

Tear Sheet:

MVM Energy Private LLC

March 5, 2024

We consider MVM's strategic investment plan as ambitious. The group has confirmed its strategy to become a leading integrated utility in Central and Eastern Europe with the objective of generating at least 25% of EBITDA outside Hungary by 2035. The company's strategic focus remains the transition of its generation portfolio to more renewable energy sources, and away from its currently high share of nonrenewable generation technologies. MVM plans to materially expand its renewable portfolio by adding about 3.0 gigawatts (GW) of capacity, 80% from solar and around 17% from wind. We consider these renewable technologies as mature, limiting operational risk. At the same time, the company has affirmed its ambition to completely phase out coal by 2030. We forecast that the company's net capital expenditure (net capex) will increase to about Hungarian forint (HUF) 350 billion in 2024 and HUF480 billion in 2025 from around HUF335 billion in 2023.

MVM's strong financial and operational results are likely to peak in 2023, before stabilizing in the medium term. We expect MVM's EBITDA to reach more than HUF900 billion in 2023. This constitutes a material increase of 100% year over year and exceeds our previous expectation of HUF650 billion-HUF700 billion for the year. The driving forces behind this increase in EBITDA to record-high levels are the higher margins in the Czech and regional wholesale markets as well as the lower transmission and distribution system operator costs. Because of the strong results, we expect MVM's credit metrics to increase materially, with funds from operations (FFO) to debt reaching around 50% in 2023, comfortably above our threshold of 30% for the 'BBB-' rating. This said, extraordinary tax payments in 2024 on the back of record-high 2023 profits are likely to stabilize FFO to debt at about 30% in 2024. We forecast FFO to debt to remain 30%-35% over 2025-2026.

We think that support from the Hungarian government (BBB-/Stable/A-3) is unlikely to change over the medium and long term. Our rating on MVM Energy reflects the Hungarian government's willingness and ability to support the integrated utility. MVM's role as the key generator, supplier, wholesaler, and retailer for electricity and gas and the sole power transmission system operator (TSO) and dominant gas and power distribution system operator (DSO) in its home market makes Hungary reliant on MVM to achieve its objectives of self-sufficiency in electricity and climate neutrality. The government owns 100% of MVM and is openly committed to retaining the 'BBB-' investment-grade rating. The government has demonstrated strong support for MVM in the past by providing capital increases and standby liquidity lines.

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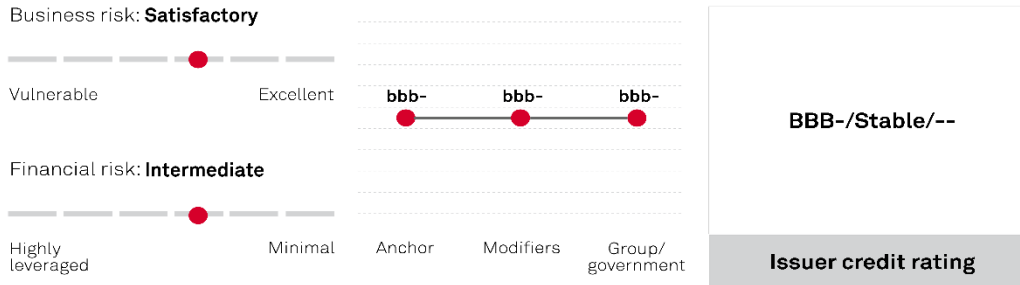
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Ratings Score Snapshot



Recent Research

- Research Update: Hungarian Integrated Utility MVM Group Affirmed At 'BBB-' As Financial Performance Exceeds Expectations; Outlook Stable, May 4, 2023

Company Description

MVM is a 100% state-owned, vertically integrated energy company based in Hungary, and a leading natural gas trader in the Czech Republic. Founded in 1963, it operates in power generation, transmission, distribution, wholesale, and retail, as well as gas storage, distribution, wholesale, and retail. It has a presence in 23 countries. In 2023, we expect the company to report EBITDA of about HUF910 billion, equivalent to about €2.4 billion.

MVM has activities across the entire electricity value chain. It is the main power generator in Hungary, with installed capacity of 4.2 GW at year-end 2023. It operates the Paks nuclear plant, which has 2.0 GW of capacity; the Matra coal plant; gas plants; and renewable energy plants. MVM also owns the only power TSO in Hungary and two of the six Hungarian power DSOs (representing 23% of the power DSO market). It is the electricity supplier for universal service clients at a regulated fixed price.

MVM is also integrated within the gas value chain (except transmission) because it owns above 50% of the gas distribution network and 65% of the gas storage market. Furthermore, MVM is the sole supplier of natural gas in the retail/universal service segment, it has achieved 70% market share in gas wholesale, and has 50% market share in electricity retail (liberalized) business.

Outlook

The stable outlook indicates that we expect MVM to achieve gradual growth and maintain its credit metrics in line with our assessment of its 'bbb-' stand-alone credit profile (SACP). We expect FFO to debt to remain above 30% and debt to EBITDA below 3x on average over the medium term. We also expect that MVM should receive ongoing and extraordinary government support. We believe that the company's integrated position and strategy of hedging most of its open positions, as well as relatively stable earnings from its regulated network, will continue to mitigate risks from volatile power and commodities prices.

Downside scenario

A sovereign downgrade could trigger a downgrade of MVM, but the outlook on our sovereign credit rating on Hungary is stable.

Assuming no change in our expectation of a high likelihood of state support, we could downgrade MVM if its financial performance deteriorated enough to lead us to revise its SACP downward to 'bb+' from 'bbb-'. This could occur if the company were to post FFO to debt sustainably below 30% without any prospects of recovery. Such a ratio could result from low availability in MVM's generation fleet or a large loss of market share in its supply business, or if the company demonstrates poor capex execution under its strategic growth plan.

Upside scenario

We could upgrade MVM if its SACP improved because FFO to debt rose sustainably above 40%. However, we consider this unlikely in the short term, largely because of the company's substantial capex plan.

Key Metrics

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Bil. HUF)	2021a	2022a	2023e	2024f	2025f	2026f
EBITDA	246	476	900-1,000	690-760	700-770	770-850
Less: Cash interest paid	(10)	(48)	(84)-(78)	(83)-(75)	(87)-(83)	(95)-(90)
Less: Cash taxes paid	(67)	(44)	(88)-(80)	(285)-(265)	(205)-(185)	(140)-(130)
Funds from operations (FFO)	169	384	740-810	350-400	430-470	580-640
Net Capital expenditure (net capex)	238	446	320-350	340-370	470-510	760-830
Dividends	0	8	400-440	0	54-59	45-49
Net Debt	6,702	1,185	1,500-1,600	1,300-1,400	1,250-1,350	1,600-1,750
Adjusted ratios						
Debt/EBITDA (x)	0.0	2.5	1.6-1.8	1.7-1.9	1.7-1.9	1.9-2.1
FFO/debt (%)	N/M	32.4	~50	~30	30-35	30-35

Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/--
Local currency issuer credit rating	BBB-/Stable/--
Business risk	Satisfactory
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
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
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- ARCHIVE | Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- ARCHIVE | Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

MVM Energy Private LLC

- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

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