

# Akershus Energi AS

## Norway, Utilities


**A-** STABLE

### Key metrics

Scope credit ratios	2020	2021	Scope estimates	
			2022E	2023E
Scope-adjusted EBITDA/interest cover	5.0x	28.3x	108.1x	108.4x
Scope-adjusted debt/EBITDA	7.5x	0.3x	net cash	net cash
Scope-adjusted funds from operations/debt	neg.	371%	net cash	net cash
Scope-adjusted free operating cash flow/debt	neg.	460%	net cash	net cash

### Rating rationale

Akershus Energi's business risk profile is supported by its low-cost environmentally friendly hydropower assets generating above-average margins. Limiting factors include its industry risk, the price exposure for unhedged production, modest diversification and limited reservoir capacity.

The financial risk profile improved in 2022 due to the significantly higher power prices and we forecast a continued improvement in credit metrics. Investment in renewable energy projects (wind and solar) is adding increased production capacity, but further investments are unlikely until after the intended changes in tax legislation have been fully evaluated.

The issuer rating reflects a BBB+ stand-alone rating and a one-notch uplift based on the anticipated capacity and willingness of the Norwegian municipal owner to provide financial support if needed, in line with our Government Related Entities Methodology.

### Outlook and rating-change drivers

The Stable Outlook reflects our expectation about a sustained net cash position over the next few years but unchanged impact of industry-inherent volatility related to achievable power prices.

A positive rating action could be triggered by significantly less cash flow volatility combined with an unchanged net cash position and strong financial risk profile.

A negative rating action may be taken if we were to expect the company would return to a net debt position. This could be triggered by changes in the utility's financial policy to debt-financed growth through large-scale M&A or larger than expected shareholder remuneration. It could also be driven by a much weaker price level for power prices against our expectations.

### Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
6 Dec 2022	Upgrade	A-/Stable
16 Dec 2021	Outlook change	BBB/Stable
16 Dec 2020	Outlook change	BBB/Negative

### Ratings & Outlook

Issuer	A-/Stable
Short-term debt	S-1
Senior unsecured debt	A-

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### Related Methodologies

[Corporate Rating Methodology; July 2022](#)

[Rating Methodology: Government Related Entities Methodology, May 2022](#)

[European Utility Methodology, March 2022](#)

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## Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
<ul style="list-style-type: none"><li>Highly profitable, cost-efficient, environmentally friendly hydropower production (positive ESG factor) leading to strong EBITDA margins and positive free operating cash flow</li><li>Financial risk profile supported by strong Scope-adjusted credit metrics and cash flow as well as adequate liquidity profile</li><li>Hedging policy and infrastructure investment mitigating some inherent business volatility</li><li>Committed, long-term majority municipal owner with clear willingness and capacity to provide support if needed</li></ul>	<ul style="list-style-type: none"><li>Power price exposure and volatility of unhedged European power production</li><li>Limited water reservoir capacity as power assets are mainly run-of-river plants</li><li>Low diversification by segment and geographical pricing market</li></ul>
Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"><li>A positive rating action could be triggered by significantly less cash flow volatility combined with an unchanged net cash position and strong financial risk profile</li></ul>	<ul style="list-style-type: none"><li>A negative rating action may be taken if Scope was to expect the company would return to a net debt position. This could be triggered by changes in the utility's financial policy to debt-financed growth through large-scale M&amp;A or larger than expected shareholder remuneration. It could also be driven by a much weaker price level for power prices against our expectations</li></ul>

## Corporate profile

Akershus Energi AS is a Norwegian producer of hydroelectric power with annual production of around 2.5 TWh. 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, but also has wholly and partially owned power stations in southern Norway. Akershus Energi is 100% owned by Viken municipality and as such is rated as a government related entity.








## Financial overview

				Scope estimates		
Scope credit ratios	2019	2020	2021	2022E	2023E	2024E
Scope-adjusted EBITDA/interest cover	16.7x	5.0x	28.3x	108.1x	108.4x	50.0x
Scope-adjusted debt/EBITDA	1.5x	7.5x	0.3x	net cash	net cash	net cash
Scope-adjusted funds from operations/debt	47%	-7%	371%	net cash	net cash	net cash
Scope-adjusted free operating cash flow/debt	35%	-4%	460%	net cash	net cash	net cash
<b>Scope-adjusted EBITDA in NOK m</b>						
EBITDA	689	227	1,443	3,298	3,713	1,521
Other items	0	0	0	0	0	0
<b>Scope-adjusted EBITDA</b>	<b>689</b>	<b>227</b>	<b>1,443</b>	<b>3,298</b>	<b>3,713</b>	<b>1,521</b>
<b>Funds from operations in NOK m</b>						
Scope-adjusted EBITDA	689	227	1,443	3,298	3,713	1,521
less: (net) cash interest paid	-49	-49	-51	-30	-34	-30
less: cash tax paid per cash flow statement	-348	-324	-9	-837	-2,068	-2,338
Other items	208	24	50	0	0	0
<b>Funds from operations (FFO)</b>	<b>500</b>	<b>-122</b>	<b>1,433</b>	<b>2,430</b>	<b>1,611</b>	<b>-848</b>
<b>Free operating cash flow in NOK bn</b>						
Funds from operations	500	-122	1,433	2,430	1,611	-848
Change in working capital	111	9	184	14	14	15
Non-operating cash flow	0	0	0	0	0	0
less: capital expenditure (net)	-235	-227	-122	-150	-150	-150
less: lease amortization	0	0	0	0	0	0
<b>Free operating cash flow (FOCF)</b>	<b>376</b>	<b>-340</b>	<b>1,495</b>	<b>2,295</b>	<b>1,476</b>	<b>-983</b>
<b>Net cash interest paid in NOK m</b>						
Net cash interest per cash flow statement	49	49	51	30	34	30
Change in other items	0	0	0	0	0	0
<b>Net cash interest paid</b>	<b>41</b>	<b>45</b>	<b>51</b>	<b>30</b>	<b>34</b>	<b>30</b>
<b>Scope-adjusted debt in NOK m</b>						
Reported gross financial debt	1,626	2,501	2,263	1,754	1,754	1,354
less: subordinated (hybrid) debt	0	0	0	0	0	0
less: cash and cash equivalents	-596	-813	-1,946	-2,888	-3,611	-1,652
add: non-accessible cash	32	16	70	70	70	70
add: pension adjustment	0	0	0	0	0	0
add: operating lease obligations	0	0	0	0	0	0
Other items	0	0	0	0	0	0
<b>Scope-adjusted debt (SaD)</b>	<b>1,062</b>	<b>1,704</b>	<b>386</b>	<b>-1,064</b>	<b>-1,787</b>	<b>-229</b>

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**Environmental, social and government (ESG) profile<sup>1</sup>**

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency) 	Labour management	Management and supervision (supervisory boards and key person risk) 
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate) 
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity) 
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests) 

**Legend**

- Green leaf (ESG factor: credit positive)
- Red leaf (ESG factor: credit negative)
- Grey leaf (ESG factor: credit neutral)

**Well-integrated ESG framework and issuance of green financing**

As a hydropower producer, Akershus Energi is environmentally friendly generating relatively low carbon emissions. The EU taxonomy refers to emissions from the construction and operation of these assets. Although different hydropower standards, we expect Norwegian assets to come out favourably. This has enabled it to issue NOK 1bn in bonds under the Green Finance Framework. We also highlight a good ESG standing in the financial markets and good corporate governance.

<sup>1</sup> These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

**Profitability amongst the highest of the Norwegian utilities**

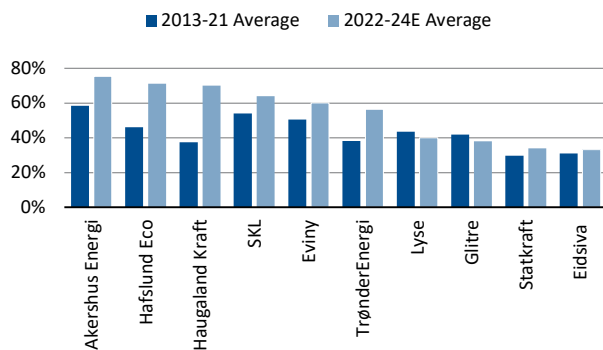
**Business risk profile: BBB-**

In accordance with our rating methodology for utilities, we have assessed Akershus Energi’s industry risk taking into account that the non-regulated European power generation market is highly cyclical with medium barriers to entry.

Our business risk profile assessment of Akershus Energi is BBB-. This is supported by the company’s low-cost environmentally friendly hydropower assets with a strong position in the merit order system. Akershus Energi has consistently generated above-average profitability margins compared to other rated Norwegian utility peers.

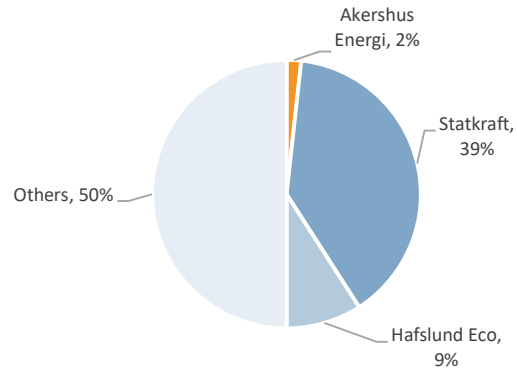
Akershus Energi’s competitive position is somewhat held back by the limited diversification in different pricing areas and low segmentation other than district heating. Due to limited reservoir capacity there are some volume risk in dry hydrological years and the company is exposed to volatile power prices for its unhedged production.

**Figure 1: EBITDA margins of peer group**



Source: Company, Scope estimates

**Figure 2: Market share of generation capacity**

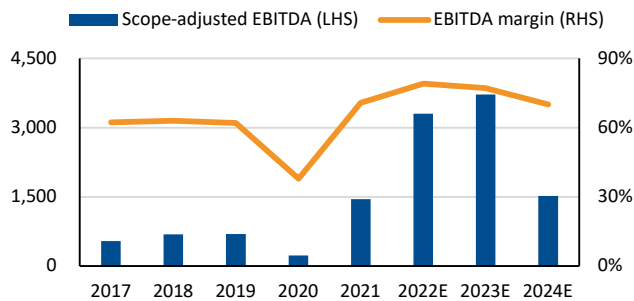


Source: Company, Scope estimates

The company has been diversifying its renewable power assets to wind and solar. The ambition is to raise its renewable energy production output until 2025. Although the investment plan could impact margins, this is now under evaluation following the recent intended change in tax legislation. Consequently, margins are expected to remain at current levels. In the longer term, the company expects to reduce its dependence on hydro power production from 90% to 66%.

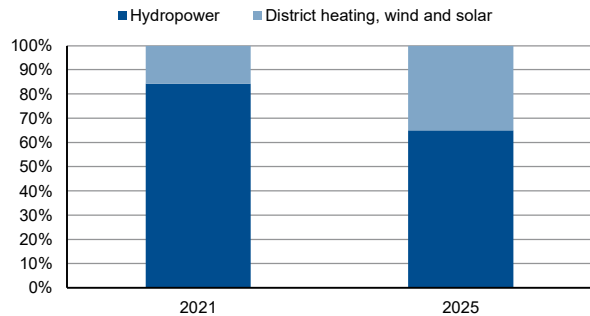
Akershus Energi’s financial performance so far in 2022 is significantly above expectations due to the extraordinarily high power price. The company was positively affected through its exposure to power production and low hedging. Consequently, EBITDA margins are expected to remain above 70%.

**Figure 3: Scope-adjusted EBITDA (NOK m)**



Source: Company, Scope estimates

**Figure 4: Targeted production mix**



Source: Company

**High exposure to strong power markets**

**Financial risk profile: A**

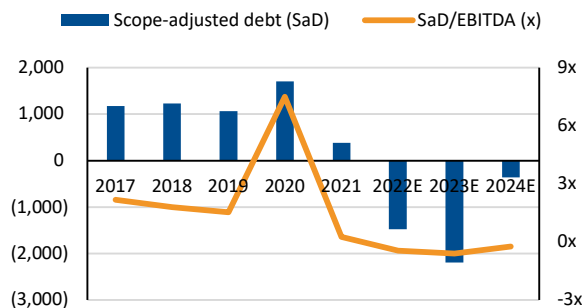
The financial risk profile improved to A (from BBB) due to the stronger credit metrics, cash flow and liquidity resulting from the high power prices. We continue to place slightly more emphasis on the business risk profile than the financial risk profile due to the volatility in European power prices.

Our financial forecast includes a new forward price curve with a strong outlook in the pricing area in which the company operates. We also factor in limited hedging for 2023 as per management guidance. Hydropower continues to contribute the most to the EBITDA with 90% with district heating, wind and solar power contributing the rest.

We expect a net cash position going forward based on the high forward price and our updated base case reflects strong debt protection driven by low gross indebtedness and low interest rates. Although we note somewhat high volatility in credit metrics given the unhedged production, we place less emphasis on this given the current outlook.

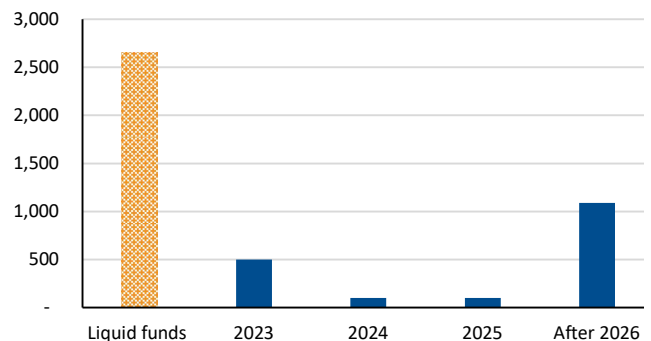
Free operating cash flow is expected to remain high in 2022-23 due to record-high power prices and limited capex forecasted due to a re-evaluation of new investments, which enables the company to deleverage. We take into account the recently announced intended change in tax legislation, which if implemented, would have a negative but manageable impact on cash flow, also considering dividends according to financial policy.

**Figure 5: Scope-adjusted leverage (NOK m)**



Source: Company, Scope estimates

**Figure 6: Liquidity and debt maturities (NOK m)**



Source: Company, Scope

Liquidity is adequate for upcoming debt maturities. As of June 2022, the company had NOK 0.6bn in unrestricted cash, NOK 1.6bn in marketable securities and NOK 0.9bn in committed credit lines, compared with NOK 0.5bn in short term debt.

We note mark-to-market losses on the power derivatives for hedged volumes have caused a temporary breach of the loan covenant for a 30% equity ratio as of 30 June 2022. The bank has waived the requirement until 31 December 2022. The company is working on again being compliant by the end of the year, but as a result the NOK 350m loan has been temporarily reclassified as short-term debt and the company is working on several initiatives on being compliant with this situation.

**Adequate liquidity and access to banks and debt capital markets**

Balance in NOK m	2021	2022E	2023E
Unrestricted cash (t-1)	797	1,876	2,818
Open committed credit lines (t-1)	475	900	900
Free operating cash flow	1,495	2,295	1,476
Short-term debt (t-1)	339	509	500
<b>Coverage</b>	<b>&gt;200%</b>	<b>&gt;200%</b>	<b>&gt;200%</b>

**One-notch uplift for status as a government-related entity**

**Supplementary rating drivers: +1 notch**

We have used our Government Related Entities Methodology and our assessment results in a one-notch uplift to Akershus Energi's stand-alone credit rating. The uplift for the 100% municipality ownership is in line with other Scope-rated Norwegian utilities.

No adjustment was made for financial policy, but we note that the company is dedicated to maintaining its investment grade credit rating.

**Long-term and short-term debt ratings**

**Senior unsecured debt rating: A-**

The senior unsecured debt rating is in line with the issuer rating and upgraded to A-.

**Short-term debt rating: S-1**

The upgraded S-1 short-term debt rating is based on the adequate liquidity to cover short-term debt as well as adequate access to banks and debt capital markets.



## Appendix: Peer comparison<sup>2</sup>

	Akershus Energi	Hafslund Eco	Lyse	Eviny	Eidsiva	SKL	TrønderEnergi	Haugaland Kraft
	A-/Stable	BBB+/Positive	BBB+/Stable	BBB+/Positive	BBB+/Stable	BBB+/Stable	BBB/Stable	BBB+/Positive
Last reporting date	30 Sep 2022	30 Jun 2022	30 Jun 2022	30 Sep 2022	30 Jun 2022	30 Jun 2022	30 Jun 2022	30 Jun 2022
<b>Business risk profile</b>	BBB-	BBB+	BBB+	BBB	A	BBB-	BBB-	BBB
<b>Financial risk profile</b>	A	BBB	BBB-	BBB+	BB	BBB+	BB+	BBB+
Scope-adjusted EBITDA/interest cover	28.3x	16.7x	19.8x	26.8x	7.4x	108.3x	17.2x	69.9x
Scope-adjusted debt/EBITDA	0.3x	1.2x	1.5x	2.0x	9.3x	0.4x	1.8x	1.0x
Scope-adjusted FFO/debt	371%	78%	51%	47%	10%	244%	48%	108%
Scope-adjusted FOCF/debt	460%	68%	25%	25%	neg.	217%	42%	44%

Sources: Public information, Scope

<sup>2</sup> Credit metrics as of 2021





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