

## Fredrikstad Energi AS

Rating Action Report

## LONG-TERM RATING

NR

## OUTLOOK

-

## SHORT-TERM RATING

NR

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## Fredrikstad Energi AS 'BBB+' long-term issuer rating affirmed and withdrawn

Nordic Credit Rating (NCR) has affirmed its 'BBB+' long-term issuer rating on Norway-based regulated electricity distribution system owner and operator [Fredrikstad Energi AS](#). The outlook is stable. The 'N3' short-term issuer rating and 'BBB+' senior unsecured issue rating have also been affirmed. Since the affirmations, the ratings have been withdrawn at the issuer's request.

### Rating rationale

The affirmation reflects our opinion that the likelihood of timely extraordinary ownership support remains unchanged after Fredrikstad municipality sold its 51% stake in Fredrikstad Energi to Å Energi, making it a majority-owned subsidiary of Å Energi. Hafslund AS, which is wholly owned by Oslo municipality, owns the remaining 49% stake. Following the acquisition, Fredrikstad Energi remains controlled by two municipal-owned entities, resulting in continued indirect municipal ownership. Å Energi has taken board positions and actively participates in the running of the company. Fredrikstad Energi's governance and financial structures remain unchanged, indicating that Hafslund's approval is necessary for major changes.

We believe the new ownership structure has reduced the combined ownership strength, distancing the municipal owners from Fredrikstad Energi. However, in our view, they remain strong enough to support the company, if necessary. We see some positive implications in the change in ownership. We assess Å Energi as having a greater willingness to take supportive actions than the previous owner. We also believe it capable of providing extraordinary support to Fredrikstad Energi, if needed. In addition, we think owner support could be more timely than previously due to a shorter decision-making process.

In our opinion, Å Energi has a complex group structure, with some subsidiaries being partly owned, and significant interests in joint ventures and associated companies, some of which are loss-making. We think the company is likely to have to provide support for some of these entities. Leverage in the combined group looks set to rise following the acquisition of Fredrikstad Energi and a payment of extraordinary dividends of NOK 1bn in the current quarter. We do not expect the additional operating cash flows to be sufficient to offset the negative impact of increased debt on the combined group's key credit metrics. We expect leverage to increase due to projected average annual investments of NOK 3bn through 2028 and a dividend policy of paying 70% of net profit after tax. In addition, its largest and most profitable segment, hydropower, is burdened with an additional marginal tax on production (resource rent tax). Together, these factors limit available cash for debt repayment.

We anticipate that Fredrikstad Energi will refinance loans affected by the change in ownership and successfully refinance affected bonds on 11 Feb. 2025, when bondholders decide whether to exercise put options. If the options are exercised, the company has available credit facilities to meet the necessary payments. We anticipate no alterations in the company's dividend policy or other measures that might impact our assessment of the standalone entity's credit quality. We also note that Fredrikstad Energi bondholders have structural priority over Å Energi bondholders.

### Stable outlook

The stable outlook at the point of withdrawal reflected our expectations that Å Energi would not significantly alter Fredrikstad Energi's financial risk profile. We expect Fredrikstad Energi to remain a majority-owned subsidiary of Å Energi. We anticipate no major acquisitions, further extraordinary dividend payments, or other activities that could increase leverage beyond our base-case expectations and believe that the group's credit quality will remain stable.

### Related rating actions

- i) [Fredrikstad Energi AS 'BBB+' long-term issuer rating placed on watch negative](#), 5 Nov. 2024.
- ii) [Fredrikstad Energi AS assigned 'BBB+' long-term issuer rating; Outlook stable](#), 10 Nov. 2023.

### Related publications

- i) [NCR Comments: Main owner initiates sale of 51% stake in Fredrikstad Energi](#), 13 May 2024.
- ii) [Unregulated Nordic power producers well positioned to capitalise on higher prices](#), 2 Oct. 2023.

Rating list	Withdrawal	To	From
Long-term issuer credit rating:	NR	BBB+	BBB+
Outlook:	-	Stable	
Watch:			Watch Negative
Short-term issuer credit rating:	NR	N3	N3
Senior unsecured issue rating:	NR	BBB+	BBB+

**Figure 1. Fredrikstad Energi rating scorecard**

Subfactors	Impact	Withdrawal	To	From
Operating environment	20.0%	-	aa	aa
Market position	10.0%	-	aa-	aa-
Size and diversification	10.0%	-	a-	a-
Operating efficiency	10.0%	-	a	a
Business risk assessment	50.0%	-	a+	
Ratio analysis		-	b	b
Risk appetite		-	bb-	bb-
Financial risk assessment	50.0%	-	b+	
<b>Indicative credit assessment</b>		-	<b>bbb</b>	
Liquidity		-	Adequate	Adequate
ESG		-	Adequate	Adequate
Peer calibration		-	Neutral	Neutral
<b>Stand-alone credit assessment</b>		-	<b>bbb</b>	
Support analysis		-	+1 notch	+1 notch
<b>Issuer rating</b>		<b>NR</b>	<b>BBB+</b>	<b>BBB+</b>
Outlook		-	Stable	Watch Negative
<b>Short-term rating</b>		<b>NR</b>	<b>N3</b>	<b>N3</b>

**Figure 2. Capital structure ratings**

Seniority	Withdrawal	To	From
Senior unsecured	NR	BBB+	BBB+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 10 Nov. 2023.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
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Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	<a href="#">NCR's Corporate Rating Methodology published on 8 May 2023</a> <a href="#">NCR's Rating Principles published on 14 Feb. 2024</a> <a href="#">NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024</a> The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website <a href="https://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> . The historical default rates of entities and securities rated by NCR will be viewed on <a href="#">the central platform (CEREP) of the European Securities and Markets Authority (ESMA)</a> .
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Bond prospectuses, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: <a href="https://nordiccreditrating.com/governance/policies">https://nordiccreditrating.com/governance/policies</a>
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test was performed. Standard cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: <a href="https://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> .
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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