

RESEARCH

Research Update:

Austrian Utility EVN AG Affirmed At 'A'; Outlook Stable

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Rationale

On March 7, 2007, Standard & Poor's Ratings Services affirmed its 'A' long-term corporate credit rating on EVN AG, Austria's second-largest regional electricity and gas distribution utility. The outlook is stable.

The ratings reflect the predictable revenues generated by EVN's stable monopoly network operations and the company's strong market position as a supplier of electricity, gas, water, and heat. They are also supported by EVN's strategic joint ventures with other Austrian utilities and by its robust financial profile.

These strengths are partially offset by EVN's exposure to competition in the liberalized Austrian electricity and gas supply market; continued, now more transparent regulatory pressure on its monopoly network operations; and EVN's more aggressive corporate strategy focusing on internal and external growth, particularly in the lower rated Eastern European countries.

Despite increased business risk, EVN reported strong financials for the fiscal year ended Sept. 30, 2006, partially aided by exceptional factors, such as cold weather. Cash flow after capital expenditures and before acquisitions (discretionary cash flow) was also sound, at €75 million, although slightly below the previous year's level. Funds from operations (FFO) improved to €423 million, from €291 million in fiscal 2005, primarily reflecting an enlarged consolidation scope and higher income from equity investments and generation activities. At the same time, however, adjusted interest expense increased to €81 million, from €69 million the previous year, and adjusted debt increased to €1,277 million, from €1,021 million, primarily due to the acquisition of Macedonia-based electricity company Elektrostopanstvo na Makedonija AD for €228 million. Nevertheless, due to stronger cash flow, adjusted FFO interest coverage improved to 6x (5x in 2005) and FFO to adjusted debt to 33% (28%).

Total debt to capital increased slightly in fiscal 2006 to 32%, from 31% the previous year. This low leverage ratio reflects the ongoing increase in EVN's equity reserves, fuelled by the strong performance of Verbundgesellschaft (Oesterreichische Elektrizitaetswirtschafts Aktiengesellschaft) (A/Stable/--) in 2005 and 2006, in which EVN holds 12.5%, reflecting a current market value of €1.5 billion (€1.4 billion in 2005).

In contrast, EVN's first-quarter fiscal 2007 results were somewhat below expectations, with reported EBITDA down 8.7% year on year, at €117 million, mainly due to mild weather and tariff cuts in Austria and Bulgaria. Reported net debt was broadly stable, at €1,054 million. Although the earnings deterioration has been limited to one quarter and was essentially driven by unusual weather conditions, a material and prolonged underperformance could put pressure on the rating in the short to medium term.

Liquidity

EVN has ample liquidity, with €389 million in cash and cash equivalents and €600 million available under a seven-year undrawn committed bank line at Dec. 31, 2006. The company faces no significant debt maturities before 2008, when about €245 million will mature. Refinancing risk is therefore low. EVN has five outstanding bonds with a book value of about €665 million.

Outlook

The stable outlook reflects Standard & Poor's expectation that EVN will maintain its currently robust financial profile. It also assumes that FFO to adjusted debt will remain above 30% in the medium term, after dipping to about 25% in the short term. A weakening in EVN's business or financial profile--either resulting from changes in the market environment or further material investments in higher risk countries or activities--would likely put pressure on the rating. An upgrade is not very likely in the intermediate term.

Ratings List

Corporate credit rating	A/Stable/--
Senior unsecured debt	A

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