Akershus Energi AS
Norway, Utilities

SCOPE BBB STABLE

Corporate profile

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

Key metrics

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
EBITDA/interest cover	16.7x	5.0x	30.1x	21.4x
Scope-adjusted debt (SaD)/EBITDA	1.5x	7.5x	0.7x	1.6x
Scope-adjusted FFO/SaD	47%	-7%	139%	10%
FOCF/SaD	35%	-4%	157%	-5%

Rating rationale

Scope Ratings has changed the Outlook on the BBB issuer rating of Akershus Energi AS to Stable from Negative. At the same time, the BBB issuer rating, S-2 short-term rating and BBB senior unsecured rating have been affirmed.

Akershus Energi's business risk profile is still supported by its low-cost hydropower assets, which have a strong position in the merit order system, thus helping secure utilisation. The company has generated above-average group profitability margins and partly hedged its expected shorter-term production volume. Akershus Energi is strongly exposed to the energy market, which is both volatile and cyclical. Limiting factors for the company's business risk profile, in addition to its industry risk and price exposure for unhedged production output, include its modest segmentation and limited water reservoir capacity. Its main hydro assets are run-of-river plants, making it less flexible than peers with a larger reservoir capacity. Lately, Akershus Energi has started to diversify its renewable-energy assets beyond hydro power and district heating, into solar and wind as well.

Akershus Energi's financial risk profile has been volatile for the last two years, given its high exposure to power prices. Nevertheless, liquidity has been adequate, even in 2020, which was a weak financial year. This was helped by real estate fund disposals and a structural transaction that reduced expansionary investment needs. This year, the situation is reversed, with leverage expected to close conservatively at around 1x (YE 2021) and with increased financial flexibility, allowing the company to place excess liquidity in marketable securities. Going forward, we expect power prices to decline from very high levels in Q4 2021. Nevertheless, Akershus Energi is likely to have conservative Scope-adjusted debt (SaD)/EBITDA ratios until 2023. Cash flow metrics next year will be negatively affected by higher taxes paid. At the same time, we now assess the company's financial risk profile as stronger than its business risk profile, while placing slightly more emphasis on the business risk profile due to the volatility. We have also taken into account the company's ambition to invest more to broaden its green energy production output, putting potential pressure on discretionary cash flow generation.

Ratings & Outlook

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

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Related Methodologies

Corporate Rating Methodology

Rating Methodology European Utilities

Government Related Entities Methodology

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Outlook and rating-change drivers

The Stable Outlook on Akershus Energi's rating reflects our expectation that the company's credit metrics will weaken (from the conservative level expected at YE2021) going forward and remain broadly in line with our guidelines for the current rating. The anticipated increased investment by the company is doable within the current Outlook, given the increased financial flexibility from higher power prices. We anticipate that SaD/EBITDA will average between 2x and 3.5x from 2023.

A positive rating action is possible if prices in the Nordic power market (especially the company's service territory) stay higher than our expectations for 2022 and beyond. This would lead to excess free cash flow, which could then be used to service debt rather than for expansion and dividends. This would, in turn, result in an improved financial risk profile over time, exemplified by SaD/EBITDA of below 2x on a sustained basis. Moreover, an increasing EBITDA share from more stable green infrastructure business, could lead to lower volatility and an improved business risk profile.

A negative rating action could be warranted if more aggressive debt-financed growth is pursued and power prices decline substantially, leading to negative free operating cash flow (FOCF) and weaker credit metrics on a sustained basis, e.g. SaD/EBITDA above 3.5x.

Rating drivers

Positive rating drivers	Negative rating drivers
• Highly profitable and cost-efficient environmentally friendly hydropower production (positive ESG factor) leading to strong EBITDA margins and positive FOCF over time • Hedging policy and infrastructure investment mitigate some inherent business volatility • Committed, long-term majority owner with clear willingness and capacity to provide support if needed	• Power price exposure and volatility of unhedged European power production • Limited water reservoir capacity, as power assets are mainly run-of-river plants • Low diversification by segment and geographical pricing market

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Use of excess free cash flow to service debt, resulting in a sustainable improvement in credit metrics (e.g. SaD/EBITDA below 2x over time), and • increasing EBITDA share from the more stable green infrastructure business, which could lead to lower volatility or an improved business risk profile	• Materially lower achieved power prices and reduced hedging levels • Weaker financial risk profile, e.g. negative FOCF and SaD/EBITDA above 3.5x on a sustained basis

Financial overview, in NOK m

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
EBITDA/interest cover	16.7x	5.0x	30.1x	21.4x
Scope-adjusted debt/EBITDA	1.5x	7.5x	0.7x	1.6x
Scope-adjusted FFO/Scope-adjusted debt	47%	-7%	139%	10%
FOCF/Scope-adjusted debt	35%	-4%	157%	-5%
EBITDA	689	227	1,198	847
Operating lease payments in respective year	0	0	0	0
Scope-adjusted EBITDA	**689**	**227**	**1,198**	**847**
EBITDA	689	227	1,198	847
less: (net) cash interest as per cash flow statement	-49	-49	-40	-40
less: cash tax paid as per cash flow statement	-348	-324	-12	-687
add: depreciation component operating leases	0	0	0	0
Other items	208	24	-12	10
Scope funds from operations (FFO)	**500**	**-122**	**1,134**	**130**
Reported gross debt	1,626	2,501	2,262	2,053
Cash, cash equivalents	-596	-813	-1,461	-728
cash not accessible	32	16	16	16
Pension adjustment	0	0	0	0
Operating lease obligations	0	0	0	0
Scope-adjusted debt (SaD)	**1,062**	**1,704**	**817**	**1,341**

Highly volatile credit metrics in the last two years

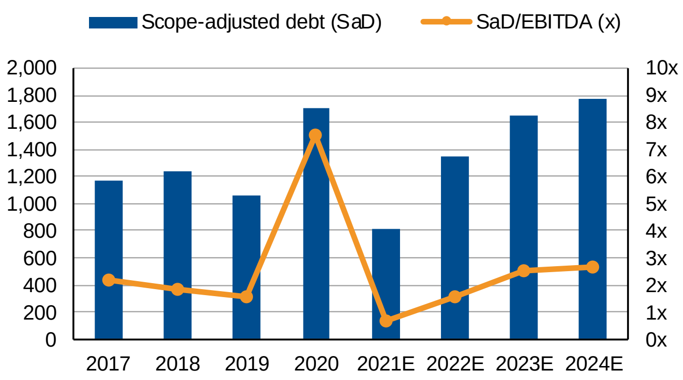
Akershus Energi's financial performance in 2021 was above our expectations, mainly due to an even stronger recovery of power prices than we anticipated last year. Together with the reduction of shareholdings in Odal Windfarm and a lower dividend pay-out, this has led to highly positive FOCF YTD 2021 and net leverage of around 1x at YE 2021 (significantly down from SaD/EBITDA of 7.5x at YE 2020). In terms of cash flow, Akershus Energi is also positively affected by lower taxes paid this year (which will reverse next year).

Over the year, Akershus Energi has continued to diversity its renewable-energy assets beyond hydro power and district heating. In the longer term, the company expects to reduce its dependence on hydro power production from approx. 90% to around two-thirds. The remaining one-third should consist of a combination of wind, district heating and solar. However, the company is making sure it does not take on too much capex at the same time, also leading to portfolio allocations.

In addition to the above-mentioned sell down of Odal Windfarm, the following events are worthy of note this year:

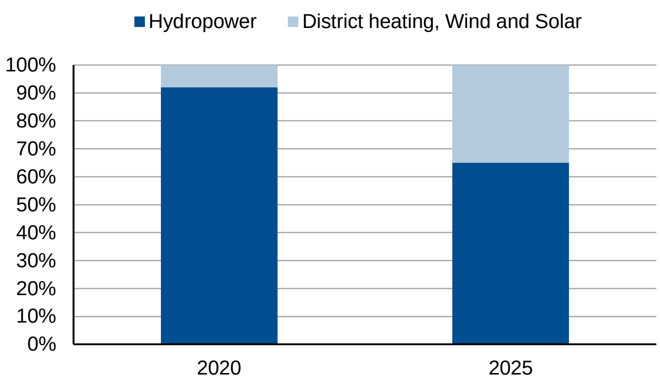
- The ownership interest in Green H2 Norway AS increased to 40% (and changed its name to Viken Hydrogen AS) and is still working on realising a production plant for green hydrogen.
- The ownership share in Soleie AS has been reduced from 100% to 50%, and the first agreement has been signed.
- Otovo AS was listed on the Euronext Growth Stock exchange, and Akershus Energi's ownership interest is now 7.9%. A fair value gain was recorded of NOK 105m in Q3.

Figure 1: Scope-adjusted leverage development (NOK m)



Source: Company, Scope estimates

Figure 2: Targeted production mix development



Source: Company

Updated forecast

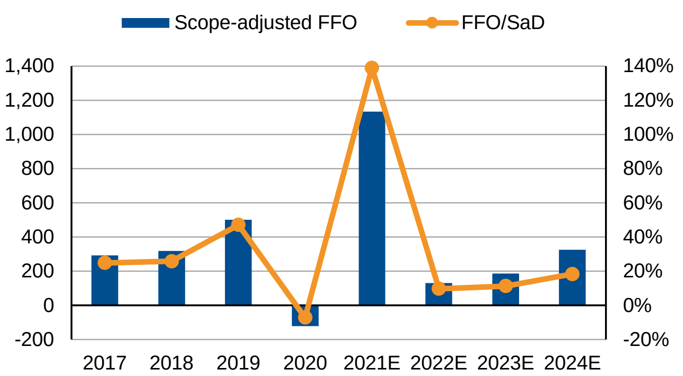
Our updated financial forecast for Akershus Energi includes a new forward power price curve, with an expected return to more normalised power prices in the short to medium term. The volume is relatively unchanged, but with some increase in district heating.

As a result, we estimate that the EBITDA margin will decline from a peak of around 70% in 2021 to levels closer to 60% in the longer term. Compared to current market prices as of early December 2021, our prices for 2022 are somewhat conservative, but this also reflects effects from some released hedges at lower levels and some increased corporate costs.

Akershus Energi's ambition is to raise its renewable energy production output towards 2025, which will increase capex. However, it has been doing so with partners to ease the capex burden, which is positive. Although no explicit expansionary capex amounts have been communicated, we anticipate that the company will incur this in the years to come, given the higher prices in the market, which will also increase its financial headroom.

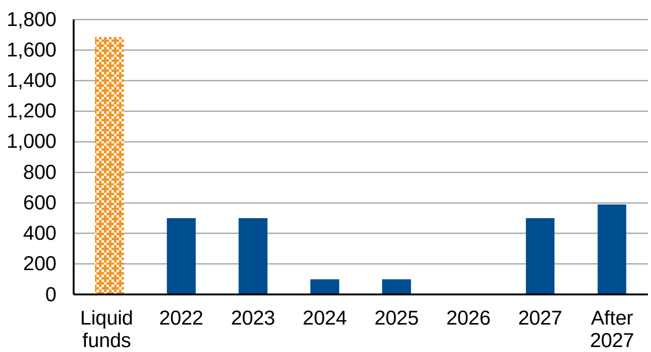
Our updated forecast no longer sees the prolonged risk of continued weak cash flow and credit metrics. The new base case indicates that Scope-adjusted leverage ratio will be below 2x in the short term, although not maintained in the longer-term. This is based on our power price assumptions and the company's investment ambitions. From 2023, we expects the company's financial risk profile to be slightly weaker than today, exemplified by at SaD/EBITDA of above 2x, which is within the guidelines for the current rating. This is based on Akershus Energi's aim to invest more in broadening its green energy production output, thus heightened capex.

Figure 3: FFO in NOK m (LHS) and FFO/SaD (RHS)



Source: Company, Scope estimates

Figure 4: Debt maturity profile and liquid funds in NOK m



Source: Company, Scope

Summary of business and financial risk profiles

Akershus Energi's financial risk profile is now stronger than its business risk profile. This is due to the strong reversal of 2020's weak operational cash flow this year, but also the more positive power price forecast. However, we continue to place slightly more emphasis on the company's business risk profile when assigning the standalone rating due to the volatility in power prices and thus credit metrics. Our BBB- business risk profile assessment of Akershus Energi has not changed. The company's business risk is still supported by its low-cost, environmentally friendly hydropower assets, which have a strong position in the merit order system. Akershus Energi has also generated above-average group profitability margins over time and is now diversifying its renewable producing assets.

Supplementary rating drivers

We continue to use our bottom-up approach to analyse Akershus Energi's parent support under our Government Related Entities Methodology. The one-notch uplift for the 100% Viken municipality ownership of Akershus Energi (increasing the BBB- standalone rating to a BBB issuer rating) has not changed.

We make no adjustment for financial policy. Akershus Energi's policies ensure satisfactory financial flexibility in the short and long term, and the maintenance of a high credit rating (the company target is a minimum of BBB). The upcoming expansionary capex follows disciplined savings and includes potential partners to share investment needs. This ensures that the company's balance sheet will not be overly stretched.

Long-term and short-term debt ratings

The senior unsecured rating is in line with the issuer rating.

As of Q3 2021, the company had NOK 312m in cash and NOK 1.2bn in marketable securities. In addition, the company has NOK 475m in long-term committed credit lines and NOK 425m in short-term revolving credit facility drawing lines that are renewed yearly. This is far more than the debt maturities for the next few years. Overall liquidity is adequate, which justifies an affirmation of our S-2 short-term rating in accordance with our methodology. In addition to the company's sufficient short-term debt coverage, we also note adequate access to banks and debt capital markets.

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