Akershus Energi AS
Norway, Utilities

A- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
Scope-adjusted EBITDA/interest cover	5.0x	28.3x	108.1x	108.4x
Scope-adjusted debt/EBITDA	7.5x	0.3x	net cash	net cash
Scope-adjusted funds from operations/debt	neg.	371%	net cash	net cash
Scope-adjusted free operating cash flow/debt	neg.	387%	net cash	net cash

Rating rationale

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

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

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

Outlook and rating-change drivers

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

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

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

Rating history

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

Ratings & Outlook

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

Lead Analyst

Jostein Gauslå
+47 900 60005
j.gausla@scoperatings.com

Related Methodologies

Corporate Rating Methodology; July 2022

Rating Methodology: Government Related Entities Methodology, May 2022

European Utility Methodology, March 2022

Scope Ratings GmbH

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 623142

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Highly profitable, cost-efficient, environmentally friendly hydropower production (positive ESG factor) leading to strong EBITDA margins and positive free operating cash flow • Financial risk profile supported by strong Scope-adjusted credit metrics and cash flow as well as adequate liquidity profile • Hedging policy and infrastructure investment mitigating some inherent business volatility • Committed, long-term majority municipal owner with clear willingness and capacity to provide support if needed	• Power price exposure and volatility of unhedged power production • Limited water reservoir capacity as power assets are mainly run-of-river plants • Low diversification by segment and geographical outreach

Positive rating-change drivers	Negative rating-change drivers
• A positive rating action could be triggered by significantly less cash flow volatility combined with an unchanged net cash position and strong financial risk profile	• A negative rating action may be taken if we were to expect the company to return to a net debt position. This could be triggered by changes in the utility's financial policy to debt-financed growth through large-scale M&A or larger-than-expected shareholder renumeration. • It could also be driven by a much weaker price level for power prices against our expectations

Corporate profile

Akershus Energi AS is a Norwegian producer of hydroelectric power with annual production of around 2.5 TWh. In addition to hydro power it is engaged in district heating, solar, wind, green infrastructure and energy trading. The company owns and operates hydroelectric power plants mainly located along the longest river in Norway, but also has wholly and partially owned power stations in southern Norway. Akershus Energi is 100% owned by Viken municipality and as such is rated as a government related entity.

Financial overview

				Scope estimates		
Scope credit ratios	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	16.7x	5.0x	28.3x	108.1x	108.4x	50.0x
Scope-adjusted debt/EBITDA	1.5x	7.5x	0.3x	net cash	net cash	net cash
Scope-adjusted funds from operations/debt	47%	-7%	371%	net cash	net cash	net cash
Scope-adjusted free operating cash flow/debt	35%	-4%	387%	net cash	net cash	net cash
Scope-adjusted EBITDA in NOK m						
EBITDA	689	227	1,443	3,298	3,713	1,521
Other items	0	0	0	0	0	0
Scope-adjusted EBITDA	**689**	**227**	**1,443**	**3,298**	**3,713**	**1,521**
Funds from operations in NOK m						
Scope-adjusted EBITDA	689	227	1,443	3,298	3,713	1,521
less: (net) cash interest paid	-49	-49	-51	-30	-34	-30
less: cash tax paid per cash flow statement	-348	-324	-9	-837	-2,068	-2,338
Other items	208	24	50	0	0	0
Funds from operations (FFO)	**500**	**-122**	**1,433**	**2,430**	**1,611**	**-848**
Free operating cash flow in NOK bn						
Funds from operations	500	-122	1,433	2,430	1,611	-848
Change in working capital	111	9	184	14	14	15
Non-operating cash flow	0	0	0	0	0	0
less: capital expenditure (net)	-235	-227	-122	-150	-150	-150
less: lease amortisation	0	0	0	0	0	0
Free operating cash flow (FOCF)	**376**	**-340**	**1,495**	**2,295**	**1,476**	**-983**
Net cash interest paid in NOK m						
Net cash interest per cash flow statement	49	49	51	30	34	30
Change in other items	0	0	0	0	0	0
Net cash interest paid	**41**	**45**	**51**	**30**	**34**	**30**
Scope-adjusted debt in NOK m						
Reported gross financial debt	1,626	2,501	2,263	1,754	1,754	1,354
less: subordinated (hybrid) debt	0	0	0	0	0	0
less: cash and cash equivalents	-596	-813	-1,946	-2,888	-3,611	-1,652
add: non-accessible cash	32	16	70	70	70	70
add: pension adjustment	0	0	0	0	0	0
add: operating lease obligations	0	0	0	0	0	0
Other items	0	0	0	0	0	0
Scope-adjusted debt (SaD)	**1,062**	**1,704**	**386**	**-1,064**	**-1,787**	**-229**

Table of Content

Environmental, social and government (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)

Well-integrated ESG framework and issuance of green financing

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

[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-

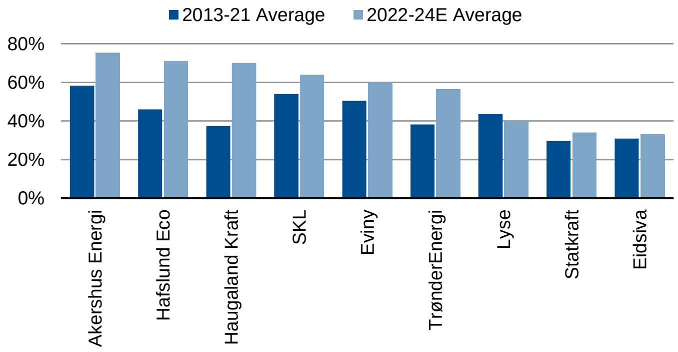
In accordance with our rating methodology for utilities, we have assessed Akershus Energi's industry risk taking into account that the non-regulated European power generation market is highly cyclical with medium barriers to entry.

Low cost environmentally friendly assets

Our business risk profile assessment of Akershus Energi is BBB-. This is supported by the company's low-cost environmentally friendly hydropower assets with a strong position in the merit order system. Akershus Energi has consistently generated above-average profitability compared to other rated Norwegian utility peers (see Figure 1).

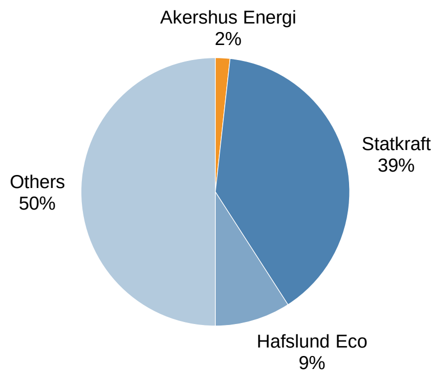
Akershus Energi's competitive position is somewhat held back by the limited diversification and low segmentation other than district heating. Due to limited reservoir capacity there is some volume risk for power generation in dry hydrological years and the company is exposed to volatile power prices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

Figure 1: EBITDA margins of peer group



Source: Company, Scope estimates

Figure 2: Market share of generation capacity

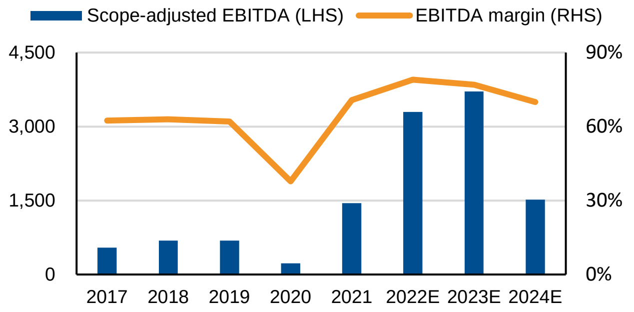


Source: Company, Scope estimates

The company has been diversifying its renewable power assets to wind and solar. The ambition is to raise its renewable energy production output until 2025. Although the investment plan could impact margins, this is now under evaluation following the recent intended change in tax legislation. Consequently, margins are expected to remain at current levels. In the longer term, the company expects to reduce its dependence on hydro power production from than 80% to 66% (see Figure 4).

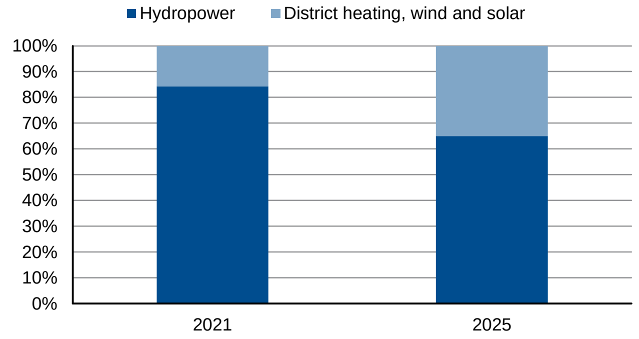
Akershus Energi's financial performance so far in 2022 is significantly above expectations due to the extraordinarily high power price. The company was positively affected through its exposure to power production and low hedging. Consequently, EBITDA margin is expected to remain above 70%.

Figure 3: Scope-adjusted EBITDA (NOK m)



Source: Company, Scope estimates

Figure 4: Targeted production mix



Source: Company

Financial risk profile: A

Improved credit metrics driven by higher power prices

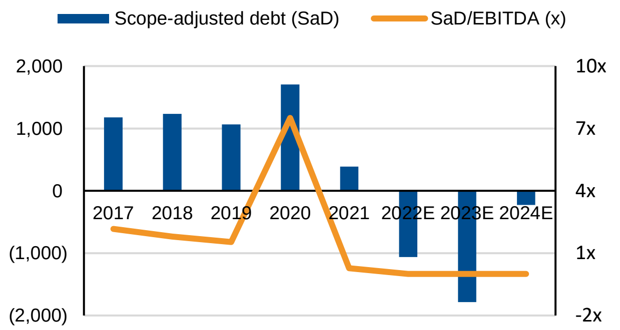
The financial risk profile has improved to A (from BBB) bolstered by stronger credit metrics, cash flow and liquidity resulting from the high power prices.

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

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

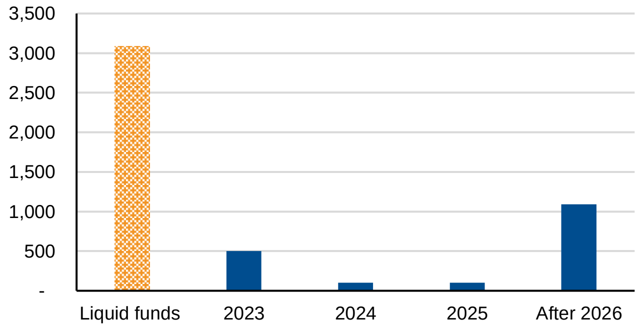
Free operating cash flow is expected to remain high in 2022-23 due to record-high power prices and limited capex forecasted due to a re-evaluation of new investments, which enables the company to keep the low leverage. We take into account the recently announced intended change in tax legislation, which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

Figure 5: Scope-adjusted leverage (NOK m)



Source: Company, Scope estimates

Figure 6: Liquidity and debt maturities (NOK m)



Source: Company, Scope

Adequate liquidity and access to banks and debt capital markets

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

We note mark-to-market losses on the power derivatives for hedged volumes have caused a temporary breach of the loan covenant for a 30% equity ratio as of 30 June 2022. The creditors have waived the requirement until 31 December 2022. The company is working on again being compliant by the end of the year, but as a result the NOK 350m loan has been temporarily reclassified as short-term debt. We do not see this as a major concern as the covenant breach is caused by valuation effects and the related debt exposure could likely be repaid immediately if requested by the creditors.

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

Supplementary rating drivers: +1 notch

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

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

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

Long-term and short-term debt ratings

Senior unsecured debt rating: A-

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

Short-term debt rating: S-1

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

Appendix: Peer comparison[2]

	Akershus Energi	Hafslund Eco	Lyse	Eviny	Eidsiva	SKL	TrønderEnergi	Haugaland Kraft
	A-/Stable	BBB+/Positive	BBB+/Stable	BBB+/Positive	BBB+/Stable	BBB+/Stable	BBB/Stable	BBB+/Positive
Last reporting date	30 Sep 2022	30 Jun 2022	30 Jun 2022	30 Sep 2022	30 Jun 2022	30 Jun 2022	30 Jun 2022	30 Jun 2022
Business risk profile	BBB-	BBB+	BBB+	BBB	A	BBB-	BBB-	BBB
Financial risk profile	A	BBB	BBB-	BBB+	BB	BBB+	BB+	BBB+
Scope-adjusted EBITDA/interest cover	28.3x	16.7x	19.8x	26.8x	7.4x	108.3x	17.2x	69.9x
Scope-adjusted debt/EBITDA	0.3x	1.2x	1.5x	2.0x	9.3x	0.4x	1.8x	1.0x
Scope-adjusted FFO/debt	371%	78%	51%	47%	10%	244%	48%	108%
Scope-adjusted FOCF/debt	387%	68%	25%	25%	neg.	217%	42%	44%

Sources: Public information, Scope

[2] Credit metrics as of 2021

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891-0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
F-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer