

A lignite revolver? New EPH loan deal comment

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We provide a short introduction to the term loans and revolving credit facilities (RCFs, aka, “revolvers”) for the non-credit community, given the announcement of Energeticky a Prumyslovy Holding AS (Ticker: EPEN) on 30 March: “[EPH signed EUR 1 billion financing with group of international banks.](#)”

Term loans are simple loans, and a revolving credit facility (‘revolver’) operates as a credit card, but for a company vis-à-vis a bank or a number of banks.

In the RCF that EPH signed on 17 March 2021, EPH has the opportunity to borrow (‘draw down’) up to EUR500mn of loans. EPH will be paying a fixed fee for this, and then pay interest on whatever amount the company draws. The term loans signed on the same date were in two tranches of EUR250mn each, for a total of EUR500mn.

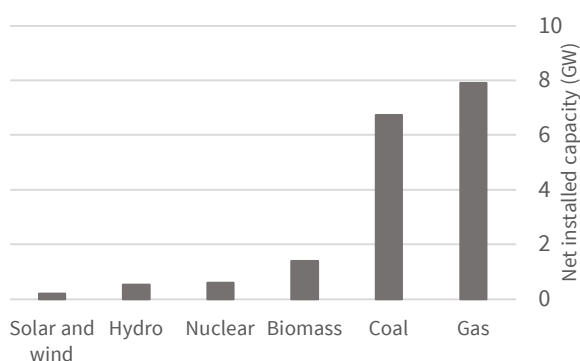
Are the new EPEN loans and facility coal/lignite financing?

We note the split of EPEN into two main parts: EP Infrastructure (EPIF, Ticker: ENAPHO) and EP Power Europe (EPPE). EPIF operates mainly various fossil gas operations. EPEN holds 69% of EPIF, with Macquarie Infrastructure Fund V holding the remaining 31%. EPIF is raising debt for its operations on the subsidiary level – i.e. under the ticker ENAPHO - which makes sense as EPIF with its gas operations thus can avoid being targeted for coal investment exclusion criteria.

In contrast, we note that 100% owned and coal rich EPPE (see overview in Figure 1) is not raising debt under its own ticker. This leads us to the conclusion that EPEN funding, such as the recently announced term loans and RCS, are mainly injected into EPPE. Following this, **we opine that the 17 March loan deals are likely to be intended for EPPE, and thus the stakeholders in the deal are engaging in coal/lignite financing.**

Lenders in the transaction – as per the announcement - are Citigroup, HSBC, Credit Suisse, , SocGen (Komerční Banka), Unicredit, ING, Commerzbank, Bank of China and SMBC.

Figure 1. Generation capacity by energy type for EPH Power. Excludes MIBRAG 17-19MT p.a. lignite mining operations as per the original presentation. Excludes EP Infrastructure lignite generation capacity in the Czech Republic (0.8GW). Source: [EPH investor presentation](#), AFII.



Notes

Data: We have used publicly available data, accessible through company website and the Bloomberg terminal for this analysis.

Loan and bond details: The 17 March 2021 announced transactions are Term Loan A, FIGI: BBG00ZV9MBB; Term Loan B, FIGI BBG00ZV9MBC6; and RCF, FIGI: BBG00ZV9MBF3. The last issuance from EP Infrastructure, the gas part of EPEN, was the ENAPHO 1.816% 03/2031 EUR500mn bond, ISIN XS2304675791, issued as ms+180bp.

Banks in the loan deal: For avoidance of doubt, the references to banks above are as follows:

Citigroup: Citibank Europe PLC/Paris

HSBC: HSBC Continental Europe SA

Credit Suisse: Credit Suisse AG

Unicredit: UniCredit Bank Czech Republic

ING: ING Bank NV/Czech Republic

Commerzbank: Commerzbank AG/Czech Republic

SocGen: Societe Generale through its subsidiary Komerčni Banka.

SMBC: SMBC Bank EU AG

Please refer to each bank individually with regards to their conditions around coal financing as well as their use-of-proceeds for green bond issuances (where applicable). We have earlier raised the question around whether green bond issuers can be credible in their green issuance and be simultaneously engaging in coal financing, see “[How green bonds are \(not\) supposed to work](#)”, AFII, 25 Nov 2020.

Coal financing thresholds: We refrain from making our own definition of coal financing thresholds public as we believe open publication of such thresholds leads to destructive reverse engineering on behalf of coal companies, for example by trying to aggregate businesses in conglomerates to come below certain revenue thresholds. In the case of EPH, we note a string of acquisitions in the lignite space, e.g. the purchase of Vattenfall’s 8GW lignite capacity in Germany in 2016 (company statement [link](#), IEEFA analysis [here](#)), and various other corporate actions that strengthen the quantitative metrics around labelling it ‘coal financing.’

Miscellaneous: In the second round of German hard coal decommissioning auctions (for a background, see “[Hard coal auction](#)”, AFII, 28 Aug 2020), EPH was ‘awarded’ rights to close hard coal fired power plants Merhum (690MW) and Deuben (67MW).

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