

Scope upgrades Akershus Energi's issuer rating to A-/Stable

The rating upgrade reflects the solid credit metrics thanks to high power prices, which is likely to continue based on the strong forward price.

Rating action

Scope Ratings GmbH (Scope) has upgraded the issuer rating of Norwegian utility Akershus Energi AS to A-/Stable from BBB/Stable. Scope has upgraded the senior unsecured debt rating to A- from BBB and the short-term debt rating to S-1 from S-2.

Rating rationale

The rating upgrade is based on Akershus Energi's credit metrics surpassing Scope's base case for the previous rating thanks to significantly higher energy prices and as a result the company is expected to be in a net cash position in the short to medium term.

Akershus Energi's business risk profile is supported by its low-cost environmental hydropower assets (ESG factor) with a strong position in the merit order system that has consistently generated above-average profitability compared to Norwegian utility peers. Limiting factors include the industry volatility, the price exposure for unhedged production, modest diversification and a limited reservoir capacity. The business risk profile is maintained at BBB-.

Scope forecasts a long period of strong cash flow and credit metrics based on the high forward power prices. The significantly improved financials have resulted in an upgraded financial risk profile to A (from BBB). However, we note mark-to-market losses on the power derivatives for hedged volumes have caused a temporary breach of the loan covenants, but the company has obtained a waiver from the bank till year-end 2022 and the company is working on several initiatives on being compliant with this situation.

The company is increasing renewables production by investing in wind and solar projects. Production is already increasing, but further investments might follow once the intended changes in the tax legislation has been evaluated. Scope also expects capital expenditure to increase given the financial flexibility.

The company's liquidity is adequate. Available cash and undrawn credit lines can cover the NOK 0.5bn of short-term debt as of June

2022, with unrestricted cash of NOK 0.6bn, marketable securities of NOK 1.6bn and committed credit lines of NOK 0.9bn.

Among supplementary rating drivers, Scope has maintained the one-notch uplift to the BBB standalone rating that reflects the capacity and willingness of Akershus Energi's parent to provide support if needed, assessed according to Scope's Government Related Entity Methodology given the issuer's full ownership by the Norwegian municipality of Viken. Scope has made no adjustment for financial policy, but notes that the company is dedicated to maintaining investment grade credit ratings.

One or more key drivers of the credit rating action are considered an ESG factor.

Rating-change drivers

The Stable Outlook reflects Scope's expectations of a net cash position sustained over the next few years but a persistence of industry-inherent volatility related to achievable power prices.

A positive rating action could be triggered by significantly less cash flow volatility combined with an unchanged net cash position and strong financial risk profile.

A negative rating action may be taken if Scope were to expect a return to a net debt position. This could be triggered by financial policy moving towards debt-financed growth through large-scale M&A or larger-than-expected shareholder remuneration. It could also be driven by much weaker power prices against Scope's expectations.

Long-term and short-term debt ratings

The senior unsecured debt rating is in line with the issuer rating. The S-1 short-term debt rating reflects the company's sufficient short-term debt coverage and adequate access to banks and debt capital markets

Stress testing

- No stress testing was performed.

Cash flow analysis

- Scope Ratings performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for this Credit Rating and/or Outlook, (Government Related Entities Methodology; European Utilities Rating methodology; Corporate Rating Methodology), are available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

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-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://scoperatings.com/governance-and-policies/regulatory/eu-regulation>. 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-governance/definitions-and-scales>. 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://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

The Outlook indicates the most likely direction of the Credit Rating if the Credit Rating 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 Credit Rating process was conducted:

With Rated Entity or Related Third Party participation	[YES]
With access to internal documents	[YES]
With access to management	[YES]

The following substantially material sources of information were used to prepare the Credit Rating: public domain, the Rated Entity, the Rated Entities' Related Third Parties, third parties and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting the Credit Rating originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Rating and Outlook and the principal grounds on which the Credit Rating and Outlook are based. Following that review, the Credit Rating was **<amended/not amended>** before being issued.

Regulatory disclosures

The Credit Rating and Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Rating and Outlook are UK-endorsed.

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The Credit Rating/Outlook were first released by Scope Ratings on 22 August 2018. The Credit Rating/Outlook were last updated on 16 December 2021.

Potential conflicts

See www.scooperatings.com under Governance & Policies/EU Regulation/Disclosures for a list of potential conflicts of interest related to the issuance of Credit Ratings.

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