13 December 2023 Corporates

Akershus Energi AS
Kingdom of Norway, Utilities

A- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	>20x	>20x	>20x	>20x
Scope-adjusted debt/EBITDA	0.3x	Net cash	Net cash	0.1x
Scope-adjusted funds from operations/debt	326%	Net cash	Net cash	538%
Scope-adjusted free operating cash flow/debt	340%	Net cash	Net cash	211%

Rating rationale

The rating reflects a standalone credit assessment of BBB+ and a one-notch uplift based on our assessment of the company's status as a government-related entity.

The standalone credit assessment reflects the company's low-cost and environmentally friendly hydropower production (positive ESG factor) with annual mean output of about 2.5 TWh. This is supplemented with about 0.2 TWh of annual district heating production and a 33.4% stake in Odal wind farm. The rating remains supported by a strong financial risk profile. It is mainly constrained by the significant exposure to volatile power prices and moderate diversification.

Outlook and rating-change drivers

The Stable Outlook reflects our assumption that the company's leverage is sustained at a level of up to 0.5x (Scope-adjusted debt/EBITDA). This is supported by a continuously favourable pricing environment in power generation and the company's high internal funding capacity.

A positive rating action is deemed remote but could be warranted by an improved business risk profile driven by much larger scale and/or reduced cash flow volatility.

A negative rating action could be triggered if the company returned to a sustained net debt position leading to a leverage higher than 0.5x on a sustained basis (Scope-adjusted debt/EBITDA). This could be driven by increased investments well beyond our updated rating case. Alternatively, it could result from lower-than-assumed power prices and/or extraordinary dividend payouts. Lastly, the loss of GRE status (remote) would also lead to ratings pressure.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
13 Dec 2023	Affirmation	A-/Stable
13 Dec 2022	Upgrade	A-/Stable
16 Dec 2021	Outlook change	BBB/Stable

Ratings & Outlook

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

Analysts

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Related Methodologies

General Corporate Rating Methodology; October 2023

European Utilities Rating Methodology; March 2023

Government Related Entities Methodology; July 2023

Related Research

European utilities: continued electricity price hedging promises producer gain, consumer pain, Apr 2023

Nordic utilities: north-south price gap benefits southern generators; TSOs also gain, Nov 2022

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Low-cost and environmentally friendly hydropower production (positive ESG factor) • Strong financial risk profile reflecting low leverage, good cash flow generation and solid liquidity • Strong profitability as measured by the group EBITDA margin and Scope-adjusted return on capital employed • Hedging policy which helps to mitigate some exposure to industry inherent volatility • Long-term committed municipal owner with capacity and willingness to provide financial support if needed	• Exposure to volatile power prices for unhedged power production • Limited water reservoir capacity with power assets mainly being run-of-river plants • Low diversification by segments and geography • Expected increase of investments in the next years involving some execution risk related to growth projects

Positive rating-change drivers	Negative rating-change drivers
• Improved business risk profile (remote), as exemplified by more diversification and/or much larger scale, paired with a still strong financial risk profile	• Scope-adjusted debt/EBITDA moving above 0.5x • Loss of government-related entity status (remote)

Corporate profile

Akershus Energi is a Norwegian municipality-owned utility focused on hydropower production in southern Norway. Its mean annual production is about 2.5 TWh from nine wholly and 12 partially owned power plants. The company mainly has run-of-river power plants with around 75% of annual production located in the Glomma and Lågen river systems. In addition to hydropower, the company is engaged in district heating, wind, solar and green infrastructure. Akershus Energi is 100% owned by Viken County Municipality.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	4.6x	>20x	>20x	>20x	>20x	>20x
Scope-adjusted debt/EBITDA	7.6x	0.3x	Net cash	Net cash	0.1x	0.3x
Scope-adjusted funds from operations/debt	-7%	326%	Net cash	Net cash	538%	133%
Scope-adjusted free operating cash flow/debt	-20%	340%	Net cash	Net cash	211%	17%
Scope-adjusted EBITDA in NOK m						
EBITDA	227	1,444	2,604	1,417	1,355	1,348
Other items[1]	-	-	-	60	60	60
Scope-adjusted EBITDA	**227**	**1,444**	**2,604**	**1,477**	**1,415**	**1,408**
Funds from operations in NOK m						
Scope-adjusted EBITDA	227	1,444	2,604	1,477	1,415	1,408
less: (net) cash interest paid	(49)	(51)	(44)	(0)	(20)	(24)
less: cash tax paid per cash flow statement	(324)	(9)	(700)	(2,122)	(895)	(806)
Other items	24	2	(6)	-	-	-
Funds from operations	**(122)**	**1,386**	**1,854**	**(645)**	**500**	**579**
Free operating cash flow in NOK m						
Funds from operations	(122)	1,386	1,854	(645)	500	579
Change in working capital	9	185	199	(210)	-	-
less: capital expenditure (net)	(227)	(122)	(157)	(130)	(300)	(500)
less: lease amortisation	(2)	(4)	(5)	(5)	(5)	(5)
Free operating cash flow	**(342)**	**1,446**	**1,892**	**(989)**	**196**	**75**
Net cash interest paid in NOK m						
Net cash interest per cash flow statement	49	51	44	0	20	24
Change in other items	-	-	-	-	-	-
Net cash interest paid	**49**	**51**	**44**	**0**	**20**	**24**
Scope-adjusted debt in NOK m						
Reported gross financial debt	2,523	2,285	2,080	1,572	1,463	1,355
less: cash and cash equivalents	(808)	(1,930)	(3,562)	(1,764)	(1,440)	(990)
add: non-accessible cash	16	70	70	70	70	70
add: pension adjustment	-	-	-	-	-	-
Other items	-	-	-	-	-	-
Scope-adjusted debt	**1,731**	**425**	**(1,412)**	**(123)**	**93**	**434**

[1] Dividends received from associated companies, e.g. from the 33.4% ownership in Odal wind farm

Table of Content

Environmental, social and governance (ESG) profile[2]

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)

Business model built around sustainable energy generation

Akershus Energi's business model is built around sustainability given the main exposure to production of clean hydroelectric power. This is highlighted by a normalised carbon intensity of below 10gCO_2e/kWh (including scope 1, 2 and 3 emissions). Such favourable position in the taxonomy should support Akershus Energi's future cash flow through high utilisation factors for its hydro assets. It also lowers the risk of headwinds from regulation and political interference relating to sustainability matters. In addition, the exposure to hydropower generation in Norway guarantees the consistent government-related entity status.

Green bond framework attaining highest rating from Cicero

The company has a well-integrated ESG framework and ambitions, including public sustainability reports and a green financing framework. It has also obtained ESG second opinion from Cicero, attaining a rating of Dark Green.

Regulatory and reputational risks

Norwegian utilities are mostly publicly owned and subject to regulatory and reputational risks. This was exemplified in 2022 when the government imposed a temporary windfall tax because of rising power prices and permanently raised the resource rent tax on hydropower. Consequently, we assess some political risk, although we still consider the framework conditions for utilities in Norway to be stable.

No governance issues

The company applies governance principles as recommended by Norwegian market standards and we did not observe any negative credit-relevant factors pertaining to corporate governance.

[2] 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.

Business risk profile: BBB-

Blended industry risk profile: BB

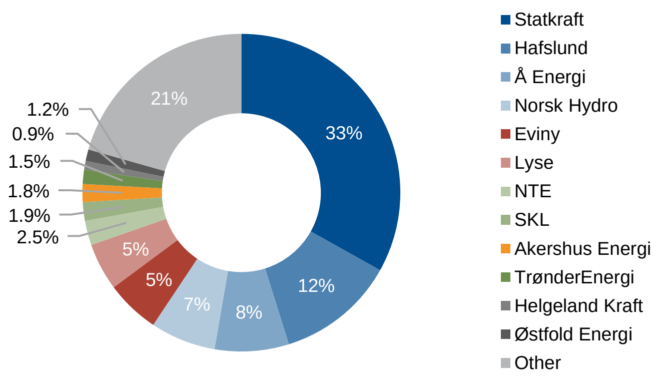
Akershus Energi is almost solely focused on renewable power production and its financial performance is therefore closely linked to achievable power prices. Unregulated power generation has high cyclicality and medium entry barriers, with an industry risk assessed at BB under our European Utilities Rating Methodology. The company's quasi-regulated district heating is more stable and has high entry barriers.

Segment	Industry risk	Normalised exposure
Unregulated power generation	BB	95%
District heating	A	5%
Blended industry risk[3]	**BB**	

Low-cost and environmentally friendly hydropower production

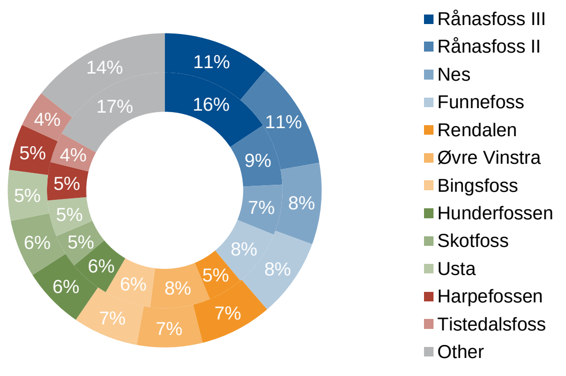
With an annual mean production of about 2.5 TWh, the company is a small power producer in Norway by market share. Its hydropower assets are favourably positioned in the merit order system due to low marginal production costs, which is more important than volumes for the market position of a power utility. The company mainly owns and operates run-of-river plants, although it is also a partial owner in power plants with some water reservoirs. Akershus Energi's main exposure to run-of-river power plants gives it limited flexibility to adjust and optimise production towards periods with constrained supply, such as peak-load hours or times with limited output from intermittent energy sources. The company therefore has a lower likelihood than peers with flexible production and large water reservoir capacity of achieving power prices above the market average.

Figure 1: Normalised market shares in Norwegian hydropower generation



Sources: NVE, Scope

Figure 2: Mean annual production (outer circle) and installed capacity (inner circle) by hydropower plant



Sources: Akershus Energi, Scope

Exposure to stable river systems reduces volume risk

We highlight the exposure to volume risk in dry hydrological years for companies primarily relying on run-of-river power plants. However, we find this risk largely mitigated for Akershus Energi, with approximately 75% of its hydropower production being located in the Glomma and Lågen river systems, which have overall stable water flows. This is reflected in the small variance of the company's annual production, as illustrated in figure 4. In addition, lower production volumes tend to coincide with higher power prices due to the high share of hydropower in Norway, acting as a further mitigating factor. Overall, we do not consider volume risk as a detrimental risk factor for the company.

Moderate diversification

Diversification is moderate. The company is adequately diversified in terms of power assets, with the three largest power plants comprising about one-third of annual mean

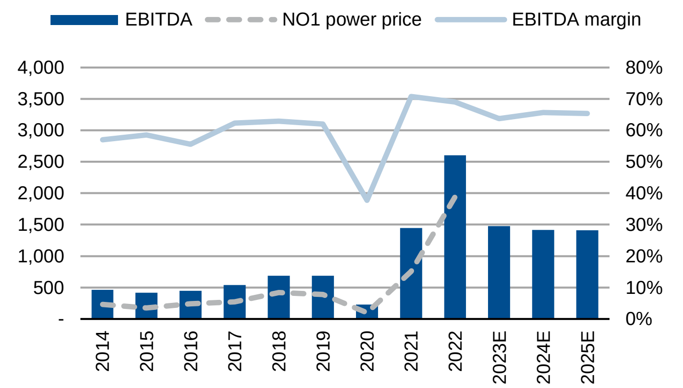
[3] Based on normalised exposure of Scope-adjusted EBITDA.

production. Negatively, the company is geographically concentrated and has low segmentation, albeit we consider positively some diversification into profitable district heating. In terms of pricing risk, the company's power assets are mostly exposed to the NO1 bidding zone in southern Norway. The risk associated with concentration in a single bidding zone is seen partially balanced by the connection to the UK and continental Europe through subsea cables from the NO2 bidding zone, which gives southern Norway more exposure to electricity prices in foreign markets.

Strong profitability

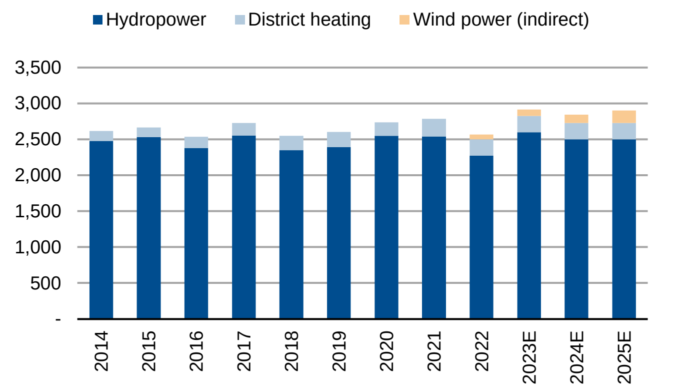
The company's business risk profile benefits from strong profitability, driven by the hydropower division. In 2022-2023, profitability has been negatively impacted by the temporary windfall tax on hydropower sales at prices above NOK 70/MWh, which we treat as an operating expense. Over the next few years, the group EBITDA margin is expected to be sustained at around 65%. Profitability is further supported by strong Scope-adjusted return on capital employed, which is estimated to average 39%[4] over 2020-2025. The company's history of hedging parts of its after-tax cash flow benefits stability.

Figure 3: Scope-adjusted EBITDA (NOK m, LHS) and EBITDA margin (RHS) versus NO1 power price (NOK/MWh, LHS)



Sources: Akershus Energi, Nordpool, Scope (estimates)

Figure 4: Energy generation by source, GWh



Sources: Akershus Energi, Scope (estimates)

[4] Parts of the high level is attributable to a depreciated balance sheet, which is accounted for in peer comparisons.

Financial risk profile: A

Strong financial risk profile

Akershus Energi's financial risk profile continues to support its standalone credit assessment. The financial risk profile still reflects the company's low indebtedness following high power prices and asset disposals in recent years, which has led to significant deleveraging.

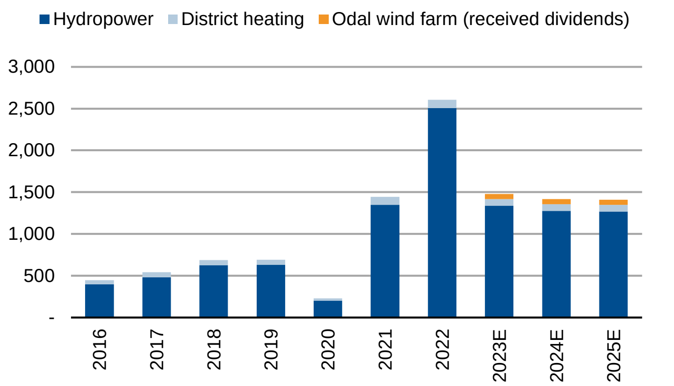
Record high operating results in 2022

In 2022, the company generated record high Scope-adjusted EBITDA of above NOK 2.5bn. This was primarily driven by very high power prices, which more than offset lower hydropower volumes (9% below mean annual production). For the full year, the company achieved a price of NOK 1,279/MWh for its hydro volumes, which was below the average NO1 power price of NOK 1,939/MWh. The difference was driven by hedging effects but also limited ability to optimise production given the primary exposure to run-of-river plants. In Q1-Q3 2023, the company achieved a power price of NOK 639/MWh, versus an average NO1 price of NOK 747/MWh. We expect the company to achieve power prices close to average market prices in the next years.

Scope-adjusted EBITDA adjusted for recurring dividends from Odal wind farm

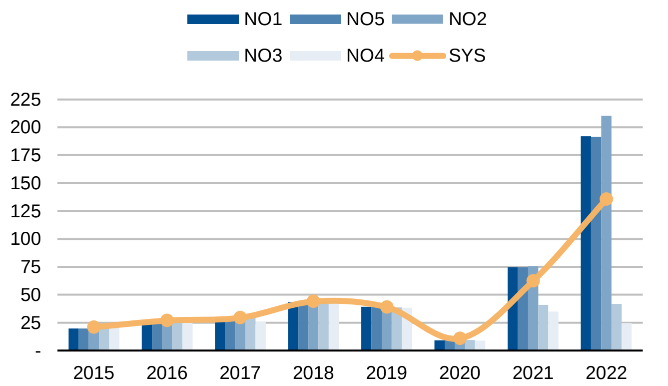
Scope-adjusted EBITDA includes recurring dividends from Akershus Energi's 33.4% stake in Odal wind farm, which opened in mid-2022 and is expected to produce about 530 GWh annually after a run-up phase.

Figure 5: Scope-adjusted EBITDA by source, NOK m



Sources: Akershus Energi, Scope (estimates)

Figure 6: Norwegian power prices by bidding zone versus Nordic system price (EUR/MWh)



Sources: Nordpool, Scope

Main assumptions

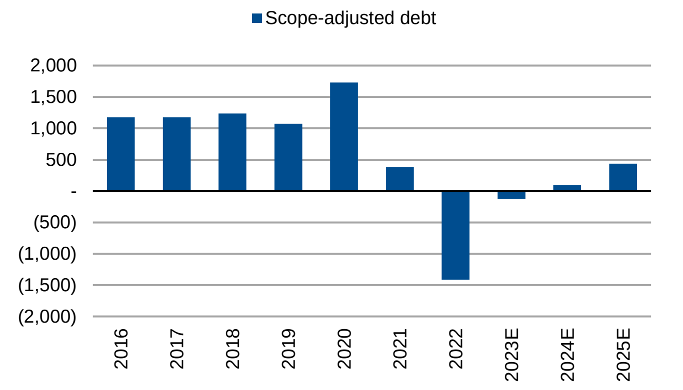
The main assumptions in our updated base case includes:

- Power prices of about EUR 70/MWh in the NO1 and NO5 bidding zones
- Hydropower production around annual mean production capacity of 2.5 TWh
- Dividends received from Odal wind farm of about NOK 60m per year
- Capex in the consolidated hydropower and district heating businesses of NOK 400m-600m per year in 2024-2025
- Business acquisitions of NOK 100m per year, mainly in wind and solar
- Dividend payouts in line with dividend policy, i.e. 70% of net income

Increasing but still low leverage

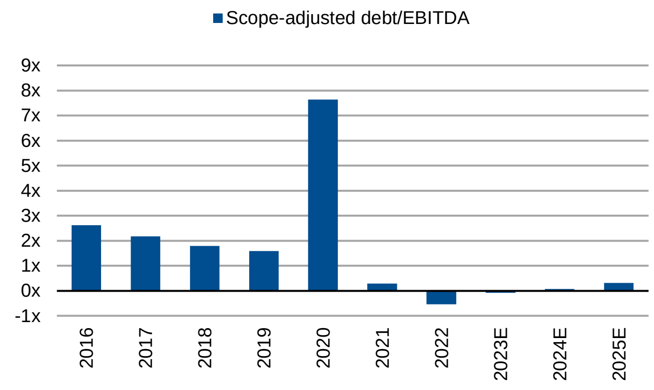
The company announced an updated strategy in October 2023 with an ambition to develop 3 TWh of new annual renewable energy capacity by 2035. This would require substantial investments in wind and solar projects. It is understood that how much will actually be invested is still uncertain, since it largely depends on the availability of economically viable projects and to which extent the investment burden is shared with partners. We further expect capex of about NOK 300-500m per year in the consolidated hydropower and district heating businesses in 2024-2025, of which NOK 100m-150m is mandatory maintenance capex. Overall, we expect an increasing investment level to result in a higher but still low leverage, with Scope-adjusted debt/EBITDA of 0.0x-0.5x in 2024-2025.

Figure 7: Indebtedness, NOK m



Sources: Akershus Energi, Scope (estimates)

Figure 8: Leverage development



Sources: Akershus Energi, Scope (estimates)

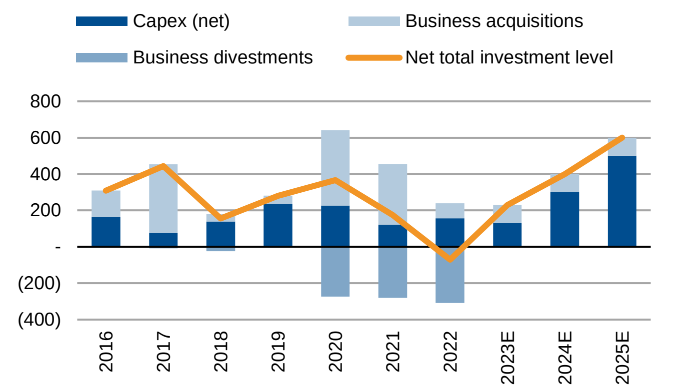
Good internal financing capacity

Based on an estimated average Scope-adjusted free operating cash flow of NOK 379m over 2020-2025, we continue to assess the company having good internal financing capacity. We note that a lag in tax payments (taxes paid in the current year are based on the previous year's earnings) can cause significant volatility in cash flow ratios, as illustrated in 2022-2023. However, since this is a well-known dynamic which is integrated in the company's financial planning, it is not considered a major negative factor.

Solid debt protection

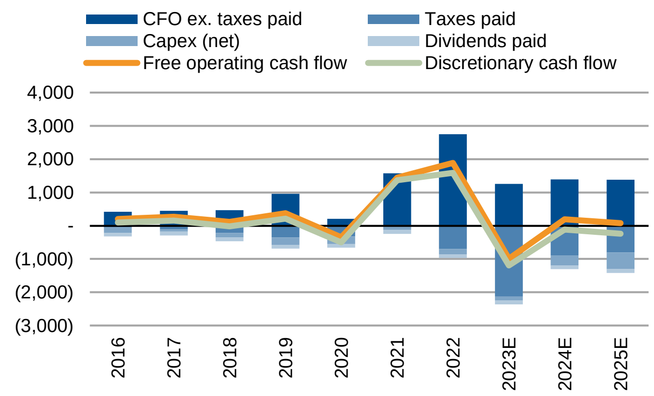
Scope-adjusted EBITDA interest cover is expected to remain very strong at above 50x towards 2025, supported by low net interest costs and solid operating results.

Figure 9: Development in total investment level, NOK m



Sources: Akershus Energi, Scope (estimates)

Figure 10: Cash flow profile, NOK m

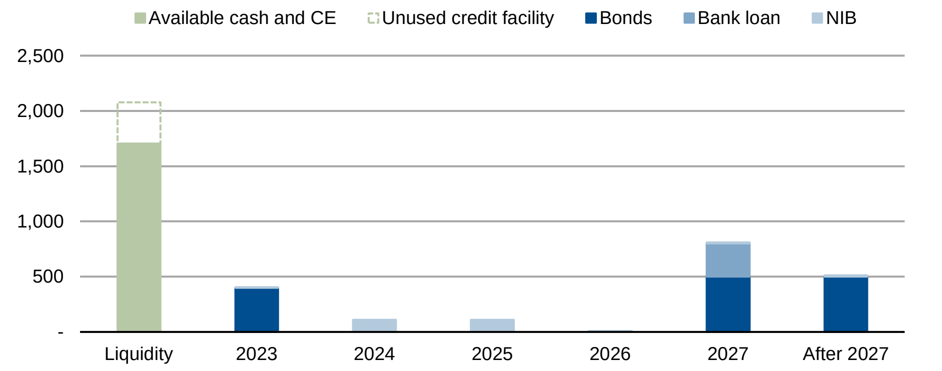


Sources: Akershus Energi, Scope (estimates)

Adequate liquidity

Liquidity is adequate based on available cash and cash equivalents of NOK 1.7bn at Q3 2023, which compares with NOK 409m of debt maturing Q4 2023, as well as upcoming debt maturities of NOK 109m in each of 2024 and 2025, and NOK 9m in 2026. The company also has a NOK 375 undrawn committed credit facility with expiry in 2026, plus wide access to different funding sources that can provide additional liquidity if needed.

Figure 11: Debt maturity profile as of Q3 2023, NOK m



CE: cash equivalents
NIB: Nordic Investment Bank
Sources: Akershus Energi, Scope

Balance in NOK m	2022	2023E	2024E
Unrestricted cash (t-1)	1,860	3,492	1,694
Open committed credit lines (t-1)	475	375	375
Free operating cash flow (t)	1,892	(989)	196
Short-term debt (t-1)	509	509	109
Coverage	**>200%**	**>200%**	**>200%**

Supplementary rating drivers: +1 notch

Prudent financial policy

Akershus Energi's financial policy has no credit impact, but we note the dividend policy of paying out 70% of net profit, with a minimum of NOK 80m. In addition, the company has a publicly communicated goal of keeping an investment-grade credit rating of at least BBB.

Change in municipal owner in 2024

In terms of ownership, Viken county municipality will be divided into three new county municipalities (Østfold, Akershus, and Buskerud) from January 2024. Subsequently, Akershus county municipality will take over Viken's 100% ownership in Akershus Energi.

One-notch uplift for parent support

The issuer rating incorporates a one-notch uplift to the standalone credit assessment of BBB+ considering the company's status as a government-related entity. We have applied the bottom-up approach using the framework outlined in our Government Related Entities Rating Methodology. The one-notch uplift reflects the public sponsor's 'high' capacity and 'medium' willingness to provide support. The rating uplift is in line with other Scope-rated Norwegian utilities with majority or full public ownership but no explicit guarantees on their debt or financial support.

Long-term and short-term debt ratings

Senior unsecured debt rating: A-

Senior unsecured debt is rated A-, the same level as the issuer rating.

Short-term debt rating: S-1

The short-term debt rating of S-1 is based on the underlying A-/Stable issuer rating and is backed by the robust short-term debt coverage as well as good access to external funding from banks and debt capital markets.

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