MOODY'S RATINGS

Rating Action: Moody's Ratings assigns first-time Baa1 rating to BEW; outlook stable

16 Dec 2025

Frankfurt am Main, December 16, 2025 -- Moody's Ratings (Moody's) has today assigned a first-time Baa1 long-term issuer rating to BEW Berliner Energie und Waerme GmbH (BEW). At the same time, we have assigned a ba2 Baseline Credit Assessment (BCA) to BEW. The outlook is stable.

RATINGS RATIONALE

Given its 100% indirect ownership by the Land of Berlin (Berlin; Aa1 stable), BEW falls under our rating methodology for Government-related Issuers (GRI). Therefore, the Baa1 long-term issuer rating incorporates a four-notch uplift from BEW's BCA of ba2, reflecting the combination of (1) Berlin's strong credit profile; (2) very high default dependence between Berlin and BEW, given that public authorities and state-owned housing companies account for a large share of BEW's revenues; and (3) high likelihood of extraordinary support being provided by the Berlin in case of financial distress given BEW's systemic and social relevance as key heating provider and its pivotal role in Berlin's strategy to achieve legally enshrined decarbonization targets. Ordinary support is demonstrated by the guarantee provided by the Land of Berlin to the debt raised by BEW's immediate 100% parent, acquisition holding company Berlin Rekom 3 GmbH (Rekom 3).

The ba2 BCA reflects BEW's strengths, including (1) its position as the leading district heating provider in Berlin, constituting a quasi-natural monopoly in its areas of operation; (2) relatively predictable contracted earnings, underpinned by a very stable customer base, with more than 30% of revenues coming from public authorities and state-owned housing companies and the remainder mostly from residential tenant end-users; and (3) its pricing power that allows for regular tariff adjustments and the ability to align price components to its cost structure over time, guided by a long-standing legal framework and supervised ex-post and on request by antitrust authorities.

At the same time, BEW's BCA is constrained by (1) its large, primarily debt-funded gross investment program of around €4.1 billion over 2025-29, whose main purpose is the transition of the company's heat generation capacity to low-carbon technologies, such as biomass, power-to-heat installations or waste heat recovery, with some modest mitigation from grants; (2) a long-term requirement to fund the debt service of Rekom 3 through dividends, providing a cap on BEW's BCA as we expect the average annual consolidated leverage, including Rekom 3 debt, and expressed as funds from operations (FFO) to net debt, at 7-8% through 2029; (3) some uncertainty around the re-financing of its current bank bridge facilities of €1 billion and the raising of additional debt for its largely committed capital spending program, mitigated by support from its owner through recently confirmed equity injections of €550 million over 2026-27 and a large share of publicly-owned banks as lenders under the bridge facilities that have a track record of supporting municipal utilities; and (4) moderate, mainly weather-related volume exposure.

LIQUIDITY

BEW's liquidity is adequate. At the end of 2024, the company had cash and cash equivalents of €210 million and, as of the end of October 2025, €1.1 billion bilateral bank facilities were arranged. They are available partly through March 2027 and partly until further notice and do not include financial covenants. Notwithstanding our expectation of solid and increasing earnings, covering part of the capital spending, the significant ramp-up of investments exposes the company to re-financing and funding risks with only moderate flexibility to adjust the investment plans.

STRUCTURAL CONSIDERATIONS

BEW is the sole asset of its parent, the dedicated acquisition holding company Rekom 3, which has an outstanding loan in the amount of €1 billion, amortising by around one third through 2034 when the remaining balance falls due. The sole lender is Berlin's state-owned promotional bank Investitionsbank Berlin (IBB, Aa1 stable), benefiting from an 80% state guarantee for the loan, provided by Berlin. While BEW is not an obligor under the IBB loan and not linked to Rekom 3 through domination or profit-and-loss transfer agreements, it is Rekom 3's only source of cash flow to service the IBB loan. We thus consider the consolidated credit profile of Rekom 3 as a cap for the BCA of BEW.

ESG CONSIDERATIONS

Governance considerations are mainly driven by the company's state ownership and its lack of a track record to operate on a standalone basis, which is reflected in a Governance Issuer Profile Score (IPS) of G-3. Berlin's ownership implies a lack of independence on the supervisory board level where the state government appoints four cabinet members as well as four non-political independent members. BEW is guided by Berlin's framework for state-owned companies and its business plans and targets are influenced by state policies. The company has set itself a number of financial KPIs including debt-service coverage targets over the upcoming investment cycle and does not plan to pay dividends above the amounts required for the debt service of Rekom 3. We have assigned to BEW a Credit Impact Score (CIS) of CIS-2, reflecting that the credit effect of ESG considerations is mitigated by its ownership by Berlin.

RATING OUTLOOK

The stable outlook reflects our expectation that the company will, notwithstanding the large investment program, maintain an average leverage on a consolidated basis including Rekom 3, expressed as FFO/net debt, of at least 6% through 2029.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the BCA is unlikely while the company is executing its sizable investment program but could arise if BEW managed to sustainedly maintain FFO/net debt of at least 9% on a consolidated basis including Rekom 3. An upgrade of the BCA may not necessarily result in a rating upgrade.

The BCA and issuer rating could be downgraded if FFO/net debt (including Rekom 3) were to decline sustainedly below 6%. The rating could also come under pressure if the credit quality of the supporter, the Land of Berlin, or our support assumptions were to deteriorate materially.

COMPANY PROFILE

Headquartered in Berlin, BEW Berliner Energie und Waerme GmbH, wholly owned by the Land of Berlin, is the leading district heating provider in Berlin. In 2024, BEW reported revenues of €1.9 billion and EBITDA of around €200 million.

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Unregulated Utilities and Power Companies published in August 2025 and available at https://ratings.moodys.com/rmc-documents/449372, and Government-related Issuers published in May 2025 and available at https://ratings.moodys.com/rmc-documents/443641. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

BEW's BCA of ba2 is five notches below the current scorecard-indicated outcome of A3 and reflects the company's planned substantial, mostly debt-funded capital spending programme over 2025-29 which entails some execution risk and will depress credit metrics over the coming years.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1462204.

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