

Helgeland Kraft AS

Kingdom of Norway, Utilities



Key metrics

Scope credit ratios	2022	2023	Scope estimates	
			2024E	2025E
Scope-adjusted EBITDA/interest cover	6.5x	7.6x	4.7x	5.3x
Scope-adjusted debt/EBITDA	4.4x	3.3x	4.3x	4.1x
Scope-adjusted free operating cash flow/debt	14%	-4%	-2%	-5%

Rating rationale

Helgeland Kraft's issuer rating is based on a BBB- standalone credit assessment and a one-notch uplift for the utility's status as a government-related entity (GRE).

The unchanged standalone credit assessment reflects Helgeland Kraft's stable business risk profile and strong financial performance in 2023 (Scope-adjusted debt/EBITDA decreased to 3.3x). Our updated base case anticipates more moderate electricity retail margins and a NO4 power price of EUR 30/MWh in the short and medium term, resulting in an estimated EBITDA capacity of around NOK 0.5bn-0.6bn in 2024-2026. Combined with the prospect of higher investments, especially in the grid segment, we consider the most likely leverage development to be a weakening back to slightly above 4x. As a result, we expect credit metrics to remain commensurate with the existing rating considering the unchanged business risk profile.

Outlook and rating-change drivers

The Stable Outlook reflects our expectation that: i) monopolistic, regulated grid operations and efficient, low-cost hydropower generation will contribute with around 90% of Scope-adjusted EBITDA; ii) the company's concession area will remain stable; iii) yearly capital expenditures will increase to around NOK 0.5bn in 2025-2026, driven by investments in the power grid; iv) the company will continue to be owned by Norwegian municipalities, ensuring GRE status.

A positive action could be triggered by an improved financial risk profile, exemplified by Scope-adjusted debt/EBITDA sustained at around 3.5x.

A negative rating action could be triggered by a weaker financial risk profile, exemplified by Scope-adjusted debt/EBITDA sustained above 5.0x. The loss of GRE status could also lead to a downgrade (deemed remote).

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
25 Jun 2024	Affirmation	BBB/Stable
30 Jun 2023	Affirmation	BBB/Stable
4 Aug 2022	New	BBB/Stable

Ratings & Outlook

Issuer	BBB/Stable
Short-term debt	S-2
Senior unsecured debt	BBB

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Related Methodologies

[General Corporate Rating Methodology; October 2023](#)

[European Utilities Rating Methodology; June 2024](#)

[Government Related Entities Rating Methodology; July 2023](#)

Related Research

[Utilities credit outlook: slightly positive, favouring power generators vs grid/network operators; February 2024](#)

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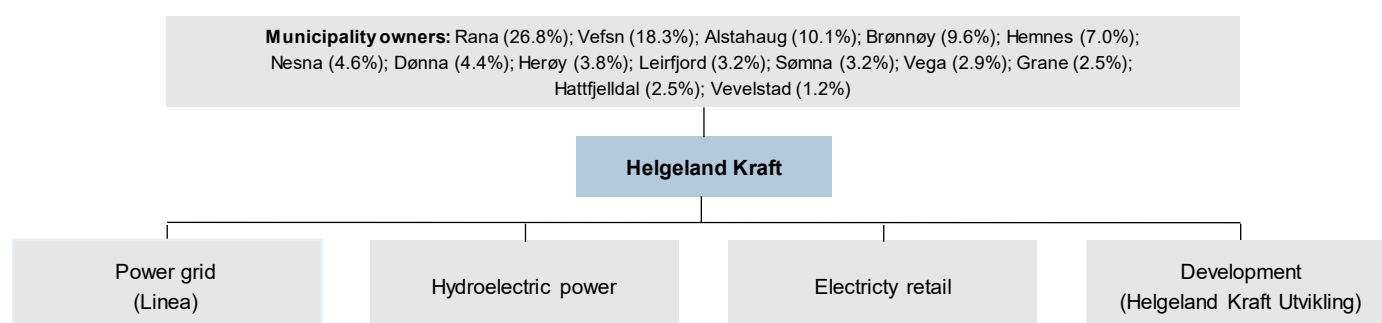
Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
<ul style="list-style-type: none"> Vertically integrated utility with a substantial share of operating profits generated by stable, regulated power distribution Cost-efficient and environmentally-friendly energy generation from hydropower assets with some reservoir capacity (ESG factor: positive) Good profitability and efficiency Good debt protection, as measured by EBITDA/interest cover GRE status: long-term, committed municipal owners with capacity and willingness to provide financial support if needed 	<ul style="list-style-type: none"> Moderate financial risk profile, as exemplified by Scope-adjusted debt/EBITDA of around 4x Cash flow and credit metrics are negatively impacted when power prices are low, as exemplified by FY 2020 and H1 2022 figures Upcoming investment phase in the grid segment, likely to pressure cash flow generation Asset concentration risk in the hydropower portfolio Limited geographical diversification outside the concession area of Helgeland
Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> Stronger financial risk profile, exemplified by Scope-adjusted debt/EBITDA of around 3.5x or below on a sustained basis 	<ul style="list-style-type: none"> Weaker financial risk profile, exemplified by Scope-adjusted debt/EBITDA of above 5.0x on a sustained basis Loss of GRE status (remote)

Corporate profile

Figure 1: Simplified organisational and ownership structure



Sources: Helgeland Kraft, Scope

Helgeland Kraft is an integrated utility operating on the northwest coast of Norway in the Helgeland area. Its core activities are: i) hydropower generation with an annual mean generation of around 1.2 TWh; ii) power distribution serving 47,000 customers; and iii) electricity retail with around 100,000 customers in Norway and Sweden. On a smaller scale, Helgeland Kraft also has a portfolio of long-term investments in associated companies involved in activities related to the core business as well as district heating.

Helgeland Kraft is owned by 14 municipalities, which also constitute its grid concession area, of which the three largest are Rana (26.8%), Vefsn (18.3%) and Alstahaug (10.1%). We define Helgeland Kraft as a GRE in accordance with our Government Related Entities Methodology, based on full municipal ownership and the essential public services provided by the company (e.g. power distribution and power generation from large-scale hydro assets).



Financial overview

				Scope estimates		
Scope credit ratios	2021	2022	2023	2024E	2025E	2026E
Scope-adjusted EBITDA/interest cover	8.5x	6.5x	7.6x	4.7x	5.3x	5.1x
Scope-adjusted debt/EBITDA	4.0x	4.4x	3.3x	4.3x	4.1x	4.3x
Scope-adjusted free operating cash flow/debt	4%	14%	-4%	-2%	-5%	-5%
Scope-adjusted EBITDA in NOK m						
EBITDA	541	476	626	511	582	594
Other items	-	-	-	-	-	-
Scope-adjusted EBITDA	541	476	626	511	582	594
Funds from operations in NOK m						
Scope-adjusted EBITDA	541	476	626	511	582	594
less: (net) cash interest paid	(64)	(74)	(83)	(108)	(111)	(116)
less: cash tax paid per cash flow statement	(7)	(103)	(17)	(109)	(92)	(113)
Other items	(139)	155	(246)	8	6	8
Funds from operations (FFO)	332	455	281	302	385	372
Free operating cash flow in NOK m						
Funds from operations	332	455	281	302	385	372
Change in working capital	(23)	138	(133)	13	(9)	(2)
less: capital expenditure (net)	(221)	(293)	(229)	(350)	(500)	(500)
Free operating cash flow (FOCF)	87	299	(81)	(35)	(124)	(130)
Net cash interest paid in NOK m						
Net cash interest per cash flow statement	64	74	83	108	111	116
Change in other items	-	-	-	-	-	-
Net cash interest paid	64	74	83	108	111	116
Scope-adjusted debt in NOK m						
Reported gross financial debt	2,538	2,470	2,627	2,760	2,942	3,125
less: cash and cash equivalents	(546)	(578)	(651)	(682)	(678)	(652)
add: non-accessible cash	145	171	97	97	97	97
add: pension adjustment	38	13	-	-	-	-
Scope-adjusted debt (SaD)	2,175	2,076	2,073	2,174	2,361	2,569

Table of Content

Key metrics 1
 Rating rationale 1
 Outlook and rating-change drivers 1
 Rating history 1
 Rating and rating-change drivers 2
 Corporate profile 2
 Financial overview 3
 Environmental, social and governance (ESG) profile 4
 Business risk profile: BBB 5
 Financial risk profile: BB+ 7
 Supplementary rating drivers: +1 notch... 9
 Long-term and short-term debt ratings 9

Environmental, social and governance (ESG) profile¹

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)

Efficient, clean generation is a competitive advantage

Helgeland Kraft’s business model is centered around sustainability, underpinned by: i) its generation of clean, low-cost hydroelectric energy; and ii) its responsibility to ensure that the power grid can cope with the requirements of the green transition, such as handling higher loads of intermittent electricity. Both are crucial to reaching climate goals set by Norwegian and European authorities. Within power generation, this position should support future cash flow through high utilisation factors of Helgeland Kraft’s hydro assets and a strong position in the merit order. The portfolio of large-scale hydropower plants (over 10 MW) also protects the company’s GRE status.

Regulatory risks highlighted in 2022

Helgeland Kraft is exposed to political and regulatory risks, as it provides profitable, critical public services such as grid infrastructure and hydropower generation. 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 sufficiently stable.

Very strong ESG rating

Helgeland Kraft has a well-established green financing framework, which received an ESG Second Party Opinion from S&P Global of ‘Dark Green’ (the highest possible outcome). The framework covers projects within renewable energy, grid developments and clean transportation solutions.

No governance issues

We have not identified any negative credit-relevant factors relating to corporate governance.

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.

Business risk profile: BBB

Integrated business model

Helgeland Kraft's business risk profile is characterised by the company's integrated business model, with low-cost, clean hydropower generation, electricity retail, and regulated power distribution.

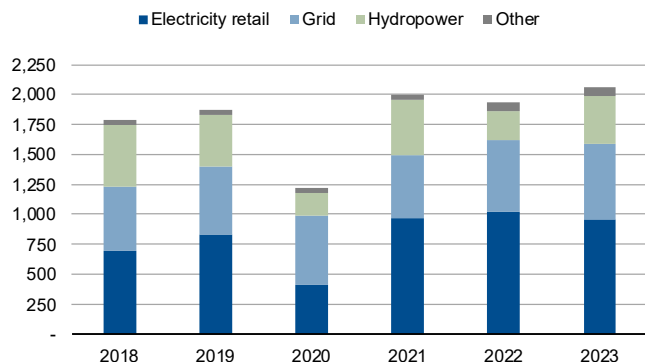
Industry risk profile: BBB+

Helgeland Kraft operates in several sub-segments defined in our European Utilities Rating Methodology. We have therefore applied a blended industry risk assessment. In order to isolate the underlying, long-term industry risk the company faces, we estimate the normalised EBITDA contribution from the respective segments.

Industry / risk	Normalised contribution
Power generation / BB	45%
Power distribution (grid) / AA	45%
Electricity retail / BBB	10%
Blended industry risk	BBB+

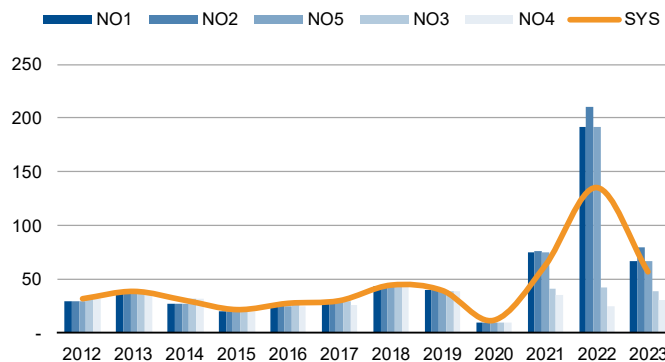
We consider power generation and electricity retail to have higher industry risk than power distribution. This is because cash flows from generation depend heavily on volatile market prices, while electricity retail has significantly lower barriers to entry. On the other hand, power distribution has low business risks due to the regulated operating environment and monopoly position. Applying our blended industry risk approach, we therefore assess Helgeland Kraft's industry risk at BBB+.

Figure 2: Sales breakdown by utility segment, NOK m



Sources: Helgeland Kraft, Scope

Figure 3: Norwegian power prices by bidding zone versus Nordic system price (SYS), EUR/MWh



Sources: Nordpool, Scope

Five pricing areas in the Norwegian power market

The Norwegian power market is separated into five pricing areas. Historically, the area prices have been similar (Figure 3). However, since 2021 there has been a persistent divergence. One factor has been bottlenecks in the transmission grid between the north and south. This has 'trapped' energy in regions with surplus energy, such as the NO4 area where Helgeland Kraft operates and in northern Sweden, pushing prices down. In addition, the south of Norway became more exposed to European and UK power markets due to the opening of two additional interconnectors in 2021, contributing to higher prices in this region.

18 fully owned hydropower plants

Helgeland Kraft owns and operates 18 hydropower plants in the Helgeland area. The three largest power plants contribute over 60% of generation volumes. We therefore see some asset concentration risk.

Small but capable and efficient hydropower generation

The company has a mean annual generation of around 1.2 TWh. This makes Helgeland Kraft a small power generator in both a domestic and European context. However, we still consider the company's power generation portfolio to have a good market position. This is because of the low costs and clean carbon footprint of hydropower assets, placing them favourably in the merit order. Further, Helgeland Kraft's largest power plants have reservoir capacities, which enable the company to regulate production. This reduces operating risks. However, we note that Helgeland is still exposed to volume risk in times of weak hydrology, as was seen in 2023 (Figure 4) and so far in 2024.

Figure 4: Estimated market shares in Norwegian hydropower generation

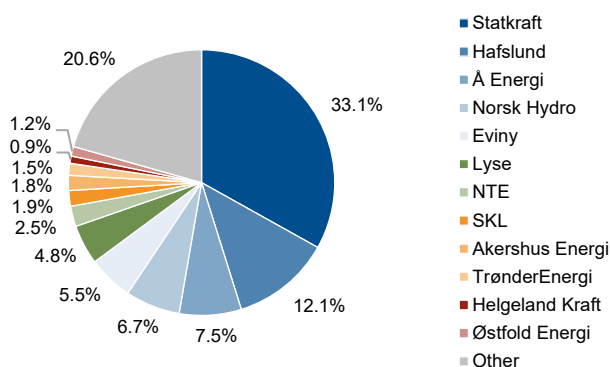
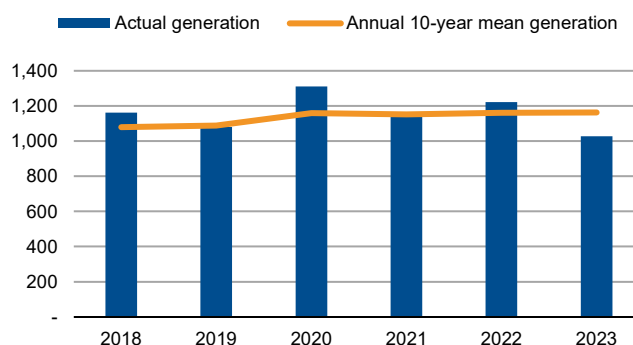


Figure 5: Hydropower volumes versus 10-year annual mean generation, GWh



Sources: NVE-RME, Scope

Sources: Helgeland Kraft, Scope

Grid subsidiary with around 47,000 customers

Helgeland Kraft owns and operates 8,100 km of regulated distribution networks via its wholly owned subsidiary Linea, delivering electricity to 47,000 customers in the Helgeland area. End customers are mainly residential (39,000 of the 47,000). Compared to Norwegian grid operators that cater to more densely populated areas (Eidsiva with 940,000 customers, for instance), the company's grid business is fairly small. As for other integrated Norwegian utility peers, we consider grid operations to be a stabilising force and a robust source of long-term cash flow that helps to reduce overall business risks.

Stable concession area population in the past 10 years

Helgeland has an affluent population of 77,000 inhabitants, which has remained relatively stable over the last 10 years, supported by local industries like ferry operations, transport and fishing. We consequently project that these numbers will remain stable over the medium term, despite the migration trend from the north to the south of Norway. In the longer run, increasing demand from local industries for electrification projects and new industry establishments could mitigate a potential population decline in terms of demand.

High local market share in retail

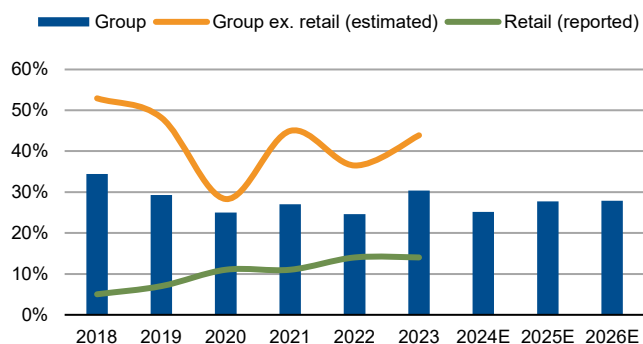
Helgeland Kraft's electricity retail provides some additional diversification of cash flow sources, serving around 100,000 customers in Norway and Sweden. A large share of these are in the Helgeland area, where the company has an estimated market share of over 85%. This high market share is driven by engagement with and support of local communities. The retail activities are fully exposed to competition and contribute less to overall EBITDA than hydropower generation and power distribution.

Good profitability

Good profitability continues to support Helgeland Kraft's business risk, supported by the low operating costs of hydropower generation. The group EBITDA margin has historically fluctuated between 25%-30%. However, we note the dilutive effect from low-margin electricity retail, which means the margin level is not fully comparable to that of peers with less downstream exposure. As a result, the aggregated EBITDA margin for the company's combined upstream and midstream exposure (i.e. hydropower and power distribution) is higher, estimated at an average level of around 40%-45% in 2019-2023. The Scope-adjusted return on capital employed is expected to stabilise around 10%-12%

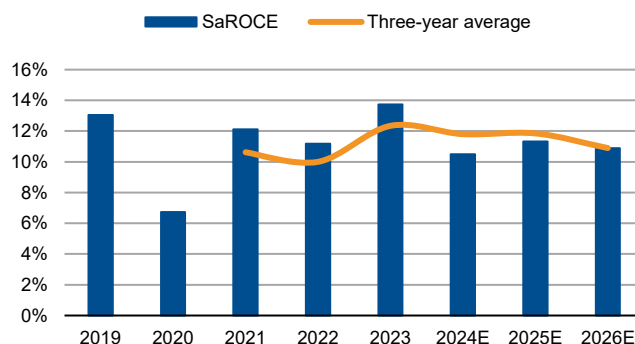
over the next few years, after reaching 14% in 2023. This is good but slightly below many other Scope-rated Norwegian utilities, especially those in southern Norway, which have benefitted from the more favourable electricity price environment in that region.

Figure 6: EBITDA margin overview



Sources: Helgeland Kraft, Scope (estimates)

Figure 7: Scope-adjusted return on capital employed



Sources: Helgeland Kraft, Scope (estimates)

Financial risk profile: BB+

Moderate financial risk profile

Our unchanged financial risk profile assessment reflects our expectation that the improved leverage (Scope-adjusted debt/EBITDA) of 3.3x in 2023 will revert to around 4x in 2024. We anticipate that this will be driven by lower Scope-adjusted EBITDA versus the NOK 626m delivered in 2023, reflecting continued good performance of the hydropower division, a lower electricity retail margin, and some negative impact for Linea from the adverse weather conditions in Q1 2024. Then, from a level of around NOK 500m in 2024, we expect moderate Scope-adjusted EBITDA growth in the next few years to be supported by a recovery in grid performance and a return to mean annual generation volumes in the hydropower business.

Adjustments to Scope-adjusted debt

Our calculations of Scope-adjusted debt include: i) the full amount of the shareholder loan of NOK 68m at YE 2023, which is repaid in equal, bi-annual instalments and will be fully repaid by 31 December 2026; ii) restricted cash of NOK 97m at YE 2023; and iii) 50% of unfunded pension liabilities.

Main assumptions

Our main assumptions include:

- NO4 power price of around EUR 30/MWh
- An increase in yearly capital expenditures to around NOK 0.5bn in 2025-2026
- More moderate margins in electricity retail

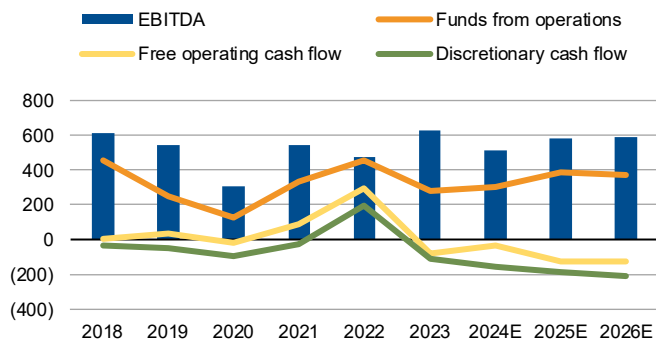
Leverage to stabilise around 4x; dependent on the trajectory of power prices and capex

We expect Helgeland Kraft's leverage (Scope-adjusted debt/EBITDA) to stabilise at around 4x in the medium term. However, we note some uncertainties, especially beyond 2024, as the leverage trajectory is dependent on the pace and level of capex implementation and the future development of achievable power prices. We maintain our view that Helgeland Kraft is likely to strive towards fulfilling its financial targets (e.g. average three-year net debt/EBITDA of around 4x or below), by adapting the level of cash outflows to the extent possible.

Satisfactory debt protection, expected to remain around 5x

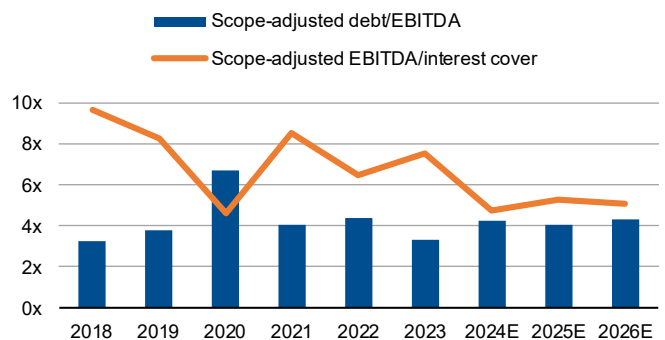
Debt protection (EBITDA/net interest paid) is expected to weaken to around 5x in 2024-2026, compared to around 7x in 2022-2023. For 2024, this reflects higher net interest paid but also the above-mentioned reduction in Scope-adjusted EBITDA to NOK 0.5bn, from NOK 0.6bn in 2023. The company's exposure to fixed-rate debt has dampened the effect of rising market rates on the cost of debt. As of YE 2023, exposure to fixed-rate debt was 46%.

Figure 8: Cash flow overview, NOK m



Sources: Helgeland Kraft, Scope (estimates)

Figure 9: Leverage and debt protection



Sources: Helgeland Kraft, Scope (estimates)

High capex to pressure FOCF

Helgeland Kraft has had good cash flow generation in the past, with Scope-adjusted free operating cash flow/debt averaging 3% in 2019-2023. Higher capex going forward will likely put some pressure on cash flow generation, with free operating cash flow (FOCF) expected to remain negative in the short to medium term.

Our projections have not factored in much discretionary capex outside the grid segment (e.g. for new hydro and wind projects). However, we note that Helgeland Kraft has ambitions in these areas if investment capacity is deemed sufficient.

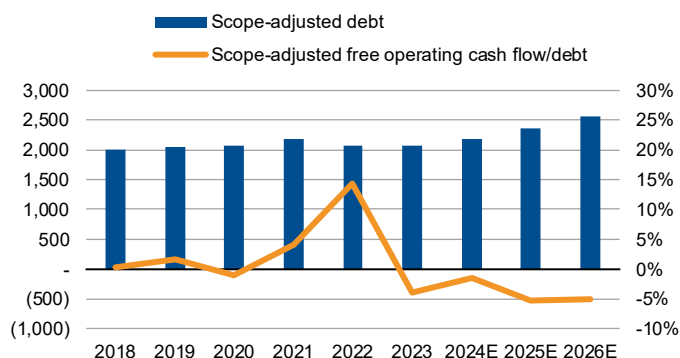
Adequate liquidity

Helgeland Kraft's liquidity remains adequate, with forecasted liquidity ratios of above 110%. Historically, the company has held a reliable position of cash and cash equivalents of around NOK 500m-700m. This has included a varying portion of restricted cash of NOK 50m-200m, with swings mainly related to cash collaterals as part of hedging activities. Other liquidity sources include a NOK 100m overdraft facility and the company's good access to bank and capital markets financing.

Financial covenants

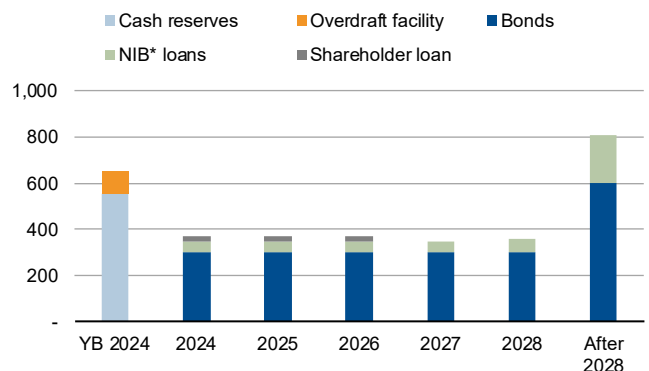
With an equity ratio (group level) of 46.5% and reported net debt/EBITDA of 3.5x as of Q1 2024, Helgeland Kraft had good headroom under its financial covenants (equity ratio above 30% and net debt/EBITDA below 6x). The net debt/EBITDA covenant only applies to the two loans from the Nordic Investment Bank. The equity covenant applies to both Nordic Investment Bank loans and outstanding bonds. No covenant breaches are expected in our rating case.

Figure 10: Indebtedness (NOK m, lhs) and cash flow generation (rhs)



Sources: Helgeland Kraft, Scope (estimates)

Figure 11: Maturity profile as of YE 2023, NOK m



*Nordic Investment Bank

Sources: Helgeland Kraft, Scope



Balance in NOK m	2023	2024E	2025E
Unrestricted cash (t-1)	407	554	585
Open committed credit lines (t-1)	-	-	-
Free operating cash flow (t)	(81)	(35)	(124)
Short-term debt (t-1)	367	367	367
Coverage	89%	141%	126%

Supplementary rating drivers: +1 notch

Financial policy is prudent

We have made no adjustment for financial policy. Helgeland aims to maintain an investment-grade credit rating. It has set targets for financial ratios, notably maintenance of the equity ratio above 35% and average net debt/EBITDA (past three years) of around 4x or below. This provides some comfort that Helgeland will strive to adapt its discretionary spending to remain below these thresholds.

Government-related entity with one-notch uplift

Helgeland Kraft is 100% owned by 14 Norwegian municipalities, which also constitute the grid concession area. In accordance with our Government Related Entities Methodology, we have assigned a one-notch uplift to the company's standalone credit assessment based on its status as a GRE. The one-notch uplift reflects the anticipated capacity and willingness of the municipal owners to provide financial support if needed, and 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.

Long-term and short-term debt ratings

Helgeland Kraft AS is the issuer of all outstanding debt.

Senior unsecured debt: BBB

Senior unsecured debt is rated BBB, in line with issuer rating.

Short-term debt rating: S-2

The short-term debt rating of S-2 reflects the underlying BBB/Stable issuer rating, adequate short-term debt coverage and good access to bank and capital markets financing.



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