Akershus Energi AS
Norway, Utilities

SCOPE BBB STABLE

Corporate profile

Akershus Energi AS is a Norwegian producer of hydroelectric power, with annual production of ~2.3TWh. It operates in three main segments: hydropower production, district heating, and green infrastructure. In January 2020, they established three new segments to enable higher growth; New renewable energy, Wind power and Energy trading. The company owns and operates hydroelectricity plants mainly located along the longest river in Norway, Glomma, but also has wholly and partially owned power stations in southern Norway. Akershus Energi is 100% owned by Viken county municipality.

Key metrics

			Scope estimates	
Scope credit ratios	**2017**	**2018**	**2019F**	**2020F**
EBITDA/interest cover (x)	9.3x	14.6x	11.7x	9.6x
Scope-adjusted debt (SaD)/EBITDA	2.2x	1.8x	1.7x	2.4x
Scope-adjusted FFO/SaD	25%	25%	41%	21%
FOCF/SaD	23%	11%	31%	6%

Rating rationale

Scope Ratings affirms its BBB/Stable corporate issuer rating on Akershus Energi AS, as well as the S-2 short-term rating and BBB senior unsecured ratings.

Akershus Energi's business risk profile is still supported by its low-cost hydropower assets, which have a strong position in the merit order system, thus helping secure utilisation. Akershus Energi has generated above-average group profitability margins (over 60% in recent years) and partly hedged its expected shorter-term production volume (around 35% today, which is in the lower range of its typical historical levels). Akershus Energi is strongly exposed to the energy market, which is both volatile and cyclical. Limiting factors for Akershus Energi'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. Its main hydro assets are run-of-river plants, making them less flexible and leaving production output more vulnerable to dry hydrological years than peers with a larger reservoir capacity.

Akershus Energi's financial risk profile has improved during 2019. Thus, it could be considered better than the issuer rating indicates in terms of the recent year's performance. We continue to highlight the company's positive free operating cash flow (FOCF) before dividends, indicating its ability to fund investments with internally generated cash flow over the cycle. The leverage ratio is also supportive. This has declined in recent years to a level below 2x, helped by higher prices and lower expansionary investment than previously anticipated. However, our assessment of Akershus Energi's financial risk profile also takes into account a much higher expansionary investment plan in the short-to-medium term, which is likely to return the capital structure to less conservative levels. In our revised projections, we no longer anticipate that expansionary investment levels will be equally distributed per year, but rather concentrated on 2020 and 2021. Moreover, we expect lower power market prices in 2020 and 2021, which also contributes to a deterioration in credit metrics from strong YE 2019 levels.

Ratings & Outlook

Corporate ratings	BBB
Short-term rating	S-2
Senior unsecured rating	BBB

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Related Methodologies

Rating Methodology: European Utilities March 2019

Rating Methodology: Government Related Entities July 2019

Corporate Rating Methodology, March 2019

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In terms of liquidity, Akershus Energi is well covered, helped by a limited need for debt refinancing in the near future. In addition to available credit lines, the company also has access to financial assets (NOK 0.5bn in money market funds with a short duration). We expect Akershus Energi to divest these assets to fund its expansionary investment plans.

Outlook

The Stable Outlook reflects our expectation that Akershus Energi's financial risk profile will become more aggressive, but still remain well in line with our guidelines for the current rating. As previous deleveraging exceeded our expectations, the anticipated increase in investments will not affect our Outlook. This is exemplified by our anticipation that Scope-adjusted debt (SaD)/EBITDA will stay between 2.2x and 3.5x in the medium term, which does not justify a rating action at this point.

A positive rating action is possible if Akershus Energi uses excess free cash flow to pay down debt rather than for high dividends and expansionary investment. This would result in an improved financial risk profile over time, exemplified by the company maintaining SaD/EBITDA of below 2.2x on a sustained basis.

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

Rating drivers

Positive rating drivers	Negative rating drivers
• Highly profitable and cost-efficient hydropower production leading to strong EBITDA margins • Hedging policy and infrastructure investment mitigating some inherent business volatility • Committed, long-term majority owner with clear willingness and capacity to provide support if needed	• Power price exposure and volatility of unhedged European power production • Limited water reservoir capacity, as power assets are mainly run-of-river plants • Low diversification by segment and geographical pricing market

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Excess free cash flow used to pay down debt, resulting in a sustainable improvement in credit metrics (e.g. SaD/EBITDA below 2.2x over time) • Increasing EBITDA share of the more stable green infrastructure business, which could lead to lower volatility or an improved business risk profile	• Materially lower achieved power prices and reduced hedging levels • Weaker financial risk profile, e.g. negative FOCF and a SaD/EBITDA above 3.5x

Financial overview

			Scope estimates	
Scope credit ratios	**2017**	**2018**	**2019F**	**2020F**
EBITDA/interest cover (x)	9.3x	14.6x	11.7x	9.6x
Scope-adjusted debt/EBITDA	2.2x	1.8x	1.7x	2.4x
Scope-adjusted FFO/Scope-adjusted debt	25%	25%	41%	21%
FOCF/Scope-adjusted debt	23%	11%	31%	6%
EBITDA	542	686	713	658
Operating lease payments in respective year	0.3	0.3	0.0	0.0
Scope-adjusted EBITDA	**542**	**687**	**713**	**658**
EBITDA	542	686	713	658
less: (net) cash interest as per cash flow statement	-60	-54	-61	-69
less: cash tax paid as per cash flow statement	-106	-214	-352	-311
add: depreciation component operating leases	0.2	0.2	0	0
Other items	-84	-107	200	50
Scope funds from operations (FFO)	**292**	**311**	**500**	**328**
Reported gross debt	1,771	1,763	1,779	2,070
Cash, cash equivalents	-618	-567	-607	-509
cash not accessible	18	32	32	32
Pension adjustment	1	4	4	4
Operating lease obligation	3	3	0	0
Scope-adjusted debt (SaD)	**1,175**	**1,234**	**1,208**	**1,598**

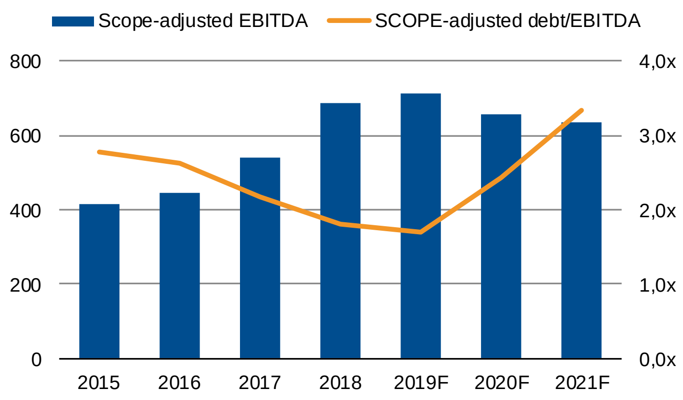
2019 credit metrics supported by higher prices and solid volume

Akershus Energi's financial performance in 2019 has exceeded our expectations. The positive deviation is mainly related to higher achieved prices and a solid production volume, as well as much lower expansionary capex than we anticipated last year.

In terms of cash flow, Akershus Energi has been negatively influenced by higher taxes paid. At the same time, cash flow was positively affected by a return of some of the cash collateral which the company placed last year for its hedging activities (thanks to a reversal of market prices).

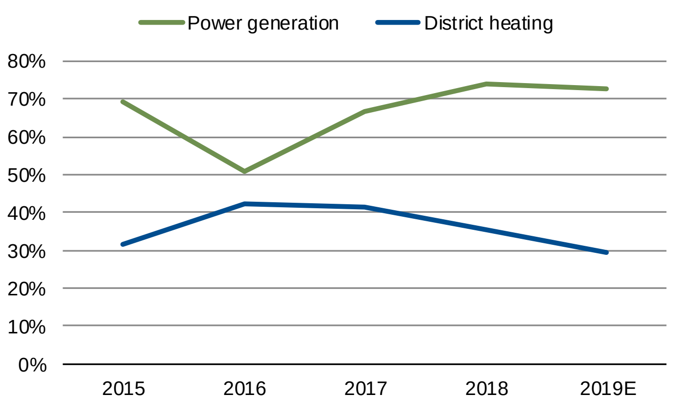
Overall, the company is likely to close its FY 2019 accounts with an improved financial risk profile compared to last year. We expect SaD/EBITDA to remain below 2x and discretionary cash flow to be positive. Group EBITDA margins continue to be dominated by the hydropower segment, which still contributes more than 90% of company profit. In 2019, district heating margins declined somewhat (mainly due to higher fuel costs). The green infrastructure contribution to the group is still minimal and is thus neutral for our overall credit assessment.

Figure 1: Scope-adjusted leverage development (NOK m)



Source: Company, Scope

Figure 2: EBITDA margin development by main segment

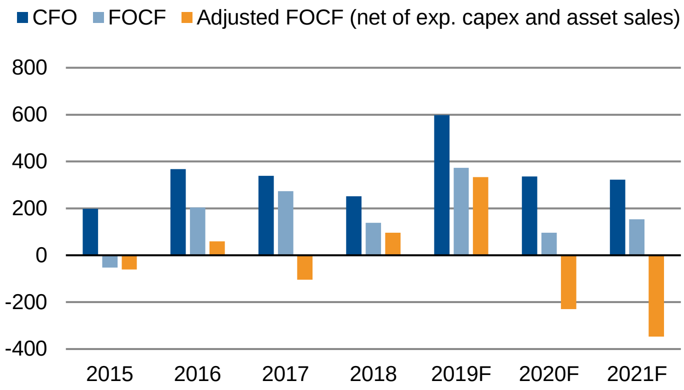


Source: Company, Scope

Updated Scope forecast

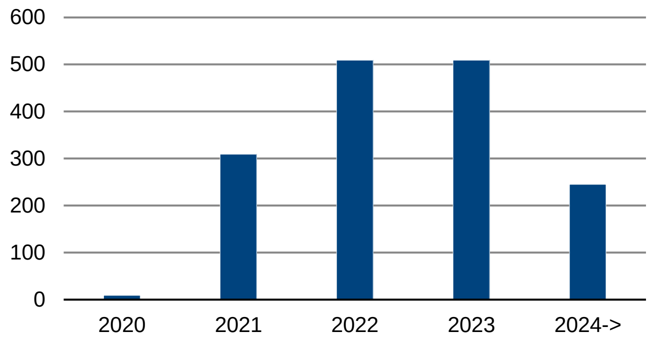
Our updated financial forecast for Akershus Energi mainly differs from our review one year ago as regards the timing of anticipated expansionary capex. We now assume this will be intensified in 2020 and 2021, instead of being evenly distributed towards 2023. As announced by the company in January 2020, a new management team, new business segments and more employees will fuel this growth. As before, we assume these expansionary investments also will add more production capacity, most of which will be in one of their new business segments; Wind power. As presented in the graph above, this will cause the leverage ratio to spike in the next two years, before declining again. We have not assumed any new substantial investments in green infrastructure, but the company still aims to expand this business, together with its identified opportunities within solar and hydrogen. Last December, we saw the establishment of Green H2 Norway, a joint venture between Nel Fuel AS, H2 Energy AS, Greenstat AS and Akershus Energi Infrastruktur AS (owning 25% each). Together they have ambitious growth plans for large-scale hydrogen production and distribution in Norway.

Figure 3: Cash flow development (NOK m)



Source: Company, Scope

Figure 4: Debt maturity profile (NOK m)



Source: Company, Scope

Summary of business and financial risk profiles

Our BBB- business risk profile assessment of Akershus Energi has not changed. We continue to view the company's business risk profile as slightly weaker than its financial risk profile. The latter has recently been boosted by improved cash flow and lower leverage. However, this boost is neutralised by somewhat lower power prices and higher expansionary capex in our revised projections. As a result, we have not altered our overall financial risk profile assessment either; where forward-looking credit metrics are merely assigned a slightly higher importance than last year's credit metrics.

As Akershus Energi's business and financial risk profiles have not changed, the standalone credit rating also remains unchanged. We continue to place slightly more emphasis on the company's weaker business risk profile than on its stronger financial risk profile, when assigning the rating. This is due Akershus Energi's business mix, which is more volatile than that of peers with more vertically integrated business profiles.

Supplementary rating drivers

We continue to use our bottom-up approach to analyse Akershus Energi's parent support under our Government Related Entities Methodology. The one-notch rating uplift assigned for municipality ownership has not changed. Post, 1 January 2020 the company is 100% owned by the Viken county municipality (previously the Akershus county municipality).

We make no adjustment for financial policy. Akershus Energi's policies ensure satisfactory financial flexibility in the short and long term, and the maintenance of a high credit rating (a minimum of BBB). Overall strategy is sound. The upcoming expansionary capex period follows disciplined savings over the last two years, made to ensure that the balance sheet is not jeopardised.

Short-term rating

As of Q3 2019, the company had NOK 133m in cash and NOK 588m in marketable securities, coupled with NOK 475m in long-term committed credit lines (maturing in 2021) 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 two years. Overall liquidity is adequate, which justifies an affirmation of our S-2 short-term rating in accordance with our methodology.

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