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Vela Energy Finance S.A. And Solaben Luxembourg S.A. Outlooks Revised To Positive Ahead Of Next Regulatory Period

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RATING ACTION OVERVIEW

- The Spanish government has commenced the procedure to propose a law that remuneration applicable to certain regulated solar energy projects--including Vela Energy Finance S.A. (a company of the Sonnedix group) and Solaben Luxembourg S.A.--will either remain unchanged until 2031, or decrease slightly to 7.09% until 2025.
- In both scenarios, the debt service coverage ratios (DSCR) for Vela Energy Finance S.A. and Solaben Luxembourg S.A. would strengthen and support a higher rating because debt repayments decline from 2020.
- We are therefore revising the outlooks on Vela Energy Finance S.A.'s and Solaben Luxembourg S.A.'s senior secured bonds to positive from stable and affirming our 'BBB' long-term issue ratings on the bonds.
- The positive outlook reflects our expectation that a revision of the remuneration in line with the current proposal will lead to an upgrade.

RATING ACTION RATIONALE

We see an increasing likelihood that the regulated reasonable rate of return for renewables already operational when the Royal Decree-Law 9/2013 came into force will not decrease substantially from the current rate of 7.389%. The current proposals by the Spanish Ministry for Ecological Transition (MITECO) are either to maintain the rate at 7.389% to 2031 or reduce it to 7.09% from 2020 to 2025. The current rate of return was calculated in 2013 with reference to market yields for 10-year Spanish government bonds (at that time, 4.4%) plus a spread of 300 basis points.

The financing put in place for both Solaben Luxembourg S.A. and Vela Energy Finance S.A. was structured to protect the bondholders against a downward revision of the reasonable rate of return. In order to mitigate this risk, the debt repayments decline from 2020. If the reasonable rate of return indeed stays at 7.389% or decreases to 7.09%, the DSCR in both projects would therefore increase from January 2020. This would lead to an upgrade of the ratings on both projects.

MITECO announced a review of remuneration applicable to renewable energy, cogeneration, and waste facilities, as well as for the energy distribution sector, in December 2018. Its proposal suggests a change in the reasonable rate of return for renewable assets to 7.09% from 7.389%.

However, for facilities such as Vela Energy Finance S.A. and Solaben Luxembourg S.A., whose remuneration is subject to the Royal Decree-Law 9/2013, the draft proposal would maintain the existing reasonable return of 7.389% for the next two regulatory periods, expiring in 2031.

The draft mentions there are currently 35 legal open disputes against Spain in relation to the implementation of the Royal Decree-Law 9/2013, which caused retroactive cuts in the previous feed-in-tariff regime. For the plants that have open legal disputes against the government, the draft specifies that the compensation payable if their legal claims succeed will be deducted from the amount corresponding to the difference between the remuneration to be paid until 2031 at 7.389% and the remuneration the plants would have received under the 7.09% rate. In the case of Vela Energy Finance S.A., we understand some of the photovoltaic parks may receive 7.09% as a consequence; while our understanding is that Solaben Luxembourg S.A. would receive 7.389%. Alternatively, the beneficiaries could choose to renounce the 7.389% rate and be subject to the 7.09% rate until 2025, at which point the remuneration would be subject to revision for the six-year regulatory period that starts in 2026.

While some of the details of the proposal are not yet clear to us, we see an increasing likelihood that MITECO's proposal will be approved and executed by parliament. In December 2018, when MITECO announced the remuneration review, the government had minority control over parliament. Following the national elections on April 28, 2019, the government will have a simple majority, which should facilitate approval of MITECO's proposal.

Should the government not reach an agreement in relation to the remuneration, we understand that the existing rate or return (7.389%) would be maintained, although the nature of the extension--permanent or temporary--is unclear to us.

OUTLOOK

Vela Energy Finance S.A.

The positive outlook reflects that we could raise the rating by one notch if the reasonable rate of return from 2020 is maintained or if it is lowered to 7%. If we raised the rating to 'BBB+', the creditworthiness of its bank account provider, CaixaBank S.A. (BBB+/Stable/A-2), may constrain the creditworthiness of the transaction going forward, as it would be rated at the same level.

We would revise the outlook to stable if the reasonable rate of return from 2020 is set lower than 7%. Between 5% and 7%, our forecast DSCRs would be at least 1.2x, which is in line with the 'BBB' rating.

Solaben Luxembourg S.A.

The positive outlook reflects that we could raise the rating if the reasonable rate of return from 2020 is maintained or if it is lowered to 7% or higher.

We would revise the outlook to stable if the reasonable rate of return from 2020 is set lower than 7%. Between 5% and 7% our forecasted DSCRs would be at least 1.4x, which is line with the 'BBB' rating. We would also revise the outlook to stable if the project's financial performance were to weaken, leading the minimum DSCR below 1.40x under our base case.

RATINGS SCORE SNAPSHOT

Vela Energy Finance S.A.: Operations Phase SACP (Senior Debt)

- Operations phase business assessment (1=best to 12=worst): 4
- Preliminary SACP: bbb-
- Downside impact on prelim SACP: +1 notch

- Capital structure and avg. DSCR impact on prelim SACP: Neutral
- Liquidity: Neutral
- Operations phase SACP pre-counterparty limitation: bbb
- Counterparty assessment limitation: bbb+ (CaixaBank S.A.)
- Operations phase SACP: bbb

Modifiers (senior debt)

- Parent linkage: Delinked
- Structural protection: Neutral
- Senior debt issue rating: BBB

Solaben Luxembourg S.A.: Operations Phase SACP (Senior Debt)

- Operations-phase business assessment (1=best to 12=worst): 5
- Preliminary SACP: bbb-
- Downside impact on prelim SACP: +1 notch
- Capital structure and avg. DSCR impact on prelim SACP: Neutral
- Liquidity: Neutral
- Operations-phase SACP pre-counterparty limitation: bbb
- Operations-phase SACP: bbb

Modifiers (senior debt)

- Parent linkage: Delinked
- Structural protection: Neutral
- Senior debt issue rating: BBB

RELATED CRITERIA

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria - Corporates - Project Finance: Project Finance Framework Methodology, Sept. 16, 2014
- Criteria - Corporates - Project Finance: Key Credit Factors For Power Project Financings, Sept. 16, 2014
- Criteria - Corporates - Project Finance: Project Finance Operations Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Transaction Structure Methodology, Sept. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Project Finance: Project Finance Construction And Operations Counterparty Methodology, Dec. 20, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

RELATED RESEARCH

- Bulletin: Regulatory Framework Applicable For Spanish Operational Energy Renewables Still Under Discussion, Feb. 5, 2019

RATINGS LIST

	To	From
**************** Solaben Luxembourg S.A. **************		
Ratings Affirmed; Outlook Action		
Solaben Luxembourg S.A.		
Senior Secured	BBB/Positive	BBB/Stable
**************** Vela Energy Finance S.A. **************		
Ratings Affirmed; Outlook Action		
Vela Energy Finance S.A.		
Senior Secured	BBB/Positive	BBB/Stable