Lyse AS

Kingdom of Norway, Utilities and Telecoms

Issuer
A-

Outlook
Negative

Short-term debt
S-1

Senior unsecured debt
A-

Rating composition

Business risk profile		
Industry risk profile	BBB	BBB+
Competitive position	BBB+	
Financial risk profile		
Credit metrics	BBB+	BBB
Cash flow generation	Moderate	
Liquidity	+/-0 notches	
Standalone credit assessment		**BBB+**
Supplementary rating drivers		
Financial policy	+/-0 notches	+1 notch
Governance & structure	+/-0 notches	
Parent/government support	+1 notch	
Peer context	+/-0 notches	
Issuer rating		**A-**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	16.6x	9.7x	8.0x	7.3x
Scope-adjusted debt/EBITDA	2.3x	3.2x	3.2x	3.5x
Scope-adjusted free operating cash flow/debt	-20%	-11%	-7%	-9%
Liquidity	192%	146%	177%	145%

Rating sensitivities

The upside scenario for the ratings and Outlook is:

- Debt/EBITDA decreasing below 3.0x (Outlook revision to Stable), which would alleviate the risk of further financial risk profile downside.

The downside scenarios for the ratings and Outlook are (individually):

- Non-materialisation of the upside scenario, with debt/EBITDA not decreasing below 3.0x.
- Loss of government-related entity status (remote).

**All credit metrics refer to Scope-adjusted figures.*

Analysts

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Related methodologies

General Corporate Rating Methodology, February 2025

European Utilities Rating Methodology, June 2024

Government Related Entities Rating Methodology, December 2024

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Diversified business model across non-correlated utility and telecom operations • Low-cost and environmentally friendly hydropower generation (positive ESG factor) with sizeable reservoirs • Exposure to robust infrastructure like power grids, fiber and mobile networks • Leading domestic market shares in fiber broadband services under Altibox brand • Strong interest cover supporting the financial risk profile • Government-related entity status: long-term committed municipal owners with capacity and willingness to provide financial support if needed	• High merchant risk in hydropower generation, with most of generation output exposed to volatile spot market prices • Downward pressure on financial risk profile amid increasing debt levels with growth investments leading to negative free operating cash flow • Execution risk related to forecasted growth in telecoms business • Moderate geographical diversification with focus on a single country, although certain risks (e.g. such as political or regulatory) spread across different business areas

2. Rating Outlook

The **Negative Outlook** reflects our expectation that debt/EBITDA will remain above 3.0x over the next few years amid continued high growth investments in 2025-2026 and current power price levels. Overall, this increases the risk of further financial risk profile downside, also considering execution risk related to the forecasted growth of the company's Telecom segment.

3. Corporate profile

Norwegian utility and telecom company

Lyse is a Norwegian municipal-owned utility and telecom company operating in three core business areas: Renewable Energy, Infrastructure and Circular Energy, and Telecom.

Diversified operations

Renewable Energy mainly includes hydropower generation in Norway's NO2 pricing area through the company's 74.4% stake in Lyse Kraft DA. This makes Lyse one of the largest domestic power generators. Infrastructure and Circular Energy mostly consists of power distribution in Rogaland county through subsidiary Lnett, and some district heating operations. Telecom owns and builds fiber and mobile networks across Norway. It is also the largest domestic supplier of broadband services through Altibox, and the third largest Norwegian mobile operator since the acquisition of Ice in 2022.

Government-related entity status

We classify Lyse as a government-related entity given its full public ownership by 14 municipalities in Rogaland county. The three largest owners are Stavanger municipality (45.7%), Sandnes municipality (19.5%) and Sola municipality (8.7%).

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
4 Apr 2025	Outlook change	A-/Negative
8 Apr 2024	Affirmation	A-/Stable
3 Apr 2023	Upgrade	A-/Stable

5. Financial overview (financial data in NOK m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	23.3x	16.6x	9.7x	8.0x	7.3x	7.4x
Debt/EBITDA	1.2x	2.3x	3.2x	3.2x	3.5x	3.3x
Free operating cash flow/debt	49%	-20%	-11%	-7%	-9%	0%
Liquidity	>200%	192%	146%	177%	145%	>200%
EBITDA						
Reported EBITDA	15,307	11,092	9,882	10,048	10,423	11,221
add: recurring dividends from associates	-	-	-	-	-	-
(Gain)/loss on asset disposals	-	-	(333)	-	-	-
Unrealised changes in value of energy and currency contracts	138	(525)	(206)	-	-	-
Other items (incl. one-offs)[1]	(3,773)	(2,056)	(1,735)	(1,782)	(1,782)	(1,782)
EBITDA	**11,672**	**8,511**	**7,608**	**8,266**	**8,642**	**9,439**
Funds from operations (FFO)						
EBITDA	11,672	8,511	7,608	8,266	8,642	9,439
less: interest	(502)	(512)	(788)	(1,033)	(1,179)	(1,269)
less: cash tax paid	(2,450)	(4,802)	(2,610)	(1,783)	(2,241)	(2,239)
Other non-operating charges before FFO	591	95	(942)	-	-	-
Funds from operations	**9,312**	**3,292**	**3,269**	**5,451**	**5,221**	**5,931**
Free operating cash flow (FOCF)						
Funds from operations	9,312	3,292	3,269	5,451	5,221	5,931
Change in working capital	1,644	(1,675)	399	-	-	-
Non-operating cash flow	-	-	-	-	-	-
less: capital expenditures (net)	(4,120)	(5,115)	(5,910)	(7,000)	(7,500)	(5,500)
less: lease amortisation	(212)	(286)	(365)	(372)	(379)	(387)
Other items	-	-	-	-	-	-
Free operating cash flow	**6,624**	**(3,784)**	**(2,607)**	**(1,921)**	**(2,658)**	**44**
Interest						
Net cash interest per cash flow statement	500	512	788	1,033	1,179	1,269
add: other items	1	-	-	-	-	-
Interest	**501**	**512**	**788**	**1,033**	**1,179**	**1,269**
Debt						
Reported financial (senior) debt	21,656	25,225	29,524	32,206	35,606	36,052
add: subordinated (hybrid) debt (net of equity credit)	-	-	-	-	-	-
add: shareholder loans (net of equity credit)	-	-	-	-	-	-
less: cash and cash equivalents	(8,862)	(6,190)	(5,719)	(5,650)	(5,526)	(5,108)
add: non-accessible cash	829	353	231	231	231	231
add: pension adjustment	2	-	-	-	-	-
add: asset retirement obligations	-	-	-	-	-	-
add: other debt-like items	-	-	-	-	-	-
Debt	**13,626**	**19,388**	**24,036**	**26,787**	**30,311**	**31,175**

[1] Adjustment for net cash effect from power generation outflow to minorities.

6. Environmental, social and governance (ESG) profile[2]

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)

ESG factors: credit-positive credit-negative credit-neutral

Hydropower exposure is a positive ESG factor

We consider Lyse's exposure to cost-efficient and carbon-free hydropower generation as a credit-positive ESG factor. Unlike CO2-intensive technologies, hydropower has low transition risks related to decarbonisation and benefit from low operating costs, which we believe will support future power plant utilisation. Additionally, Lyse mainly has large-scale hydropower plants that must be at least two-thirds publicly owned, which underpins its continued government-related entity status.

Credit-neutral corporate governance and other ESG factors

We have not identified other company-specific ESG factors that are likely to have a substantial impact on credit risk. Lyse applies governance principles as recommended by Norwegian market standards.

[2] 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.

7. Business risk profile: BBB+

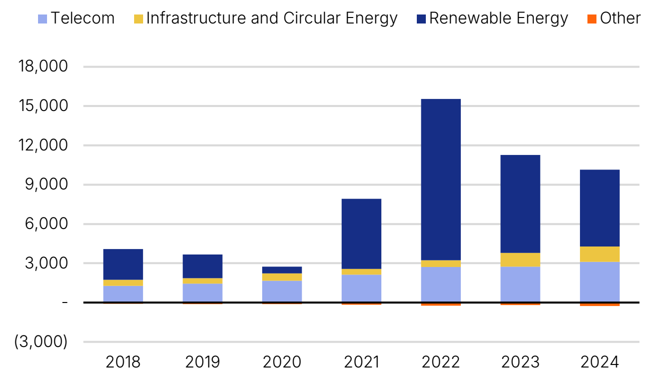
Good business risk profile

Lyse's good business risk profile reflects an industry risk of BBB and a stronger competitive positioning of BBB+.

Blended industry risk profile

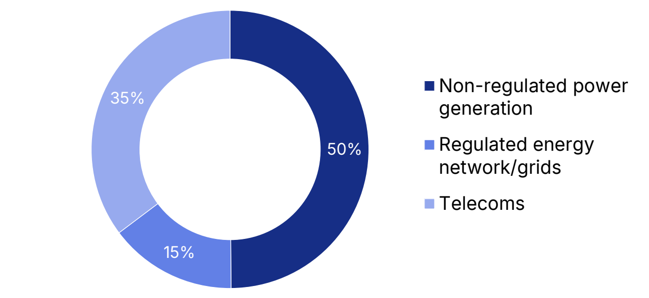
We apply a blended industry risk to reflect the fact that Lyse operates in different utility segments and telecoms, which are driven by different industry fundamentals. We derive the blended industry risk based on EBITDA contributions of around 50%-55% from non-regulated power generation, 35%-40% from telecoms and around 10%-15% from regulated grids. These are similar to the contributions in FY 2024 (Figure 2) and include our adjustment for Norsk Hydro ASA's share of the hydropower earnings through its 25.6% ownership in Lyse Kraft DA.

Figure 1: Reported EBITDA by business area, NOK m



Source: Lyse, Scope calculations

Figure 2: Estimated industry exposure of EBITDA[3], FY 2024



Source: Lyse, Scope calculations

Lyse's blended industry risk remains constrained by its exposure to non-regulated power generation, with significant dependence on inherently volatile power prices. However, Lyse's business mix could gradually change over the next few years due to expected growth in mobile services given the ongoing investment phase of the company's Telecom segment. If materialising, this growth could reduce the future cyclicality of the company's cash flow and lead to a stronger blended industry risk profile.

Table 1. Scope's industry risk profiles of relevance to Lyse

	Non-regulated power generation	Regulated energy network/ grids	Telecoms
Cyclicality	High	Low	Low
Entry barriers	Medium	High	Medium
Substitution risks	Low	Low to medium	Medium to low
Industry risk	**BB**	**AA**	**A**

Source: Scope

One of the largest hydropower generators in Norway

The company's power generation in Renewable Energy is solely based on hydro (positive ESG factor). At end-2024, its consolidated hydropower portfolio had a ten-year mean annual generation of 9.6 TWh[4] from 31 power plants and an installed capacity of 2.5 GW. This is mainly through its 74.4% ownership of Lyse Kraft DA. While small compared to international peers, the company is still important in its home market. Lyse Kraft DA is the fourth largest domestic power generator behind the incumbent generator Statkraft and the regional utility peers Hafslund and Å Energi. In 2024, with a generation volume of 9.2 TWh, Lyse Kraft DA contributed almost 6% of the total domestic power generation of 157.2 TWh.

[3] Scope-adjusted.

[4] And around 7.1 TWh adjusted for equity stakes.

Despite its moderate size and its primary exposure to spot market sales, we consider the company's power generation portfolio to be well positioned, with limited transition or stranded asset risks. This reflects the sole exposure to hydro with a favourable merit order position on the back of low marginal costs and a clean carbon footprint. Additionally, Lyse's hydro reservoir capacity, which equate to a volume of 6.8 TWh or around two-thirds of the company's expected mean annual generation, is a credit strength. The reservoirs ensure flexibility and enable the company to provide peak-load capacity and grid balancing services. We expect this to remain a strength amid increasingly volatile power markets impacted by more intermittent capacities like wind and solar.

Well positioned power generation portfolio

The downstream activities in Renewable Energy have a limited impact on our assessment of business risks due to earnings oscillating around break-even. Revenues from downstream sales of power were NOK 2.1bn in 2024 (2023: NOK 2.6bn) versus NOK 7.1bn (2023: NOK 9.2bn) from spot sales of power generation volumes.

Limited earnings from downstream

Infrastructure and Circular Energy support Lyse's market positioning despite being its smallest business area. This reflects the area's main exposure to regulated monopoly business as an owner and operator of power grids in southwest Norway, with around 165,000 customers in Rogaland County (AAA/Stable). Earnings from the area's gas sales and district heating remain modest.

Exposure to regulated monopoly business

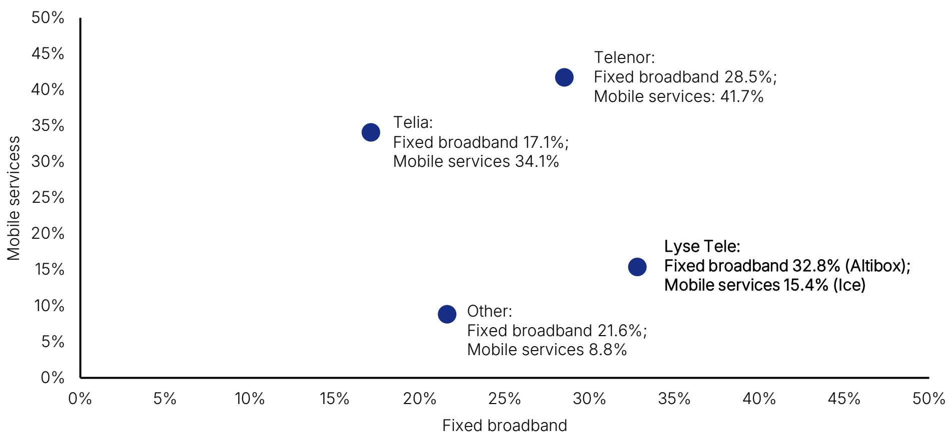
We consider Lyse's positioning in the Norwegian telecoms market as good. This reflects its: i) ownership and development of telecoms networks; ii) leadership in fixed broadband through Altibox, mostly with fiber; and iii) number three position in mobile services since the acquisition of Ice in 2022.

Good overall market positioning in telecom

Lyse's brands Altibox and Ice were merged into a fully integrated telecoms provider named Lyse Tele during 2024 as part of the company's strategy to realise synergies. Altibox (including partnerships) had 906,617 customers at end-2024 (end-2023: 868,321; end-2022: 828,881), of which 509,773 are owned by Lyse. It remains the leader in Norway's fixed broadband market with 32.8% of all subscribers (across all technologies) at mid-2024 (end-2023: 32.4%; end-2022: 31.2%). This is despite its primary focus on fiber, which stands for around three-quarters of the country's fixed-broadband revenues according to data from the Norwegian Communications Authority. Conversely, Lyse Tele through Ice holds a weaker position in mobile services as the number three operator with a market share of 15.4% in mid-2024 (end-2023: 14.6%; end-2022: 12.6%). We note that Ice surpassed 1,000,000 mobile customers in April 2025, up from 978,504 at end-2024 (end-2023: 882,075; end-2022: 757,305).

Weaker position in mobile services than in broadband

Figure 3: Competitive environment in Norwegian telecoms – market shares based on subscribers as of mid-2024



Source: Norwegian Communications Authority, Scope

Diversification remains good and supported by Lyse's diversified business model across non-correlated utility and telecoms operations. This helps to stabilise cash flow and makes the company more resilient to adverse power price developments. However, Lyse has limited

Good diversification

geographic diversification outside Norway. This makes it more vulnerable to events (e.g. political or regulatory changes or other changes to the competitive environment) in a single country compared to utility or telecoms peers with more international operations.

While Lyse's power plants are concentrated in a single pricing area (NO2/south Norway), we note the interconnection to other domestic and Nordic pricing areas as well as to continental Europe and the UK through subsea cables. This extends the company's geographic outreach in terms of pricing risk in power generation.

Strong profitability and efficiency

Profitability and efficiency remain strong. This is mainly driven by the company's utility operations, supported by the highly cost-efficient hydropower business, which supports an EBITDA margin of around 60% in the Renewable Energy area despite dilution from downstream sales. In Telecom, the EBITDA margin is currently around 30%. This remains a constraint as it lags the Norwegian operations of direct peers Telenor and Telia, still impacted by Lyse's weaker position in mobile services.

At the same time, Scope-adjusted return on capital employed declined to a still-strong level of 16% in 2024 (2023: 19%; 2022: 31%) and is expected to remain around this level amid lower but more normalised power prices.

Continued high investments

We forecast high investments of around NOK 7.0bn-7.5bn per year in 2025-2026 and around NOK 5.5bn in 2027. This reflects Telecom's continued investment phase including the roll-out of Norway's third national mobile network, as well as increasing capex for power grids in Infrastructure and Circular Energy. In Renewable Energy, we expect mainly maintenance capex with the next major growth project being the announced Røldal-Suldal upgrade, which we understand is expected to first commence in 2030.

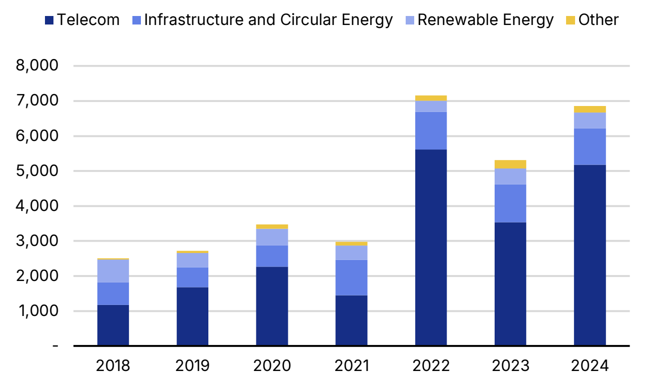
Growth in Telecom expected to support higher EBITDA

We forecast EBITDA to range between NOK 8.3bn and NOK 9.4bn in 2025-2027. The increase from NOK 7.6bn in 2024 is expected to be driven by Telecom, supported by continued growth in mobile customers, synergy realisation in Lyse Tele and the mobile network roll-out. The mobile network is expected to have national coverage (5G) and will enable Ice to transition out of the roaming agreement signed with Telenor in October 2024. We further expect a stable EBITDA development in Renewable Energy based on our assumption that achievable power prices will remain similar to those in 2024, with a level in NO2 of around NOK 600/MWh (2024: NOK 582/MWh).

Forecast supports future business risk profile

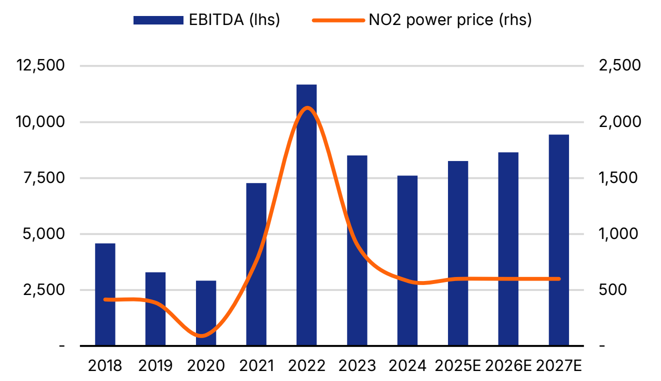
We consider the forecasted growth in Telecom as supportive of Lyse's future industry risk and competitive positioning. However, it remains subject to execution risk of the mobile services strategy. Other challenges include uncertainty about the earnings impact from the likely opening of fiber networks for wholesale access amid regulatory pressures to increase competition in broadband services.

Figure 4: Investments by business area[5] in 2018-2024, NOK m



Source: Lyse, Scope calculations

Figure 5: EBITDA (NOK m) and NO2 power price (NOK/MWh)



Source: Lyse, Scope estimates

[5] Investments include: i) capital expenditures including customer acquisition costs and payment for spectrum licences; and ii) acquisitions of shares.

8. Financial risk profile: BBB

We have revised Lyse's financial risk profile down by one notch to BBB from BBB+ based on weaker credit metrics and cash flow cover than expected. This is exemplified by leverage increasing to 3.2x at end-2024 (end-2023: 2.3x), while we previously expected it to remain between 2.5x-3.0x in 2025-2026.

Financial risk profile revised to BBB from BBB+

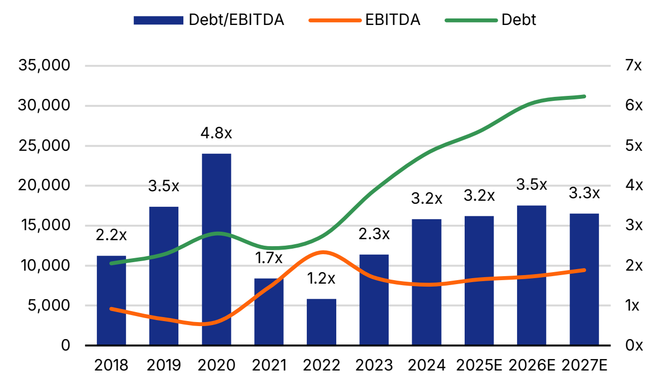
The recent weakening of leverage has mainly been driven by higher debt, which increased to NOK 24.0bn at end-2024 (end-2023: NOK 19.4bn). The difference to our forecast of NOK 21.6bn is largely due to higher-than-expected growth investments for both capex and acquisitions. Our power price assumption for NO2 remains unchanged at around NOK 600/MWh for the next few years.

Higher debt amid large investments

Given our expectation that continued high capex will result in negative free operating cash flow (FOCF) in 2025-2026, we expect cash flow cover (FOCF/debt) to range between -5% and -10%. Combined with maintenance of the dividend policy, we therefore expect an increase in debt to around NOK 30bn at end-2026. However, debt is expected to stabilise in 2027, supported by improved cash flow cover due to forecasted EBITDA growth and lower capex following completion of Ice's mobile network rollout.

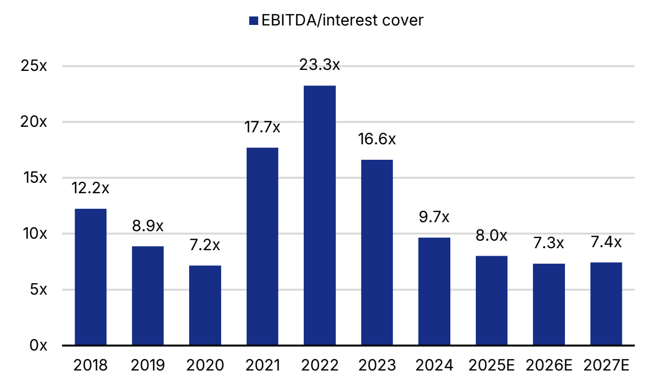
Debt expected to stabilise in 2027

Figure 6: Leverage (rhs) and EBITDA and debt (NOK m, lhs)



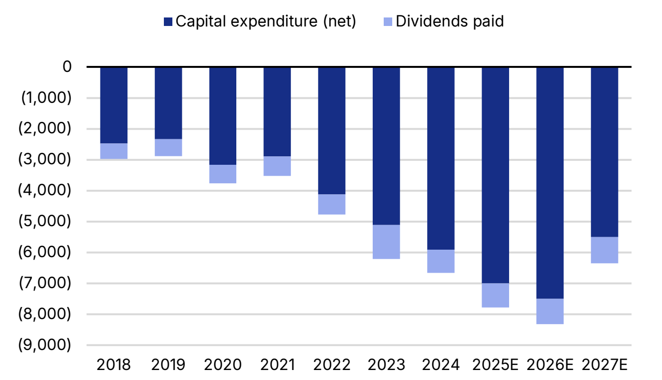
Source: Lyse, Scope estimates

Figure 7: Interest cover



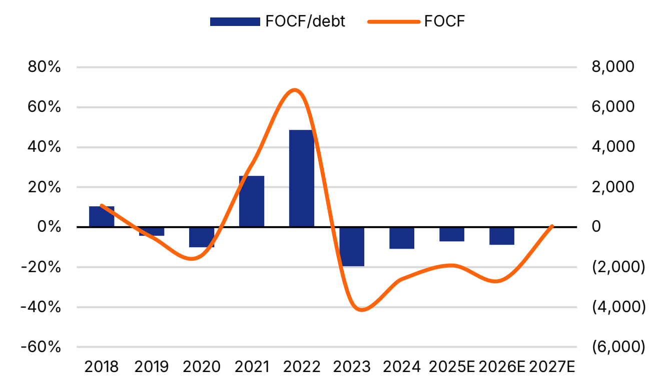
Source: Lyse, Scope estimates

Figure 8: Capital expenditure (net)[6] and dividends paid (NOK m)



Source: Lyse, Scope estimates

Figure 9: Cash flow cover (lhs) and FOCF (NOK m, rhs)



Source: Lyse, Scope estimates

We foresee limited room for deleveraging to below 3.0x in the medium term. This is based on our expectations for capex and power price levels, with leverage forecasted to remain between 3.0x

Leverage expected to remain between 3.0x-3.5x in the medium-term

[6] Include customer acquisition costs and payment for spectrum licences.

and 3.5x over the next few years. We also note that leverage has varied in 2018-2024 between a maximum of 4.8x and a minimum of 1.2x. This illustrates the volatility feeding through to Lyse's financial risk profile from its power price exposure in the Renewable Energy segment, which is a credit constraint despite the stabilising effect of the company's Telecom and Infrastructure and Circular Energy areas.

Strong interest cover

We expect EBITDA/interest cover to weaken due to rising debt, but to remain strong at levels between 7x and 10x.

Time lag in taxes payable contributing to volatile free operating cash flow

Lyse's cash flow is impacted by a time lag in Norway's taxation (incurred taxes are paid in the subsequent year). This contributed to highly negative FOCF in 2023 (Figure 9) due to taxes paid of NOK 4.8bn based on 2022. The high taxes in 2022 reflect both the exceptionally high power prices in that year and the high tax burden in Renewable Energy due to the resource rent tax on large-scale hydropower.

Balanced debt maturity profile

The company's financial liabilities mainly include bond and bank financing, with fairly balanced debt maturities (excluding leases) amounting to around NOK 3bn per annum over the next few years (Table 2).

Table 2. Debt maturity profile (excluding leases) at end-2024, NOK m

	2025	2026	2027	2028	2029	After 2029
Amount	2,868	3,151	3,606	2,887	3,155	11,356

Source: Lyse, Scope

Adequate liquidity

Lyse's liquidity remains adequate. This is supported by available cash and cash equivalents of NOK 5.5bn and committed multi-year credit lines of NOK 3.0bn at end-2024. We expect this to support coverage of upcoming debt maturities and negative FOCF by more than 110% in the next couple of years (Table 3).

Table 3. Liquidity sources and uses, NOK m

	2024	2025E	2026E
Unrestricted cash (t-1)	5,837	5,488	5,419
Open committed credit lines (t-1)	3,000	3,000	3,000
FOCF (t)	(2,607)	(1,921)	(2,658)
Short-term debt (t-1)	3,439	2,868	3,151
Liquidity	**146%**	**177%**	**145%**

Source: Lyse, Scope estimates

9. Supplementary rating drivers: +1 notch

Credit-neutral financial policy

We regard Lyse's financial policy as credit-neutral. The company aims to sustain a credit rating of at least BBB+ and to pay dividends corresponding to 60% of earnings over time. Dividend payouts are substantial; however, the payouts have proved predictable and are already reflected in our financial projections.

One-notch uplift for shareholder structure

We continue to assess Lyse as a government-related entity and apply a one-notch uplift to the standalone credit assessment.

The government-related entity status is based on Lyse's municipal ownership and its exposure to critical infrastructure in power supply and telecoms. We continue to apply a bottom-up approach under the framework in our Government Related Entities Rating Methodology. We assess the capacity to provide financial support as 'high' as we believe the credit quality of the public sponsors is materially higher than Lyse's standalone credit assessment of BBB+. The owners' willingness to provide support is assessed as 'medium' supported by the strategic importance of the company's services. We believe this is also underpinned by its shareholder agreement, which requires full ownership by municipalities. Additionally, we note that large-scale hydropower generation must be at least two-thirds publicly owned in accordance with Norwegian law. The rating uplift is restricted to one notch. This is in line with other Scope-rated Norwegian utilities with majority or full public ownership but no explicit guarantees on their debt or financial support.

10. Debt ratings

Senior unsecured debt rating: A-

Senior unsecured debt is rated A-, the same level as the issuer rating.

Short-term debt rating: S-1

The S-1 short-term debt rating is based on Lyse's underlying A-/Negative issuer rating. It also reflects the company's better-than-adequate short-term debt coverage and better-than-adequate access to bank and capital markets financing.

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