Akershus Energi AS
Kingdom of Norway, Utilities

SCOPE A- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	>20x	Net interest income	Net interest income	Net interest income
Scope-adjusted debt/EBITDA	Net cash	Net cash	0.1x	0.3x
Scope-adjusted free operating cash flow/debt	Net cash	Net cash	54%	5%

Rating rationale

The rating reflects a standalone credit assessment of BBB+ and a one-notch uplift based on our assessment of the company's status as a government-related entity.

The business risk profile continues to reflect the company's main exposure to volatile but environmentally friendly and low-cost hydropower generation (positive ESG factor), supplemented with district heating and a 33.4% ownership in Odal Vind AS ("Odal Wind Farm").

The company's financial risk profile remains the primary support for the standalone credit assessment. It continues to be driven by low indebtedness, as reflected by a net cash position in 2022-2023 and a projected leverage (Scope-adjusted debt/EBITDA) of 0.1x at YE 2024.

Outlook and rating-change drivers

The Stable Outlook reflects our assumption that leverage will remain between 0.0x and 0.5x over 2024-2026 which is supported by the company's solid internal funding capacity which limits external fundraising over the foreseeable future. While unlikely to have an impact in the next couple of years, we note the company's growth ambition in wind power, which could cause ratings pressure through increased indebtedness if larger investments materialise.

The upside scenario for the ratings and Outlook is:

1. Improving business risk profile paired with the maintenance of an unchanged financial risk profile. This is deemed remote as it would require larger scale or more diversified and stable cash flow streams.

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

1. Leverage significantly exceeding 0.5x on a sustained basis.
2. Loss of government-related entity status (remote).

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
13 Dec 2024	Affirmation	A-/Stable
13 Dec 2023	Affirmation	A-/Stable
13 Dec 2022	Upgrade	A-/Stable

Ratings & Outlook

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

Analyst

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Related Methodologies and Related Research

General Corporate Rating Methodology; October 2023

European Utilities Rating Methodology; June 2024

Government Related Entities Rating Methodology; December 2024

ESG considerations for the credit ratings of utilities; April 2021

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Cost-efficient and environmentally friendly hydropower generation (positive ESG factor) that supports high profitability • Low financial leverage • GRE status and long-term committed municipal owner that could provide financial support if needed	• Exposure to volatile power prices • Less generation flexibility, as generation assets are mainly run-of-river • Low diversification by utility segment and geography • Increasing investments

Positive rating-change drivers	Negative rating-change drivers
• Improved business risk profile while maintaining an unchanged financial risk profile (remote)	• Leverage significantly exceeding 0.5x on a sustained basis • Loss of government-related entity status (remote)

Corporate profile

Akershus Energi is a Norwegian municipality-owned utility focused on hydropower generation in southeast Norway. Its mean annual generation volume is around 2.5 TWh from nine wholly owned and 12 partly owned hydropower plants. It is also active in district heating, wind power, solar and green infrastructure. The company is wholly owned by Akershus county municipality.

Financial overview

			Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	>20x	Net interest income	Net interest income	Net interest income	>20x
Scope-adjusted debt/EBITDA	Net cash	Net cash	0.1x	0.3x	0.5x
Scope-adjusted free operating cash flow/debt	Net cash	Net cash	54%	5%	-6%
Scope-adjusted EBITDA in NOK m					
EBITDA	2,604	1,472	1,126	1,072	1,085
Other items[1]	-	74	-	-	-
Scope-adjusted EBITDA	**2,604**	**1,545**	**1,126**	**1,072**	**1,085**
Funds from operations in NOK m					
Scope-adjusted EBITDA	2,604	1,545	1,126	1,072	1,085
less: Scope-adjusted interest	(44)	30	19	7	(4)
less: cash tax paid per cash flow statement	(700)	(2,122)	(931)	(655)	(613)
Other non-operating charges before FFO	(6)	(65)	-	-	-
Funds from operations (FFO)	**1,854**	**(612)**	**213**	**424**	**468**
Free operating cash flow in NOK m					
Scope-adjusted FFO	1,854	(612)	213	424	468
Change in working capital	199	(409)	-	-	-
less: capital expenditure (net)	(157)	(101)	(150)	(400)	(500)
less: lease amortisation	(5)	(7)	(7)	(7)	(7)
Free operating cash flow (FOCF)	**1,891**	**(1,129)**	**56**	**18**	**(38)**
Net cash interest paid in NOK m					
Net cash interest per cash flow statement	44	(30)	(19)	(7)	4
Other items	-	-	-	-	-
Net cash interest paid	**44**	**(30)**	**(19)**	**(7)**	**4**
Scope-adjusted debt in NOK m					
Reported gross financial debt	2,080	1,566	1,457	1,349	1,590
less: cash and cash equivalents	(3,562)	(1,693)	(1,395)	(1,064)	(1,043)
add: non-accessible cash	70	43	43	43	43
add: pension adjustment	-	-	-	-	-
Scope-adjusted debt	**(1,412)**	**(84)**	**105**	**327**	**590**

[1] Dividends received from Odal Wind Farm.

Table of Content

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

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Green leaf	Labour management		Management and supervision (supervisory boards and key person risk)	Grey leaf
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)	Grey leaf
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)	Grey leaf
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	Grey leaf

Legend

Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

Business built around renewable energy

The company faces limited transition or stranded risk, as its main exposure is to clean and low-cost hydropower generation, which should support long-term cash flow generation through high power plant utilisation. The company complements its core hydropower business with other types of sustainable energy generation (e.g. district heating and wind power).

Large hydro assets must have public ownership

In addition, the company's exposure to large-scale hydropower assets underpins its status as a government-related entity, as these must be at least two-thirds publicly owned.

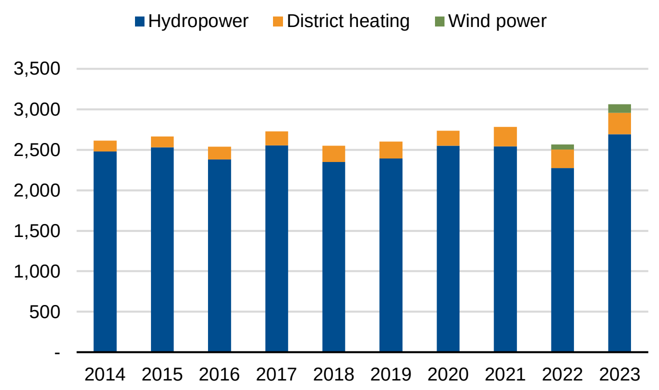
[2] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB-

Industry-inherent volatility

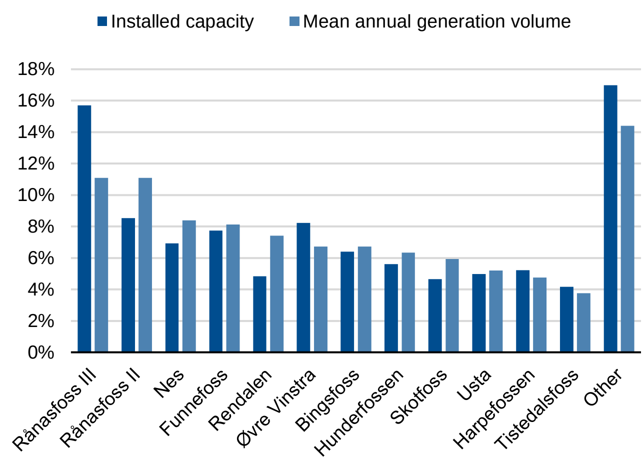
Akershus Energi is primarily exposed to renewable power generation (mainly based on hydropower) and its financial performance is therefore closely linked to the achievable power prices.

Figure 1: Energy generation[3] volume by technology, GWh



Sources: Akershus Energi, Scope

Figure 2: Concentration of hydropower generation portfolio by power plant



Sources: Akershus Energi, Scope

Hydro output of 2.7 TWh in 2023

The company is a regional player in hydropower generation, operating mainly in southeast Norway (NO1 zone). It generated 2.7 TWh of electricity in 2023. Despite its small size, the company's power generation portfolio enjoys a good position in the market. This is because of its low marginal cost of generation and the clean carbon footprint, resulting in a strong merit order position.

Mainly run-of-river power plants

The company has a high proportion of run-of-river power plants. These have less flexibility to optimise generation than power plants with water reservoirs and high installed capacity. Unlike many of its domestic utility peers, the company is therefore less likely to benefit from the increasing presence of short-term price volatility in the Norwegian power market.

Manageable volume risk

Akershus Energi's hydropower capacity is mainly located in Norway's larger river systems. These have relatively stable water flows (e.g. Glomma and Lågen), which supports low variability in annual generation (Figure 1). In addition, power prices in Norway are typically negatively correlated with generation volumes due to the significant (almost 90%) share of hydropower in the country. Volume risk is therefore considered manageable.

Moderate diversification

Moderate diversification increases business risks. While we consider the power generation portfolio to be adequately diversified, the company is geographically concentrated and has limited diversification across different utility segments. Overall, this reduces cash flow stability and increases exposure to event risks (e.g. adverse weather or regulatory changes).

Pricing risk reduced by interconnectors

Regarding the price risk in power generation, we believe that the regional concentration is partly mitigated by the exposure to surrounding power markets in the Nordic and European regions through interconnectors.

[3] Wind power corresponds to Akershus Energi's ownership in Odal Wind Farm.

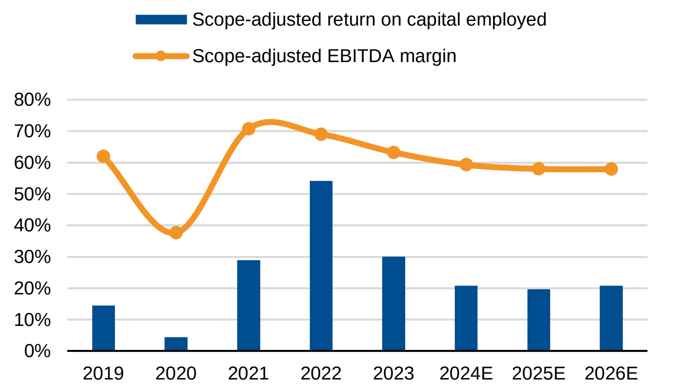
Strong profitability

The business risk profile is supported by strong profitability, driven by the hydropower business. We note that margins have declined since 2021-22 amid more moderate power prices and an expansion of the cost base in line with the growth strategy in new areas such as wind and solar. In the current price environment, we expect the Scope-adjusted EBITDA margin to stabilise at around 60% and the return on capital employed to remain at around 20%.

Margin decline in district heating

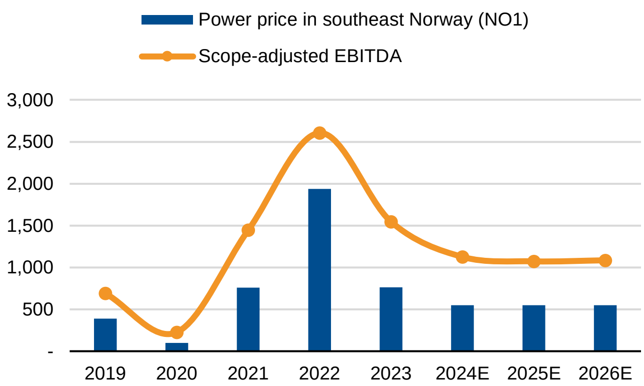
On a segment basis, the EBITDA margin in district heating fell from above 25% in 2021-2023 to 13% in 9M 2024. This decline is mainly due to lower sales prices and a more expensive mix of fuels. The EBITDA margin in the hydropower business remains above 70%.

Figure 3: Profitability



Sources: Akershus Energi, Scope estimates

Figure 4: Scope-adjusted EBITDA (NOK m) versus the NO1 power price (NOK/MWh)



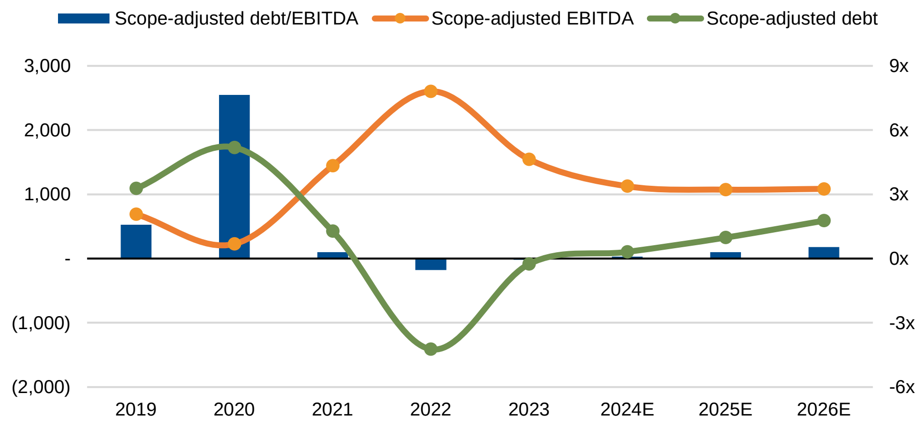
Sources: Akershus Energi, Nordpool, Scope estimates

Financial risk profile: A

Unchanged financial risk profile

Our updated base case shows that credit metrics are likely to remain strong in the current power price environment if capex does not significantly exceed our expectations. The projected increase in capex (Figure 7) follows a period of cash accumulation in 2021-2023 amid rising power prices and low investments in these years.

Figure 5: Leverage (rhs) versus Scope-adjusted EBITDA and debt (NOK m, lhs)



Sources: Akershus Energi, Scope estimates

Leverage currently around 0x

After maintaining a net cash position in 2022-2023, leverage is expected to remain low at 0.1x in 2024. We then expect a gradual weakening in 2025-2026 within a range of 0.0x-0.5x. This is mainly due to higher capex as the company plans major upgrades in its hydropower and district heating businesses. While the projected leverage is broadly in line with our current view of the financial risk profile, a further increase to well above 0.5x could negatively impact our view of credit metrics.

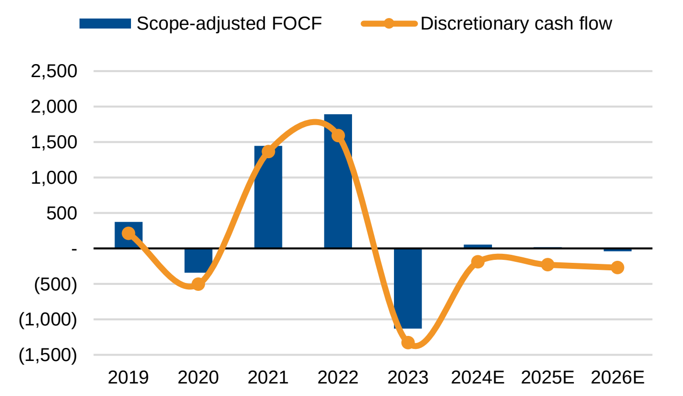
Strong debt protection

The company is expected to generate net interest income in the medium term. This ultimately results in very strong Scope-adjusted EBITDA interest cover.

Good internal financing capacity

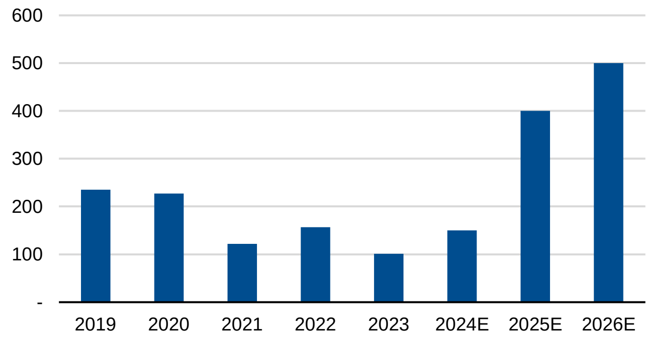
We assess internal financing capacity as good. However, while free operating cash flow is expected to be around break-even over the forecast period, the company is assumed to maintain its dividend policy, which is likely to result in a moderate, gradual increase of Scope-adjusted debt.

Figure 6: Scope-adjusted cash flows, NOK m



Sources: Akershus Energi, Scope estimates

Figure 7: Capex, NOK m



Sources: Akershus Energi, Scope estimates

No dividend distributions assumed from Odal Wind Farm

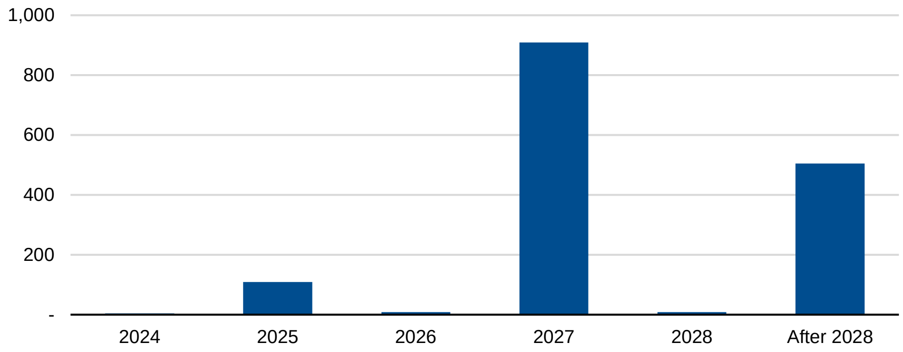
In the medium term, Scope-adjusted EBITDA does not include dividend income from the Odal Wind Farm. While dividend distributions may resume during our forecast period, they are currently restricted by a waiver agreement related to financial covenants on the EUR 88m (as of YE 2023) non-recourse loan in Odal Wind Farm. This followed the immediate halt of operations due to an incident in April 2024 when a blade fell off from one of the turbines. We note that operations have been partially resumed with 17 out of 34 turbines back in operation as of Q3 2024.

Adequate liquidity

Akershus Energi's liquidity is adequate, with projected liquidity ratios well above 200% in 2024-2026. In addition to a large cash position, the company has a committed (undrawn) multi-year credit line of NOK 375m, which compares with only small debt maturities until 2027.

Balance in NOK m	2023	2024E	2025E
Cash and cash equivalents (t-1)	3,562	1,693	1,395
Non-accessible cash (t-1)	(70)	(43)	(43)
Open committed credit lines (t-1)	375	375	375
Free operating cash flow (t)	(1,129)	56	18
Short-term debt (t-1)	509	109	109
Coverage, internal	**>200%**	**>200%**	**>200%**
Coverage, internal + external	**>200%**	**>200%**	**>200%**

Figure 8: Debt maturity profile as of Q3 2024, NOK m



Sources: Akershus Energi, Scope

Supplementary rating drivers: +1 notch

GRE status grants a one-notch uplift to the standalone credit assessment

We continue to assess Akershus Energi as a government-related entity and apply a bottom-up approach using the framework outlined in our Government Related Entities Rating Methodology. The capacity of Akershus county municipality remains 'high' and we still assess its willingness to provide financial support in the remote scenario of financial distress as 'medium'. Consequently, we continue to grant a one-notch uplift to the standalone credit assessment of BBB+, resulting in an issuer rating of A-. The rating uplift 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.

Financial policy

We have not made any adjustment for financial policy. The company's dividend policy (70% payout ratio but minimum NOK 80m) has remained stable and is reflected in the assessment of the financial risk profile. In addition, the company aims to maintain a high credit rating of at least BBB.

Long-term and short-term debt ratings

Senior unsecured debt rating: A-

We have affirmed the rating of A- on senior unsecured debt, in line with the issuer rating.

Short-term debt rating: S-1

The affirmed S-1 short-term debt rating is based on the underlying A-/Stable issuer rating and reflects better-than-adequate short-term debt coverage as well as adequate access to bank and capital markets financing.

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