



# Israel Electric Corporation Ltd.

**Rating Action | May 2015**

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## Israel Electric Corporation Ltd.

Series	Interest rate	Linkage	Debt balance as of April 30, 2015 (NISm)	Outstanding repayment	Rating	Outlook
2022	6.0%	CPI	3,855	2020-2023	Aa3	Positive
2029	6.0%	CPI	766	2015-2029	Aa3	Positive
24	0.65%	CPI	2,010	2015	Aaa	Stable
25	1.20%	CPI	1,007	2015-2017	Aaa	Stable

Midroog reaffirms its Aa3/positive rating for Series 2022 and 2029.

Midroog also reaffirms its Aaa/stable rating for government-guaranteed Series 24 and 25.

Midroog announces that it is assigning an Aa3/positive rating for the issue of a new series<sup>1</sup> of up to NIS 1.5 billion in par value (hereinafter: "the New Series") to be issued by Israel Electric Corporation Ltd. (hereinafter: "the IEC" or "the Company") in May 2015 or time soon to May. The New Series will be issued in order to refinance debt, and for other ongoing needs. The State's support for the Company (hereinafter: "the Support") and the dependency between the State and the Company (hereinafter: "the Dependency") (hereinafter, together: "the Relationship") are significant foundations for the rating. Midroog assesses the Support and the Dependency to be very high. Midroog will continue to monitor the extent of the Support and the Dependency and stresses that any weakening of its assessment of the Support and the Dependency could significantly lower the rating. Note that in Midroog's opinion, the Relationship between the Company and the State is very strong, but is not absolute, and their interests are not fully identical. The rating is based on data submitted to Midroog until May 20, 2015 and is subject to supplementation, as elaborated in Section 4 below.

- For elaboration on key supportive factors and key risk factors, see the link at the end of this document to the Initial Rating Report.
- For elaboration on the main considerations behind the rating, see the link at the end of this document to the Annual Rating action from April 2015.

<sup>1</sup> The Company intends to issue between 2-3 new series of differing durations.



## 1. Rating Action

The Company intends to issue the New Series as a tradable series, totaling up to approximately NIS 1.5 billion in par value. The Company will be issuing between 2-3 new bonds with differing durations and linkage mechanisms. The New Series will be repaid in installments from the date of the offering and shall not take longer than 14 years. The Company projects it will issue the New Series during May 2015.

### 1.1 Financial ratios

	2014P*	2014	2013	2012	2011	2010
FFO + Int / Int <sup>2</sup>	3.83	3.93	3.57	0.81	1.48	2.46
FFO/debt	13.8%	14.3%	11.9%	-0.9%	2.6%	8.0%
Debt/CAP	72.3%	71.7%	73.3%	73.6%	67.7%	67.4%
Gross margin % <sup>3</sup>	62%	62%	57%	27%	46%	53%
Operating margin % <sup>4</sup>	12%	12%	5%	5%	11%	13%

\*Note: Proforma, added debt of NIS 1,500 million.

- **For elaboration on the analysis of the financial ratios, see the link at the end of this document to the Annual Monitoring Report from April 2015.**

### 1.2 Partial exercise of the option in the Tamar agreement

On April 16, 2015, the IEC announced that its Board of Directors had decided to partially exercise the option in the Tamar agreement. On May 7, 2015, Tamar partners and IEC have signed necessary documents in connection with the partial exercise of the option.

## 2. Company Profile

Israel Electric Corporation Ltd. is a government company (the State of Israel holds approximately 99.85% of its shares<sup>5</sup>) that generates, transmits, distributes, and supplies electricity, trades in electricity and builds the infrastructure required to do so. The Company was incorporated in mandatory Palestine in 1923. Its activity is regulated and supervised under the Electricity Law,

<sup>2</sup> Actual cash flow expense.

<sup>3</sup> Gross profit defined as income less fuel costs and electricity purchases.

<sup>4</sup> Profit from operations less provision for non-recognition of fixed assets costs.

<sup>5</sup> The Company believes that the rest of the shares are dispersed among the general public and that some of the shareholders cannot be identified.



which replaced the Electricity Concessions Ordinance. Under the Electricity Law, the Public Utilities Authority (Electricity) sets electricity rates and the methods for their revision, and also sets the criteria by which the Company operates. In addition, the Public Utilities Authority (Electricity) grants licenses, conditional or permanent, for the generation, distribution and supply of electricity to all power producers, and supervises them based on the criteria that it set. The Company is a monopoly in the Israeli electricity economy in the production, transmission, distribution and supply of the absolute majority of electricity consumed in Israel. The Company is subject to a regulatory framework that is managed by the Public Utilities Authority (Electricity) under the Electricity Law 5756-1996, enacted about 17 years ago.

### 3. Rating Outlook<sup>6</sup>

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#### Series 2022, 2029 and the New Series

##### Factors likely to improve the rating:

- Strengthening the Company's capital and debt structure (reducing the Company's leverage)
- Sustaining a liquidity profile appropriate to the Company's operations in a permanent manner
- Regulatory stability regarding the sector, including in respect to the structure of Israel's electricity economy and agreements with labor representatives

##### Factors likely to lower the rating:

- Change for the worse in the State's Support for the Company, including in respect to recognition of Company's expenses and investments in tariff and structural change
- Persisting, significant erosion in the Company's financial results, including failure to maintain liquid balances appropriate to its rating level, relative to anticipated volumes of activity and the anticipated repayment burden
- Difficulty in raising capital and/or significant increase in issuance costs

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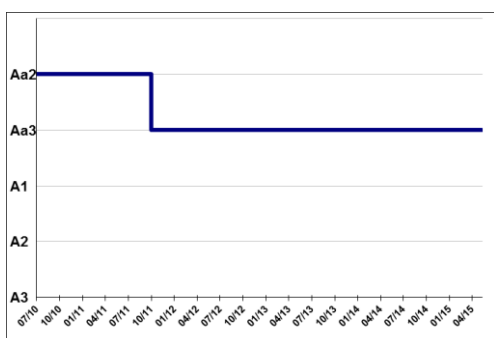
<sup>6</sup> The rating outlook applies to series without guarantees. The rating of the guaranteed series is the same as the country rating.

## 4. Supplements

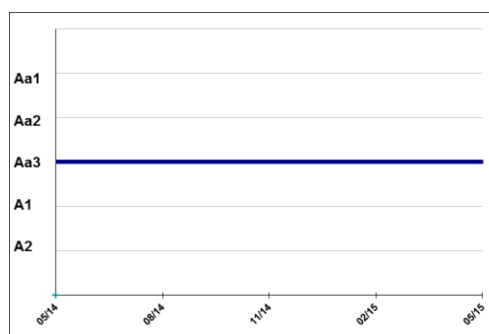
- A signed indenture for the New Series.
- Approval of the Ministry of National Infrastructures, Energy and Water Resources regarding the floating charge.
- ISA approval for issuing the New Series.

## 5. Rating History

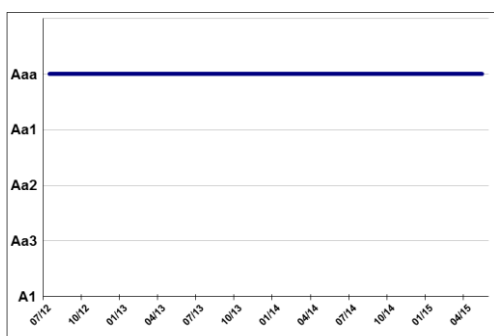
Series 2022:



Series 2029:



Series 24, 25:



## 6. Related Reports

Israel Electric Corporation – Rating Action, [April 2015](#)

Israel Electric Corporation – Rating Action, [April 2014](#)

Rating Regulated Power and Natural Gas Companies– Methodology Report, [April 2015](#)

Rating Government Affiliated Issuers (GRI) - Methodology Report, [October 2013](#)

Israel Electric Corporation – Initial Rating Report, [July 2010](#)



## Obligations Rating Scale

<b>Investment grade</b>	<b>Aaa</b>	Obligations rated Aaa are those that, in Midroog's judgment, are of the highest quality and involve minimal credit risk.
	<b>Aa</b>	Obligations rated Aa are those that, in Midroog's judgment, are of high quality and involve very low credit risk.
	<b>A</b>	Obligations rated A are considered by Midroog to be in the upper-end of the middle rating, and involve low credit risk.
	<b>Baa</b>	Obligations rated Baa are those that, in Midroog's judgment, involve moderate credit risk. They are considered medium grade obligations, and could have certain speculative characteristics.
<b>Speculative Investment</b>	<b>Ba</b>	Obligations rated Ba are those that, in Midroog's judgment, contain speculative elements, and involve a significant degree of credit risk.
	<b>B</b>	Obligations rated B are those that, in Midroog's judgment, are speculative and involve a high credit risk.
	<b>Caa</b>	Obligations rated Caa are those that, in Midroog's judgment, have weak standing and involve a very high credit risk.
	<b>Ca</b>	Obligations rated Ca are very speculative investments, and are likely to be in, or very near to, a situation of insolvency, with some prospect of recovery of principal and interest.
	<b>C</b>	Obligations rated C are assigned the lowest rating, and are generally in a situation of insolvency, with poor prospects of repayment of principal and interest.

Midroog applies numerical modifiers 1, 2 and 3 in each of the rating categories from Aa to Caa. Modifier 1 indicates that the bond ranks in the higher end of the letter-rating category. Modifier 2 indicates that the bonds are in the middle of the letter-rating category; and modifier 3 indicates that the bonds are in the lower end of the letter-rating category.



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