23 March 2021

Corporates

Eidsiva Energi AS
Norway, Utilities

SCOPE

STABLE

BBB+

Corporate profile

Eidsiva is the largest electricity grid company in Norway following the transaction with Hafslund E-CO, effective since 30 September 2019. Today, Eidsiva has more than 930,000 grid customers and operates a grid network of more than 66,000 km. Activities in the group also include district heating and broadband. Eidsiva accounts for its 42.8% stake in power production company Hafslund E-CO Vannkraft AS as an associated company. Eidsiva is fully owned by Norwegian municipalities, through Innlandet Energi Holding (49.4%), Åmot municipality (0.6%) and the City of Oslo (50% through Hafslund E-CO AS).

Key metrics

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021F**	**2022F**
EBITDA/interest cover	5.0x	9.8x	6.2x	6.7x
Scope-adjusted debt (SaD)/EBITDA, excl. div from HEV)	9.5x	4.6x	6.2x	5.6x
Scope-adjusted funds from operations/SaD	7.4 %	20.9 %	13.3 %	15.7 %
Free operating cash flow/SaD	-1.2%	10.6%	-3.9%	-3.1%

Rating rationale

Scope Ratings has affirmed the BBB+/Stable corporate issuer rating on Eidsiva Energi AS along with the BBB+ senior unsecured debt rating and S-2 short-term rating.

The issuer rating of Eidsiva reflects our assessment of the company's low business risks and more aggressive financial risk profile. With more than 80% of Eidsiva's EBITDA coming from the monopolistic grid business, which generates predictable cash flow, we assess Eidsiva's blended industry risk as low. The remaining EBITDA comes from its bio-energy and broadband businesses, the latter of which has seen increasingly good returns. Eidsiva's domestic market dominance, good customer diversification and efficiency improvements are also key drivers in our business risk assessment.

With positive free operating cash flow and the disposals of the Moelven and Innlandskraft shares last year, financial credit metrics ended YE 2020 on a positive note. However, we expect leverage to return above 5x going forward as capex remains high and the prospect of sizeable dividend payout remains. Further, last year's weak Nordic power prices negatively affected the dividends received from its minority shareholding in Hafslund-ECO Vannkraft (HEV). However, this is expected to reverse the current year.

In terms of liquidity, the company has continued to extend its maturity profile and issued new long-term bonds and loans. At YE 2020, the company had NOK 2.5bn in cash and NOK 2bn in unused long-term credit lines, which can cover its short-term debt of around NOK 2bn. We expect further issues of new long-term debt this year and a refinancing of the undrawn revolving credit facility (maturing in 2022).

Ratings & Outlook

Corporate issuer rating	BBB+/ Stable
Short-term rating	S-2
Senior unsecured rating	BBB+

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Related Methodologies

European Utility Methodology

Corporate Rating Methodology

Government Related Entities Methodology

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The Stable Outlook continues to reflect our expectation that Eidsiva will generate a significant part of its EBITDA from monopolistic, regulated grid operations. The Outlook also assumes that the funds from operations and interest coverage ratios will be higher on average compared to pre-2020 levels and that Eidsiva will continue to be owned by Norwegian municipalities.

A positive action could be warranted by a reduction in overall leverage, via positive free operating cash flow or further asset disposals, exemplified by a Scope-adjusted leverage ratio (Scope-adjusted debt/EBITDA) of around 4x on a sustained basis.

A negative rating action could be triggered by a weaker financial risk profile (e.g. through higher capex and dividends), leading to a Scope-adjusted debt/EBITDA sustained at well above 5.25x and an interest cover of below 5x. In addition, it could be triggered by the company losing its status as a government-related entity.

Rating drivers

Positive rating drivers	Negative rating drivers
• Norway's largest grid company, with a significant EBITDA share from monopolistic power distribution (more than 80%) • Long-term, supportive and committed municipality owners, justifying a +1 notch under GRE • Dividend inflow from 42.8% ownership in Norway's second largest hydropower production company, as well as profitable broadband and bio-energy businesses	• Ongoing sizeable investment phase, resulting in negative free cash flow and external funding requirements • Somewhat aggressive financial credit ratios expected in the short term • Currently sizeable and increasing dividend payout despite high investment ambitions and lower contribution from HEV

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Reduced leverage via positive free cash flow or asset disposals • Scope-adjusted debt/EBITDA of around 4x on a sustained basis	• Weaker financial risk profile, exemplified by a Scope-adjusted debt/EBITDA of well above 5.25x for a prolonged period and an interest cover of below 5x • Loss of status as a government-related entity

Financial overview

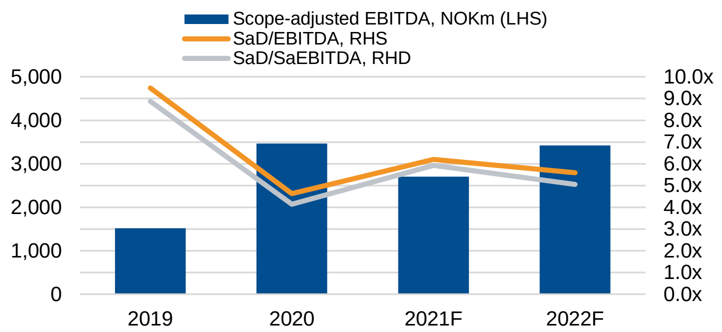
			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021F**	**2022F**
EBITDA/interest cover	5.0x	9.8x	6.2x	6.7x
Scope-adjusted debt (SaD)/EBITDA	9.5x	4.6x	6.2x	5.6x
SaD/Scope adjusted EBITDA (including dividend from HEV)	8.9x	4.1x	5.9x	5.1x
Scope-adjusted funds from operations/SaD	7.4 %	20.9 %	13.3 %	15.7 %
Free operating cash flow/SaD	-1.2%	10.6%	-3.9%	-3.1%
Scope-adjusted EBITDA in NOK m	**2019**	**2020**	**2021F**	**2022F**
EBITDA	1,422	3,095	2,587	3,098
Dividend received from HEV	97	369	120	325
Scope-adjusted EBITDA	1,519	3,464	2,707	3,423
Scope-adjusted interest	**2019**	**2020**	**2021F**	**2022F**
Interest paid	331	450	510	536
Interest received	-44	-135	-91	-77
Scope-adjusted interest	**287**	**315**	**419**	**459**
Scope-adjusted funds from operations in NOK m	**2019**	**2020**	**2021F**	**2022F**
EBITDA	1,422	3,095	2,587	3,098
less: (net) cash interest as per cash flow statement	-335	-450	-419	-459
less: cash tax paid as per cash flow statement	-172	-3	-156	-240
Other items (including dividend from HEV)	80	359	120	325
Scope-adjusted funds from operations	**995**	**3,001**	**2,132**	**2,724**
Scope-adjusted debt in NOK m	**2019**	**2020**	**2021F**	**2022F**
Reported gross financial debt (including leasing)	14,938	16,700	17,281	18,468
less: cash and cash equivalents	-1,490	-2,454	-1,306	-1,207
add: cash not accessible	35	50	50	50
add: pension adjustment	0	43	24	5
add: other	-	-	-	-
Scope-adjusted debt	**13,483**	**14,339**	**16,049**	**17,316**

FY2020 results positively affected by disposal

Eidsiva's main financial credit metrics ended YE 2020 at slightly better than our expectations, mainly due to the disposals of Moelven and Innlandskraft shares, which contributed around NOK 1.3bn in cash inflow. Still, indebtedness increased due to high investment needs and the decision to pay out more than the ordinary dividend.

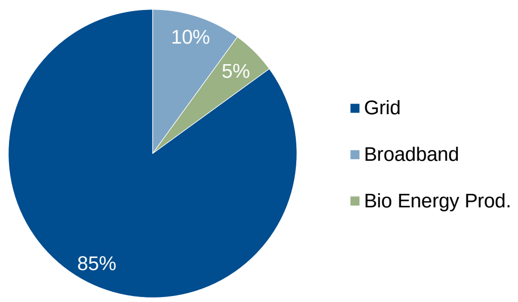
In terms of operations, we describe Eidsiva's development as stable and good. We see that integration efforts in Elvia activities are developing as planned. Separately, the company also reported a good grid efficiency score of 111% in connection with its Q4 results. Still, the unexpectedly low power prices last year had some impact on Eidsiva in terms of the profits in its bio-energy division and the potential for dividend distribution from HEV.

Figure 1: Scope-adjusted leverage development



Source: Company, Scope

Figure 2: Share of group EBITDA for FY 2020 results



Source: Company, Scope

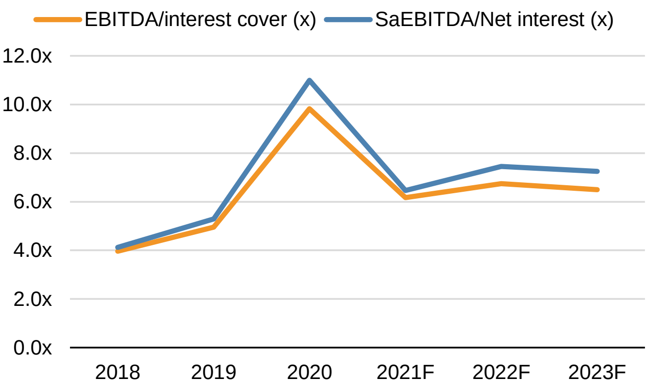
Updated Scope forecast

We have updated our financial forecast for Eidsiva following the FY 2020 numbers, its recent operating performance and the current market conditions and prospects. Overall, we forecast somewhat lower profitability and slightly higher capex, which are negative for key credit ratios compared to our previous forecasts.

Based on the combination of low power prices in 2020 (affecting the dividend potential from associated power producer HEV in 2021), high capex and the substantial dividend payout, we expect leverage to increase in the short to medium term. Our base case expects leverage to stay above 5x on average, even when adjusting for the HEV dividend. Further, we expect interest cover of slightly below 7x and a funds from operations/Scope-adjusted debt ratio of around 15%. The revised levels do not negatively impact Eidsiva's financial risk profile rating but have put pressure on leverage ratios. However, we highlight that the main reason for the weakening in leverage for 2021 is the lower result now expected for the grid business that year. Some of this is related to periodic adjustment of allowed revenue recognition between years. We have assumed a more normal power price market this year, which could push up the value of grid losses for Eidsiva. In addition, we understand that re-organizational and integrational costs in Elvia are increasing along with maintenance costs, which are factored into our analysis.

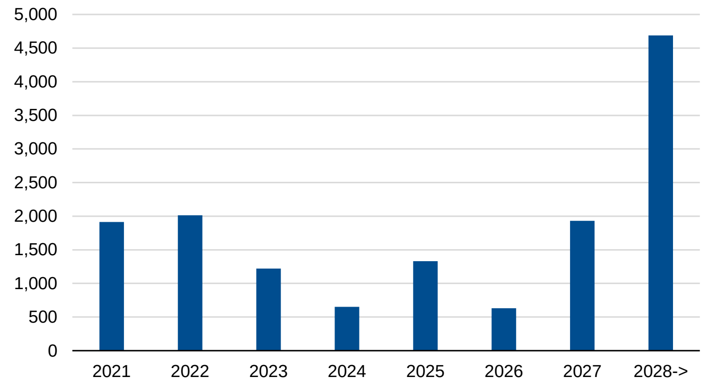
During the last 12 months, liquidity ratios improved, with short-term debt refinanced through several new long-term issues that included senior unsecured bonds (some of which are green bonds) and a loan granted by the Nordic Investment Bank. Refinancing needs will therefore reduce, but funding needs remain noticeable as we project negative discretionary cash flow of almost NOK 3bn for the next two years, which will increase Scope-adjusted debt to more than NOK 17bn at YE 2022.

Figure 3: EBITDA interest cover (incl. & excl. HEV div.)



Source: Company, Scope

Figure 4: Debt maturity (excl. leasing), YE 2020 (NOK m)



Source: Company, Scope

Summary of business and financial risk profiles

Our assessment of Eidsiva's business risk profile (A rated) has not changed. Eidsiva is still Norway's largest grid company, with a significant EBITDA share from monopolistic power distribution. Our financial risk profile assessment (BB) is also unchanged from last year, although we expect leverage metrics to weaken. Although, the revised levels do not negatively impact Eidsiva's overall financial risk profile rating, it has put pressure on selected credit ratios, especially leverage, making both financial flexibility and the rating headroom lower going forward.

Supplementary rating drivers

We continue to use our bottom-up approach to analyse Eidsiva's parent support, and the one-notch uplift assigned for municipality ownership has not changed.

Eidsiva's financial policy is prudent and requires no rating adjustment. Our new projections assume no structural transactions, but we note that the company is still open to participating in the consolidation of the Norwegian utility sector. We consider these strategic ambitions in the context of management's dedication to maintaining its financial strength and thus its desire to protect its investment grade rating.

Long-term and short-term debt ratings

The affirmation of the BBB+ senior unsecured debt rating, which is in line with the issuer rating, is based on the company's standard bond documentation, which includes a pari passu and negative pledge. All debt is issued by Eidsiva Energi AS.

The S-2 short-term rating has also been affirmed, reflecting the improving short-term debt coverage (due to the continued refinancing of previous short-term transaction-related debt) and continued good access to both bank loans and debt markets.

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