Credit Rating Announcement

13 December 2023

Scope affirms Akershus Energi's A-/Stable issuer rating

The Stable Outlook reflects an unchanged financial risk profile, supported by a continuously favourable pricing environment in power generation and high internal funding capacity.

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

Rating action

Scope Ratings GmbH (Scope) has today affirmed the A-/Stable issuer rating of Norwegian utility Akershus Energi AS. Scope has also affirmed the A- senior unsecured debt rating and S-1 short-term debt rating.

Rating rationale

Akershus Energi's issuer rating reflects a standalone credit assessment of BBB+ plus a one-notch uplift based on Scope's view of the company's government-related entity status. The rating remains supported by a strong financial risk profile which is driven by low indebtedness and continued high internal funding capacity. As a result, Scope expects the company can carry out increasing discretionary investments in the next two years while still sustaining overall conservative credit metrics.

The business risk profile is unchanged at 'BBB-' and continues to reflect the company's environmentally friendly and low-cost hydropower production (positive ESG factor). The main exposure to mature hydropower assets limits the risk of financial loss and provides strong profitability, as exemplified by a group EBITDA margin of around 65%. The business risk profile continues to be constrained by the inherent industry risk with exposure to volatile power prices for unhedged production. The business risk profile is also held back by moderate segmentation and geographical diversification, as well as limited production flexibility given that power assets are mainly run-of-river plants.

Akershus Energi aims to increase its production output, as illustrated by its updated strategy of developing an additional 3 TWh of annual renewable energy production by 2035. However, Scope notes that the investment burden likely will be shared with partners. Scope expects this will lead to increased expansionary investment, although the company has not communicated a specific amount.

The standalone credit assessment remains supported by a strong financial risk profile at 'A', which reflects very low leverage (Scope-adjusted debt/EBITDA) and high internal funding capacity. Scope expects power prices in southern Norway to remain higher than historical levels in the next two years, albeit lower than in 2022 and H1 2023. This leads to forecasted Scope-adjusted EBITDA of about NOK 1.4bn per year, which supports good levels of operating cash flow. Enabled by high power prices and asset disposals, the company reduced its net financial debt in 2021-2022, with Scope-adjusted debt estimated to be minus NOK 0.1bn at end-2023. The updated base case anticipates that the company will partially deploy its strong balance sheet for discretionary investments, including into new renewable energy capacity, while maintaining its dividend policy. This will likely lead to higher but still low leverage, with Scope-adjusted debt/EBITDA forecasted to increase into the 0.0x-0.5x range in 2024-2025.

Liquidity is adequate with available cash and cash equivalents of about NOK 1.7bn at Q3 2023, which compares to upcoming debt maturities of NOK 109m in each 2024 and 2025, and NOK 9m in 2026. Additionally, the company has sufficient available credit lines and wide access to different funding sources including bonds, bank debt, and potentially shareholder loans, which can provide external liquidity if needed. In 2027, a NOK 500m bond and a NOK 300m bank loan will be maturing, which Scope expects to be refinanced by new debt issuance.

Scope has made no adjustment for financial policy but highlights the dividend policy of paying out 70% of profits (with a minimum of NOK 80m) and a publicly communicated goal of maintaining an investment-grade credit rating of at least BBB.

The issuer rating incorporates a one-notch uplift for parent support to the standalone credit assessment of BBB+, leading to a final issuer rating of A-. Scope has applied a bottom-up approach using the framework outlined in its Government Related Entities Rating Methodology. The one-notch uplift reflects the public sponsor's 'high' capacity and 'medium' willingness to provide support. The rating uplift is in line with other Scope-rated Norwegian utilities with majority or full public ownership but no explicit guarantees on their debt or financial support.

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

Outlook and rating-change drivers

The Stable Outlook reflects Scope's assumption that the company's leverage is sustained at a level of up to 0.5x (Scope-adjusted debt/EBITDA). This is supported by a continuously favourable pricing environment in power generation and the company's high internal funding capacity.

A positive rating action is deemed remote but could be warranted by an improved business risk profile driven by much larger scale and/or reduced cash flow volatility.

A negative rating action could be triggered if the company returned to a sustained net debt position leading to a leverage higher than 0.5x on a sustained basis (Scope-adjusted debt/EBITDA). This could be driven by increased investments well beyond Scope's updated rating case. Alternatively, it could result from lower-than-assumed power prices and/or extraordinary dividend payouts. Lastly, the loss of GRE status (remote) would also lead to ratings pressure.

Long-term and short-term debt ratings

Scope has affirmed the senior unsecured debt rating at A-, the same level as the issuer rating. The S-1 short-term debt rating reflects the company's underlying A-/Stable issuer rating as well as 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, (General Corporate Rating Methodology, 16 October 2023; Government Related Entities Rating Methodology, 13 July 2023; European Utilities Rating Methodology, 17 March 2023), 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 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.

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 Ratings 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 Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings and/or Outlook were not amended before being issued.

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 13 December 2022.

Potential conflicts

See www.scoperatings.com under Governance & Policies/Regulatory for a list of potential conflicts of interest disclosures related to the issuance of Credit Ratings.

Conditions of use/exclusion of liability

About Scope Group

With more than 300 employees operating from offices in Berlin, Frankfurt, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG analysis and fund research. 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 registered in accordance with the EU rating regulation and operating in the European Union with ECAI status. Scope Ratings is the only European rating agency accepted by the ECB for the Eurosystem Credit Assessment Framework (ECAF). 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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