Credit Rating Announcement

16 December 2021

Scope changes the Outlook to Stable from Negative on Akershus Energi's BBB issuer rating

The Outlook change is driven by the significant improvement in power prices this year, easing previous credit metrics pressure and stabilising the company's financial profile.

The latest information on the rating, including rating reports and related methodologies, is available on this LINK.

Rating action

Scope Ratings GmbH (Scope) has changed the Outlook on the BBB issuer rating of Akershus Energi AS to Stable from Negative. At the same time, the BBB issuer rating, S-2 short-term rating and BBB senior unsecured rating have all been affirmed.

Rating rationale

The Outlook change reflects the power prices Akershus Energi achieved in 2021, which were significantly higher than Scope's estimates one year ago. It also reflects the prospect of credit metrics remaining broadly in line with Scope's medium-term guidelines for the current rating. In addition, the company fully completed its real estate disposals and wind share sale, leading to excess free cash flow and reduction of net financial debt.

Akershus Energi's ambition is to raise its renewable energy production output towards 2025, which will increase capex. However, it has been doing so with partners to ease the capex burden, which Scope considers positive. Although no explicit expansionary capex amounts have been communicated, Scope anticipates that the company will incur this in the years to come, given the higher power prices in the market, which will also increase its financial headroom.

Scope's updated forecast no longer sees the prolonged risk of continued weak cash flow and credit metrics. The new base case indicates that Scope-adjusted leverage ratio will be below 2x in the short term, although not maintained in the longer-term. This is based on Scope's power price assumptions and the company's investment ambitions. From 2023, Scope expects the company's financial risk profile to be slightly weaker than today, exemplified by at SaD/EBITDA of above 2x, which is within the guidelines for the current rating. This is based on Akershus Energi's aim to invest more in broadening its green energy production output, thus heightened capex.

Akershus Energi's business risk profile is unchanged, still supported by its low-cost environmental hydropower assets – a favourable ESG factor – which have a strong position in the merit order system. Akershus Energi has also generated above-average group profit margins over time and is diversifying its renewable-energy assets beyond hydro power and district heating in the period to 2025. Limiting factors for the company's business risk profile, in addition to its industry risk and price exposure for unhedged production output, include its modest segmentation and limited water reservoir capacity. However, Scope continues to place slightly more emphasis on the company's business risk profile when assigning the standalone rating due to the volatility in power prices and thus credit metrics.

Scope considers the company's liquidity to be adequate, based on a liquid funds well above short-term debt maturities. As of Q3 2021, the company had NOK 312m in cash and NOK 1.2bn in marketable securities. In addition, the company has NOK 475m in long-term committed credit lines and NOK 425m in short-term revolving credit facility drawing lines that are renewed yearly. This is far more than the debt maturities for the next few years.

With regard to supplementary rating drivers, Scope assesses Akershus Energi's parent support under its government related entity methodology framework, using a bottom-up approach. The agency maintains one notch of uplift for Viken municipality's ownership 100% in Akershus Energi, increasing the BBB- standalone rating to a BBB issuer rating. Scope has made no rating adjustment for financial policy but notes positively that the company is dedicated to maintaining an investment grade profile.

One or more key drivers for the credit rating action are considered ESG factors.

Outlook and rating-change drivers

The Stable Outlook on Akershus Energi's rating reflects Scope's expectation that the company's credit metrics will weaken (from the conservative level expected at YE2021) going forward and remain broadly in line with the agency's guidelines for the current rating. The anticipated increased investment by the company is doable within the current Outlook, given the increased financial flexibility from higher power prices. Scope anticipates that Scope-adjusted debt (SaD)/EBITDA will average between 2x and 3.5x in the medium term.

A positive rating action is possible if prices in the Nordic power market (especially the company's service territory) stay higher than Scope's expectations for 2022 and beyond. This would lead to excess free cash flow, which could then be used to service debt rather than for expansion and dividends. This would, in turn, result in an improved financial risk profile over time, exemplified by SaD/EBITDA of below 2x on a sustained basis. Moreover, an increasing EBITDA share from more stable green infrastructure business, could lead to lower volatility and an improved business risk profile.

A negative rating action could be warranted if more aggressive debt-financed growth is pursued and power prices decline substantially, leading to negative free operating cash flow and weaker credit metrics on a sustained basis, e.g. SaD/EBITDA above 3.5x.

Long-term and short-term debt ratings

The senior unsecured rating is in line with the issuer rating. The S-2 short-term rating reflects the company's sufficient short-term debt coverage and adequate access to banks and debt capital markets.

Stress testing & cash flow analysis

No stress testing was performed. Scope Ratings performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for these Credit Ratings and/or Outlook, (Corporate Rating Methodology, 6 July 2021; Rating Methodology: European Utilities, 18 March 2021; Rating Methodology: Government Related Entities, 5 May 2021), are available on https://www.scoperatings.com/#!methodology/list.
Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited.
Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on https://www.scoperatings.com/#!governance-and-policies/rating-scale. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at https://www.scoperatings.com/#governance-and-policies/regulatory-ESMA. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at https://www.scoperatings.com/#governance-and-policies/rating-scale. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on https://www.scoperatings.com/#!methodology/list.
The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.
The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity, and Scope Ratings' internal sources.
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Regulatory disclosures

These Credit Ratings and/or Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlook are UK-endorsed.
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The Credit Ratings/Outlook were first released by Scope Ratings on 18 January 2019. The Credit Ratings/Outlook were last updated on 16 December 2020.

Potential conflicts

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With more than 250 employees operating from offices in Berlin, Frankfurt, Hamburg, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG and fund analysis. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. **Scope Ratings** is the largest European credit rating agency, registered in accordance with EU and UK rating agency regulation, offering opinion-driven and non-mechanistic credit risk analysis. **Scope ESG Analysis** provides tools for analysing and reporting on ESG impact and risk, as well as second-party opinions on green, social and sustainable bonds. **Scope Fund Analysis** rates more than 10,000 funds and asset managers across all major asset classes. The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several European countries. More on www.scopegroup.com

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