28 October 2024

Corporates

Axpo Holding AG
Swiss Confederation, Utilities

S-1

Key metrics

Scope credit ratios	FY 2022	FY 2023	Scope estimates FY 2024E	Scope estimates FY 2025E
Scope-adjusted EBITDA/interest cover	3.1x	66.1x	28.6x	17.5x
Scope-adjusted debt/EBITDA	7.5x	0.1x	Net cash	0.2x
Scope-adjusted free operating cash flow/debt	-55%	526%	Net cash	90%
Liquidity	> 200%	> 200%	> 200%	> 200%

Note: Axpo's financial year (FY) starts on 1 October (t) and ends on 30 September (t+1)

Rating rationale

The S-1 short-term debt rating reflects the strong credit quality of the issuers, supported by the good business risk profile and the strong financial risk profile of Axpo Holding paired with the group's status as a government-related entity, which guarantees strong and extensive public support amid potential liquidity needs.

Axpo Holding AG provides an unconditional and irrevocable guarantee to the Negotiable EUropean Commercial Paper (NEU CP) Program of Axpo International SA, started in December 2022 and promoted by Banque de France.

Rating history

Date	Rating action	Rating
28 Oct 2024	Affirmation	S-1
4 Dec 2023	Affirmation	S-1
8 Dec 2022	New Rating	S-1

Ratings & Outlook

Short-term debt S-1

Analyst

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Related Methodologies

General Corporate Rating Methodology; Oct 2023

European Utilities Rating Methodology, Jun 2024

Government Related Entities Rating Methodology, Sep 2024

Related Research

ESG considerations for the credit ratings of utilities; April 2021

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

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Overall solid financial risk profile, with large cash availability and leverage (Scope-adjusted debt/EBITDA) expected to remain below 1.0x • Vertically integrated business model with leadership in Switzerland for power generation (both in general and from renewables) • Solid competitive position in domestic market for energy supply and good presence throughout Europe (one of the main European players in energy trading, among other) • GRE status: wide public support both from Swiss government and cantons (only in case of need), due to its role as a 'systemically-relevant' utility in Switzerland • One of the main European players in the field of renewable energies, with comparatively low CO2 footprint of the power generation fleet and strong position in the merit order (ESG factor) • Adequate historical profitability levels, mostly sustained by power generation business	• Limited growth opportunities in the domestic market for power generation (nuclear phase out and saturation of hydropower) and retail (competition with two players) • Profitability affected by relatively high volatility over the past, while expected to decrease in the following years • Limited geographical diversification outside Switzerland (despite increasing contribution from other countries) • Blended IRP at BBB-, mainly constrained by non-regulated power generation (especially nuclear and hydropower) due to industry-inherent volatility of achievable power prices • Exposure to power generation from nuclear assets poses some regulatory, environmental and political risks (ESG factor) considering the future phasing out of such technology in Switzerland and EU

Positive rating-change drivers	Negative rating-change drivers
• Leverage (Scope-adjusted debt/EBITDA) remaining well below 1.0x on a sustained basis	• Reversion of the Outlook to Stable: leverage not remaining well below 1.0x on a sustained basis • Rating pressure as expressed through a Negative Outlook or even downgrade (albeit deemed remote currently): strong deterioration in leverage, i.e. if Scope-adjusted debt/EBITDA increased to above 2.0x • Any change affecting current public support framework (GRE status)

Corporate profile

Founded in 1914 as Nordostschweizerische Kraftwerke AG by Northeastern cantons of Switzerland, Axpo has become Switzerland's largest producer of renewable energy, as well as an international leader in energy trading and the marketing of solar and wind power. Axpo Group is defined as an integrated utility engaged in several activities within the energy value chain (i.e. electricity production, electricity distribution, trading with electricity, natural gas, other commodities, certificates and energy-based financial products, as well as electricity sales and services). In particular, the company operates through three business segments: i) Generation & Distribution operates and expands the Axpo power plant portfolio in Switzerland and abroad; ii) Trading & Sales encompasses energy trading, risk and portfolio management, customer service and the deployment of the power plant portfolio; iii) CKW is a subsidiary that supplies energy to Central Switzerland and ensures optimal use of hydro power in this region through existing exchange agreements.

We define Axpo as a government related entity in line with our Government Related Entity Rating Methodology. This is based on its fully public ownership (cantons like Zurich and Aargau, along with canton utilities) and the essential public services provided in Switzerland by the group, which can also be underpinned by the classification as a systemically-relevant utility.

Financial overview

				Scope estimates		
Scope credit ratios	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024E**	**FY 2025E**	**FY 2026E**
Scope-adjusted EBITDA/interest cover	4.2x	3.1x	66.1x	28.6x	17.5x	11.3x
Scope-adjusted debt/EBITDA	2.9x	7.5x	0.1x	Net cash	0.2x	0.3x
Scope-adjusted free operating cash flow/debt	0%	-55%	526%	Net cash	90%	-21%
Liquidity	> 200%	> 200%	> 200%	> 200%	> 200%	> 200%
Scope-adjusted EBITDA in CHF m						
EBITDA	1,126	(579)	5,260	2,267	1,469	1,364
Management adjustments (for one-off items)	(247)	1,343	(2,100)	-	-	-
Disposal proceeds fixed assets	(157)	(166)	(169)	(3)	(3)	(3)
Share of result of partner plants and other associates	(74)	(103)	(88)	(72)	(72)	(72)
Associate dividends received	47	79	63	12	12	12
Scope-adjusted EBITDA	**696**	**574**	**2,966**	**2,203**	**1,405**	**1,300**
Free operating cash flow in CHF m						
Funds from operations	3,358	5,992	(6,930)	173	992	915
Change in working capital	(2,748)	(7,894)	8,604	631	(195)	(158)
Non-operating cash flow	(136)	(55)	40	215	65	15
less: capital expenditure (net)	(448)	(397)	(440)	(434)	(621)	(820)
less: lease amortisation	(19)	(19)	(19)	(19)	(19)	(19)
Free operating cash flow	**7**	**(2,374)**	**1,255**	**566**	**221**	**(67)**
Net cash interest paid in CHF m						
Net cash interest per cash flow statement	84	100	(39)	(7)	(3)	32
Interest expense pensions	0	(0)	(0)	(0)	(0)	(0)
Interests attributable to asset retirement obligations	82	83	84	84	84	84
Net cash interest paid	**167**	**183**	**45**	**77**	**80**	**116**
Scope-adjusted debt in CHF m						
Reported gross financial debt	4,492	7,745	7,152	6,117	5,090	4,564
less: cash and cash equivalents	(2,559)	(3,917)	(7,394)	(6,693)	(5,319)	(4,725)
add: asset retirement obligation (net)	59	478	476	476	476	476
Other items (contingencies)	21	9	5	-	-	-
Scope-adjusted debt	**2,013**	**4,314**	**238**	**(101)**	**247**	**315**

Axpo Holding AG

Swiss Confederation, Utilities

Table of Content

Environmental, social and governance (ESG) profile[1]

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)

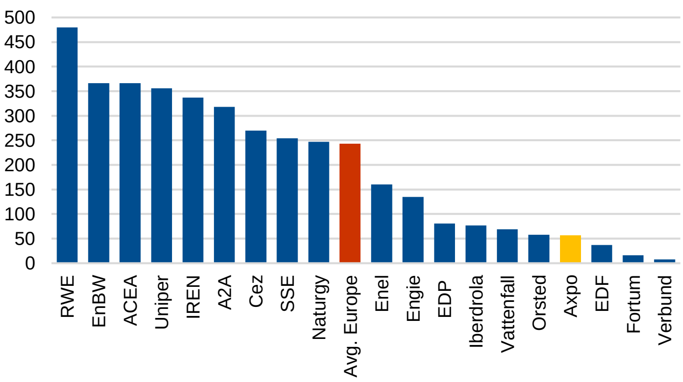
Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

Credit-supportive leadership in renewables and comparatively low CO_2 footprint

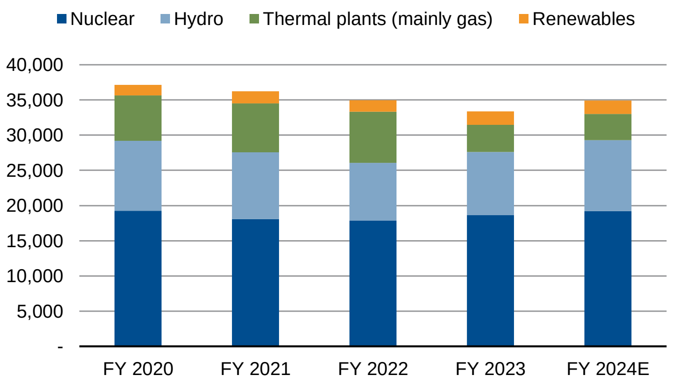
Axpo is leader in power generation from renewables in Switzerland, especially thanks to its experience and expertise in hydropower technology. Even at the European level, Axpo is one of the main energy companies engaged in renewables and one of the leaders for low carbon footprint among power generators, thanks to its high share of low-carbon electricity production (nuclear and hydro). Axpo reported 56 gCO_2e/kWh in FY 2023, one of the lowest levels among main European power generators and widely below the average (around 240 gCO_2e/kWh), positioning itself as a leader in energy transition and showing a credit-supportive aspect from a ESG perspective.

Figure 1: Carbon footprint of power generators in Europe (gCO_2e/kWh, 2023)



Sources: public information, Scope

Figure 2: Electricity generation breakdown by type (GWh)



Sources: Axpo, Scope

[1] 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.

Potential ESG risk arising from large exposure to nuclear

At the same time, the group's large exposure to nuclear power generation (around 50% of total production) poses some regulatory, environmental and political risks. In the long term, the potential phasing out of such technology could represent a risk for the company (especially social, as highlighted in the table above) and a big challenge as Axpo aspires to shift its business model towards decarbonised power generation.

Supportive investment strategy to enable the energy transition

Axpo is highly committed to ESG goals, as demonstrated by the results achieved so far. Especially in relation to the environmental factor, Axpo is currently facing the challenge of energy transition, with strong planned investments on renewables – especially wind and solar – and new clean technologies (i.e. hydrogen, batteries). We expect these investments to total about CHF 2.0bn by 2029.

Business risk profile

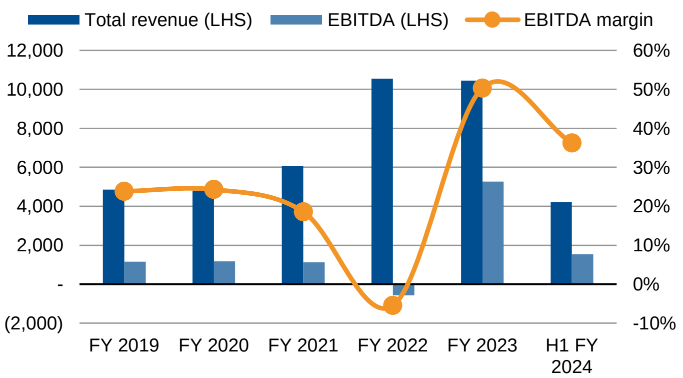
Blended industry risk profile

Given Axpo's exposure to several utility segments, which are driven by different fundamentals (i.e. regulated versus unregulated and upstream versus downstream operations), our industry assessment reflects a blended industry risk. We apply a normalised segment split of 51% for non-regulated power generation, 38% for retail, 6% for regulated power generation and 5% for trading, based on historical EBITDA contributions. This assessment is constrained by Axpo's major exposure to nuclear power generation (non-regulated activity as well as a technology envisaged to be phased out in the long term), even though increasing contribution from highly profitable and regulated power generation from renewables will likely sustain a stronger industry risk profile in the coming years.

Solid competitive position in domestic market, constrained by low growth opportunities

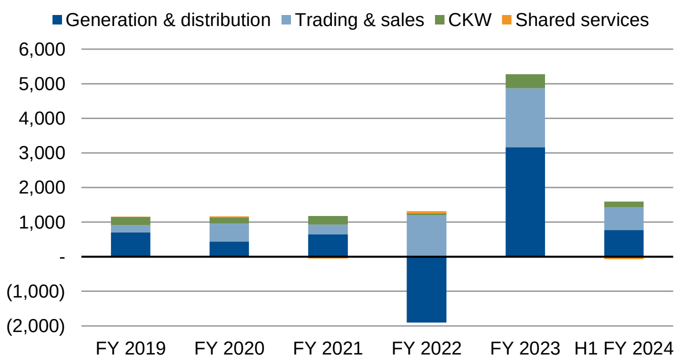
Axpo's business risk profile is based on its solid competitive position, especially in Switzerland, where the group is the largest overall producer of electricity accounting for roughly 40% of generated power as well as the leader in hydropower (roughly 30% of its total production) and in overall renewable energy. We expect business volumes to be stable in the coming years, given limited domestic growth opportunities due to the saturation of the retail market and power generation technologies like nuclear and hydro, as well as intense competition from established utilities across Europe. Business development abroad is also subordinated to the shareholders' (political) strategic decisions.

Figure 3: Reported revenue and EBITDA (CHF m) versus EBITDA margin reported



Sources: Axpo, Scope

Figure 4: EBITDA breakdown by business segment (CHF m)



Sources: Axpo, Scope

Fully diversified business model across the value chain

Axpo is fully integrated as it covers almost all parts of a power utility value chain from generation to distribution and B2C retail. As seen in our assessment of industry risks for the different utility sub-segments (non-regulated generation: BB; retail: BBB; trading: BB and regulated generation: A), the underlying business fundamentals of the different segments are not fully correlated. The company's diversification across these segments is credit-supportive.

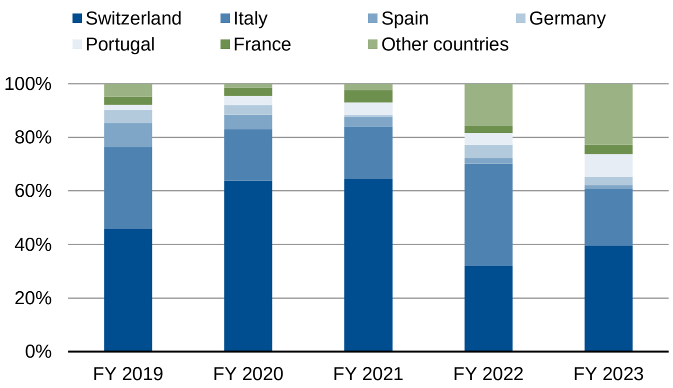
Significant dependency on nuclear despite the growth of renewables

In FY 2024, Axpo is expected to generate about 56% of electricity from its nuclear power plants in Switzerland and abroad. Hydropower remains an important part of its energy production, albeit less predictable as it is affected by weather conditions. Overall, new renewables (i.e. solar, wind) are growing but still show a negligible contribution (roughly 6% of total production). The group is therefore significantly dependent on one major energy source, which comes with ESG-related risks and is already intended to be phased out in the medium term.

Wide and diversified customer base with relatively large outreach

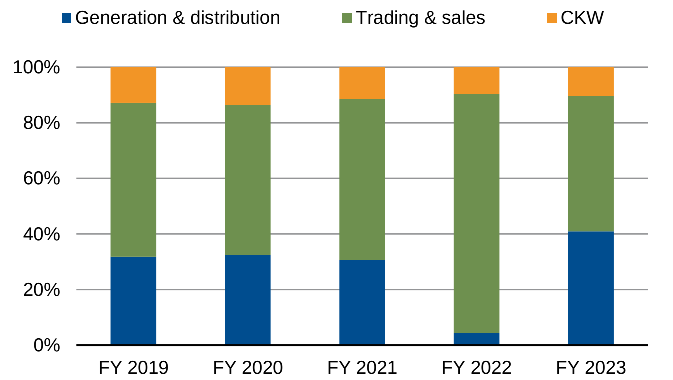
In relation to end-customer markets (B2B and B2C), Axpo directly supplies large companies, SMEs and energy resellers, as well as private households and agricultural businesses in Switzerland. The diversification of the group's customer base is credit-supportive.

Figure 5: Revenue breakdown by country (%)



Sources: Axpo, Scope

Figure 6: Revenues breakdown by business segment (%)



Sources: Axpo, Scope

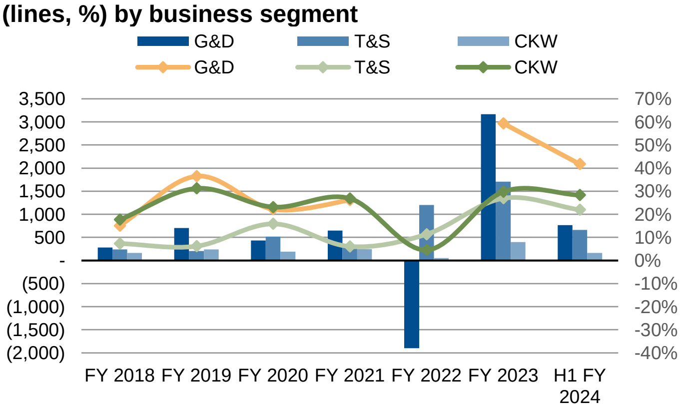
Limited geographical diversification outside Switzerland despite good penetration of certain markets

Axpo operates in 32 countries and more than 40 markets, mainly in Europe. Nevertheless, the domestic market and Italy remain preeminent, representing around 60% of revenue in FY 2023 (against an average of 75% over the recent past). However, the group reports a good and increasing penetration even in other main countries, especially in southern Europe and the Nordics, actively developing its business in France and Germany. Activities in other continents (primarily US and Asia) are negligible. Overall, despite a good penetration of certain European markets, the concentration in two primary markets is a moderate constraint in terms of geographical diversification.

Profitability expected to stabilise in the coming years after some volatility

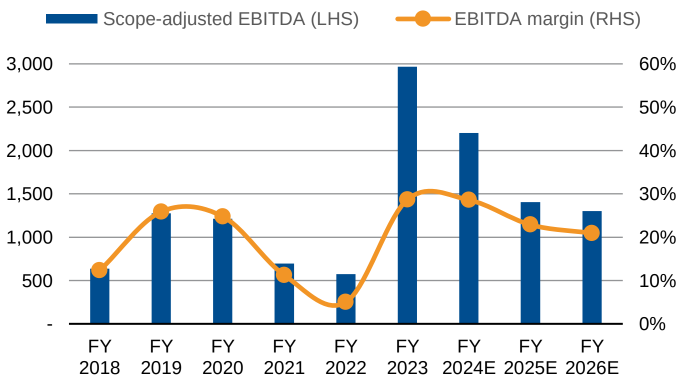
In recent years, Axpo has experienced some volatility in profitability, mainly due to the unprecedented turmoil in the energy sector. After the declining trend in FY 2021 and FY 2022, mainly driven by an accounting mismatch on Swiss production and by lower electricity generation volumes, the Scope-adjusted EBITDA margin was exceptionally high in FY 2023 (i.e. 29% versus 5% in FY 2022), boosted by significant gains in trading activity and increasing production from nuclear and hydro power plants. While margins are expected to remain robust in FY 2024, profitability is likely to gradually return to historical levels in the coming years in line with normalising market conditions; however, higher power prices hedged three years in advance will allow to keep Scope-adjusted EBITDA margin solidly above 20%.

Figure 7: EBITDA (columns, CHF m) versus EBITDA margin (lines, %) by business segment



G&D: Generation & Distribution
T&S: Trading & Sales
Sources: Axpo, Scope

Figure 8: Group Scope-adjusted EBITDA (CHF m) and EBITDA margin



Sources: Axpo, Scope estimates

Financial risk profile

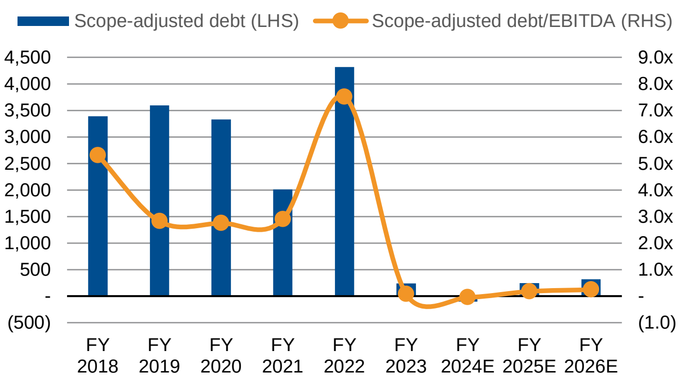
FOCF returning positive in FY 2023 after a temporary deterioration in FY 2022

FOCF considerably deteriorated in FY 2022 (negative CHF 2.4bn), strongly affected by the weakening of margins and the large outflows for cash collateral. In FY 2023, the group returned to a positive and solid FOCF of CHF 1.3bn, mainly sustained by the robust Scope-adjusted EBITDA and the significant release of previously posted cash collateral, reflected in a working capital positive change.

Solid internal financing capacity in the next few years

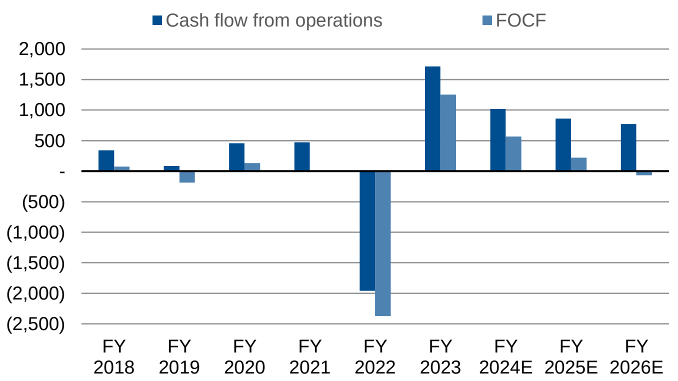
For FY 2024, FOCF is expected to remain positive albeit declining (around CHF 0.6bn), still benefitting from the further release of cash collaterals which should result in another working capital positive change. At the same time, net capex will likely remain stable at around CHF 0.4bn. For the next two years, we foresee an ambitious investment plan with increasing net capex of CHF 0.6bn and CHF 0.8bn respectively, which will put higher pressure on FOCF, however expected to remain positive or around breakeven. This trend, along with historical positive FOCF (except for FY 2022), confirms the group's good capacity to generate sufficient cash to finance its capex needs internally.

Figure 9: Scope-adjusted debt (CHF m) versus Scope-adjusted debt/EBITDA



Sources: Axpo, Scope estimates

Figure 10: Cash flow from operations and FOCF (CHF m)



Sources: Axpo, Scope estimates

Strong improvement of leverage in FY 2023, after the trough in September 2022

Following the temporary deterioration attributable to the unprecedented turmoil on European energy markets during 2022, in FY 2023 Scope-adjusted debt decreased dramatically to CHF 0.2bn (down by CHF 4.1bn YoY), given solid cash flow of the year. This trend, coupled with exceptional margins (Scope-adjusted EBITDA of CHF 3.0bn versus CHF 0.6bn in FY 2022), ultimately led to a record-low leverage of 0.1x (versus 7.5x at FYE 2022).

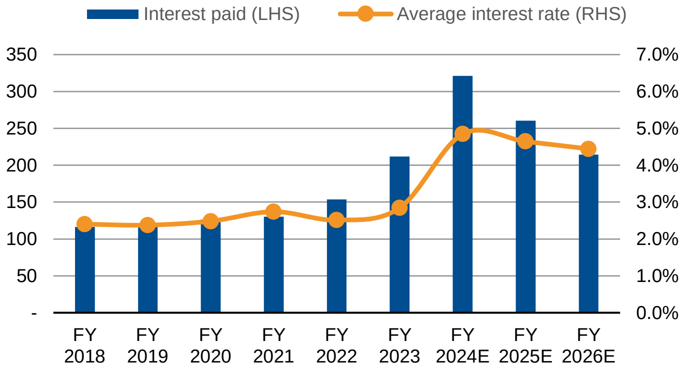
Leverage expected well below 1.0x over the next two years

As described above, the expected positive FOCF mainly sustained by the solid operating results and further cash collateral release would allow a further net debt reduction in FY 2024, which should then bring to a net cash position at September (FYE). In the coming years, although increasing capex and potential dividends will likely lead to higher debt, leverage is expected to remain stable well below 1.0x, also thanks to operating margins maintaining solid levels.

Strengthened debt protection in FY 2023, expected to remain above 10x in the coming years

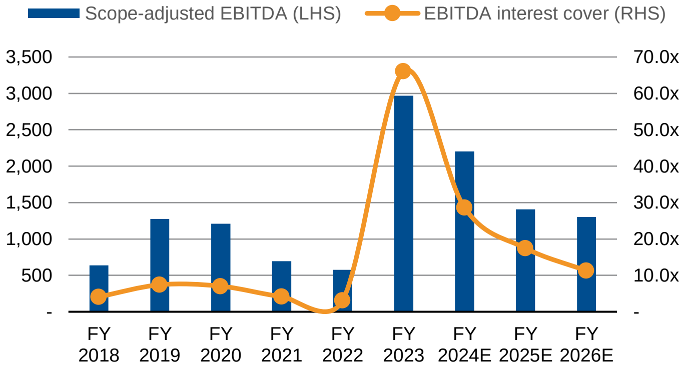
In FY 2023 the aforementioned boost of EBITDA allowed interest cover to peak 66.1x (versus 5x on average over the period FY 2018-22), also thanks to the decreasing Scope-adjusted interest of CHF 45m (versus CHF 183m in previous year). The low net interest was the result of the fruitful and effective treasury optimisation strategy put in place by the company, including the continuous investment of large cash available which generated CHF 212m interest income. In FY 2024 the lower expected EBITDA will likely result in a declining interest cover, estimated at around 29x. The ratio is expected to decrease also in the next two years while remaining above 10x, driven by normalising margins and increasing interest paid for the higher cost of debt.

Figure 11: Interest paid (CHF m) versus average interest rate



Sources: Axpo, Scope estimates

Figure 12: Scope-adjusted EBITDA (CHF m) vs debt protection

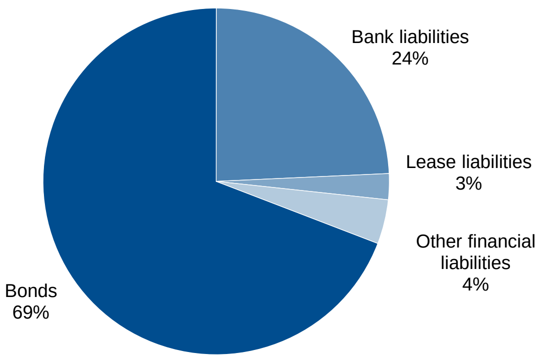


Sources: Axpo, Scope estimates

Solid liquidity profile supported by large cash availability

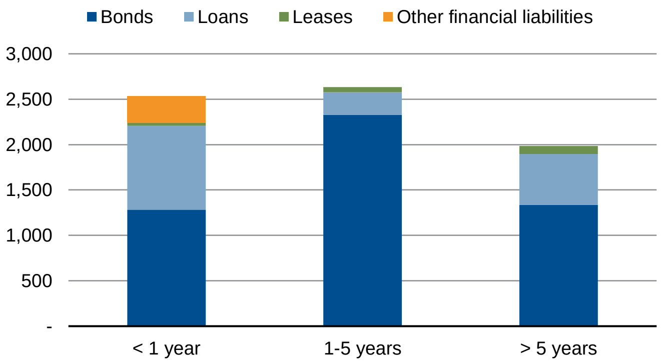
Axpo's internal liquidity ratio has always been considerably above 110%, reflecting low amounts of short-term and long-term debt maturing every year compared to the usual large cash availability of the group. In FY 2023, the internal liquidity ratio was 179%, following the temporary deterioration of previous year due to the exceptionally high working capital absorption. We expect this ratio to by far exceed 110% in FY 2024 and predict comfortable levels even in the following years, supported by positive FOCF as well as available cash and cash equivalents constantly far greater than CHF 4.0bn. When considering a significant amount of committed unused bank facilities, Axpo's overall liquidity profile is even stronger, with liquidity ratios (internal and external) standing sharply above 200%.

Figure 13: Debt composition as of September 2023



Sources: Axpo, Scope

Figure 14: Maturity profile as of September 2023 (CHF m)



Sources: Axpo, Scope

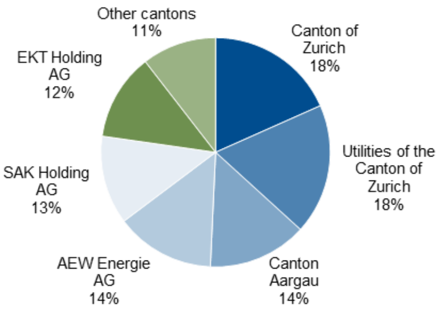
Balance in CHF m	FY 2023	FY 2024E	FY 2025E
Unrestricted cash (t-1)	3,917	7,394	6,693
Committed unused credit lines (t-1)	2,400	4,374	5,300
Free operating cash flow (t)	1,255	566	221
Short-term debt (t-1)	2,890	2,535	1,526
Coverage	**> 200%**	**> 200%**	**> 200%**

Supplementary rating drivers: +2 notches

Credit-neutral financial policy

Management's 'risk appetite' for discretionary spending is low and reflects a prudent approach, as demonstrated by its dividend policy and its M&A activity. Apart from investment dedicated to the development of renewables assets, we do not expect other debt-funded business acquisitions. Furthermore, Axpo's management demonstrates its commitment to keeping credit metrics under control in order to maintain its investment grade profile. Based on these elements, financial policy is still credit-neutral, supporting our view that Axpo's future financial setup is likely to underpin the rating.

Two-notch uplift due to wide public support from Swiss authorities



Axpo is a government-related entity in accordance with our Government Related Entities Rating Methodology. This is based on the full public ownership by Swiss cantons and the essential public services provided by the company, signalled by its status as a systemically relevant utility. Given the positive differential between Axpo's standalone credit assessment of BBB+ on the one hand and the Swiss Confederation's sovereign credit rating and the Canton of Zurich's sub-sovereign rating of **AAA/Stable** on the other, the capacity to provide financial support is high. In light of Axpo's strategic role in the Swiss energy market as a critical power generator and electricity supplier with a strong public interest, we deem the willingness of Swiss authorities to provide support as high, as demonstrated by events in 2022 amid the energy crisis (i.e. CHF 4.0bn credit facilities granted by the Swiss Government). We highlight that in December 2023 the above-mentioned federal credit line was revoked at Axpo's request, while the Federal Act allowing the Swiss utility to apply for subsidiary financial aid remains in force until 31 December 2026. For this reason, we consider the willingness of the Swiss authorities to provide financial support to be unchanged. Based on the above, we have granted again a two-notch uplift to the standalone credit assessment.

Outlook and rating-change drivers for the underlying issuer rating

Outlook: Positive

The **Positive Outlook** reflects our expectation that credit metrics will remain strong, with leverage – measured by Scope-adjusted debt debt/EBITDA – stable well below 1.0x for the next few years, supported by positive free operating cash flow despite normalising margins and increasing capex. The Outlook is also based on our view that potential shareholder support from public authorities will remain unchanged at least until the Federal Act on Subsidiary Financial Aid is in force (i.e. December 2026).

Positive rating-change driver

The **upside scenario** for the rating and Outlook is:

1) Scope-adjusted debt/EBITDA remaining well below 1.0x on a sustained basis, supported by consistently positive free operating cash flow and solid profitability levels.

Negative rating-change driver

The **downside scenarios** for the ratings and Outlooks are (individually or collectively):

1) Scope-adjusted debt/EBITDA not remaining well below 1.0x (reversion of the Outlook to Stable);
2) Sustained deterioration in the company's financial risk profile, albeit deemed remote, as indicated by Scope-adjusted debt/EBITDA ratio above 2.0x;
3) Any change that negatively affects our view of the potential shareholder support from public authorities.

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