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Fitch Ratings: Net4Gas Rating Unaffected by Halting of Payments, Uncertainty Rises

Fitch Ratings-Milan/Madrid-24 January 2023: Fitch Ratings says Net4Gas announcement, in early January, regarding missed monthly payments from Gazprom on Gazelle and C4G contracts does not affect the agency's previous expectations. However, it increases uncertainty about the company's future business profile and eliminates the previous upside to our forecasts related to Gazprom continuing to pay.

The halting of payments from the Russian major shipper was already factored into our projections, while the main uncertain elements driving the Negative Outlook on Net4Gas's 'BB+' rating remain the size of alternative transit-related profits and the shareholders' commitment to keep leverage consistent with the current rating sensitivities (in particular funds from operations (FFO) net leverage structurally below 5.0x).

Liquidity is strong, with 2022 year-end cash on balance sheet at almost CZK7.0 billion sufficient to cover 2023 and 2024 operating expenses (of about CZK1.2 billion a year), financial charges (about CZK1.5 billion a year) and expected capex (a cumulative about CZK3 billion), even with the sole support of the national regulated transmission systems operator (TSO) business (about CZK2.2 billion revenues a year). We expect the first debt maturities only from mid-2025 (almost CZK10 billion).

In our current forecasts, we have included slightly more than CZK3.0 billion of purely transit-related revenues in 2023 (assuming 19bcm of transited gas against an average in 2019-2021 of around 39bcm), which, coupled with the TSO revenues, result in a consolidated EBITDA of CZK4.3 billion, far below the about.CZK11 billion realised in 2022 and the average CZK8.2 billion for 2019-2021. Based on our forecasts net debt will would decline by CZK0.7 billion in 2023 from CZK27.5 billion at 2022 year-end.

We expect Net4Gas' opportunities for alternative gas transit to arise from Germany's intra-country needs (due to the absence of sufficient domestic capacity to route the gas north to south) and also to serve neighbouring central and Eastern European countries, especially if residual Russian gas flows (i.e. Turk Stream and Velke Kapusany entries) are further hampered.

We will monitor the build-up of alternative flows, the shareholder's tangible progress towards a structural leverage reduction, and financial compensation from potential arbitration proceedings. This last will represent a pure upside to our forecasts and we do not expect any relevant development in the short term.

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