Å Energi AS
Kingdom of Norway, Utilities

A- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	35.2x	25.5x	12.0x	12.4x
Scope-adjusted debt/EBITDA	0.9x	1.6x	2.3x	2.2x
Scope-adjusted free operating cash flow/debt	47%	-26%	4%	4%

Rating rationale

The rating reflects a standalone credit assessment of BBB+ and a one-notch uplift based on our assessment of parent support from Å Energi's municipal owners. The standalone credit assessment is driven by Å Energi's solid financial risk profile and competitive positioning as one of the largest integrated utilities in Norway. The company operates a diverse business model across volatile but low-cost, flexible and environmentally-friendly hydropower generation (positive ESG factor), regulated power distribution and energy retail. Besides exposure to volatile power prices, another constraint is the concentration of revenues in one country, which increases vulnerability to events like regulatory changes or adverse weather conditions.

Outlook and rating-change drivers

The revised Outlook to Stable reflects a lower likelihood of credit metrics being sustained at a stronger financial risk profile than A-. This follows a larger-than-expected increase in Scope-adjusted debt over 2023 and reduced forward prices for electricity. It also incorporates the potential for higher investments over the next years as signaled by Å Energi's updated ambition. Overall, the Stable Outlook reflects our view that Scope-adjusted debt/EBITDA will be between 2.0x-2.5x going forward, supported by good internal financing capacity with free operating cash flow expected to remain positive over time.

A positive rating action may be possible if Scope-adjusted debt/EBITDA is sustained at below 2.0x.

A negative rating action may be triggered if Scope-adjusted debt/EBITDA weakens to well above 3.0x on a sustained basis. This could be driven by higher investments well beyond our current rating case and/or reduced power prices. The loss of GRE status (remote) would also lead to ratings pressure.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
16 May 2024	Outlook change	A-/Stable
5 Jun 2023	Upgrade	A-/Positive
6 Sep 2022	Outlook change	BBB+/Positive

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 Rating Methodology; July 2023

Related Research

Energy Insight Europe; July 2023

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

Telecommunication sector credit outlook stable on resilient cash flow; February 2024

ESG considerations for the credit ratings of utilities; April 2021

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Bloomberg: RESP SCOP

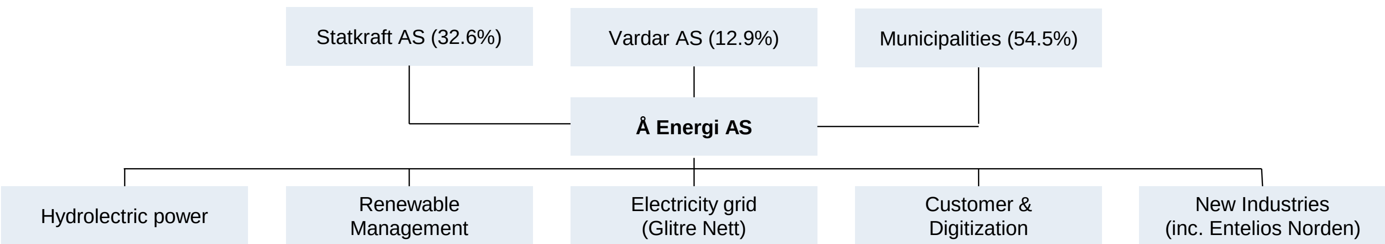
Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Vertically integrated business model with hydropower generation, power distribution and energy retail • Low-cost, flexible and environmentally friendly hydropower generation (positive ESG factor) with annual mean volumes of 11.3 TWh • Predictable cash flow in Glitre Nett – Norway's second largest power grid operator with 320,000 customers • Strong profitability and efficiency • Good credit metrics and standing in capital markets • Good economic and demographic growth prospects of service territory • GRE status: long-term, committed municipality owners which are jointly organised and have the capacity and willingness to provide financial support if needed	• Exposure to volatile power prices for unhedged power generation volumes • Relatively large investment ambitions in the next few years with a ramp-up of capex to an average level of NOK 3bn in 2024-2028 • Negative discretionary cash flow expected in the short to medium term, given our view that Å Energi will maintain its dividend policy • Concentration of revenues in Norway, increasing the vulnerability to events like regulatory changes or adverse weather conditions

Positive rating-change drivers	Negative rating-change drivers
• Leverage (Scope-adjusted debt/EBITDA) sustained at below 2.0x	• Weakened financial risk profile with leverage (Scope-adjusted debt/EBITDA) sustained at well above 3.0x • Loss of GRE status (remote)

Corporate profile

Figure 1: Simplified organisational and ownership structure



Sources: Å Energi, Scope

Å Energi (previously Agder Energi) became the largest integrated utility in Norway after merging with Glitre Energi in late 2022. Its core activities consist of hydropower generation, power distribution and energy retail. In addition, the company is engaged in various green ventures and it holds an interest in fiber-optic infrastructure via a minority stake in Viken Fiber.

The largest shareholder in Å Energi is Statkraft, via holding company Statkraft Industrial Holding AS, with 32.6%. Vardar owns 12.9% and 31 municipalities in the counties of Agder and Buskerud hold the remaining 54.5%. We define Å Energi as a GRE in accordance with our Government Related Entities Methodology, based on the majority municipal ownership and the essential public services provided by the company within electricity supply.

Financial overview

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	24.8x	35.2x	25.5x	12.0x	12.4x	12.1x
Scope-adjusted debt/EBITDA	1.4x	0.9x	1.6x	2.3x	2.2x	2.2x
Scope-adjusted free operating cash flow/debt	55%	47%	-26%	4%	4%	2%
Scope-adjusted EBITDA in NOK m						
EBITDA[1]	5,574	7,049	8,426	6,251	7,257	7,502
Other items	-	-	-	-	-	-
Scope-adjusted EBITDA	**5,574**	**7,049**	**8,426**	**6,251**	**7,257**	**7,502**
Funds from operations in NOK m						
Scope-adjusted EBITDA	5,574	7,049	8,426	6,251	7,257	7,502
less: (net) cash interest paid	(225)	(200)	(330)	(523)	(585)	(620)
less: cash tax paid per cash flow statement	(139)	(2,735)	(5,779)	(3,467)	(2,616)	(2,747)
Other items[2]	1,935	1,477	(4,319)	79	79	79
Funds from operations (FFO)	**7,145**	**5,591**	**(2,002)**	**2,340**	**4,135**	**4,214**
Free operating cash flow in NOK m						
Funds from operations	7,145	5,591	(2,002)	2,340	4,135	4,214
Change in working capital	(1,755)	(1,564)	129	380	115	(9)
less: capital expenditure (net)	(1,163)	(881)	(1,470)	(2,100)	(3,500)	(3,750)
less: lease amortisation	(53)	(61)	(84)	(84)	(84)	(84)
Free operating cash flow (FOCF)	**4,174**	**3,085**	**(3,427)**	**537**	**666**	**371**
Net cash interest paid in NOK m						
Net cash interest per cash flow statement	225	200	330	523	585	620
Other items	-	-	-	-	-	-
Net cash interest paid	**225**	**200**	**330**	**523**	**585**	**620**
Scope-adjusted debt in NOK m						
Reported gross financial debt	9,030	10,912	13,390	15,684	16,809	17,889
less: cash and cash equivalents	(1,415)	(4,430)	(104)	(1,486)	(1,156)	(1,514)
add: non-accessible cash	8	15	9	9	9	9
add: pension adjustment	-	-	-	-	-	-
Other items	-	-	-	-	-	-
Scope-adjusted debt	**7,623**	**6,497**	**13,295**	**14,207**	**15,662**	**16,384**

[1] EBITDA is adjusted for unrealised gains and losses on electricity and currency contracts.
[2] Includes cash settlements related to the hedging activities of Entelios Norden.

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Environmental, social and governance (ESG) profile[3]

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 low-cost renewable energy generation

As a hydropower generator, Å Energi has a favourable ESG profile, highlighted by very efficient generation and a well below-average carbon intensity of 1gCO_2e/kWh. This, and the high utilisation factors of its hydro assets, should support future cash flow and access to funding and also lower the risk of headwinds from regulation and political interference with regard to environmental factors. The exposure to hydropower generation also guarantees Å Energi's consistent GRE status.

Regulatory and reputational risks

Å Energi is exposed to political and regulatory risk as it provides profitable, critical public services such as infrastructure for electricity supply. This has been illustrated by Norway's unpredictable taxation framework for power generators in recent years. However, we still assess the overall framework conditions for utilities in Norway as adequately stable.

Very strong ESG rating

Å Energi has a well-integrated ESG framework and ambitions, including the publication of green financing reports. It has also obtained an ESG Second Party Opinion from Cicero, attaining a 'Dark Green Rating' (the highest possible outcome). The company has issued several green bonds with proceeds earmarked for low-carbon solutions and climate change adaptation.

No governance issues

The company applies the governance principles recommended in Norwegian market standards and we have not identified any negative credit-relevant factors relating to corporate governance.

[3] 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+

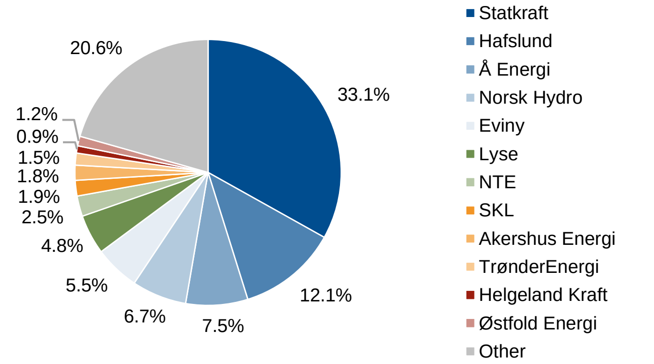
Unchanged business risk profile

The BBB+ business risk profile has not changed in the past 12 months and is driven by Å Energi's position as the largest vertically integrated utility in Norway, covering the full electricity value chain via activities in hydropower generation, power distribution and energy retail. The main constraints are exposure to the volatility of power prices and the limited geographical diversification of assets outside Norway. Å Energi's current investment focus is to upgrade the electricity grid and expand the installed capacity and volumes of its hydropower portfolio. However, some funds may be allocated to other renewable energy technologies or various green ventures (e.g. batteries).

Exposure to unregulated generation constrains blended industry risk

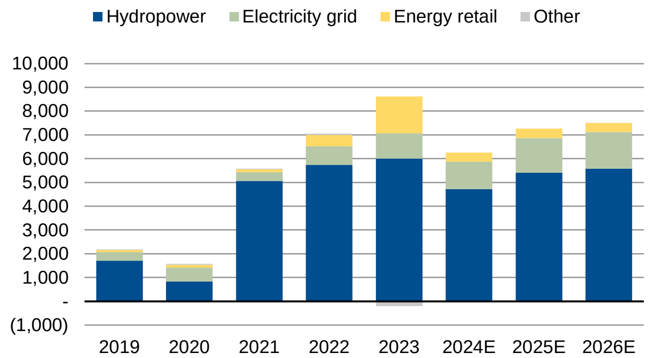
We have revised our assumptions for long-term normalised EBITDA contributions. These were previously 80% from hydropower generation (industry risk: BB) and 15% from power distribution (industry risk: AA), and are now 75% and 20% respectively, with the remaining 5% still from energy retail (industry risk BBB). Overall, this results in an unchanged, but slightly stronger, blended industry risk profile of BBB-.

Figure 2: Estimated market shares in Norwegian hydropower generation



Sources: NVE-RME, Scope

Figure 3: EBITDA breakdown by utility segment, NOK m



Sources: Å Energi, Scope estimates

Flexible hydropower generation

Å Energi is the third largest hydropower generator in Norway, generating around 11.3 TWh of electricity per year under normal conditions from a portfolio of 73 wholly or partially owned hydro plants with an installed capacity of 2,400 MW. The company's generation activities are more or less emission-free and are favourably placed in the merit order due to the low marginal cost of hydropower. Å Energi also has water reservoirs with a combined storage capacity of 6.3 TWh, providing the ability to optimise generation towards peak-load hours or periods with low output from intermittent capacities. The benefit of this flexibility will likely increase going forward with more wind and solar entering the energy mix. Combined, all of these factors should support the utilisation and achieved prices of Å Energi's power plants while also ruling out transition or stranded asset risk.

Monopolistic power grid operations with more than 320,000 customers

Å Energi's business risk profile benefits from exposure to power distribution via the fully owned subsidiary Glitre Nett – Norway's second largest distribution grid operator with 320,000 customers within the concession area in the Agder and Buskerud counties in southern and southeastern Norway. This business area is associated with low business risks given the monopoly position and transparent Norwegian regulatory framework. Tariffs are reviewed regularly and based on a two-year backward-oriented approach, ensuring a timely cost coverage with operators also being granted a defined return on invested capital. We therefore consider the power distribution operations to be a stabilising force and a robust source of long-term cash flow for the overall business.

Retail volumes of 20-30 TWh p.a. result in solid downstream outreach

Entelios Norden makes Å Energi one of the largest Nordic energy retailers focused on the B2B market with around 23 TWh under management. The downstream activities also include around 320,000 household customers in Å Strøm. The sizeable energy retail business contributes relatively low-risk cash flow over time as activities are largely hedged, limiting the risk of material losses.

Good diversification

Overall, diversification is good. Besides its integrated business model, Å Energi has a broad portfolio of 73 power plants with the three largest constituting less than one quarter of generation capacity. The company's assets are concentrated in the NO1 and NO2 bidding zones in southern Norway. This limits geographical diversification, making Å Energi vulnerable to events such as regulatory changes or adverse weather conditions. In terms of pricing risk, the regional focus is somewhat mitigated by interconnectors to European and UK power markets.

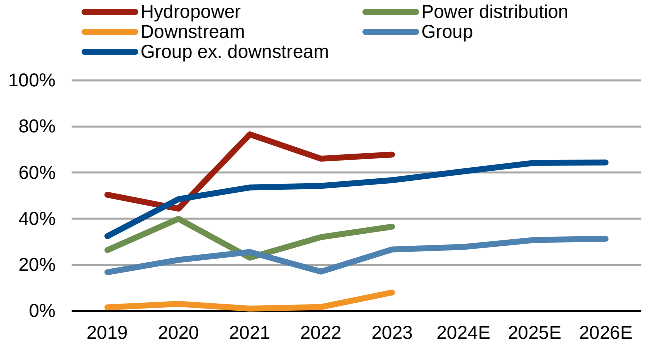
Strong profitability and efficiency

Å Energi has above-average profitability and efficiency within our peer group of integrated European utilities. This is supported by the low and somewhat volume-dependent operating cost in hydropower generation, providing a consistently high margin. The group EBITDA margin has been around 20%-30% in recent years but is strongly diluted by the low-risk downstream activities in Entelios Norden. The aggregated EBITDA margin for the company's combined upstream and midstream exposure (i.e. hydropower and power distribution) reached almost 60% in 2023. Electricity futures suggest that power prices in the NO1 and NO2 bidding zones will remain above the pre-2021 average of around EUR 30/MWh. Coupled with legacy hedges rolling out of the hedge portfolio and Å Energi's ability to take advantage of increased short-term price variations given its flexible hydro plants, this should enable the company to capitalise on the changed pricing environment going forward.

Scope-adjusted ROCE of 15%-20%

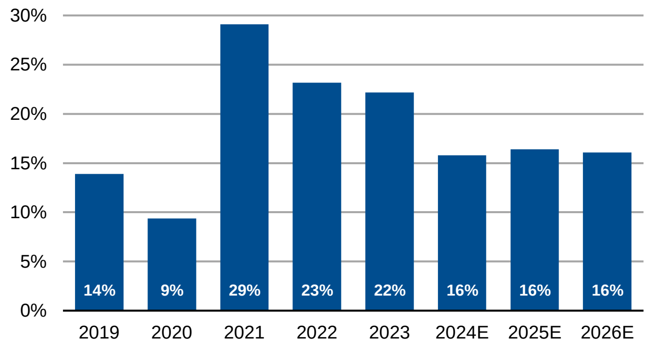
We forecast that Scope-adjusted ROCE will stay between 15%-20% in 2024-26. This is a solid level, especially considering the revalued balance sheet in 2022 and the high asset intensity in hydropower generation and power distribution.

Figure 4: EBITDA margin overview



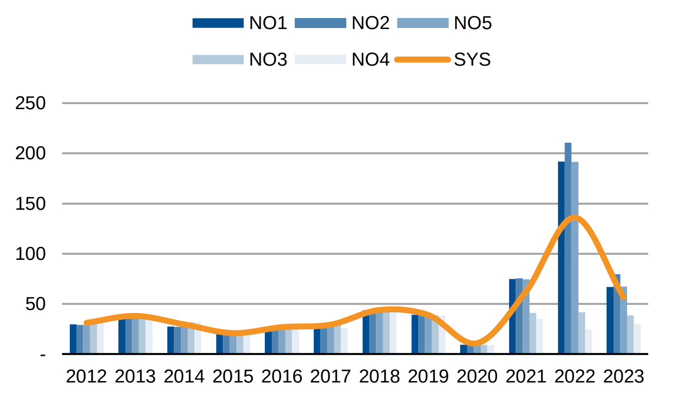
Sources: Å Energi, Scope estimates

Figure 5: Scope-adjusted ROCE



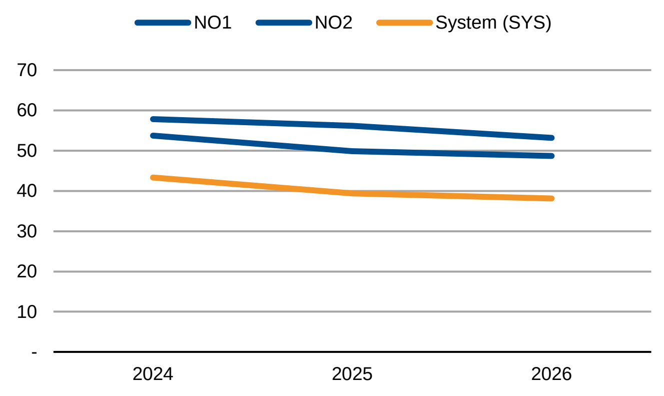
Sources: Å Energi, Scope estimates

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



Sources: Nordpool, Scope

Figure 7: Forward prices for electricity as of April 2024, EUR/MWh



Sources: Å Energi, NASDAQ, Scope

Financial risk profile: A-

In order to assess Å Energi's creditworthiness, we look at key credit metrics such as leverage and debt protection, supplemented by an assessment of internal funding capacity and liquidity as outlined in our European Utilities Rating Methodology.

Glitre Energi included in financial accounts since December 2022

Glitre Energi has been included in financial accounts since December 2022 following the merger completed in November 2022. We therefore regard credit metrics and financials prior to 2023 as somewhat less relevant.

Our main assumptions are:

- NO1 and NO2 power price of around NOK 600/MWh in 2024-2026
- Stabilisation of hydropower volumes around the annual mean generation of 11.3 TWh
- EBITDA for Glitre Nett of NOK 1.1bn-1.5bn per annum in 2024-2026 and annual EBITDA from other activities of around NOK 0.4bn
- Capex averaging around NOK 3bn per annum in 2024-2026
- Dividends in line with communicated payout policy

Unchanged financial risk profile

Å Energi's financial risk profile at A- reflects continued solid credit metrics and good internal financing capacity despite the impact of reduced forward prices for electricity and the expectation of more capex over the next few years. However, we note that credit metrics are somewhat weaker compared to those in our previous rating review.

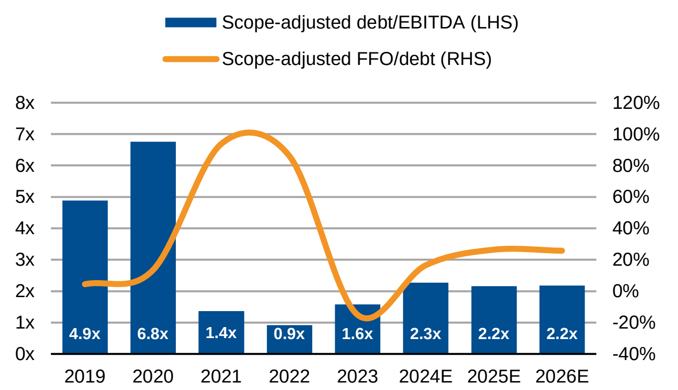
Reversion of below-normal debt in 2022

Scope-adjusted debt increased to NOK 13.3bn in 2023 after being at a below-normal level of NOK 6.5bn in 2022 due to periodisation effects in Norway's taxation (incurred taxes are paid in the subsequent year) and the hedging setup in Entelios Norden. However, the increase was larger than previously anticipated by us as a result of weaker financial performance in 2023 following a faster-than-expected normalisation of power prices and high investments.

Leverage expected to settle around 2.0x-2.5x over the medium term

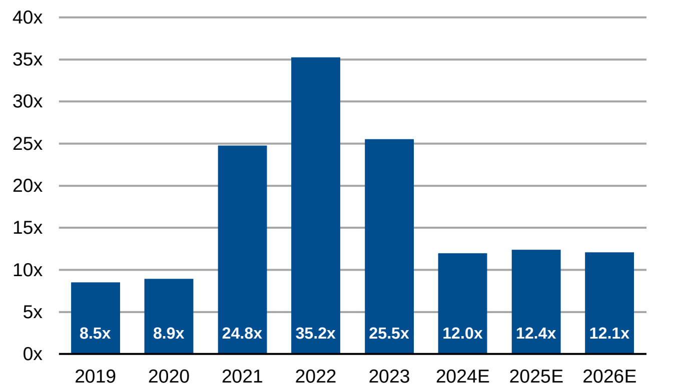
Given our updated assumptions, we forecast that Å Energi will generate an average Scope-adjusted EBITDA of around NOK 7bn in 2024-2026, leading to funds from operations of about NOK 2bn in 2024 and NOK 4bn in 2025-2026. This should enable the company to fund increased capex with ongoing operating cash flow. We also expect Å Energi to maintain its dividend policy, leading to negative discretionary cash flow. Scope-adjusted debt is therefore expected to increase moderately over the next years. As a result, we project that Å Energi's leverage – as measured by Scope-adjusted debt/EBITDA – will settle at 2.0x-2.5x over the medium term, up from 1.6x in 2023.

Figure 8: Leverage



Sources: Å Energi, Scope estimates

Figure 9: Interest cover



Sources: Å Energi, Scope estimates

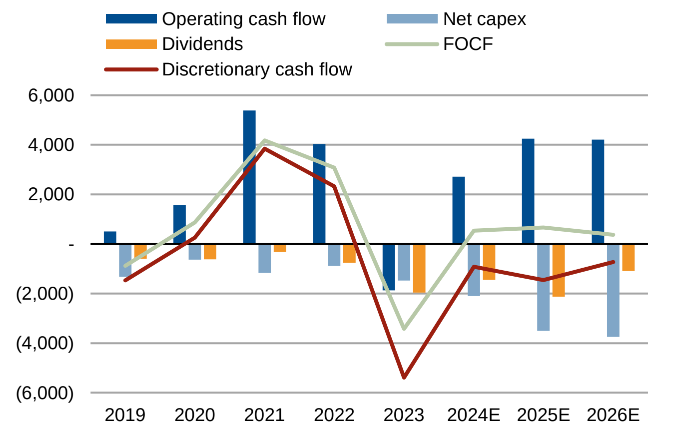
Strong interest cover

We forecast interest cover at a strong level of above 10x, supported by some exposure to fixed-rate debt, helping to offset higher interest and increased debt levels.

Good internal funding capacity

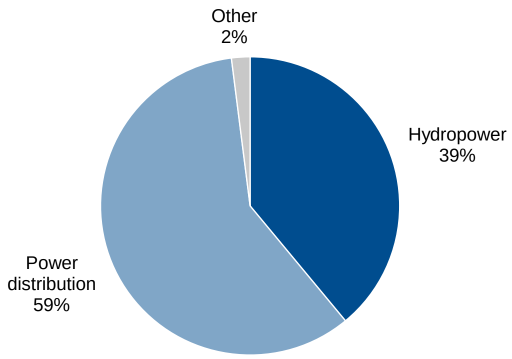
Å Energi's communicated capex ambition from April 2024 amounts to NOK 15bn in 2024-2028, an increase of approximately 50% compared with last year's ambition of NOK 10bn for the 2023-2027 period. Most of the funds will continue to be allocated to the electricity network and hydropower businesses (Figure 11), half of which will be reinvestments. We therefore expect a gradual step-up of capex in the coming years. Nevertheless, internal financing capacity remain good, with FOCF expected to be positive in each of the years 2024-2026. Over 2021-2026, we estimate average FOCF of around NOK 0.9bn.

Figure 10: Cash flow overview, NOK m



Sources: Å Energi, Scope estimates

Figure 11: Investments by business area, 2024-2028



Sources: Å Energi's April 2024 Investor Presentation, Scope

Periodisation effects in cash flow

Å Energi's cash flow is impacted by periodisation effects due to the time-lag in Norway's taxation (incurred taxes are paid in the subsequent year) and the hedging setup in

Entelios Norden[4]. These effects can make cash flow more volatile than underlying performance, as exemplified by the large swings displayed in Figure 10. However, we consider this risk to be adequately managed by Å Energi through its liquidity management.

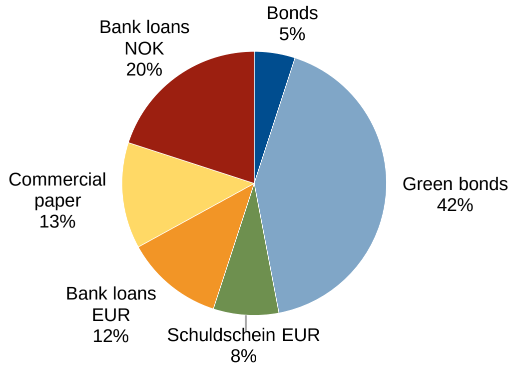
Adequate liquidity

Å Energi's liquidity is adequate. While liquidity (internal and external) at year-end 2023 was insufficient to cover debt maturities in 2024, this is not a major concern given the company's very good access to bank and capital markets financing.

No financial covenants

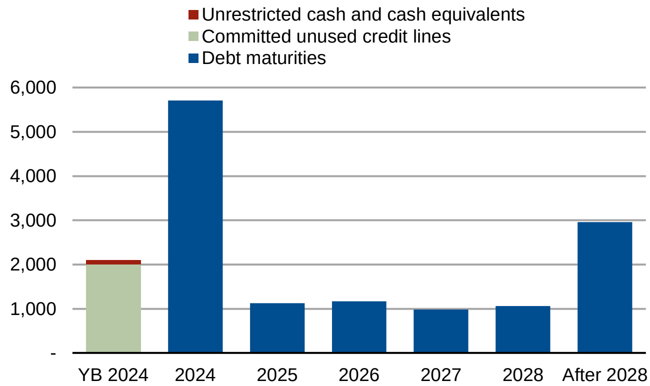
As regards covenants, the company does not have any financial covenants pertaining to outstanding debt.

Figure 12: Diversified funding structure as of April 2024



Sources: Å Energi, Scope

Figure 13: Debt maturity profile (NOK m), YE2023



Sources: Å Energi, Scope

Balance in NOK m	2023	2024E	2025E
Unrestricted cash (t-1)	4,415	95	1,477
Open committed credit lines (t-1)	3,500	2,000	2,000
FOCF (t)	(3,427)	537	666
Short-term debt (t-1)	3,074	5,706	1,125
Coverage	**146%**	**46%**	**368%**

Supplementary rating drivers: +1 notch

One-notch uplift for parent support

The issuer rating incorporates a one-notch uplift to the standalone credit assessment of BBB+ due to the company's status as a GRE. We have applied a bottom-up approach using the framework outlined in our Government Related Entities Methodology. The one-notch uplift reflects the public sponsor's capacity and willingness to provide support. Å Energi is owned by Statkraft (32.6%), a group of 31 municipalities within Å Energi's service territory (54.5%), and Vardar AS (12.9%). Statkraft is in turn fully owned by the Norwegian state (rated AAA/Stable) while Vardar is fully owned by 19 municipalities. We have disregarded the ownership of Statkraft in our assessment of parent support given our view that incentives to provide financial support are likely to be more pronounced among the municipality owners.

We view the municipalities as a single shareholder, similar to our approach for other regional Norwegian utilities with several municipality owners. The public sponsor's

[4] There can be a mismatch in cash flow between periods because customer contracts are settled upon delivery while exchange-traded futures used to hedge power price exposure on customer contracts are settled daily. This is particularly evident in times of significant price fluctuations, such as during 2022-2023. when there was major cash receipts in 2022 from the exchange-traded futures while the related cash outflow first occurred in 2023 upon settlement of belonging customer contracts.

creditworthiness is assessed to be materially higher than Å Energi's standalone credit assessment, signaling solid capacity for a credit uplift. We believe that Å Energi plays an important role in the policy objectives of its sponsor due to its electricity grid infrastructure and significance in electricity supply. In addition, hydropower generation in Norway is required by law to be at least two-thirds owned by the state or municipalities.

The rating uplift on Å Energi's standalone credit assessment is limited to one notch based on: i) the large exposure to competitive utility segments, i.e. hydropower generation and energy retail; and ii) the peer context with national utility incumbents Statkraft and Statnett, which can be considered more system critical and have direct, full state ownership. The one-notch uplift is in line with other Scope-rated Norwegian utilities with majority or full municipal ownership but no explicit guarantees on their debt or financial support.

Credit-neutral financial policy

There is no impact from Å Energi's financial policy. The company aims to pay dividends corresponding to a level of 70% of net profit over time, with payments coming with a two-year time lag. We regard positively Å Energi's goal of sustaining a credit rating of at least BBB+, giving comfort that management will take measures to preserve the credit metrics needed for this rating level.

Long-term and short-term debt ratings

Senior unsecured debt rating: A-

Senior unsecured debt is rated A-, in line with 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 adequate short-term debt coverage and better than adequate access to external financing from banks and debt capital markets.

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