Czech it out: ČEZ returns to the SLB market

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ČEZ (ticker CEZCP), a Czech energy company, is in the market on 23 Apr 2025 with a Sustainability-Linked Bond (SLB). The bond in question is EUR750mn with an 8Y maturity, pricing at mid swaps plus 185bp, and references an emissions intensity reduction target in 2030. As a country historically reliant on coal for energy generation, we review the pricing and impact of ČEZ' bonds for investors.

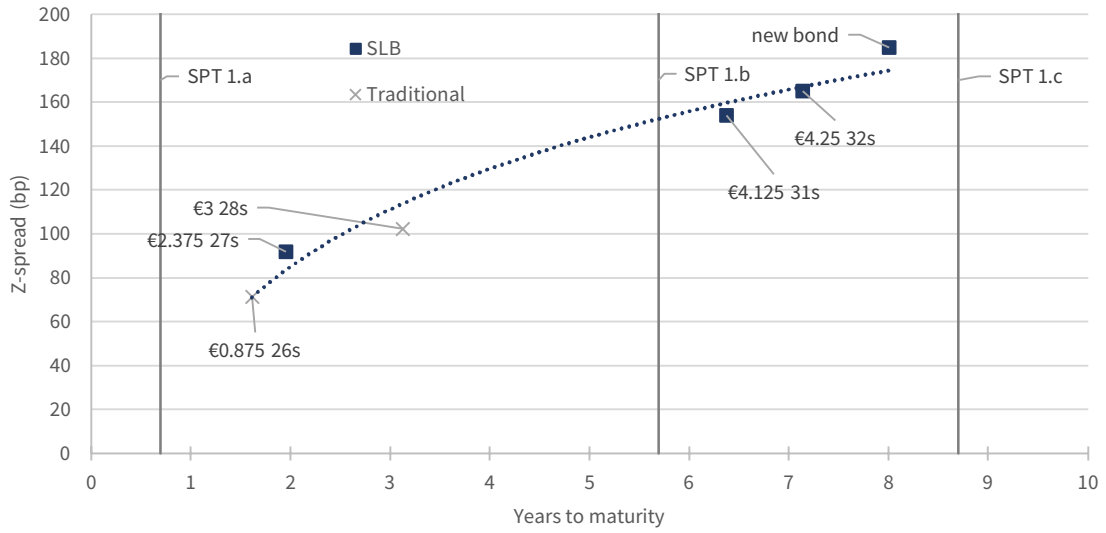
Coal has played a major role in energy generation in the Czech Republic [1] as its only domestic fossil fuel, contributing 41% of its power in 2022. It operates the 19th largest coal fleet in the world.[2] Achieving a transition to renewables would have meaningful impact on European emissions.

It has three SLBs outstanding that all reference the same KPI - emissions intensity of power generation. One bond, the 2.375% 27s, observes its target at the end of 2025, and the other two outstanding bonds use the 2030 target. Current pricing of its bonds is shown in Figure 1.

The most ambitious of its targets - for 2033, aligned to a 1.5°C trajectory - is not referenced as none of the bonds have maturity beyond this date. However, the commitment to an SLB structure focused on outcomes suggests the intention to use all targets, and achieve the trajectory.

All SLBs use a 0.75% premium payment structure, rather than the more common step-up coupon structure. This offers homogeneity to the longer-dated bonds, which may help investors compare the pricing. It also adds materiality to the shorter-dated SLB (2.375% 27s), on which (imminently expected) 2024 reporting will give guidance on the likelihood of the target being achieved.

Figure 1. CEZCP bond z-spreads. Source: AFII, Bloomberg accessed 23 Apr 2025.



[1] "Czech Republic 2021", IEA, Sep 2021.
[2] "Czech Republic", Carbon Tracker, accessed 23 Apr 2025.

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Sustainability Performance Target details

ČEZ has only one KPI in its current sustainable financing framework (Scope 1&2 GHG Intensity of electricity and heat generated measured in tCO_2e/MWh (using a location-based method),[3] however it has three Sustainability Performance Targets (SPTs) to three dates. The exact scope for its third SPT (to 2033) is narrower as it removes activities subject to divestment, which produces alternate historic figures.

We note its first framework, and indeed the first bond, references only Scope 1 intensity but uses the same targets.[4] In its 2023 reporting, Scope 2 was 0 tCO_2e (location-based) in 2022 and 2023 and 0.7% of Scope 1 and 2 emissions in 2021 and so is negligible compared to the 2 decimal places of accuracy of the targets.[5]

Table 1 shows the targets, as well as the assessment of the SPTs by ISS, the Second Party Opinion (SPO) provider for this framework. What is interesting is that the three targets appear to follow separate trajectories, as identified by their temperature alignments. This leads to different scores for each target, with increasing ambition levels, the 2033 target being ranked as 'Robust'.[6]

Table 1. Sustainable Financing Framework SPO. Source: ISS.

SPT	SPT ambition based on past KPI performance	Guidelines used for the SPT	SPT compared to Industry Peers	ISS assessment of SPT level of ambition
SPT 1.a 0.26 tCO_2e/MWh Scope 1&2 GHG intensity emissions by 2025	Not ambitious	In line with the Paris Agreement based on the Transition Pathway Initiative.	Limited Information as the SPT is not widely adopted by peers	**Moderate**
SPT 1.b 0.16 tCO_2e/MWh Scope 1&2 GHG intensity emissions by 2030	Not ambitious	In line with the Paris Agreement; SBTi verified well below 2 °C scenario **but** not in line with the updated SBTi guidelines.	In line with Peers	**Good**
SPT 1.c 0.056 tCO_2e/MWh Scope 1&2 GHG intensity emissions by 2033 (excluding activities in areas subjected to divestment Poland, Bulgaria, Romania, and the Počerady coal plant)	Ambitious	In line with the Paris Agreement; and with a 1.5 °C scenario validated by SBTi guidelines.	In line with Peers	**Robust**

[3] "ČEZ Group Sustainable Financing Framework", ČEZ, 25 Apr 2024.
[4] "ČEZ Group Sustainable Financing Framework 2022", ČEZ, 10 Mar 2022.
[5] "CEZ Group Sustainability Report 2023", CEZ, 22 Apr 2022.
[6] "Second Party Opinion CEZ", ISS Corporate, 10 May 2024.

Bond details

Details of ČEZ' outstanding bonds are shown in Table 2. Since 2022 all bonds have been in SLB format, each using the same structure of a 0.75% upfront premium payment at maturity, referencing the SPT closest to maturity of the bond.

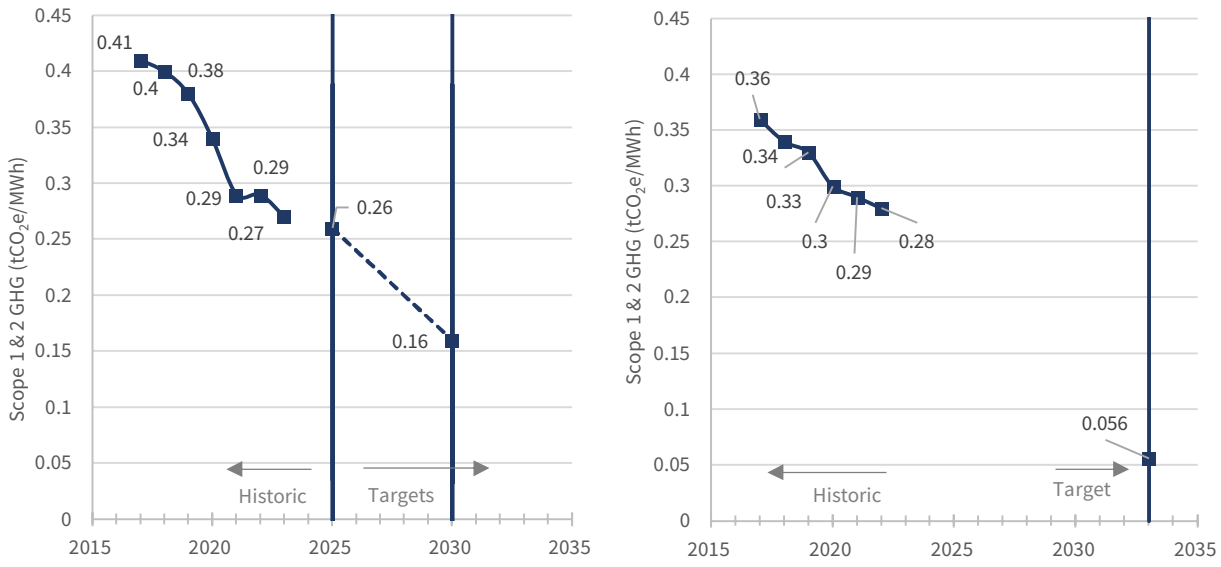
Table 2. ČEZ outstanding bond details. Source: Bloomberg, accessed 23 Apr 2025.

Description	ISIN	Issue Date	Maturity	Currency	Amount Outstanding	ESG Label
CEZCP ¥3 38s	XS0384970652	17-Sep-08	17-Sep-38	JPY	12,000,000,000	
CEZCP ¥2.8 39s	XS0447067843	08-Sep-09	08-Sep-39	JPY	8,000,000,000	
CEZCP $5.625 42s	US157214AB31	03-Apr-12	03-Apr-42	USD	300,000,000	
CEZCP €4.375 42s	XS0814711775	08-Aug-12	08-Aug-42	EUR	50,000,000	
CEZCP €4.5 47s	XS0818793209	20-Aug-12	20-Aug-47	EUR	50,000,000	
CEZCP €4.3 47s	XS0822571799	03-Sep-12	03-Sep-47	EUR	80,000,000	
CEZCP €3 28s	XS0940293763	05-Jun-13	05-Jun-28	EUR	725,000,000	
CEZCP €0.875 26s	XS2084418339	02-Dec-19	02-Dec-26	EUR	750,000,000	
CEZCP €2.375 27s	XS2461786829	06-Apr-22	06-Apr-27	EUR	600,000,000	SLB
CEZCP €4.25 32s	XS2838370414	11-Jun-24	11-Jun-32	EUR	750,000,000	SLB
CEZCP €4.125 31s	XS2894908768	05-Sep-24	05-Sep-31	EUR	700,000,000	SLB
CEZCP new bond	XS3040382098	30-Apr-25	30-Apr-33	EUR	750,000,000	SLB

Historical KPI performance

Historical data on the KPI is shown in Figure 2 below up to and including data from 2023. 2024 reporting is expected potentially imminently (for reference its 2023 sustainability report was released on 27 Apr 2024).[7]

Figure 2. ČEZ Scope 1&2 GHG intensity historic values and targets, for all operations (LHS) and those used in SPT 1.c (RHS). Source: ČEZ.



[7] "Our Documents", CEZ, accessed 23 Apr 2025.

Extrapolation of the historic trends suggest the 2025 target can be met; however, there is always uncertainty. The imminent release of 2024 reporting will give important information.

SLB materiality and option pricing

The SLB option value depends on two factors, probability of the target being missed and the materiality of the step-up coupon. In ČEZ' bonds, all SLBs pay 0.75% premium payment at maturity if the SPTs are not achieved.

At bond inception, this will have very similar value to a 25bp coupon step-up paid for three years.[8] However, as bond maturity approaches, use of a premium payment can adjust the bond dynamics.

Consider a bond with three years to maturity, which may increase its coupon by 25bp with probability 50%. This will have option value 12.5bp running, or 0.375% on a non-discounted basis.

Now consider a bond with one year to maturity, which may pay a premium payment of 0.75% with probability 50%. This will have the same non-discounted option value of 0.375%, however, due to the shorter duration, this will have a running option value of 37.5bp, potentially with higher volatility.

In the case of ČEZ' 2027 bond, even a 25% probability of missing the target translates into a running option value of 9.5bp.[9] When 2024 reporting is released (to note 2023 reporting was released on 29 Apr 2024[7]), volatility may be expected as the KPI moves either further on- or off-track compared to the 2025 target. Figure 1 on the first page suggests the bond is trading wide of the curve at the moment, implying limited option value.

In the case of the three ČEZ bonds that use the same 2030 target, as the materiality of step-up is the same in each case (0.75% premium payment), the option value should also be the same (apart from small discounting variations). This would suggest any new issue premium in the pricing of the new bond should converge quickly, as the bonds offer the same sustainability option exposure.

Conclusions

ČEZ, as a large utility in a coal-reliant jurisdiction, has an important role to play in decarbonising energy production. Its use of SLBs, confirmed with recent issuance, improves accountability and focuses on delivering outcomes.

Analysis of its decarbonisation targets shows that only the earlier two targets have so far been used, and these are aligned only with 2°C trajectory at best. The 2033 target, aligned with 1.5°C, may be used in longer-maturity bond structures in the future.

Despite historic reporting suggesting that the 2025 target could be achieved, the high materiality of the premium payment still suggests some option value in its 2027 bond, which may be volatile on 2024 reporting expected imminently.

Use of the 0.75% premium payment structure offers homogeneity of option value in the three longer-dated SLBs (including the new bond), and this could support convergence of the new issue premium.

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[8] The only difference will be due to discounting.

[9] For full details of the AFII option pricing approach please see "Sustainability Linked Bond Handbook", AFII, 12 May 2024.

Version Log

Date	Comment
23 Apr 2025	Document published
06 May 2025	Figure 2 updated with corrected 2025 target.

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