Research Update:

N.V. Eneco Beheer 'BBB+' Rating Placed On CreditWatch Positive On Announced Acquisition By Mitsubishi Corp. And Chubu

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Rating Action Overview

- On Nov. 25, 2019, Eneco Groep N.V. announced that it had reached an agreement on an offer to sell 100% of its shares to a consortium led by Mitsubishi Corp. (A/Stable/A-1) in a transaction valued at €4.1 billion.
- We think N.V. Eneco Beheer (Eneco) could benefit from extraordinary support provided by Mitsubishi Corp. upon the closing of the transaction.
- We are placing our 'BBB+/A-2' long- and short-term issuer credit ratings on N.V. Eneco Beheer on CreditWatch with positive implications.
- We plan to resolve the CreditWatch placement after we assess the strategic integration of Eneco and Mitsubishi and the company's financial policy under its new ownership.

Rating Action Rationale

Eneco's preferred bidder could provide extraordinary support upon the closing of the transaction. The CreditWatch placement follows the announcement that Eneco Groep N.V., the parent of N.V. Eneco Beheer, has signed an agreement to be fully acquired by a consortium in which Mitsubishi Corp. has 80% ownership and Chubu Electric Power Company Group (not rated) has 20% ownership. It reflects our view that Eneco's credit quality could benefit from the acquisition by a larger, higher-rated entity.

Upon the closing of the transaction, the rating on Eneco will depend on its stand-alone credit profile as well as the level of support that its new shareholders provide.

Mitsubishi has been an important business partner of Eneco since 2012, when the two companies entered a joint investment in the Luchterduinen wind farm. Their cooperation has strengthened since then with two further joint investments in the Norther and Borssele wind farms. Eneco and Mitsubishi also developed an energy storage project together in Germany. Mitsubishi has stated that it intends to use Eneco's leading position as a platform for expansion in Europe and abroad, as well as to leverage its expertise to develop wind parks in Asia. We would therefore view Mitsubishi's acquisition as aligned with long-term strategic objectives, with no short-term returns pressure.

In our opinion, Mitsubishi would have the capability to provide extraordinary support to Eneco because of its financial strength, which could lead us to upgrade Eneco. However, we still need to assess the level of group support from Mitsubishi to Eneco, as well as the new shareholder's willingness to provide such support if needed, hence the CreditWatch placement. In addition, we will assess the governance structure and incentives alignment with Eneco and its shareholders once the transaction has closed.

We expect Eneco's financial policy to remain prudent under new shareholdership. We see Mitsubishi as a long-term investor and we view its investment in Eneco as strategic. We think Mitsubishi will focus more on boosting expansion than on seeking short-term returns that may compromise Eneco's financial strength. Moreover, in a joint press release, Eneco and the consortium communicated that they expect Eneco to benefit from the new shareholder ownership, which we see as an indication of a commitment to Eneco's credit strength. As a result, we expect Mitsubishi would be supportive of Eneco's prudent financial policy.

Mitsubishi has committed to providing a €1 billion intercompany loan for Eneco to use for funding growth. However, we would not expect Eneco to take on an aggressive debt-funded expansion strategy in the short term, given the company's capacity to self-fund expansion with cash flow generation.

The CreditWatch positive placement indicates that we could upgrade Eneco upon the closure of the privatization process. However, this will depend on:

- The financial policy at Eneco level under the new shareholder structure; and
- The level of support that the new shareholders, Mitsubishi Corp. (80%) and Chubu (20%) will provide to Eneco.

We could upgrade Eneco if the new shareholders are supportive of funds from operations to debt above 50% at all times or if we assess that the group support provided by Mitsubishi and Chubu to Eneco would more than compensate for a hypothetical lower financial risk profile.

The transaction is still subject to regulatory approvals from the European and Germany competition authorities and the Dutch and Belgian energy ministries. In addition, each of the 44 Dutch municipalities that have a stake in Eneco will have the option to make a final decision on the transaction. We understand that the Consortium will declare the offer unconditional if more than 75% of the shareholders accept the transaction. We expect the transaction to close by April 2020.

Company Description

Eneco is a subsidiary of Eneco Groep N.V., headquartered in Rotterdam, The Netherlands.

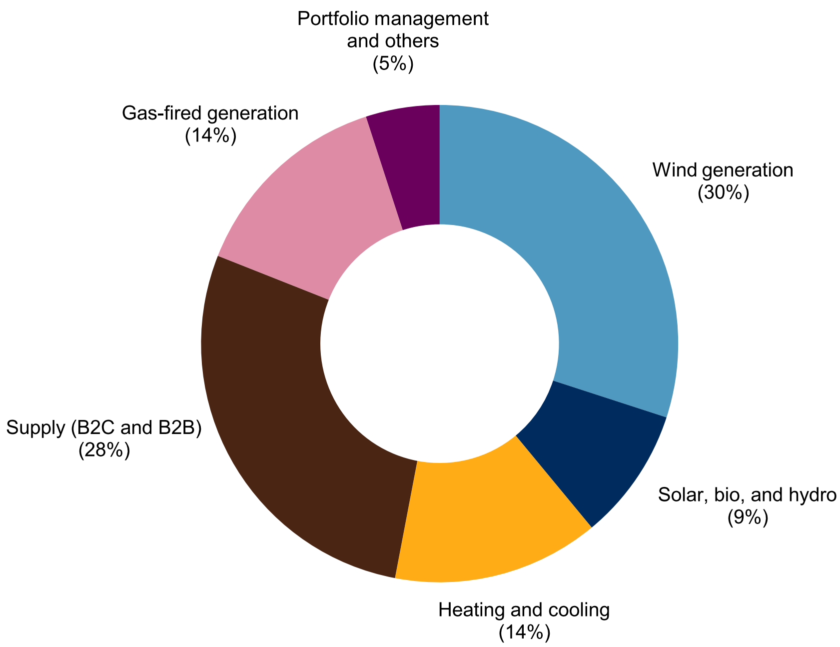
Eneco generates electricity from onshore and offshore wind and solar parks in The Netherlands, Belgium, and the U.K. Eneco also provides heating and cooling services in The Netherlands. Together, these activities account for close to 55% of EBITDA. About 13% of the group's EBITDA comes from gas-fired generation, which Eneco uses to balance generation from renewable assets.

The rest of the company's EBITDA comes from commercial activities, which include energy retail, trading, and other energy services. Eneco is The Netherlands' second-largest energy supplier, the

No. 3 in the Flanders region, and, since 2017, a niche participant in the German renewable energy supply market through its acquisition of Lichtblick SE.

Chart 1

N.V. Eneco Beheer -- EBITDA Split By Segment



Data as of December 2018. B2B--Business to business. B2C--Business to consumer.

Ratings Score Snapshot

Issuer Credit Rating: BBB+/WatchPos/A-2

Business risk: Satisfactory

- Country risk: Very low
- Industry risk: Moderately high
- Competitive position: Satisfactory

Financial risk: Modest

- Cash flow/leverage: Modest

Anchor: bbb+

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: Neutral (no impact)

Stand-alone credit profile: bbb+

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 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
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- N.V. Eneco Beheer, Oct. 1, 2019

Ratings List

Ratings Placed On CreditWatch

	To	From
N.V. Eneco Beheer		
Issuer Credit Rating	BBB+/Watch Pos/A-2	BBB+/Stable/A-2
Commercial Paper	A-2/Watch Pos	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.