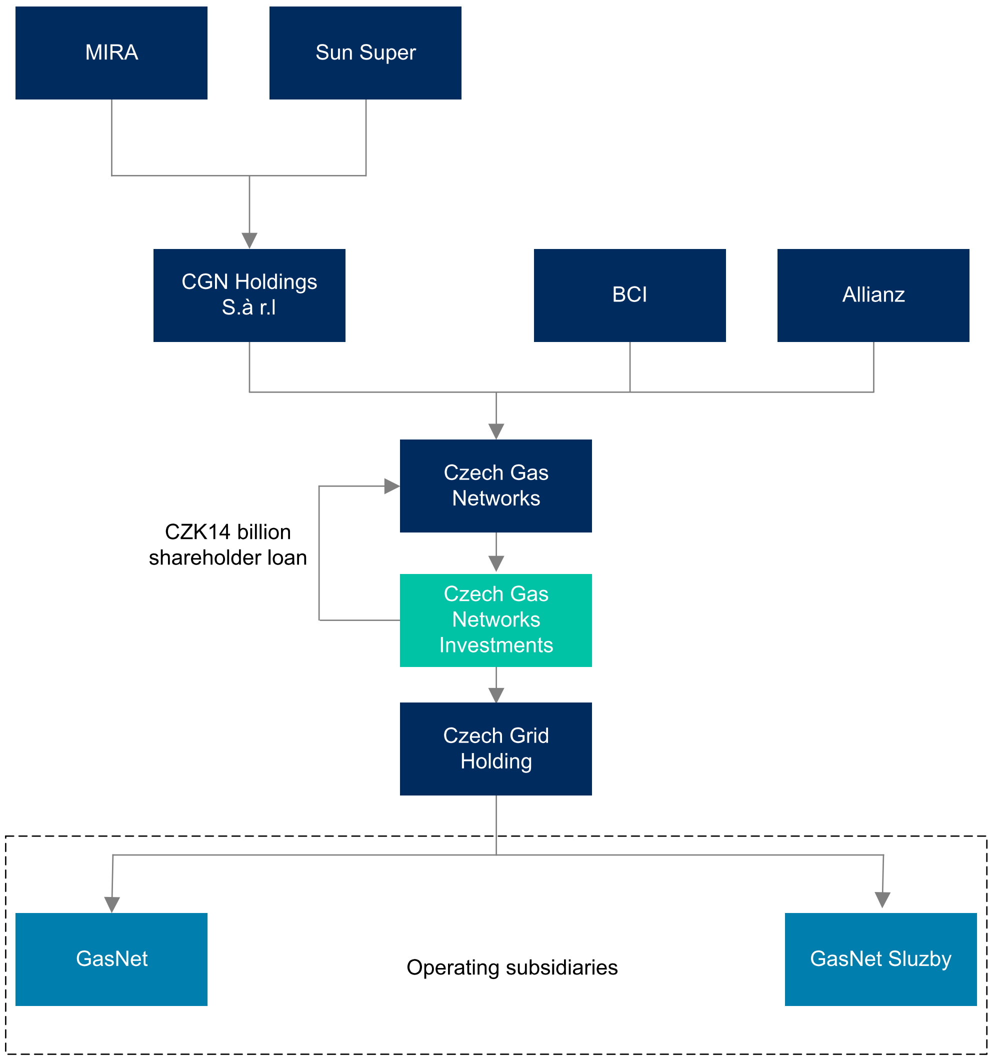
***CGNI's investment and shareholder remuneration will reduce headroom over the medium term.*** In 2021, CGNI issued a €500 million (CZK12 billion equivalent) bond to partially repay CZK7.7 billion of its CZK23 billion shareholder loan and dividends. We understand that CGNI's financial policy is to distribute available cash within our rating threshold, which will result in annual negative DCF over our forecast period and increasing leverage to about CZK60 billion in 2023 from CZK43 billion in 2020.

# Company Description

CGNI owns the largest gas DSO in the Czech Republic and has two operating subsidiaries, GasNet (representing 90% of revenue) and Grid Services (10%). GasNet is the country's largest gas DSO, with a market share of about 80%. It owns and operates about 65,000 kilometers of distribution networks, effectively distributing about 6.6 billion cubic meters of gas to about 2.3 million customers. Grid Services provides maintenance, development, metering, and dispatch for GasNet's distribution infrastructure.

**Chart 2**

**Czech Gas Networks Investments S.a r.l.—Organizational Structure**




Source: S&P Global Ratings. CZK—Czech koruna.



## Peer Comparison

**Table 1**

**Czech Gas Networks Investments S.a r.l. -- Peer Comparison**

**Industry Sector: Gas**

| | Czech Gas Networks Investments S.a r.l. | Madrileña Red de Gas S.A.U. | Northern Gas Networks Finance PLC | 2i Rete Gas |
|---|---|---|---|---|
| Ratings as of Feb. 24, 2022 | BBB+/Stable/-- | BBB-/Stable/A-3 | BBB+/Stable/-- | BBB/Stable/A-2 |

**Table 1**

**Czech Gas Networks Investments S.a r.l. -- Peer Comparison (cont.)**

| | --Fiscal year ended-- | | | |
|---|---|---|---|---|
| | **Dec. 31, 2020** | **Dec. 31, 2020** | **March 31, 2021** | **Dec. 31, 2020** |
| **(Mil. €)** | | | | |
| Revenue | 555.7 | 173.9 | 515.6 | 738.5 |
| EBITDA | 348.7 | 136.3 | 292.7 | 520.4 |
| Funds from operations (FFO) | 275.2 | 101.3 | 205.2 | 391.5 |
| Interest expense | 74.7 | 29.2 | 49.3 | 55.7 |
| Cash interest paid | 45.6 | 27.9 | 51.0 | 53.7 |
| Cash flow from operations | 234.0 | 101.0 | 244.3 | 398.3 |
| Capital expenditure | 165.7 | 10.8 | 186.0 | 307.1 |
| Free operating cash flow (FOCF) | 68.2 | 90.3 | 58.2 | 91.3 |
| Discretionary cash flow (DCF) | (29.1) | 90.3 | (60.3) | 41.2 |
| Cash and short-term investments | 66.3 | 46.6 | 15.8 | 187.0 |
| Debt | 1,661.4 | 915.5 | 1,814.2 | 2,677.1 |
| Equity | 1,745.7 | 362.5 | 769.8 | 1,040.8 |
| **Adjusted ratios** | | | | |
| EBITDA margin (%) | 62.7 | 78.4 | 56.8 | 70.5 |
| Return on capital (%) | 1.6 | 9.4 | 7.2 | 8.7 |
| EBITDA interest coverage (x) | 4.7 | 4.7 | 5.9 | 9.3 |
| FFO cash interest coverage (x) | 7.0 | 4.6 | 5.0 | 8.3 |
| Debt/EBITDA (x) | 4.8 | 6.7 | 6.2 | 5.1 |
| FFO/debt (%) | 16.6 | 11.1 | 11.3 | 14.6 |
| Cash flow from operations/debt (%) | 14.1 | 11.0 | 13.5 | 14.9 |
| FOCF/debt (%) | 4.1 | 9.9 | 3.2 | 3.4 |
| DCF/debt (%) | (1.8) | 9.9 | (3.3) | 1.5 |

Compared with Madrilena in Spain, CGNI operates under a framework we see as supportive (similar to the U.K. and Italy) with timelier cost recovery, return on investment, and RAB growth. However, compared with gas networks operating in frameworks we see as supportive, we believe the Czech framework is slightly weaker than those in Italy and the U.K. Also, compared with the U.K. and Spain, where investment in gas is slowing, Italy and the Czech Republic will rely on gas as a source for the European Energy transition and we believe the related gas networks investment will increase over the next few years to ensure network reliability, safety, and readiness for blended gas. We therefore see Italian and Czech investments as increasing mostly compared with Spain's.

## Business Risk: Excellent

***CGNI operates under a framework we see as supportive with little reset risk.*** We see the Czech Republic's regulatory framework for gas networks as supportive because it is transparent, stable, and predictable. The framework is in its fifth regulatory period (2021-2025) and is supervised by an independent regulator: the ERO, established in 2001.

**Chart 3**

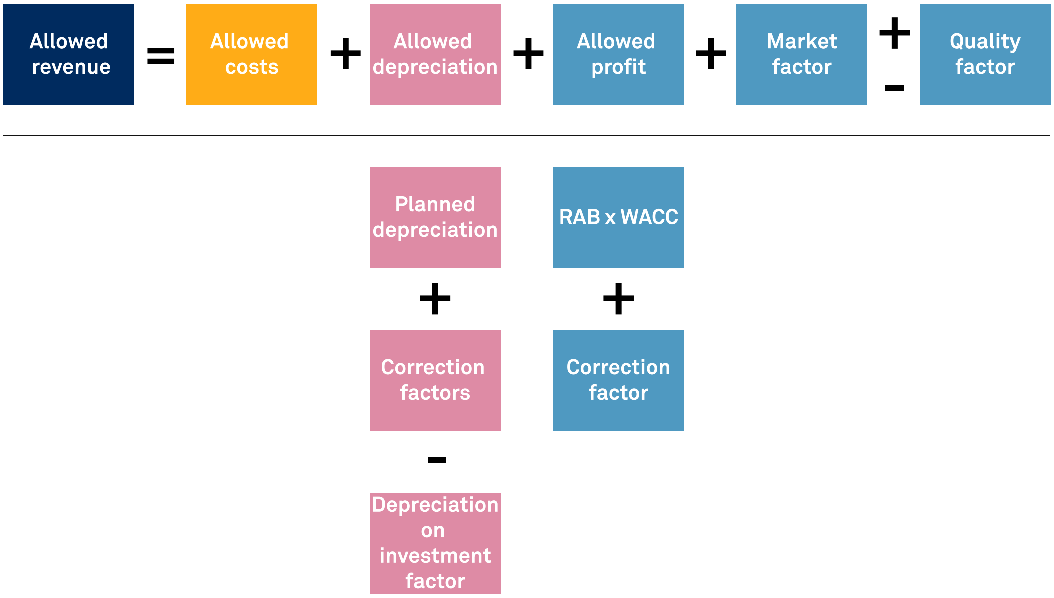
**Czech Republic Utilities--Regulatory Periods**


Source: S&P Global Ratings, Energy Regulatory Office.


***The supportive Czech framework provides full coverage of costs and protection against volume and commodity risk.*** The framework uses a revenue-cap system based on the RAB, whereby the maximum allowed revenue is linked to cost and profit allowances. Since the beginning of the fifth period, allowed operating expenses come from the arithmetic average of the last three years of incurred operating expenses corrected for the time value of money and reduced by extraordinary costs. The indexation is done based on an escalation factor, itself decreased by the efficiency factor. CGNI can retain 50% of the difference between allowed and incurred operating expenses as incentive because it is reflected in the next three years allowed operating expenses with a two-year lag. The nominal, pre-tax WACC is set for the whole regulatory period, except when the income tax rate of legal entities changes. CGNI is exposed to very limited volume fluctuation because 40% of revenue is collected through fixed charges. In addition, the regulatory formula includes a corrective mechanism that adjusts revenue, so CGNI collects all revenue allowed but not collected (for example, due to lower consumption or a mild winter). However, this is settled with a two-year delay, which can cause some cash flow volatility.

**Chart 4**

**Allowed Revenue Formula**

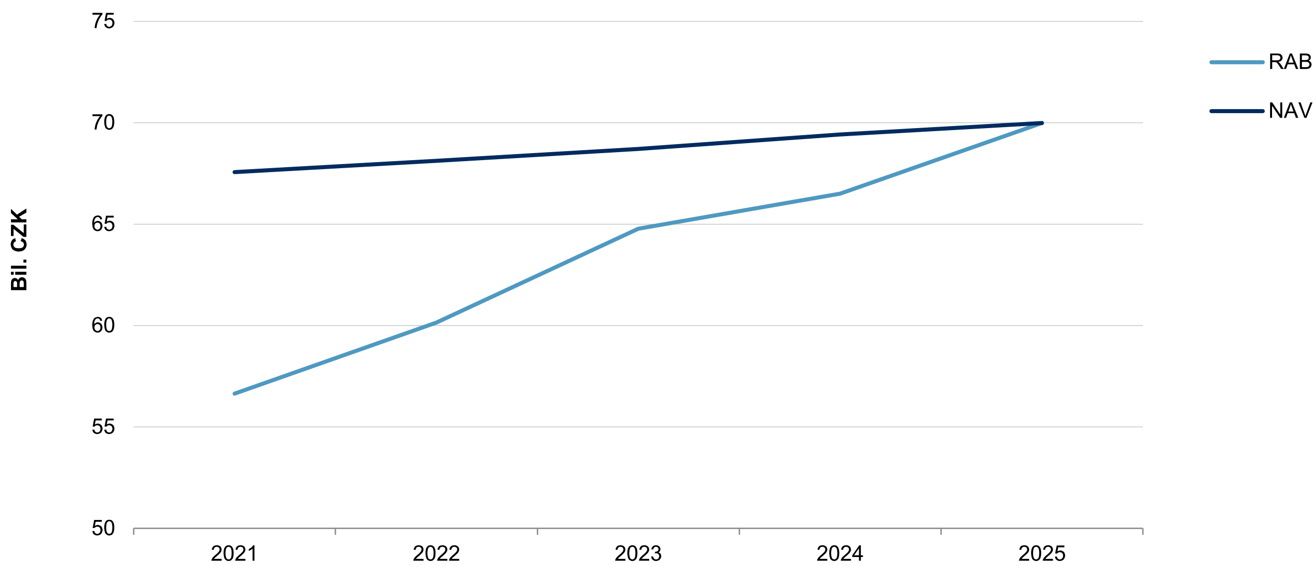



RAB--Regulatory asset base. WACC--Weighted average cost of capital. Source: CEZ.


***The Czech framework provides a plan for RAB to converge to net asset value (NAV) by 2025.*** Although far below actual net book values, network operators' RAB is updated annually as per a trajectory agreed with the ERO. The correction factor for the RAB includes unplanned capital expenditure (capex) but does not account for power DSOs' assets under construction, due to regulatory limits and conditions. We expect RAB to NAV to reach 100% by 2025, from 84% in 2021.

**Chart 5**

**RAB And NAV Converge By 2025**




Source: S&P Global Ratings.



***We see the role of gas in the Czech Republic as remaining strong.*** The country isn't geographically well positioned for renewables penetration and relies firstly on coal (55%) and then on gas (35%) to secure energy supply. Europe aims to decarbonize by 2030, and we understand that Czech gas networks' contribution will primarily be through investment in renewable gas (biomethane and hydrogen) to ensure that networks are ready for to transport and distribute blended gas to end users. We expect gas will replace coal by 2030, eventually representing 50% of energy supply (versus 17% for coal).

## Financial Risk: Significant

***The main rating constraint is CGNI's relatively aggressive dividend policy.*** The company's financial risk profile is characterized by relatively high debt moderated by low volatility of cash flow over each regulatory period. We expect CGNI's free operating cash flow to remain positive, given the country's strong cash flow generation and relatively low capex compared with peers. Our view of CGNI's financial profile is constrained, however, by its policy to distribute all available cash as dividends resulting in annual negative DCF of CZK1 billion-CZK4 billion.

***We see CGNI's significant headroom and commitment to rating as sufficient to maintain our rating.*** We understand that CGNI will keep strong ratios for the next few years, with FFO to debt at 12.0%-12.5% and debt to EBITDA slightly above 6.5x, well above our downside triggers of 9%. While we see negative DCF over our forecast period, we understand that CGNI's shareholders are aiming for a strong investment-grade rating resulting in distributing enough to not be below the 9% threshold.

## Financial summary

**Table 2**

### Czech Gas Networks Investments S.a r.l.--Financial Summary

**Industry sector: Gas**

| | --Fiscal year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| | **2020** | **2019*** | **2018** | **2017** | **2016** |
| **(Mil. CZK)** | | | | | |
| Revenue | 14,594.0 | 4,199.0 | 14,687.1 | 14,883.2 | 14,380.6 |
| EBITDA | 9,156.0 | 2,664.0 | 9,746.6 | 9,823.8 | 8,636.8 |
| Funds from operations (FFO) | 7,227.0 | 3,377.5 | 7,332.6 | 7,671.9 | 7,020.8 |
| Interest expense | 1,963.0 | 572.0 | 1,008.8 | 985.5 | 966.3 |
| Cash interest paid | 1,197.0 | (785.5) | 1,006.5 | 983.2 | 964.7 |
| Cash flow from operations | 6,144.0 | 1,517.0 | 8,295.2 | 8,029.3 | 7,172.5 |
| Capital expenditure | 4,352.0 | 1,559.0 | 3,997.2 | 4,163.6 | 3,500.1 |
| Free operating cash flow (FOCF) | 1,792.0 | (42.0) | 4,298.0 | 3,865.7 | 3,672.4 |
| Discretionary cash flow (DCF) | (765.0) | (1,107.5) | (245.0) | (463.1) | 61.3 |
| Cash and short-term investments | 1,741.0 | 926.0 | 4.8 | 7.1 | 1.7 |
| Gross available cash | 1,741.0 | 926.0 | 91.1 | 385.6 | 366.7 |
| Debt | 43,630.0 | 43,284.0 | 20,829.4 | 20,120.9 | 19,519.8 |
| Equity | 45,845.0 | 49,100.0 | 30,860.7 | 31,038.9 | 31,127.2 |
| **Adjusted ratios** | | | | | |
| EBITDA margin (%) | 62.7 | 63.4 | 66.4 | 66.0 | 60.1 |
| Return on capital (%) | 1.6 | 0.7 | 11.7 | 12.0 | 8.3 |
| EBITDA interest coverage (x) | 4.7 | 4.7 | 9.7 | 10.0 | 8.9 |
| FFO cash interest coverage (x) | 7.0 | (3.3) | 8.3 | 8.8 | 8.3 |
| Debt/EBITDA (x) | 4.8 | 16.2 | 2.1 | 2.0 | 2.3 |
| FFO/debt (%) | 16.6 | 7.8 | 35.2 | 38.1 | 36.0 |
| Cash flow from operations/debt (%) | 14.1 | 3.5 | 39.8 | 39.9 | 36.7 |
| FOCF/debt (%) | 4.1 | (0.1) | 20.6 | 19.2 | 18.8 |
| DCF/debt (%) | (1.8) | (2.6) | (1.2) | (2.3) | 0.3 |

*Figures only for September-December 2019. CZK--Czech koruna.

## Reconciliation

**Table 3**

### Czech Gas Networks Investments S.a r.l.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. CZK)

| | --Fiscal year ended Dec. 31, 2020-- | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Czech Gas Networks Investments S.a r.l. reported amounts** | | | | | | | | | |
| | **Debt** | **Shareholders' equity** | **EBITDA** | **Operating income** | **Interest expense** | **S&P Global Ratings' adjusted EBITDA** | **Cash flow from operations** | **Dividends** | **Capital expenditure** |
| Reported | 66,004.0 | 23,832.0 | 8,805.0 | 1,105.0 | 1,947.0 | 9,156.0 | 6,160.0 | 850.0 | 4,368.0 |

**Table 3**

**Czech Gas Networks Investments S.a r.l.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. CZK) (cont.)**

| S&P Global Ratings' adjustments | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Cash taxes paid | -- | -- | -- | -- | -- | (732.0) | -- | -- | -- |
| Cash interest paid | -- | -- | -- | -- | -- | (2,251.0) | -- | -- | -- |
| Cash interest paid: Other | -- | -- | -- | -- | -- | 1,070.0 | -- | -- | -- |
| Reported lease liabilities | 1,380.0 | -- | -- | -- | -- | -- | -- | -- | -- |
| Accessible cash and liquid investments | (1,741.0) | -- | -- | -- | -- | -- | -- | -- | -- |
| Capitalized interest | -- | -- | -- | -- | 16.0 | (16.0) | (16.0) | -- | (16.0) |
| Nonoperating income (expense) | -- | -- | -- | 9.0 | -- | -- | -- | -- | -- |
| Debt: Shareholder loans | (22,013.0) | -- | -- | -- | -- | -- | -- | -- | -- |
| Equity: Other | -- | 22,013.0 | -- | -- | -- | -- | -- | -- | -- |
| EBITDA: Gain (loss) on disposals of PP&E | -- | -- | 351.0 | 351.0 | -- | -- | -- | -- | -- |
| Dividends: Other | -- | -- | -- | -- | -- | -- | -- | 1,070.0 | -- |
| Total adjustments | (22,374.0) | 22,013.0 | 351.0 | 360.0 | 16.0 | (1,929.0) | (16.0) | 1,070.0 | (16.0) |

**S&P Global Ratings' adjusted amounts**

| | Debt | Equity | EBITDA | EBIT | Interest expense | Funds from operations | Cash flow from operations | Dividends paid | Capital expenditure |
|---|---|---|---|---|---|---|---|---|---|
| Adjusted | 43,630.0 | 45,845.0 | 9,156.0 | 1,465.0 | 1,963.0 | 7,227.0 | 6,144.0 | 1,920.0 | 4,352.0 |

CZK--Czech koruna. PP&E--Property, plant, and equipment.

## Liquidity: Adequate

We assess CGNI's liquidity as adequate because we expect that liquidity sources will exceed uses by about 1.3x over the next 12-24 months as of January 2022, even if EBITDA declined by 15%. The company has no debt due until 2026, when the koruna-denominated bond comes due. We believe the group has a sound relationship with banks.

| Principal Liquidity Sources | Principal Liquidity Uses |
|---|---|
| • CZK1.37 billion of available cash as of January 2022. | • About CZK55 million of working capital outflows over the coming 12 months. |

| | |
|---|---|
| • FFO of about CZK6.4 billion.<br>• CZK1.5 billion undrawn committed facilities due in May 2028. | • About CZK4.7 billion of capex.<br>• Roughly CZK2.9 billion of shareholder distributions, including interest on the shareholder loan.<br>• No near-term debt maturity. |

### Debt maturities

- No debt maturity until the first bond maturity in 2026.

## Environmental, Social, And Governance

**ESG Credit Indicators**

| E-1 | E-2 | **E-3** | E-4 | E-5 | S-1 | **S-2** | S-3 | S-4 | S-5 | G-1 | **G-2** | G-3 | G-4 | G-5 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

| | | |
|---|---|---|
| - Climate transition risks | - N/A | - N/A |

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit analysis of CGNI, similarly to other European gas networks. CGNI is the Czech Republic's largest gas distribution system operator and represents about 80% of gas distributed in the country. We see the company as exposed to uncertainties surrounding the future role of gas in Europe as countries reduce carbon dioxide emissions.

## Issue Ratings - Subordination Risk Analysis

### Capital structure

CGNI's capital structure comprises CZK70 billion of debt (approximately €2.7 billion), of which more than half is denominated in euros. The capital structure also includes a CZK14 billion shareholder loan that we treat as equity, reflecting its equity-like features, such as subordination and the possibility of deferring interest. As a result, we treat interest payments as dividends.

### Analytical conclusions

There is no element of subordination risk in the capital structure.

S&P Global Ratings acknowledges a high degree of uncertainty about the extent, outcome, and consequences of the military conflict between Russia and Ukraine. Irrespective of the duration of military hostilities, sanctions and related political risks are likely to remain in place for some time. Potential effects could include dislocated commodities markets--notably for oil and gas--supply chain disruptions, inflationary pressures, weaker growth, and capital market volatility. As the situation evolves, we will update our assumptions and estimates accordingly. See our macroeconomic and credit updates here: Russia-Ukraine Macro, Market, & Credit Risks. Note that the timing of publication for rating decisions on European issuers is subject to European regulatory requirements.

## Ratings Score Snapshot

**Issuer Credit Rating**

BBB+/Stable/--

**Business risk: Excellent**

- **Country risk:** Intermediate
- **Industry risk:** Very low
- **Competitive position:** Strong

**Financial risk: Significant**

- **Cash flow/leverage:** Significant

**Anchor: a-**

**Modifiers**

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

**Stand-alone credit profile : bbb+**

## Related Criteria

- 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

- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Principles Of Credit Ratings, Feb. 16, 2011

**Business And Financial Risk Matrix**

| | Financial Risk Profile | | | | | |
|---|---|---|---|---|---|---|
| **Business Risk Profile** | Minimal | Modest | Intermediate | **Significant** | Aggressive | Highly leveraged |
| **Excellent** | aaa/aa+ | aa | a+/a | **a-** | bbb | bbb-/bb+ |
| Strong | aa/aa- | a+/a | a-/bbb+ | bbb | bb+ | bb |
| Satisfactory | a/a- | bbb+ | bbb/bbb- | bbb-/bb+ | bb | b+ |
| Fair | bbb/bbb- | bbb- | bb+ | bb | bb- | b |
| Weak | bb+ | bb+ | bb | bb- | b+ | b/b- |
| Vulnerable | bb- | bb- | bb-/b+ | b+ | b | b- |

**Ratings Detail (As Of March 4, 2022)***

| | |
|---|---|
| **Czech Gas Networks Investments S.a r.l.** | |
| Issuer Credit Rating | BBB+/Stable/-- |
| Senior Unsecured | BBB+ |
| **Issuer Credit Ratings History** | |
| 06-Jul-2020 | BBB+/Stable/-- |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

**Additional Contact:**
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com