16 June 2023 Corporates

JSC Atsinaujinancios Energetikos Investicijos ('AEI')

Republic of Lithuania, Investment Holding Company

SCOPE B+ NEGATIVE

Key metrics

			Scope estimates	
Scope credit ratios	2021	2022	2023E	2024E
Total cost cover	0.3x	0.2x	0.8x	0.5x
Loan/value	5%	28%	23%	17%
Liquidity	No short-term debt	Negative	Adequate	No short-term debt

Rating rationale

The issuer rating of JSC Atsinaujinancios Energetikos Investicijos (AEI), a closed-end investment company for informed investors, is supported by two well-established portfolio companies that operate renewable energy capacities located in Lithuania and Poland, markets with a significant electricity generation deficit (ESG positive factor). These solar assets with total installed capacity of 68.1 MW operate under regulated frameworks and provide recurring income to the holding company. Nonetheless, the business risk profile is constrained by the delay in investment ramp-up within four portfolio companies. This keeps concentration risk on recurring income as projects only stream income to the holding company when they are finished. Moreover, limited progress has been made on the number of income-generating assets.

The weak financial risk profile also constrains the rating, mainly driven by our view that total cost coverage will remain at 0.5x-0.8x throughout the portfolio ramp-up. This level implies that recurring cash income will be insufficient to cover all costs at holding level. Hence, the company is expected to remain reliant on its cash buffer, external funding and potential asset sales until 2025. While we do not see significant liquidity risks until 2025, execution risks have increased due to the delayed portfolio ramp-up followed by significant cliff risk regarding refinancing requirements towards the end of 2025 that will require the sale of portfolio ventures to cover all outstanding debt under the green bond programme.

Outlook and rating-change drivers

The Negative Outlook reflects continuously high concentration risks as a result of the construction delays. This is displayed by our unchanged view on AEI's portfolio sustainability, measured as the number of recurring income-generating portfolio companies, which has not improved since last year and remains at 2.

A rating downgrade could result from i) a weaker total cost coverage ratio of below 0.5x between 2023 and 2025; ii) further delays in the portfolio ramp-up that keep the number of recurring income-generating portfolio companies below 3 or iii) the default of any portfolio company that triggers refinancing needs at the holding level and liquidity constraints.

A positive rating action, such as reversion of the rating Outlook to Stable, could result from i) a total cost coverage ratio of above 0.5x between 2023 and 2025; or ii) progress in the portfolio ramp-up that leads to an improved portfolio sustainability, measured as the number of recurring income-generating holdings of 3 or more holdings.

Rating history

Date	Rating action	Issuer rating & Outlook
20 June 2022	New	B+/Stable

Ratings & Outlook

Issuer	B+/Negative
Senior unsecured debt	BB-

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Related Methodologies

Investment Holding Companies Rating Methodology, May 2023

General Corporate Rating Methodology, July 2022

ESG in Credit Ratings - General Considerations, October 2022

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Bloomberg: RESP SCOP

Rating and rating-change drivers

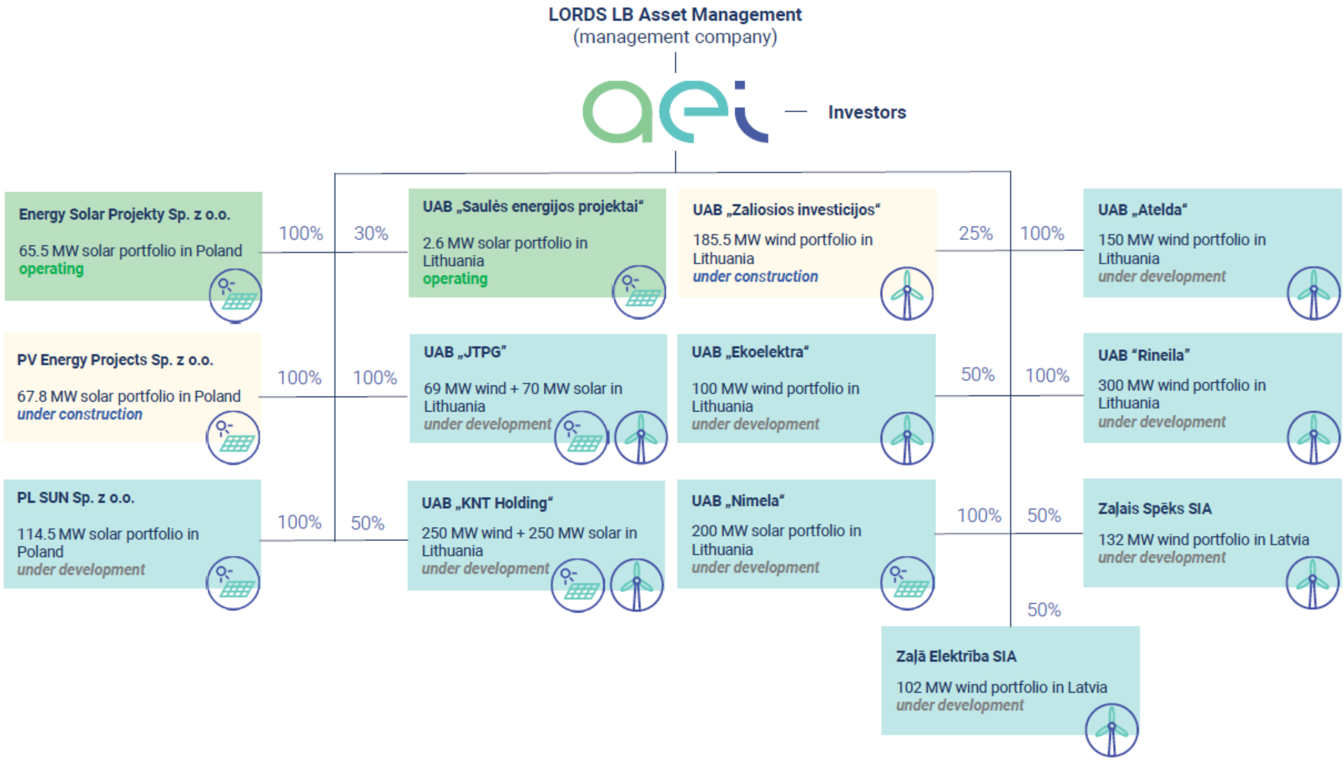
Positive rating drivers	Negative rating drivers
• Portfolio companies that operate/develop renewable energy assets (ESG factor) • Assets geographically diversified in Poland, to be enhanced as projects in Lithuania are finalised • Two well-established operating assets in the portfolio that provide recurring income to the holding company under regulated frameworks • Supportive national regulations and favourable investment climate (tailwinds) as Europe seeks to accelerate energy transition • No significant upcoming debt maturities during next 1.5 years • Creditor protection through a detailed set of covenants, e.g. financial covenants, dividend restrictions, cross-default with a threshold of EUR 500,000 • Potential shareholder support in form of equity injections and shareholder loans	• Significant portfolio ramp-up delay leading to increased concentration risks in terms of gross asset value and income, as well as to increased execution risks, especially in given the company’s limited lifecycle • Total cost coverage ratio from recurring cash income of below 1x during entire portfolio ramp-up • Reduced interest inflow from portfolio companies stemming from replacement of some shareholder loans with bank financing and delay in portfolio ramp-up • Uncompleted portfolio and delays limiting transparency of business risk and financial risk profiles • Investment strategy driven by short-term gains rather than financial stability • Volatile revenue from shareholdings that will operate under market prices or power purchase agreements • Cliff risk related to refinancing requirements in 2025 that will require sale of portfolio ventures to cover outstanding debt under green bond programme

Positive rating-change drivers	Negative rating-change drivers
• Total cost coverage of above 0.5x in 2023-2025 • Progress in the portfolio ramp-up that leads to an improved portfolio sustainability, measured as the number of recurring income-generating holdings of 3 or more holdings.	• Total cost coverage of below 0.5x in 2023-2025 • Further delays in the portfolio ramp-up that keep the number of recurring income-generating portfolio companies below 3 • Default of any portfolio companies that could trigger refinancing needs at the holding level and liquidity constraints

Corporate profile

JSC Atsinaujinancios Energetikos Investicijos (AEI) is a closed-end investment company with assets under management in the renewable energy sector, namely solar and wind in regional markets, primarily Lithuania and Poland. The company was established in December 2020 as part of fund management company Lords LB Asset Management, whose Energy and Infrastructure SME Fund owns a direct stake in AEI. At end-2022, assets under management included 67 MW of operating solar power capacity in Lithuania and Poland. As part of its investment strategy period, AEI aims to increase its installed capacity in renewable energy to around 500 MW by 2025. Currently AEI has projects spanning in Lithuania, Poland and Latvia in various stages of development.

Figure 1: Asset structure by development stage as of 2022



Source: AEI

AEI's investment strategy focuses on investments in renewable energy assets, primarily ready-to-build or construction-stage solar and wind projects. A single investment is targeted at up to EUR 20m with leverage of 70%-75%. Generated electricity will be sold to government-backed schemes and investment grade off-takers via long-term fixed or partially fixed power purchase agreements.

Financial overview

			Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Total cost cover (from recurring cash income)	0.3x	0.2x	0.8x	0.5x	1.0x
Total cost cover (including extraordinary cash income)	0.3x	0.2x	0.8x	4.1x	13.6x
Loan-to-value (Scope-adjusted debt/portfolio market value)	5%	28%	23%	17%	-164%
Liquidity (%)	No short-term debt	Negative	Adequate	No short-term debt	Adequate
Cash flows in EUR m					
Recurring cash inflows (dividends and cash-interest from shareholder loans)	0.6	1.1	4.1	3.3	6.6
Non-discretionary cash outflows (including net interest payments)	2.1	6.3	5.2	6.2	6.7
Portfolio market value in EUR m					
Net asset value	65	104	106	110	115
Gross asset value	69	144	138	132	43
Scope-adjusted debt in EUR m					
Reported gross financial debt	30.2	50.0	64.0	79.7	0.1
less: subordinated (hybrid) debt	0.0	0.0	0.0	0.0	0.0
less: cash and cash equivalents	-26.5	-9.9	-32.9	-57.4	-71.5
add: non-accessible cash	0.0	0.0	0.0	0.0	0.0
add: pension adjustment	0.0	0.0	0.0	0.0	0.0
Scope-adjusted debt	**3.7**	**40.1**	**31.1**	**22.3**	**-71.4**

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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)

Investments in renewable energy assets

All of AEI’s investments are channelled into portfolio companies that operate renewable energy assets in Lithuania and Poland – countries which are chronically short of electricity generation capacities and have a significant annual electricity generation deficit (net importers). Poland particularly is catching up on the transition from fossil-fuelled power towards clean energy generation. Overall, we expect tailwinds for the business model of AEI and its portfolio companies.

Attracting money flows that are directed into sustainable power generation

With the focus on renewable energy generation assets within AEI’s investment companies, the holding company is attracting money flows with regards to green bond funding or direct equity contributions that support its growth and investment ambitions.

[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: B+

Weighted average industry portfolio risk: BB

AEI’s business is still mostly exposed to regulated power generation secured in form of contract for difference (CfD) in Poland and feed in tariffs (FiT) in Lithuania. However, the assigned weighted average industry portfolio risk rating already reflects a discount related to the strong expected addition of unregulated generation capacities either under long-term power purchase agreements (PPAs) or exposed to market conditions. Additionally, it also reflects a discount related to the strong expected rise in the number of shareholdings operating under unregulated income frameworks as the portfolio ramps up.

New renewable energy targets set by EU

The European Union has updated its 2030 renewable energy targets introduced by European Green Deal in 2019 in order to accelerate the deployment of renewables, the reduction in greenhouse emissions, and the decreased dependence on energy imports. In March 2023 the new binding renewable energy target was raised from 32% to at least 42.5% of gross final energy consumption, which is double the current renewable share of 20% in just a decade. Both Poland and Lithuania follow 2020 targets and have developed frameworks to support the integration of renewables into the national energy mix.

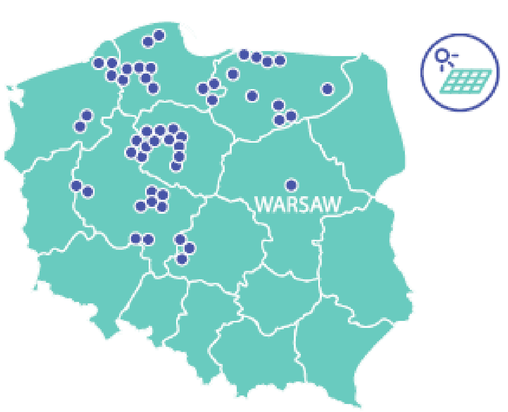
The first framework is the Polish auction scheme CfD, which secures fixed income for the producer. The difference between the market price of the energy and the contract amount (auction price) is covered by the government (Energy Regulatory Office, ERO) if the price is low and by the producer if the market price is above auction price. As a result, CfD mitigates the risk of price changes for producers and reduces the cost of capital. The second framework is FiT applicable in Lithuania, which is a government guarantee of a fixed income from the sales of energy units regardless of the market price. Consequently, the energy producer is not exposed to electricity price fluctuations for the duration of the FiT contract. CfD applies for 15 years from the start of generation while FiT applies until 2025 and covers all the generation capacity of the projects.

As a result, the development of renewable infrastructure by AEI benefits from favourable regulatory regimes introduced to improve the energy transition in Europe. Nevertheless, we underline that the majority of expected generation capacities will operate under unregulated frameworks such as PPAs or will be exposed directly to market prices once the portfolio is finalised. PPAs are long-term contracts lasting five to 20 years, where the contracted price mechanism can fluctuate based on market rates. Consequently, we consider PPAs such as pure market contracts as unregulated income. For assets in Lithuania, only ‘Saules energijos projektai’, a 2.6 MW solar park, operates under FiT, while the remaining renewable energy infrastructure will operate under PPAs or will be sold on power exchanges through third-party energy traders. Part of the electricity produced by the AEI’s wind parks in ‘Zaliosios investicijos’ will be sold under financial PPAs with AXPO Nordic AS. Moreover, the group expects sales of electricity produced by certain development projects to be structured in the form of long-term PPAs.

Asset diversification focused on Poland

AEI’s geographic diversification still focuses on Poland, though locations are spread across northern and central regions. The presence in Lithuania remains unchanged compared to last year. No new, fully operating portfolio companies were added in Lithuania or Poland. The diversification of assets, especially in Lithuania, has been negatively affected by delays of the current portfolio ramp-up. The expected completion of three projects for 2022 in northern and central Lithuania has been postponed by around one year due to the collapse of a wind turbine in one of the parks. Diversification, measured as gross asset value (GAV) concentration, is also similar to last year’s value. This is displayed by top core holding representing 37% of GAV as well as substantial asset concentration, where the top three holdings account for 87% of the total portfolio (Figure 5). Additionally, AEI accelerated its investment strategy by adding five new projects to the pipeline: three in Lithuania and two in Latvia. These projects will be divested in Q1 2024 before being fully operational and therefore they will not alleviate the GAV concentration. This part of AEI’s portfolio will be sold to Lords LB Asset Management’s new renewable energy fund or other market player before substantial investment capex is required.

Figure 2: Operating projects in Poland



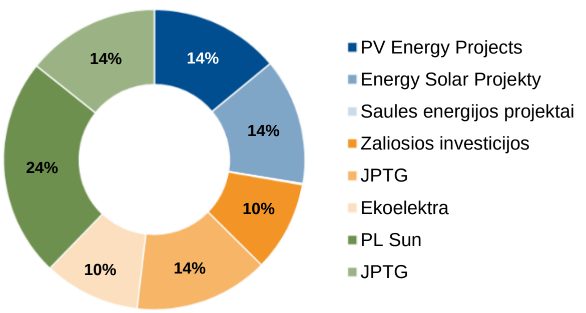
Sources: AEI

Figure 3: Operating projects in Lithuania

Sources: AEI

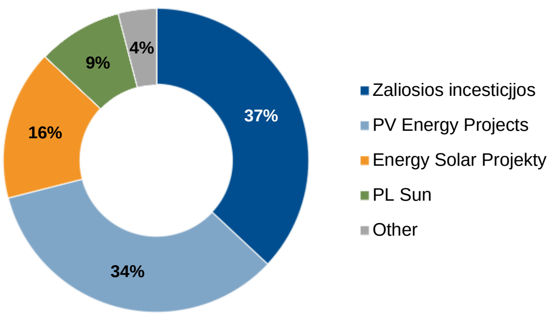
AEI has a diversified geographic presence in Poland with granulated power generation capacity in various parts of the country (Figure 2). Further, we expect the geographic footprint as well as GAV concentration to improve with the finalisation of projects in Lithuania. A presence in more than one country can lessen the potential negative impact of external shocks such as from weather, regulatory changes or adverse investment conditions. However, we point to the continued reliance of the diversification profile on the yet-uncompleted projects.

Figure 4: Installed capacity by project as of May 2023



Sources: AEI, Scope

Figure 5: Gross asset value concentration in 2023



Sources: AEI, Scope

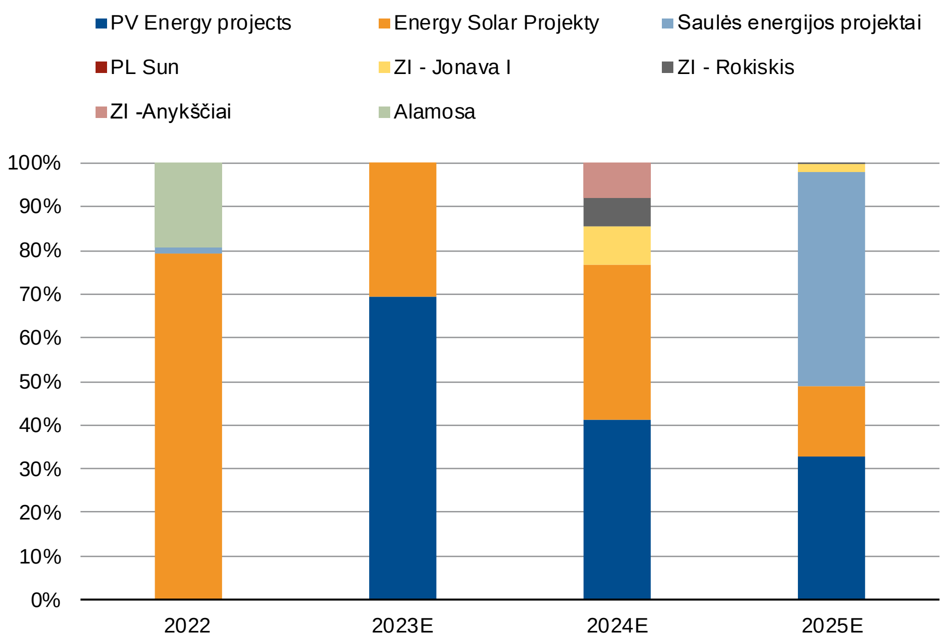
Portfolio ramp-up delay and expected earlier divestment of some projects create increased concentration risk

The primary strategy of the company is to create a renewable energy portfolio and sell it as cash flow-generating infrastructure investment. Income is provided through interest from shareholder loans or acquired bonds. Acquired bonds of portfolio companies are only intercompany transactions and therefore not publicly listed. Same as last year, only two shareholdings contribute to AEI’s recurring income; the remaining five projects are still in development at different stages. Consequently, the improvement expected last year in income diversification did not materialise. This was mainly due to the previously mentioned delays of portfolio ramp-up, primarily in Lithuania. Unfinished projects are not streaming interest or dividend income. Moreover, shareholder loans for special purpose vehicles in Poland are being replaced by senior bank debt. This effectively limits the capacity for higher interest generation volumes, as existing shareholder loans will be repaid or interest upstream to AEI on the existing loans will be restricted by financial covenants embedded in credit agreements.

Finally, in addition to the existing pipeline, AEI has also acquired portfolio of projects in different development stages that will be divested in 2024. Such projects will not generate recurring income, only divestment proceeds. In our view, this adds to the already high concentration risk, with limited operational projects providing recurring income as well as a higher dependency on timely and successful asset sales. Lastly, interest income is dependent on electricity market price forecasts. Updates to the price curve change the amount and sometimes the period in which interest is repaid because the market price forecast has a direct correlation with the revenue earned on each project. Currently, only two shareholdings (Poland's Energy Solar Projekty and Lithuania's 'Saules energijos projektai' are contributing to the holding company's recurring interest income. Concentration risk in the first investment is spread among eight entities in terms of GAV and interest paid to the holding company.

Dividend payments are discretionary, depending on the situation at the subsidiary and market conditions. Major sources of income remain interest payments from loans or acquired bonds. In case of loan repayment, the company is considering alternative income streams. As shareholder loans were repaid for 'Saules energijos projektai', dividends were streamed up to AEI. In 2021, EUR 33,000 and EUR 90,000 in 2020. Also in 2022, dividend payment of EUR 21,000 was received from 'Saules energijos projektai'.

Figure 6: Cash interest income 2022-2025 (2023 scenario)



Sources: AEI, Scope estimates

Portfolio liquidity

All of the AEI's shareholdings are unlisted companies with a dependence on market timing, which takes into account the fund's planned liquidation in 2026. If conditions are unfavourable for asset sales, either liquidation of the assets and the fund is delayed for two years, or only part of the portfolio is sold by 2026. This is credit-negative for liquidity. However, this lack of liquidity is offset by two aspects. Firstly, total cost coverage is unlikely to rely on frequent asset sales given the 'buy/develop and sell' investment approach as asset sales only cover debt maturities (liquidity). Secondly, while illiquid, operating renewable energy assets under regulated tariff schemes or PPAs will likely find a buyer, e.g. a utility, independent power producer or investment fund/insurance, especially considering the current tailwinds for renewable energy generation volumes.

Investment philosophy

AEI's strategy is to invest in assets that will eventually operate renewable energy power plants. AEI provides funding to portfolio companies in the form of shareholder loans or acquired bonds on an arm's length basis (under applicable transfer pricing regulations). Income to AEI is provided through interest income and, when suitable, dividend payments. AEI's investment focuses on renewable energy assets, primarily ready-to-build or construction stage solar and wind projects. A single investment is targeted at up to EUR 20m with leverage of 70%-75%. We recognise AEI as a young, relatively small, and dynamic investment company with a limited lifecycle. A focus on project development is often associated with increased execution and concentration risks as well as a somewhat volatile investment strategy. For AEI, this is exemplified by its acquisition of new assets while existing projects in the pipeline not only remain unfinished but are also delayed. Another downside is AEI's limited track record, evidenced by the delays in the portfolio ramp-up. Nevertheless, this risk is mitigated by the clearly defined exit strategy together with the well-established, diversified, already operating portfolio companies that provide regular income to the holding company under regulated frameworks.

Financial covenants protecting against excessive leveraging

We positively view the limit on AEI's leverage through financial covenants under its unsecured fixed rate note programme, which aims to raise up to EUR 100m through senior unsecured bonds. Covenants include:

- A minimum equity ratio at the holding level, measured as the equity divided by total assets, of 50% at all times
- A leverage ratio of up to 75%, which includes the indebtedness of portfolio companies and is measured as consolidated external financial debt (capital market debt plus debt at project level) divided by the sum of equity and consolidated external financial debt

No financial covenants were breached as of 31 December 2022, according to the latest available compliance certificate. The equity ratio was 66% and the leverage ratio was 53%.

Financial risk profile: B+

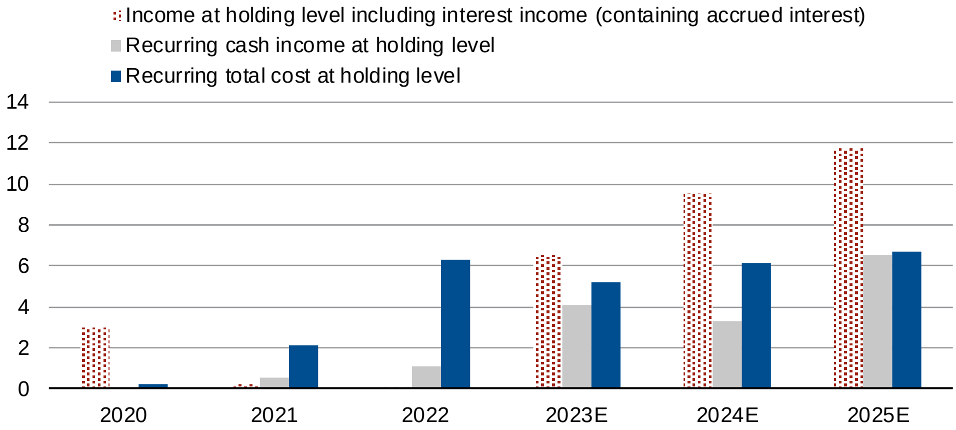
AEI as a closed-end fund generates cash-income from: i) interest from shareholder loans to portfolio companies that operate renewable energy assets; and ii) discretionary dividends if a portfolio company's results are stronger than expected.

Closed-end fund with limited lifetime

Moreover, AEI has a limited scheduled life, until 2026 with the option to extend by two years. Towards the end of this lifetime, all assets are scheduled to be sold to external parties (including other funds managed by Lords LB Asset Management).

We believe that AEI will remain dependent on available cash buffers, interim asset sales and external funding until 2025. During this time recurring cash streams related to interest payments and potential dividends from portfolio companies are not expected to cover most of the holding company's costs.

Figure 7: Expected cash-effective holding income to cover holding costs after portfolio projects are finalised (in EUR m)



Sources: AEI, Scope estimates

Insufficient recurring cash inflows during portfolio ramp-up

We do not expect full cost coverage during the portfolio ramp-up, which has even been delayed. Total cost coverage based on recurring cash inflows related to cash interest received for shareholder loans or acquired bonds and potential dividend payments will likely remain within 0.5x-0.8x in the next few years. Last year's estimation of full cost coverage in 2024 is not achievable under the new rating case due to delays in the projects' commercial operation date. Additionally, in 2022 total cost coverage was negatively impacted by EUR 7m of contingency payments related to generation contracts under PPAs, EUR 3.7m of which was covered by a shareholder loan from the parent company. Potential new contingency payments could negatively impact the already weak total cost coverage ratio. However, the company does not consider such liabilities to be likely at the moment. On a positive note, we highlight the restriction of dividend payments to AEI's shareholders in 2022 and 2023 as well as a dividend distributions only from 2024 but if financial covenants are met.

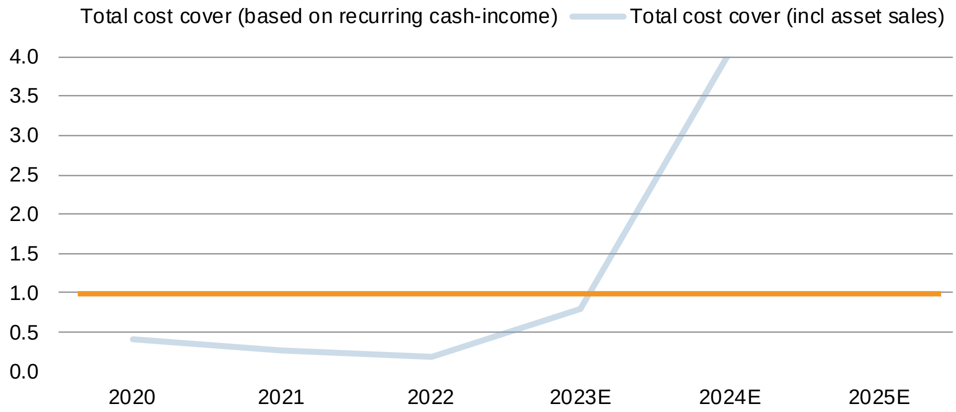
Asset sales could provide one-off cash inflows that strengthen financial risk profile

Total cost coverage from recurring cash inflows of below 1.0x is partially offset by the potential recognition of lump-sum cash inflows following a larger asset disposal as envisioned for 2024 and 2025. However, as such asset disposals also depend on timing and achievable pricing, they are not considered as recurring within our rating case.

Full cost coverage is not expected before 2025

Full cost coverage may only be possible in 2025 when almost all the portfolio is completed and operating expenses decrease in relation to the development of the assets. Total cost coverage will also improve in the last year of the fund's envisioned lifetime (2026) as most of the shareholder loans are expected to be redeemed following asset disposals for portfolio ventures. However, the timing and scope of these non-recurring cash inflows remains uncertain as delays in the sale processes can occur or the pricing for asset sales might be lower than anticipated.

Figure 8: Sufficient cost coverage not ensured during entire portfolio ramp-up



Sources: AEI, Scope estimates

Portfolio ramp-up accompanied by higher debt exposure

AEI's leverage – as measured by the loan/value (LTV) ratio – has increased significantly during the portfolio ramp-up. Total indebtedness – as signalled by Scope-adjusted debt – increased from EUR 3.7m at YE 2021 to EUR 40.1m YE 2022. The reason for the increases is that AEI reinvents cash proceeds from external sources (such as capital market funds and equity injections) in portfolio ventures, with constant payouts in the form of shareholder loans and acquired bonds facilitating the construction of new wind and solar assets. We expect that total indebtedness will likely scale back to EUR 22.3m in 2024, driven by the interim disposal of portfolio assets, the corresponding redemption of shareholder loans and the replacement of shareholder financing with bank debt in respect to the Polish portfolio companies. On the other hand, the debt exposure will also depend on the final sale price of some portfolio ventures in 2024 and on the level of future bond placements. Under the existing framework, AEI plans to issue EUR 14.3m in 2023 and EUR 15.7m in 2024.

Moderate LTV mitigated by asset disposals and shareholder loan repayments

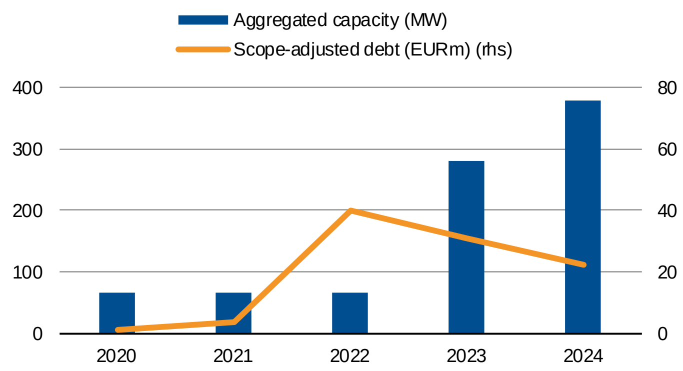
The higher debt exposure caused the LTV to increase from its low of about 5% at YE 2021 to about 28% in 2022. We forecast the ratio to decrease to about 17% in 2024 following interim asset sales and shareholder loan redemption by portfolio companies. We have taken the holding company's expected total asset value as a proxy for future portfolio market value, given the portfolio companies' illiquid nature and the infrequency of their market valuations. Impairments on total asset value (primarily, the shareholder loan and acquired bonds exposure), which in turn would increase the LTV, are possible if portfolio companies cannot pay interest on their shareholder loans due to underperformance by operating power generation assets or lower-than-expected prices for sold electricity. However, we believe the downside risk is limited for now, backed by the persistent pricing environment in the relevant markets due to the chronic shortages of power generation capacity and the expected operational performance of assets of above the P50 value[2].

[2] P50 value signals the statistical level of confidence suggesting that it can be expected that the predicted volume of electricity generation can be exceeded with 50% probability.

LTV expected to revert to 0% towards end of fund's envisioned lifecycle

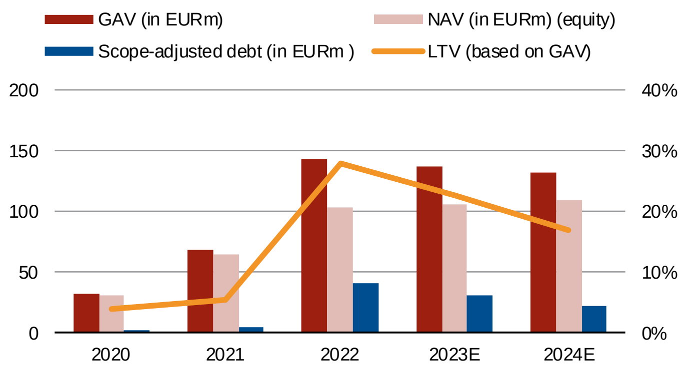
LTV is expected to improve drastically towards the end of AEI's envisioned lifetime and the planned redemption of shareholder loans that follow the sale of portfolio companies. However, our rating case reflects our expectation of leverage between 2022 and 2024 because the current leveraged ramp-up phase will determine AEI's default risk and potential to breach covenants over the next few years.

Figure 9: Scope-adjusted debt (SaD) to grow with net capacity additions



Sources: AEI, Scope estimates

Figure 10: Market value gearing



Sources: AEI, Scope estimates

Strongly negative portfolio market valuation needed before LTV deteriorates well beyond rating case

Overall net indebtedness is expected to move in sync with the investment portfolio and the expected portfolio market value, which limits the risk that LTV will significantly deteriorate. For the time being, impairments are low on the investment portfolio. The value of the power plant portfolio is not subject to frequent market revaluations, while impairments or appreciations of book values are rare. Moreover, given the investment strategy, any significant increase in net debt, as measured by Scope-adjusted debt, will be offset by growth in portfolio market value. As such, LTV is unlikely to deteriorate to well above 50%.

No debt maturities until 2025 in normal course of company's development

No debt is set to mature in the short term, but the heavily negative free operating cash flow due to the portfolio ramp-up requires external funding, planned through debt and equity. The minimum cash buffer of EUR 1.5m (under bond covenants) is supporting a sufficient cost coverage rather than enabling the company to cover potential debt repayments.

Significant refinancing risk in 2025 prior to fund's planned liquidation

While refinancing risk is limited during the ramp-up phase, cliff risk (tail risk) is significant regarding the financing of the assumed debt volume of about EUR 55m in 2025. Significant refinancing risks could arise if

i) portfolio companies cannot be sold on a timely basis and provided financing cannot be redeemed in full as expected before debt instruments used at holding company level mature; or

ii) if the portfolio companies' selling price and the associated redemptions of shareholder loans and acquired bonds fall short of expectations.

While AEI can extend its lifecycle by two years (until 2028), it cannot defer the repayment of senior unsecured bonds it uses as primary funding. Consequently, AEI would need to seek bridge funding, e.g. through bank loans or an equity injection, if available funds cannot cover the significant bond maturities in 2025. Such cliff refinancing risks will be clearer as the time to refinance nears.

Cross-default could trigger early refinancing needs at holding level

A cross-default clause with a EUR 500,000 threshold under AEI's unsecured fixed-rate note programme sets out triggers for the early redemption of outstanding bond volumes (including accrued interest) at holding level. The triggering of such a scenario could result in portfolio companies being sold at a discount as part of a fire sale.

Adequate liquidity for the time being

For the time being, AEI's liquidity is adequate. Any early refinancing needs as a result of a potential cross-default – should portfolio companies perform significantly weaker than expected – or the approaching cliff refinancing risks would be reflected more strongly once they become more apparent.

Balance in EUR m	2022	2023E	2024E
Unrestricted cash (t-1)	26.5	9.9	32.9
Open committed credit lines (t-1)	0.0	0.0	0.0
Free operating cash flow (t)	-61.5	7.4	8.8
Short-term debt (t-1)	5.1	0.1	0.0
Coverage	**Negative**	**Adequate**	**No short-term debt**

Supplementary rating drivers: no rating impact

The issuer rating does not incorporate any impact from Lords LB Asset Management. Investors provide regular support in the form of equity injections for the ramp-up but no extraordinary support.

Portfolio size in a peer context is neutral for the rating. We do not incorporate any impact as this is already reflected sufficiently in our assessment of the business and financial risk profile.

Long-term debt rating

Above-average recovery expected

We expect an above-average recovery for senior unsecured debt issued by AEI (basically senior unsecured bonds issued under its unsecured fixed-rate note programme). We expect no debt to rank above unsecured debt at the holding level. Our recovery assessment is based on liquidation value at a potential default, though the debt category rating reflects a conservative approach.

Senior unsecured debt at holding level to be recovered after senior secured debt of portfolio companies

In a liquidation scenario, project debt (bank loans) to special-purpose vehicles owned by portfolio companies and to which AEI has provided shareholder loans will be recovered first. Remaining proceeds from the disposal of operational and unfinished renewable energy power plants could be used to redeem the shareholder loans, which would support the recovery of senior unsecured debt at holding level.

One-notch uplift for senior unsecured debt

Our recovery analysis signals a robust, conservative advance rate for recoverable assets (e.g. 50% on expected property, plant and equipment), warranting a one-notch uplift for senior unsecured debt and leading to the BB- debt category rating.

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