Credit Rating Announcement

16 December 2020

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

## The Outlook change is driven by uncertainty over how swiftly financial metrics will recover in the absence of a significant improvement in power prices next year.

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

## Rating action

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

## Rating rationale

The Outlook change reflects the risk of continued pressure on credit metrics and free operating cash flow (FOCF) generation if low power prices persist in 2021. As a result, the company's financial risk profile has weakened during the year and is the main reason for the Outlook change. During 2020, the low power prices have had a significant impact on the company's FY 2020 results. This will result in negative FOCF and a steep increase in the Scope-adjusted debt (SaD)/EBITDA multiple of almost 10x. The company's investment into wind assets (Nord Odal project) during the year has accelerated cash outflows. However, despite this, the company has retained adequate liquidity, helped by disposals of real estate funds and marketable securities to raise cash. Moving into 2021, the company is in the progress of releasing more real estate funds and also reducing its ownership in the Odal wind assets (i.e. to reduce the net investment need as Akershus Energi and KLP have invited in Cloudberry Clean Energi for a minimum 10% share and a potential 33% ownership share). The company has also recently announced plans to invest more in solar assets through a 22.5% purchase of the shares of Solgrid, with the goal of increasing the diversification of the renewable energy it produces. Longer term, the company expects to reduce its dependence on hydro-electric production to two-thirds of the total from more than 90% today. The remaining one-third would consist of a combination of wind, district heating and solar, with wind likely to be the largest part.

Scope foresees a risk of continued weak credit metrics in the absence of the upcoming cash inflow and reduced net expansionary capex. Positively, ordinary maintenance investment in 2021 is expected to be covered by internal cash flow. With relatively low electricity price hedging – around 22% of the anticipated 2021 hydro-power volume – the company is more exposed to the volatility in market prices compared to selected peers, increasing the likelihood that the financial risk profile of the company could remain weak if power prices do not rebound quickly in 2021.

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 now diversifying its renewable-energy assets beyond hydro power and district heating.

Scope considers the company's liquidity as adequate, when comparing available cash and undrawn credit lines to debt maturities. This assumes the successful issue of the new green bond, announced in December 2020, and the renewal of undrawn credit lines that mature in mid-2021.

Among the 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 the one notch of uplift for the 100% Viken municipality ownership 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.

## Outlook and rating-change drivers

The Negative Outlook on Akershus Energi's rating reflects the increased risk of continued weak cash flow and credit metrics if achieved power prices do not increase substantially in 2021 compared with in 2020. With relatively low hedging, the company is highly exposed to the volatility in market prices, which could result in weak credit metrics for a prolonged period. Scope's estimates indicate that key credit metrics could remain weak throughout 2021 should the company be unable to reduce some of its expansionary capex in wind and solar energy.

A positive rating action (i.e. returning to Stable Outlook) is possible if prices in the Nordic power market (especially the company's service territory) improve above Scope's expectations for 2021 and the company completes its real estate disposals and wind share sale to the full extent, leading to excess free cash flow which is then used to service debt rather than for high expansion. This would result in an improved financial risk profile over time, exemplified by a SaD/EBITDA of below 3.5x on a sustained basis and positive FOCF.

A negative rating action could be warranted if more aggressive debt-financed growth is pursued or power prices do not recover substantially in 2021 vs 2020, leading to negative FOCF and weaker credit metrics on a sustained basis, e.g. a SaD/EBITDA of 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.

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

### Stress testing & cash flow analysis

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

### Methodology

The methodologies used for this rating(s) and/or rating outlook(s): (Government Related Entities Methodology – 6 July 2020; European Utilities Rating methodology – 18 March 2020; Corporate Rating Methodology – 26 February 2020) are available on https://www.scoperatings.com/#!methodology/list.

Information on the meaning of each rating category, including definitions of default and recoveries can be viewed in the “Rating Definitions - Credit Ratings and Ancillary 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 rating performance report on https://www.scoperatings.com/#governance-and-policies/regulatory-ESMA. Please 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’s definitions of default and 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 factor) are incorporated into the rating can be found in the respective sections of the methodologies or guidance documents provided on https://www.scoperatings.com/#!methodology/list.
The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months.

### Solicitation, key sources and quality of information

The rated entity and/or its agents participated in the rating process.
The following substantially material sources of information were used to prepare the credit rating: public domain, the rated entity, and Scope internal sources.
Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope’s ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.
Prior to the issuance of the rating or outlook action, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

### Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0.
Lead analyst Henrik Blymke, Managing Director
Person responsible for approval of the rating: Sebastian Zank, Executive Director
The ratings/outlooks were first released by Scope on 18 January 2019. The ratings/outlooks were last updated on 17 January 2020.

### Potential conflicts

Please see www.scoperatings.com for a list of potential conflicts of interest related to the issuance of credit ratings.

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Scope Ratings GmbH, Lennéstraße 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Director: Guillaume Jolivet.

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## Contact


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| **Analyst** | Henrik Blymke | h.blymke@scoperatings.com |
| **Team leader** | Olaf Tölke | o.toelke@scoperatings.com |