Czech Point: ČEZ SLB observation date approaches

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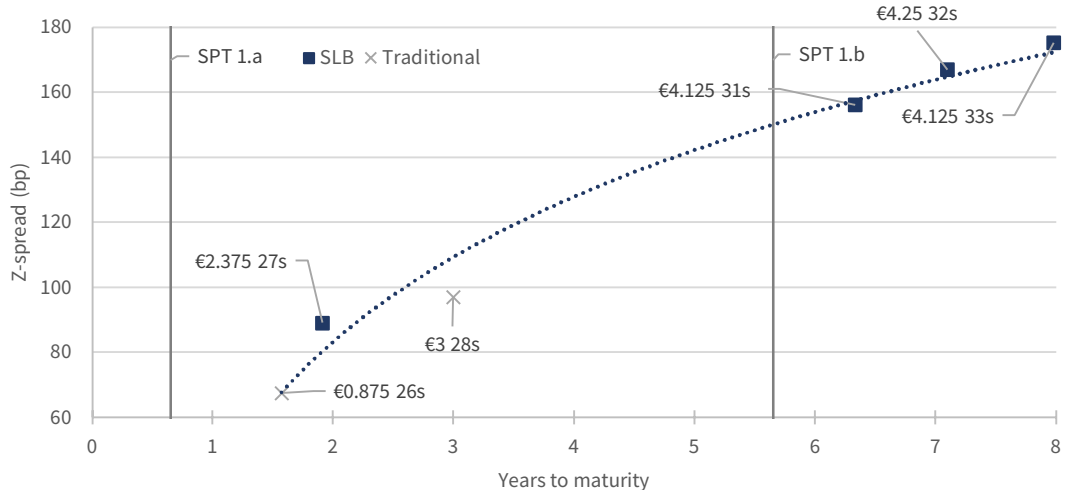
ČEZ (ticker CEZCP), a Czech utility and one of the largest companies in Central and Eastern Europe, issued its fourth Sustainability-Linked Bond (SLB) in April (bond details are in Table 1 overleaf).[1] The Czech Republic is a country still reliant on coal-generated power.[2] This makes sustainable debt which can support emissions reduction potentially impactful.

The oldest SLB, the 27s, has its Sustainability Performance Target (SPT) observation date at the end of 2025. The target is to reduce its Scope 1&2 emissions intensity to 0.26 tCO_2e/MWh. If this is not achieved, bondholders will receive a 0.75% premium payment at maturity.[3]

ČEZ's 2024 reporting was released recently,[4] showing that the Scope 1&2 emissions intensity is flat year-over-year at 0.27 tCO_2e/MWh. It has reduced by 0.02 since 2021. Expected generation figures for 2025 suggest that the target could be achieved, but these seem to rely on a utilisation rate for ČEZ's nuclear assets that are significantly above their historic range. Given the uncertainty, we classify this bond as 50:50, which means we have insufficient evidence to be confident the SPT is likely to be met or missed.[5] Considering a 50% probability of the target not being achieved gives an SLB option price of 19.4bps,[6] which is material relative to the spread of the bond.

Current market pricing is shown in Figure 1. The 27s appear to be pricing wide to the curve, which suggests the market is not currently assigning value to this SLB option, despite the structure having high materiality.

Figure 1. CEZCP bond z-spreads. Source: AFII, Bloomberg accessed 6 May 2025



[1] This bond was analysed in our earlier work "Czech it out: ČEZ returns to the SLB market", AFII, 23 Apr 2025.
[2] "Czech Republic", Carbon Tracker, accessed 8 May 2025.
[3] A more usual structure would be 25bp for three years, but here the maturity is only 15 months after SPT observation date, which is the likely reason a premium payment structure has been used.
[4] "2024 Financial Report", ČEZ, 7 Apr 2025.
[5] The classification methodology is covered on page 2 of "SLBs: a summary of 2024 targets", AFII, 9 Jul 2024.
[6] For details of the AFII option pricing please see "Sustainability Linked Bond Handbook", AFII, 12 May 2024.

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SLB issuances and KPIs

ČEZ currently has €2.8bn outstanding across four SLBs (all issuances since 2022 have been in SLB format), with the most recent issuance in April 2025.

Table 1. ČEZ outstanding SLB details. Source: Bloomberg, accessed 6 May 2025.

Description	ISIN	Issue Date	Maturity	Currency	Amount Outstanding
CEZCP €2.375 27s	XS2461786829	06-Apr-22	06-Apr-27	EUR	600,000,000
CEZCP €4.25 32s	XS2838370414	11-Jun-24	11-Jun-32	EUR	750,000,000
CEZCP €4.125 31s	XS2894908768	05-Sep-24	05-Sep-31	EUR	700,000,000
CEZCP €4.125 33s	XS3040382098	30-Apr-25	30-Apr-33	EUR	750,000,000

All of the bonds use the same Key Performance Indicator (KPI): Scope 1&2 GHG intensity of electricity and heat generated measured in tCO_2e/MWh (using a location-based method). They also share the same structure, whereby a 0.75% premium payment is made at maturity if the SPT is not achieved.

ČEZ's Sustainable Financing Framework features three SPTs, all using the same emissions intensity KPI but with different observation dates. The targets are 0.26, 0.16 and 0.056 tCO_2e/MWh observed in 2025, 2030, and 2033, respectively.[7] The scope of the 2033 target is slightly narrower, as it excludes activities in regions and from plants which are in the process of being divested or have already been divested from.[8]

All SPTs were calibrated using a 2019 baseline and are considered to be in line with the Paris Agreement, according to a Second Party Opinion provider.[9] Note that the target alignments are considered increasingly ambitious as the observation dates increase.

The 2025 target is based on the Transition Pathway Initiative framework, the 2030 target is verified well-below 2°C by the Science Based Targets Initiative (SBTi), and the 2033 target is aligned with a SBTi verified 1.5°C pathway.[9]

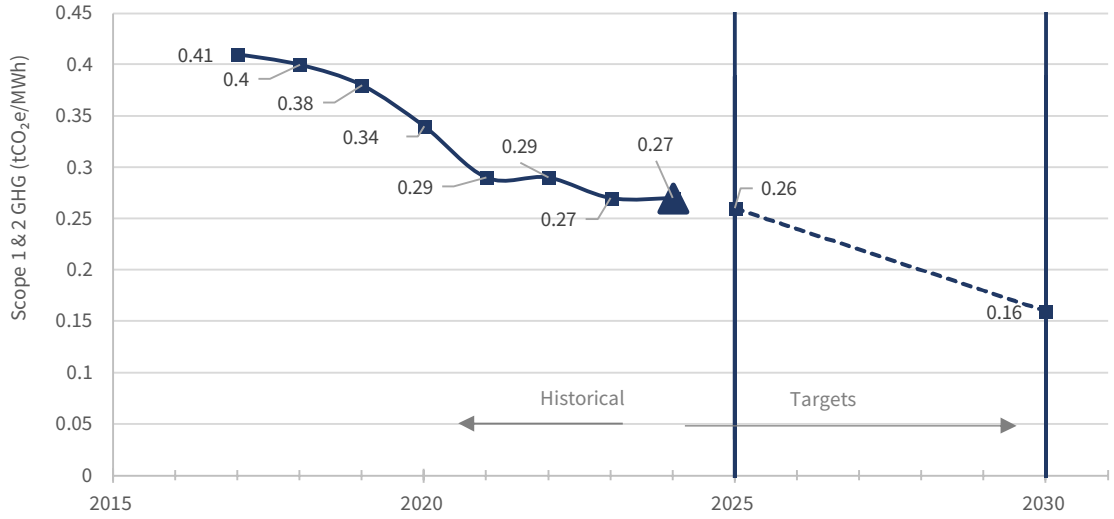
Latest KPI reporting

ČEZ has been reporting the emissions intensity KPI since 2017, and the latest figures were included in its 2024 financial report, released in April 2025.[4] The observation date of the 27s is at the end of 2025, and so this will give information on the likelihood of the target being achieved or not.

Historical and target KPI figures are shown in Figure 2 (overleaf). From 2021-2024, the KPI decreased from 0.29 to 0.27 tCO_2e/MWh. The KPI is flat year-over-year, and the latest figure implies that an additional 0.01 reduction is required for the target to be met by end-2025, more than the annual average reduction since 2021.

[7] It should be noted that the oldest of the SLBs, the 27s, uses a previous version of the KPI, which only includes Scope 1 GHG intensity of electricity and heat generated. However, according to the sustainability linked financing framework second party opinion, Scope 2 emissions account for 1% of Scope 1 and 2 emissions combined making it insignificant relative to the two-decimal-place precision of the targets.
[8] "ČEZ Group Sustainable Financing Framework 2024", ČEZ, 25 Apr 2024.
[9] "Second Party Opinion ČEZ", ISS Corporate, 10 May 2024.

Figure 2. ČEZ historical and target KPI figures. Source: ČEZ.



Drivers of KPI

As part of its sustainability strategy and to achieve its 2025 SPT, ČEZ aims to increase renewable and nuclear energy generation volumes and to decommission coal production. This includes a targeted lowering of the proportion of electricity generated from coal to 25% by 2025.[8]

Table 1. ČEZ generation details (note generation categories are as labelled by ČEZ). Source: ČEZ.

	2019		2020		2021		2022		2023		2024	
	Capacity (MW)	Power (TWh)	Capacity (MW)	Power (TWh)	Capacity (MW)	Power (TWh)	Capacity (MW)	Power (TWh)	Capacity (MW)	Power (TWh)	Capacity (MW)	Power (TWh)
Hard coal	1,447	2.6	1,168	2.3	1,168	3.1	1,168	3.0	1,168	1.7	1,168	1.7
Lignite/Brown coal	5,088	22.8	3,654	19.3	3,154	14.9	3,154	14.5	3,149	13.5	3,148	13.5
Gas	955	4.0	963	3.9	967	3.2	971	2.5	985	2.0	1,011	2.0
Nuclear	4,290	30.2	4,290	30.0	4,290	30.7	4,290	31.0	4,290	29.7	4,318	29.7
Hydro and renewables	2,864	5.0	2,230	4.0	2,249	3.8	2,253	3.3	2,351	3.7	2,421	3.7
Emissions intensity	0.38		0.33		0.29		0.29		0.27		0.27	

Table 1 shows details of ČEZ's historical mix of capacity and energy generation. The reduction in emissions intensity appears driven not by an increase in either capacity or generation from emissions-free sources (nuclear and hydro and renewables), but rather by a reduction in total generation coming from lower coal and gas generation.

The latest investor presentation from ČEZ gives expected generation figures for 2025,[10] which show a continued reduction of coal generation, to be replaced by nuclear. In the absence of additional capacity, expected production figures for 2025 imply a utilisation rate of 84.1% for nuclear, well above the range of 78.5%-82.5% for the previous six years, [11] although the commentary explains the anticipated 7% increase in nuclear volume as being due to shorter outages in the Temelin facility.[10]

[10] P18 of "ČEZ Group: Clean Energy of Tomorrow", ČEZ, 21 Mar 2025.
[11] Utilisation rate is calculated as (generated power)/(capacity*[total hours in a year = 24*365]).

These expected generation figures would imply an emissions intensity of 0.25, lower than the target.

However, using the average utilisation rate of 80.6% for nuclear, and making up the extra power with coal, would result in an emissions intensity of 0.27, largely unchanged on the 2024 figures and above the target level.

In terms of ongoing news flow in 2025 that would give information on this KPI, monitoring outages at the nuclear plants could indicate if this high utilisation rate will be achieved. We observe that there are frequent updates on the status of individual units at ČEZ's nuclear assets available on its website. [12]

The low rate of recent progress on the emissions intensity KPI, combined with uncertainty as to the achievability of the projected generation mix, we classify this bond as 50:50, and use a probability of 50% for our pricing analysis.[5]

Option Pricing

SLB option pricing is dependent on two factors: the materiality of the step-up and/or step-down coupon and the probability of the target being missed/achieved.

All ČEZ's SLBs (including the 2027s) pay a 0.75% premium payment at maturity if the SPT is not achieved, which makes pricing comparisons much more straightforward. Put simply, using a 50% probability of the target being missed gives a non-discounted option value of 0.375%, a discounted value of 0.364%, and a running value of 19.4bps.

The SPT is observed on 31 Dec 2025, and we would expect reporting in April 2026, at which point the bond's maturity date will be less than one year away. This short duration will serve to increase the volatility of the option in running terms; all else being equal, the upfront value at that point will be around 0.37%, and the running value will likely be around 40bps, which is very significant compared to an estimated 1yr ČEZ bond spread of 60bps.

The specific structure of this SLB, paying a premium payment only 15 months after the SPT observation date, has the potential to create a significant option value in running spread terms. This could create volatility for investors on any shifts in sentiment regarding the likelihood of the SPT being achieved.

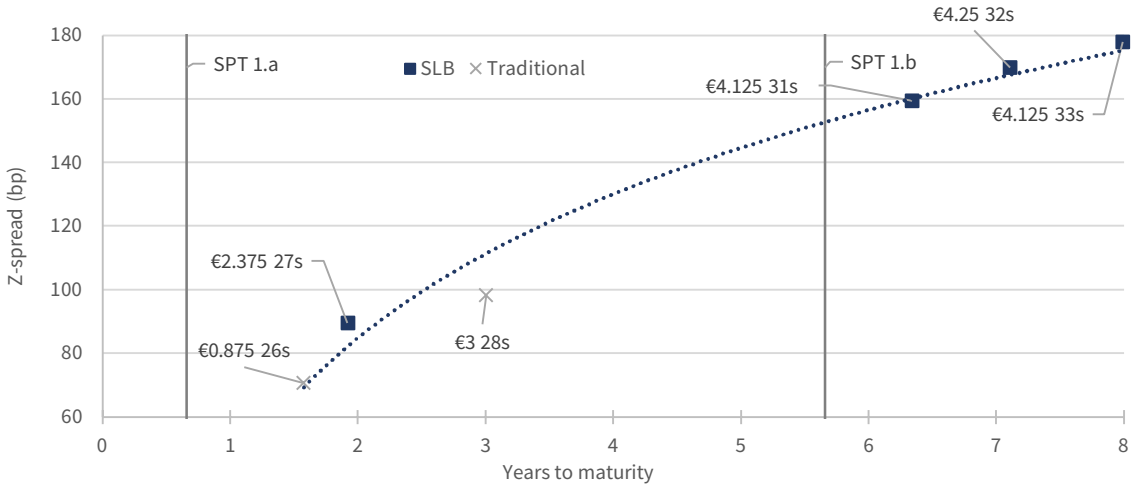
Market Pricing

Figure 3 (overleaf) shows the market pricing of outstanding CEZCP bonds, including the 27s.

Currently, the 27s appear to be priced wide to the curve in comparison to all other ČEZ bonds, indicatively around 5-10bp wide of an estimated best-fit curve (as shown in Figure 3). The 26s and 28s in particular look tighter to the best fit line. This suggests the market is assigning limited value to the SLB option, despite the structure potentially offering high materiality.

[12] "Nuclear Power Plant news", ČEZ, accessed 08 May 2025.

Figure 3. CEZCP bond z-spreads. Source: AFII, Bloomberg accessed 6 May 2025



Conclusions

ČEZ plays a key role in decarbonising energy production, as a large utility in the coal-reliant Czech Republic. Issuing SLBs improves accountability towards ČEZ's decarbonisation by linking financing rates to emissions intensity.

The oldest of the SLBs, the 27s, observes its SPT at the end of this year. 2024 reporting shows a low rate of recent progress and uncertainty as to whether ČEZ can achieve the projected generation mix needed to meet the SPT.

The 27s are structured to make a premium payment 15 months after the observation date if the SPT is missed, which could create significant option value in running spread terms. A 50% probability of the target not being achieved would currently give an estimated SLB option price of 19.4bps.

The 27s appear to price wide to the best fit line relative to other ČEZ bonds**,** suggesting the market is assigning limited value to the SLB option.

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