

Issuer Rating

Vitens N.V.		11 June 2020	A+
		Issuer rating	
		Outlook	stable
Industry	Regulated Water Utilities	2019 Revenues	€ 364.9m
		2019 Employees	1,394



BUSINESS RISK	low
<ul style="list-style-type: none"> Regional monopoly and protective legislation Regulated water tariffs Highly predictable cash flows Strong operational performance Favourable asset ownership model 	

OPERATIONAL RISKS	- 0
<ul style="list-style-type: none"> Operational risk profile consistent with the anchor rating, no modification required. 	

FINANCIAL RISK	moderate
<ul style="list-style-type: none"> High but sustainable financial debt levels High but predictable capex requirements Low but regulated profits (WACC guideline) High financial flexibility 	

EXTERNAL INFLUENCE	± 4
<ul style="list-style-type: none"> Very high likelihood of extraordinary governmental support due to municipal ownership, high degree of public importance and very high sovereign credit quality 	

Key financial ratios *	2017act	2018act	2019act	2020plan	2021plan	2022plan
EBITDA-Margin (%)	44.5	37.6	37.7	37.5	37.5	39.0
ROCE (%)	5.6	3.1	2.8	3.1	3.0	3.1
Equity ratio (%)	30.9	30.2	29.2	28.4	28.7	29.4
Leverage ratio (%)	63.3	63.7	64.5	65.8	65.7	65.1
Total liabilities / EBITDA	7.0	9.1	9.4	9.5	9.6	9.2
Net financial liabilities / EBITDA	5.4	6.9	7.0	7.2	7.4	7.2
EBIT interest coverage	2.4	1.4	1.4	1.7	1.9	2.0
EBITDA interest coverage	5.1	4.2	4.5	5.1	5.7	5.9

* adjusted on the basis of EHR's analytical methodology

Rating Rationale

Euler Hermes Rating confirms the A+ issuer credit rating of Vitens N.V. The underlying factors are a combination of a low business risk profile, a moderate financial risk profile and a four-notch uplift for implied governmental support. We expect the rating to remain stable over the next twelve months.

Low business risks due to regional monopoly, highly predictable cash flows and protective legislation

In our view Vitens is subject to a low business risk profile. Due to its regional monopoly position and almost constant water consumption rates within its supply area Vitens enjoys overall low demand volatility, strong visibility in revenues and sustainable cash flows. Further supportive factors include a reliable, well-established regulatory regime within the Dutch water sector, the favourable asset ownership model and long-dated protective legislation against the privatisation of drinking water services. Accordingly, supply concessions are only granted to government-owned companies. We also think that Vitens pursues a low-risk strategy which adequately takes account of statutory regulations and responsibilities set out in the Dutch Drinking Water Supply Act. Moreover we believe that the strategy is well designed to ensure that the company maintains an excellent external credit reputation and a leading benchmark position within the Dutch water sector.

Moderate financial risks due to high but sustainable debt levels, stable earnings and high financial flexibility

In our view, Vitens remains exposed to moderate financial risks. Overall, we appreciate that Vitens has a long track record of recurring, stable and positive earnings while maintaining the lowest drinking water tariffs and operating costs across the Dutch drinking water sector. Factors constraining the stand-alone assessment are the consistently high (and currently rising) debt levels and generally weak credit metrics caused by the continuously high infrastructure funding needs and the imposed profit restrictions (WACC guideline). For 2018/19 a substantial tariff reduction became necessary to compensate Vitens' customers for past excess profits. Along with slightly increased operating costs and rising investment volumes our expectation is that Vitens credit metrics will be slightly impacted by these factors over the short-term. However, upcoming tariff increases (2020+) and rising water consumption rates will bring the ratios back to their policy-induced long-term trend, also supported by the recently revised (more prudent) financial policy. More importantly, Vitens' sustained and regulated earnings provide sufficient coverage for comfortably sustaining the sector specific high long-term debt levels in our view. Considering the broad external funding base, preferred and sustained access to new funding, unused credit facilities, low funding costs and additional funding potential from dividend cuts or municipal loans we also think that Vitens generally has a very high financial flexibility to meet all its financial obligations in a timely manner.

Modification for implied governmental support: +4 notches

In our opinion, Vitens has adequate structures, processes and systems in place to achieve its strategic objectives and to handle its operational risks appropriately and in consistence with the rating level. Due to its government-related status, however, we adjust Vitens' stand-alone rating by 4 notches representing our expectation for a very high likelihood of extraordinary government support in situations of financial distress. The underlying factors are a combination of Vitens' strong link to municipalities and provinces, the very high public importance of water utilities and the very high sovereign credit quality of the Netherlands.

Upgrade / Downgrade Factors

Factors that could lead to an Upgrade

- Exceptional improvements of the capital structure and credit metrics with a substantial impact on the stand-alone credit profile (e.g. equity ratio > 50%; net debt/EBITDA < 3x)

Factors that could lead to a Downgrade

- Adverse regulatory changes with an impact on the regulated profit margins (WACC regime) or with an effort to soften protective legislation and market regulation (Dutch Drinking Water Act)
- Large exposure to non-regulated business activities
- Adverse changes to the shareholder structure (e.g. through privatization)
- Lasting deterioration of the Netherland's sovereign credit rating and its provincial governments and municipalities

Rating History

	12 December 2014	2017 – 2019	11 June 2020
Issuer rating	A+	A+	A+
Stand-alone rating	BBB	BBB	BBB
Outlook	stable	stable	stable

Company

Largest of ten suppliers for drinking water in the Netherlands

Vitens N.V. (“Vitens”) is the largest supplier for drinking water in the Netherlands. The main strategic focus lies on a reliable and affordable drinking water supply, protecting and maintaining clean resources and offering highly convenient customer services. With 2.6 million connections serving 5.7 million customers, Vitens supplies most of the central and northern part of the Netherlands through 93 production plants in the provinces of Flevoland, Friesland, Gelderland, Utrecht and Overijssel. With a share of 32 % of total connections in the Netherlands, Vitens is by far the largest of ten publicly owned supply companies, followed by Braband Water (15 %), Evides (13 %) and PWN (10 %). At the end of 2019, Vitens employed 1,394 people and generated revenues totalling € 364.9 million.

Non-consolidated activities

In addition to its core task, Vitens engages in international development projects through *Vitens Evides International* (“VEI”). VEI is a joint venture between Vitens and Evides Waterbedrijf with the aim of improving drinking water and sanitary facilities in urban areas in South America, South-East Asia and Africa. These non-profit projects are funded through governmental grants or public and private donations and are not included in Vitens’ consolidated accounts.

Executive board

Vitens’ executive board is comprised of two members. The positions are currently held by Ms Marike Bonhof and Mr Jelle Jan Hannema. The group has a clear corporate governance set-up with an independent executive board, a supervisory board consisting of three permanent committees and a shareholder committee, which convenes at least twice a year.

Vitens N.V. is a government related entity jointly held by 5 provinces and 92 municipalities

Vitens N.V. has the legal status of a public limited company. The provinces of Flevoland, Friesland, Gelderland, Utrecht and Overijssel, and most municipal authorities in Vitens’ service area are shareholders of Vitens. More specifically the 5 provincial authorities and 92 municipal authorities hold the share capital (€ 5.8m), where the 7 largest shareholders account for a combined 51.7%. With respect to our methodology, we consider Vitens N.V. as a government-related entity that we rate based on the consolidated financial statements of Vitens Group and under consideration of potential governmental support.

Appendix 1: Execution

Analysts

- Matthias Peetz, Senior Analyst (lead analyst)
- Karl Holger Möller, Senior Analyst

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Rating committee

- Dörte Mählmann, Director
- Holger Ludewig, Director

Rating, Solicitation, Principal Sources of Information

- This credit rating has been issued in accordance with the CRA Regulation.

Solicited Rating

Unsolicited Rating

No participation of the rated entity or related third party

With participation of the rated entity or related third party

Access to internal documents

Access to management

- Prior to its publication the rating was disclosed to the rated entity. During this period, the rated entity had the opportunity to review the rating and to verify the underlying assumptions. Following this review, the rating was not amended

- Principal sources of information:

- Reports on the consolidated financial statements for 2017, 2018 and 2019
- Annual Treasury Report 2019
- Integrated Business Plan 2020, Financial Plan 2020-2022 and Investment Plan 2020-2022
- Interim Management Report Q1/2020
- Management interview
- Benchmark analysis of the Dutch drinking water industry
- Drinking Water Act / Water Supply Act

Rating methodologies and definitions

- Methodology: Issuer Rating as of May 2016
(https://www.ehrq.de/seiten/Methodology_Issuer%20Rating_20171114.pdf)
- Basic principles for Assigning Credit Ratings and Other Services as of March 2020
(https://www.ehrq.de/seiten/Principles_2020.pdf)
- Guidance Regarding the Consideration of ESG Factors in Euler Hermes Rating Credit Ratings as of March 2020
(https://www.ehrq.de/seiten/ESG_2020.pdf)

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Appendix 2: Rating categories*

Category	Explanation
AAA	In the opinion of EHR, AAA rated entities demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHR, AA rated entities demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHR, A rated entities demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHR, BBB rated entities demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHR, BB rated entities demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHR, B rated entities demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHR, CCC rated entities demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHR, CC rated entities demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHR, C rated entities demonstrate a very low credit quality, an event of default is imminent.
D / SD	D rated entities have defaulted, as defined by the rating agency. The rated entity is assigned an SD rating (Selective Default) if it has only defaulted on certain debt obligations.
PLUS (+) MINUS (-)	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

* For more explanations and definitions please refer to: Basic principles for Assigning Credit Ratings and Other Services (https://www.ehrg.de/seiten/Principles_2020.pdf)

Appendix 3: Definition of financial ratios

Earnings power

EBITDA margin

EBITDA margin
Numerator
EBITDA
Denominator
Total revenues

Returns

ROCE
Numerator
Adjusted operating result (= EBIT)
Denominator
Net debt + economic equity (= capital employed)

Return on total assets
Numerator
Adjusted operating and financial result + interest expense
Denominator
Adjusted total assets

Cash flow return on investment

Cash flow return on investment (Cash flow ROI)
Numerator
EBITDA
Denominator
Adjusted total assets

Capital structure

Indebtedness

Equity-to-total assets ratio
Numerator
Adjusted equity (= economic capital)
Denominator
Adjusted total assets

Leverage
Numerator
Net debt
Denominator
Net debt + economic equity (= capital employed)

Net debt

Net debt
Bonds
+ Liabilities to banks
+ Bill liabilities
+ Other interest-bearing liabilities
+ Operating lease liabilities
+ Adjustments for ABS/factoring transactions
- Cash and cash equivalents

Deleveraging potential

Total liabilities / EBITDA
Numerator
Total assets - economic capital (= total liabilities)
Denominator
EBITDA

Net debt / EBITDA
Numerator
Net debt
Denominator
EBITDA

Interest coverage

EBIT interest coverage
Numerator
Adjusted operating result (= EBIT)
Denominator
Interest expenses

EBITDA interest coverage
Numerator
EBITDA
Denominator
Interest expenses

Disclaimer

Vitens N.V. (client and rated entity) engaged Euler Hermes Rating GmbH to assign periodic credit ratings on 02 May 2017. For the 2020 rating review a management interview was conducted on 26 May 2020.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 11 June 2020. This rating report was given to the client on 11 June 2020, thereby concluding the rating process.

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Euler Hermes Rating GmbH

Hamburg, 11 June 2020