# Akershus Energi AS
# Norway, Utilities

SCOPE BBB NEGATIVE

## Corporate profile

Akershus Energi AS is a Norwegian producer of hydroelectric power, with annual production of around 2.4TWh. In addition to hydro power it is engaged in district heating, solar, wind, green infrastructure, and energy trading. The company owns and operates hydroelectricity plants mainly located along the longest river in Norway, the 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** | **2018** | **2019** | **2020F** | **2021F** |
| EBITDA/interest cover | 14.6x | 16.7x | 3.3x | 6.1x |
| Scope-adjusted debt (SaD)/EBITDA | 1.8x | 1.5x | 9.5x | 3.9x |
| Scope-adjusted FFO/SaD | 26% | 47% | -11% | 20% |
| FOCF/SaD | 12% | 35% | -15% | 25% |

## Rating rationale

**Scope Ratings changes the Outlook on Akershus Energi's BBB corporate issuer rating to Negative from Stable. At the same time, the BBB issuer rating, S-2 short-term rating and BBB senior unsecured rating are affirmed.**

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. The company has generated above-average group profitability margins (over 60% in recent years) and partly hedged its expected shorter-term production volume (although the current level of 22% is lower than typical historical levels). Akershus Energi is strongly exposed to the energy market, which is both volatile and cyclical. Limiting factors for the company'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 it 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 worsened in 2020, due to the significantly lower power price environment in Norway during the year. Moreover, the company has been investing in the Nord-Odal wind project, which has accelerated negative cash flow. Nevertheless, liquidity has been adequate, helped by disposals of real estate funds and marketable securities, the proceeds from which have been used for funding. Although ordinary maintenance investment in 2021 is expected to be covered by internal cash flow, we foresee a risk of continued weak credit metrics in the absence of cash inflow from other sources (or reduced expansionary capex). With relatively low electricity price hedging, Akershus Energi is more exposed to market price volatility. This increases the likelihood that its financial risk profile could remain weak if power prices do not rebound sufficiently in 2021.

### Ratings & Outlook

| | |
|---|---|
| Corporate issuer rating | BBB/ Negative |
| Short-term rating | S-2 |
| Senior unsecured rating | BBB |


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### Related Methodologies

Corporate Rating Methodology, Feb 2020

Rating Methodology European Utilities, Mar 2020

Government Related Entities Methodology, Jul 2020


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Bloomberg: RESP SCOP

## 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 to 2020. With relatively low hedging, the company is highly exposed to the volatility in market prices, which could result in key credit metrics staying weak on a sustained basis. Our base case indicates that key credit metrics could remain weak throughout 2021 if no other cash inflow (or reduced expansionary capex) measures are taken. The company's investment ambitions in wind and solar have not changed. We have therefore lowered its financial risk profile rating.

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

A negative rating action could be warranted if Akershus Energi pursues more aggressive debt-financed growth or if power prices do not recover substantially in 2021 vs 2020, 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 and positive FOCF over time<br>• Hedging policy and infrastructure investment mitigate some inherent business volatility<br>• 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<br>• Limited water reservoir capacity, as power assets are mainly run-of-river plants<br>• Low diversification by segment and geographical pricing market<br>• Currently high leverage following weak market prices and expansionary investments |

## Rating-change drivers

| Positive rating-change drivers | Negative rating-change drivers |
|---|---|
| • Excess free cash flow used to service debt, resulting in a sustainable improvement in credit metrics (e.g. SaD/EBITDA below 3.5x over time)<br>• Increasing EBITDA share from 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<br>• Weaker financial risk profile, e.g. negative FOCF and SaD/EBITDA above 3.5x on a sustained basis |

## Financial overview, in NOK m

| | | | Scope estimates | |
|---|---|---|---|---|
| **Scope credit ratios** | **2018** | **2019** | **2020F** | **2021F** |
| EBITDA/interest cover | 14.6x | 16.7x | 3.3x | 6.1x |
| Scope-adjusted debt/EBITDA | 1.8x | 1.5x | 9.5x | 3.9x |
| Scope-adjusted FFO/Scope-adjusted debt | 26% | 47% | -11% | 20% |
| FOCF/Scope-adjusted debt | 12% | 35% | -15% | 25% |
| | | | | |
| EBITDA | 686 | 689 | 191 | 424 |
| Operating lease payments in respective year | 0.3 | - | - | - |
| **Scope-adjusted EBITDA** | **687** | **689** | **191** | **424** |
| | | | | |
| EBITDA | 686 | 689 | 191 | 424 |
| less: (net) cash interest as per cash flow statement | -47 | -49 | -58 | -69 |
| less: cash tax paid as per cash flow statement | -214 | -348 | -350 | -20 |
| add: depreciation component operating leases | 0.2 | - | - | - |
| Other items | -107 | 208 | 15 | 0 |
| **Scope funds from operations (FFO)** | **318** | **500** | **-202** | **335** |
| | | | | |
| Reported gross debt | 1,763 | 1,626 | 2,571 | 2,262 |
| Cash, cash equivalents | -567 | -596 | -794 | -625 |
| cash not accessible | 32 | 32 | 32 | 32 |
| Pension adjustment | 4 | 0 | 0 | 0 |
| Operating lease obligation | 3 | - | - | - |
| **Scope-adjusted debt (SaD)** | **1,234** | **1,062** | **1,809** | **1,669** |

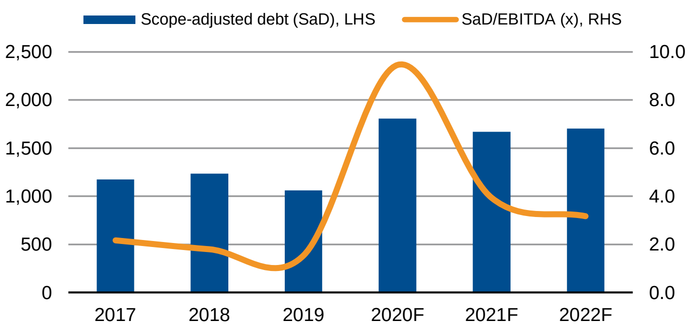
## 2020 credit metrics hit by historical low prices

Akershus Energi's financial performance in 2020 is below our expectations, mainly due to the unexpected low power price environment during the year. The company's performance was negatively affected because it is mainly exposed to power production and has a fairly low hedging share.

In terms of cash flow, Akershus Energi is negatively affected by both the lower prices achieved, and also by the previously agreed and expected decision to increase expansionary investment in wind assets. At the same time, high taxes paid and an already agreed unchanged dividend lead us to project negative free operating cash flow for FY2020, financed by disposals of real estate funds and marketable securities.

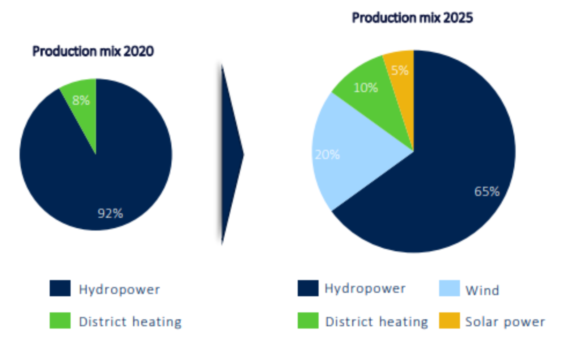
Based on our power price assumption for Q4 2020, we expect SaD/EBITDA of almost 10x at YE 2020, up from the conservative 1.5x level at the end of 2019. Group EBITDA margins continue to be dominated by the hydropower segment, which still contributes more than 90% of company profit. In the longer term, the company expects to reduce its dependence on hydro power production from over 90% to around two-thirds. The remining one-third should consist of a combination of wind, district heating and solar, with wind likely to be the larger part.

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




Source: Company, Scope estimates

**Figure 2: Expected production mix development**




Source: Company

## Updated forecast

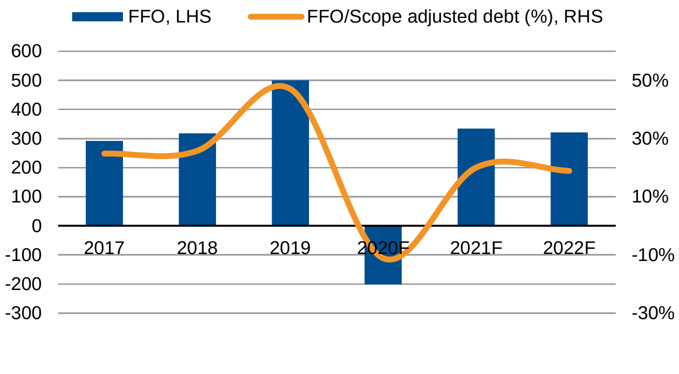
Our updated financial forecast for Akershus Energi includes a new forward power price curve. We assume a relatively swift recovery of the historically low prices in 2020, helped by the new power cable to Germany, which will be in place next year, and a lower hydrological surplus, which has been a drag this year.

As a result, the EBITDA margin will recover from a 35% low point in 2020 to above 50% in 2021, according to our estimates. However, the company is expected to take on some extra costs in connection with the anticipated growth in areas outside hydro power production. We therefore do not expect the EBITDA margin to return to above 60% in the medium term.

The investments in Nord-Odal Wind that began in 2020 and will be completed in 2021 (or early 2022), have been revised down due to Akershus Energi's intention to reduce its ownership from 51% to 33% (according to the press release of 9 Dec), although this is subject to some conditions. However, as the press release was published a couple of days before Akershus Energi stated its ambition to invest in solar through the company Solgrid, we have also added some likely investment here in the longer term. Although, the company is increasing its renewable energy production output towards 2025, which will increase capex in an uncertain, low price environment, it is positive that it is doing so with partners to ease the capex burden.

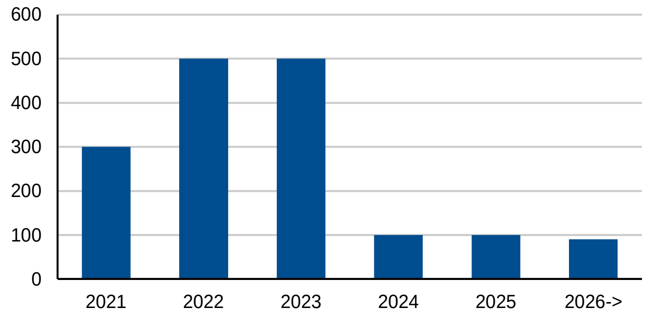
Our updated forecast sees the risk of continued weak cash flow and credit metrics if achieved power prices do not increase substantially in 2021 compared to 2020. With relatively low hedging, the company is highly exposed to market prices volatility, which could result in key credit metrics staying weak on a sustained basis. Our base case indicates that key credit metrics could remain weak throughout 2021 if no other cash inflow (or reduced expansionary capex) measures are taken.

**Figure 3: Funds From Operations (FFO) in NOK m**




Source: Company, Scope estimates

**Figure 4: Debt maturity profile in NOK m**




Source: Company, Scope

## Summary of business and financial risk profiles

Our BBB- business risk profile assessment of Akershus Energi has not changed. Business risk is still supported by the company's low-cost, environmentally-friendly hydropower assets, which have a strong position in the merit order system. Akershus Energi has also generated above-average group profitability margins over time and is now diversifying its renewable producing assets. Following weak 2020 operational cash flow and somewhat increased uncertainty and volatility in the financial risk profile going forward, we no longer see the FRP as stronger than the BRP. We continue to place slightly more emphasis on the company's business risk profile than its financial risk profile, when assigning the standalone rating.

## 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 uplift for the 100% Viken municipality ownership of Akershus Energi (increasing the BBB- standalone rating to a BBB issuer rating) has not changed.

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 (the company target is a minimum of BBB). The upcoming expansionary capex follows disciplined savings over the last two years and includes potential partners to share the investment needs. This ensures that the balance sheet will not be overly stretched.

## Long-term and short-term debt ratings

The senior unsecured rating is in line with the issuer rating.

As of Q3 2020, the company had NOK 383m in cash and NOK 27m in marketable securities. In addition, the company has NOK 475m in long-term committed credit lines (maturing in mid-2021, expected to be renewed and extended in Q1 2021) and NOK 425m in short-term RCF 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. In addition to the company's sufficient short-term debt coverage, we also note adequate access to banks and debt capital markets.

The company has financial covenants on some of its bank loans. One of the leverage metrics has already been waived for 2020, due to the likelihood of a breach at YE 2020. Thus, we expect the company to comply with its covenants.

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