5 June 2023 Corporates

Å Energi AS
Kingdom of Norway, Utilities

SCOPE A- POSITIVE

Key metrics

			Scope estimates	
Scope credit ratios	**2021**	**2022**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	24.8x	35.2x	29.9x	22.4x
Scope-adjusted debt/EBITDA	1.4x	0.9x	1.0x	1.5x
Scope-adjusted funds from operations/debt	94%	86%	-4%	9%
Scope-adjusted free operating cash flow/debt	55%	48%	-10%	-3%

Rating rationale

The rating is driven by Scope's view on Å Energi's improved business risk and financial risk profiles. The stronger business risk profile assessment of BBB+ is driven by an improved profitability assessment in terms of EBITDA margin and its stability in addition to strong Scope-adjusted ROCE, a factor newly included in Scope's methodology for European utilities. The upgraded financial risk profile of A- is mainly driven by Scope's view of continued elevated power prices in southern Norway. It also reflects the completed merger with Glitre Energi which removes previous transaction risks. At the same time, the company's financials will remain volatile and depend strongly on external factors such as achieved power prices. As evidenced from sudden tax increases during 2022, political risks are present although Scope views the likelihood of further tax increases as relatively low. In total Scope remains confident in its assessment of an improved financial risk profile bolstered also by some headroom in credit metrics. In addition, the agency has assigned a Positive Outlook indicating that further ratings upside could be possible if the low leverage of 1.5-2.0x can be sustained in the longer term, i.e. beyond 2025E.

Outlook and rating-change drivers

Scope maintains the Positive Outlook on the rating given further potential rating upside. The Positive Outlook reflects the agency's view of potential further ratings upside in a scenario where power prices are sustained at elevated levels even beyond 2025. Overall, Scope sees good chances that Å Energi could keep Scope-adjusted debt/EBITDA at around or below 2.0x.

A rating upgrade could be warranted if credit metrics – as exemplified by a Scope-adjusted debt/EBITDA ratio of around or below 2.0x – were sustained.

A revision to the Stable Outlook could be triggered if Scope foresees that leverage (Scope-adjusted debt/EBITDA) moves above 2.0x on a sustained basis. This could be driven by lower-than-expected power prices, or alternatively, an upward revision of the capex programme and/or dividend policy. A downgrade could materialise if credit metrics significantly weakened, e.g. if leverage moved towards 4.0x. While considered remote, a loss of GRE status would also cause ratings pressure.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
5 Jun 2023	Upgrade	A-/Positive
6 Sep 2022	Outlook change	BBB+/Positive
17 Mar 2022	Monitoring review	BBB+/Under review for a developing outcome

Ratings & Outlook

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

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Related Methodologies

General Corporate Rating Methodology; July 2022

European Utilities Rating Methodology; March 2023

Government Related Entities Methodology; May 2022

Related Research

European utilities: continued electricity price hedging promises producer gain, consumer pain, Apr 2023

Nordic utilities: north-south price gap benefits southern generators; TSOs also gain, Nov 2022

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Vertically integrated business model with hydropower generation, monopolistic grid and retail • Low-cost and environmentally friendly hydropower generation (positive ESG factor) with annual volumes of 11.3 TWh (3rd largest in Norway) and significant hydro reservoir capacity • Robust cash flow generation in Glitre Nett – Norway's 2nd largest grid operator • Very strong profitability as measured by EBITDA margin and Scope-adjusted ROCE • Long-term committed municipality owners that are jointly organised and have the capacity and willingness to provide potential parent support	• Significant exposure to volatile power prices for unhedged power generation volumes • Relatively large investment needs in regulated grid operations in Glitre Nett expected over the next years Regional focus with limited geographical outreach within and outside Norway

Positive rating-change drivers	Negative rating-change drivers
• Sustained leverage of around 2.0x or lower	• Outlook reversion to Stable: development towards a low likelihood of a leverage of about 2.0x or lower • Negative Outlook or even downgrade: significant weakening of leverage towards 4.0x • Loss of GRE status (remote)

Corporate profile

Å Energi is an integrated Norwegian utility company owned[1] by Statkraft (33.3%), a group of 26 municipalities (53.5%) and Vardar AS (13.2%). The company was established in November 2022 by the merger of Agder Energi and Glitre Energi with Agder Energi as the acquiring party. The service territory of Å Energi is mainly within the Agder and Buskerud counties in southern and southeastern Norway. After the merger, the company is Norway's third largest power producer, with a mean annual hydropower production of 11.3 TWh. The grid subsidiary of Å Energi, Glitre Nett, is Norway's second largest distribution grid operator (DSO), based on 313,000 customers. Å Energi also has a significant retail business in Entelios Norden focused on the professional market, with annual volumes of around 20 TWh. It further has a smaller retail business in Å Strøm with 220,000 households customers. In addition, the company owns 28.5% (directly and indirectly) of Viken Fiber.

[1] Å Energi announced in its Q1 2023 report that the five minority shareholders in Glitre Energi Strøm Holding AS and Glitre Energi Nett Holding AS have accepted the offer given as part of the merger between Agder Energi and Glitre Energi to convert their shareholdings into ownership interests in the merged parent company. In total they will receive 2.07% ownership in Å Energi. The conversion is expected to take place in Q3 2023 and is assessed to have no impact on the rating. It is therefore not reflected in the ownership shares used throughout this report.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	8.9x	24.8x	35.2x	29.9x	22.4x	18.3x
Scope-adjusted debt/EBITDA	6.8x	1.4x	0.9x	1.0x	1.5x	1.6x
Scope-adjusted funds from operations/debt	13%	94%	86%	-4%	9%	31%
Scope-adjusted free operating cash flow/debt	9%	55%	48%	-10%	-3%	10%
Scope-adjusted EBITDA in NOK m						
EBITDA[2]	1,570	5,574	7,049	9,377	7,274	7,895
Other items[3]	-	-	-	50	50	50
Scope-adjusted EBITDA	**1,570**	**5,574**	**7,049**	**9,427**	**7,324**	**7,945**
Funds from operations in NOK m						
Scope-adjusted EBITDA	1,570	5,574	7,049	9,427	7,324	7,945
less: (net) cash interest paid	-176	-225	-200	-315	-328	-434
less: cash tax paid per cash flow statement	-650	-139	-2,735	-5,782	-5,545	-3,933
Other incl. cash settlement of hedges	685	1,935	1,477	-3,700	-475	250
Funds from operations (FFO)	**1,429**	**7,145**	**5,591**	**-370**	**976**	**3,828**
Free operating cash flow in NOK m						
Funds from operations	1,429	7,145	5,591	-370	976	3,828
Change in working capital	139	-1,755	-1,564	1,134	860	106
less: capital expenditure (net)	-634	-1,163	-881	-1,700	-2,200	-2,700
Free operating cash flow (FOCF)	**934**	**4,227**	**3,146**	**-936**	**-363**	**1,234**
Net cash interest paid in NOK m						
Net cash interest per cash flow statement	176	225	200	315	328	434
Change in other items	-	-	-	-	-	-
Net cash interest paid	**176**	**225**	**200**	**315**	**328**	**434**
Scope-adjusted debt in NOK m						
Reported gross financial debt	10,936	9,030	10,912	9,838	11,606	12,985
less: cash and cash equivalents	-402	-1,415	-4,430	-398	-292	-620
add: non-accessible cash	70	8	15	15	15	15
add: pension adjustment	-	-	-	-	-	-
Other items	-	-	-	-	-	-
Scope-adjusted debt	**10,604**	**7,623**	**6,497**[4]	**9,455**	**11,329**	**12,380**

[2] EBITDA is adjusted for unrealised gains and losses on electricity and currency contracts
[3] Includes NOK 50m p.a. in assumed recurring dividends received from Viken Fiber AS
[4] Net debt in 2022 was exceptionally low because of a high NASDAQ futures cash amount

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Environmental, social and governance (ESG) profile[5]

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)

Environmentally friendly and low-cost hydro generation

As a hydropower producer, Å Energi has a favourable ESG profile, highlighted by very efficient generation and far below average carbon intensity of 1gCO_2e/kWh. Such a strong position should support future cash flow generation and access to funding through high utilisation factors of its hydro assets and lower the risk of headwinds from regulation and political interference. In addition, the exposure to hydropower generation guarantees the consistent GRE status.

Regulatory and reputational risks evident in 2022

Despite a positive sustainability profile, Norwegian utilities are still subject to regulatory and reputational risks. This became evident during 2022, when extraordinarily high electricity prices brought attention to Norway's publicly owned power sector. It was further exemplified in September 2022, when the government imposed a temporary windfall tax as a result of the high prices and permanently raised the resource rent tax rate on hydro generation assets. This directly affects Å Energi due to its large exposure to hydropower production.

Very strong ESG ratings

Å Energi has a well-integrated ESG framework and ambitions, including publication of green financing reports. Both Agder Energi and Glitre Energi had before the merger in 2022 received an ESG Second Party Opinion from Cicero, attaining a 'Dark Green Rating' (highest possible outcome). The company has issued several green bonds, with proceeds used exclusively for low-carbon solutions and climate change adaption. It is expected that a combined ESG framework for Å Energi will be implemented as part of its strategy review later this year.

The company applies the governance principles recommended in Norwegian market standards and we did not observe any negative credit-relevant factors relating to corporate governance.

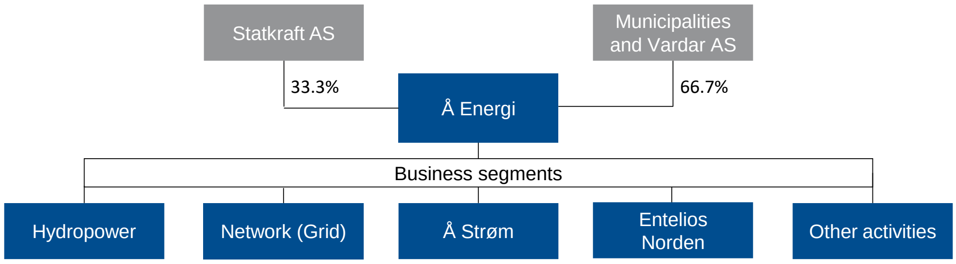
[5] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB+

Subsequent to the completed merger of Agder Energi and Glitre Energi in November 2022, our analysis now refers to the combined company that has been renamed to Å Energi. The company is a continuation of the legal entity of Agder Energi, and historical financial figures therefore refer to those of Agder Energi. Glitre has been included in 2022 financials starting in December and previous years have not been restated.

The business risk profile has been upgraded to BBB+ from BBB, supported by our view of improved profitability, and continues to reflect Å Energi's vertically integrated and diversified business model with core activities in hydropower generation, monopolistic power distribution and energy retail, with a strong regional outreach to both commercial and residential customers.

Figure 1: Simplified organisational structure



Sources: Å Energi, Scope

Industry risk profile: BBB-

Å Energi operates in three main utility segments that expose it to different industry fundamentals. To assess the industry risk, we blend the exposures based on normalised EBITDA contributions. Due to the recent establishment of Å Energi and the changed power price environment, the industry weights are mostly forward-looking. We estimate that around 80% of EBITDA will come from unregulated power generation (industry risk: BB), 15% from regulated grid operations (industry risk: AA) and 5% from energy retail (industry risk: BBB). This results in a blended industry risk of BBB-.

Utility segment	Industry risk	Normalised exposure
Unregulated generation	BB	80%
Regulated grid operations	AA	15%
Energy retail	BBB	5%
Blended industry risk	**BBB-**	

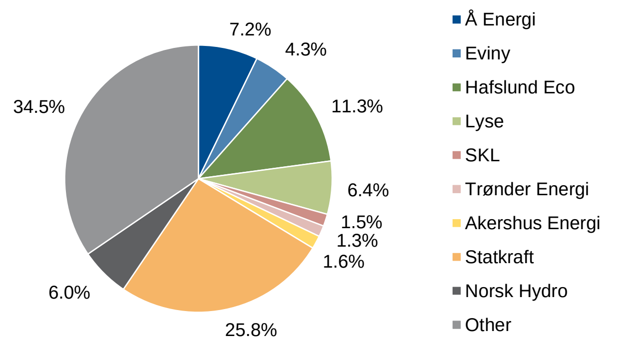
The 3rd largest hydropower generator in Norway with 11.3 TWh mean annual production

Å Energi has an annual mean hydropower production of 11.3 TWh from 72 wholly or partly owned plants located in the NO2 and NO1 pricing zones – and is thereby the third largest hydropower producer in Norway (after Statkraft and Hafslund ECO). While Å Energi is small in a European context, the company has become one of the major producers within the Nordpool market. Å Energi's hydro plants are favourably placed in the Nordic and European merit order systems due to the low marginal costs of hydropower generation, and for Norwegian utilities' credit quality we emphasis this more than volumes. Further, Å Energi has significant reservoir capacities of 6.3 TWh (equivalent to 56% of its annual mean hydropower volume) which is viewed as credit positive. This is because it ensures flexibility in power generation and enables Å Energi to optimise its power sales towards times with high prices, such as peak-load hours. The benefit of having hydro reservoirs could likely increase in the medium to long-term, driven by more intermittent generation (e.g. solar, wind) in the energy mix, as this is expected to result in a market with more daily and weekly price volatility. In such markets, flexible generation will see strong demand when supply is constrained, which should positively benefit pricing opportunities.

Monopolistic power grid operations with more than 313,000 customers

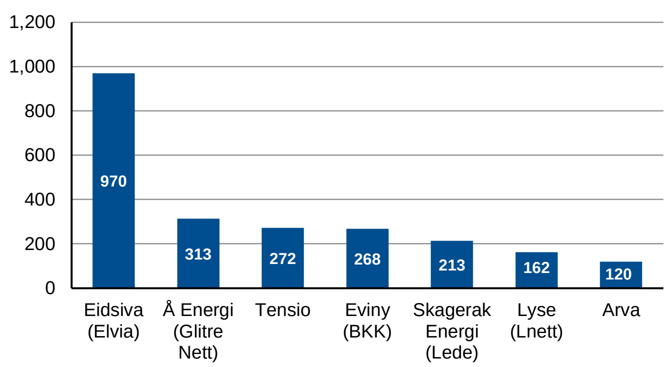
Å Energi's market position is further supported by protected and robust cash flow contribution from monopolistic power distribution within its service territories in the NO2 and NO1 zones. In total, Å Energi's grid subsidiary, Glitre Nett, has 313,000 customers, which makes it the second largest distribution grid operator (DSO) in Norway (after Eidsiva/Elvia). We view Norway's tariff setting and regulatory framework for DSOs to be well-established and reliable. We highlight that tariffs are reviewed regularly and based on a two-year backward-oriented approach, which ensures timely pass-through of an increased cost base. Operators are also granted a defined return on invested capital.

Figure 2: Å Energi's estimated market share in Norwegian power generation



Sources: Companies, Scope (estimates)

Figure 3: Largest Norwegian distribution grid operators by number of customers (thousands)



Sources: Companies, Scope

Retail volumes of 20-30 TWh p.a. results in strong downstream outreach

Å Energi is Norway's largest company in electricity sales to commercial customers through Entelios Norden with annual volumes of around 20 TWh. The company also has around 220,000 household customers in Å Strøm. In sum, we consider Å Energi to have strong outreach with retail volumes of 20-30 TWh p.a. and a diversified customer base. Paired with its integrated business model, the size of Å Energi's retail activities should place the company in a good position to exploit price volatility and evolving new products.

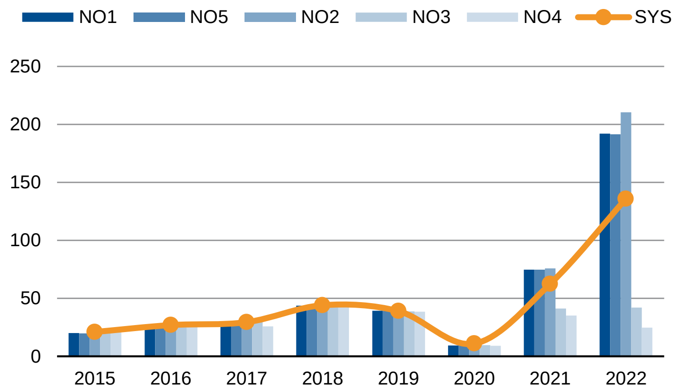
Limited geographical diversification, but favourable pricing environment in southern Norway

We regard Å Energi's geographical diversification as somewhat limited compared to larger European power producers, as the company is mostly concentrated in southern and southeastern Norway. In terms of pricing risk, the company's power generation is split with 8.7 TWh and 2.6 TWh, respectively, in the NO2 and NO1 bidding zones. Prices in these zones are highly correlated and at similar levels, which in our view reduces the benefit of exposure to different zones. At the same time, we believe increased connectivity through the opening of new interconnectors in 2021 to Germany and the UK broadens Å Energi's international reach since its generated power has become more exposed to European and UK prices. Based on projections for regional energy balances within Norway and transmission capacities, we believe that southern Norway will remain well placed in terms of achievable power prices in the coming years.

Adequate asset contraction with 72 hydro plants and diversified business model

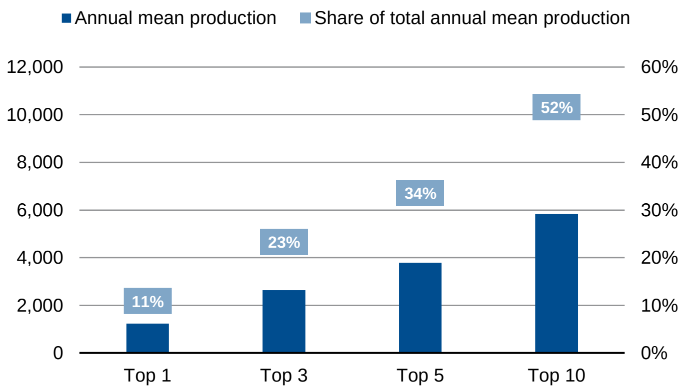
With production from 72 hydro plants we regard Å Energi's diversification within its power generation portfolio as fairly good since it ensures limited concentration risk. The three largest hydro plants make up around 23% of the 11.3 TWh annual mean hydropower production – a level which helps to limit a negative cash flow impact of a temporary standstill. The company's diversified and vertically integrated business model across upstream, midstream and downstream segments further benefits diversification. In addition, the company has several smaller businesses and ventures within the broader utility segment, plus exposure to robust fibre broadband from the 28.5% shareholding (directly and indirectly) in Viken Fiber.

Figure 4: Nordic system price (SYS) and Norwegian power prices (EUR/MWh) by bidding zone



Sources: Nordpool, Scope (estimates)

Figure 5: Production dependency on largest hydropower plants – volume in TWh (lhs), share of total in (%, rhs)



Sources: Å Energi, Scope (estimates)

Strong EBITDA margin of around 50% excluding dilutive retail

Profitability is a key strength in Å Energi's financial risk profile, driven by its highly profitable hydropower generation and monopolistic distribution business. The company has historically shown rather stable EBITDA margin patterns despite exposure to volatile power prices, supported by low operating costs in hydropower generation. As illustrated in Figures 6 and 7, the retail business in Entelios Norden has a strong dilutive effect on group margins. For this reason, and as Å Energi's retail volumes are larger than those of many Norwegian utility peers, we also look at an adjusted EBITDA margin excluding Entelios Norden and Å Strøm, which we estimate to be around 50%.

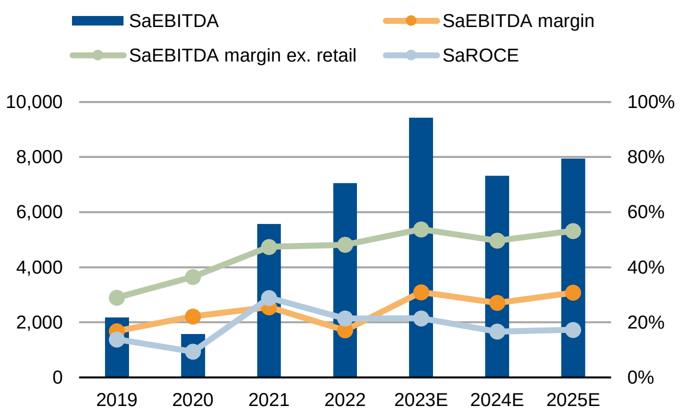
Scope-adjusted ROCE of 15-20% despite revalued balance sheet

Profitability as measured by Scope-adjusted ROCE is further strengthening our profitability assessment, based on estimated levels of around 15-20% in 2023E-25E. With the merger completed last year, the balance sheet was revalued to market values, supporting the accuracy of the ratio. At the same time, the accurate balance sheet may negatively affect the ratio compared to a peer with less reflective asset values, which is a dynamic factor we incorporate in comparisons.

Above average profitability and efficiency in European context

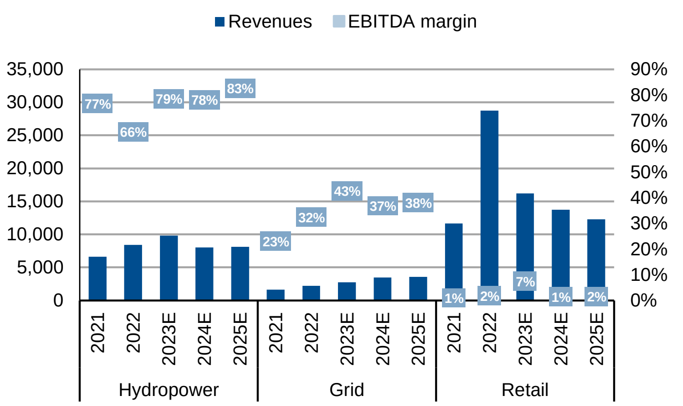
In sum, Å Energi is assessed to have above average profitability and efficiency when compared to our peer group of integrated European utilities. We expect that additional operational efficiencies from the merger will materialise in the next few years.

Figure 6: Scope-adjusted EBITDA (NOK m, lhs), EBITDA margin (%, rhs), and ROCE (%, rhs)



Sources: Scope (estimates), Scope-adjusted figures

Figure 7: Revenues (NOK m, lhs) and EBITDA margin (%, rhs) by segment



Sources: Å Energi, Scope (estimates)

Financial risk profile: A-

Agder Energi was the acquiring party in the merger with Glitre Energi that was completed in November 2022, and Å Energi is therefore a continuation of the legal entity of Agder Energi. Glitre Energi has been reflected in reported financials from December 2022, which is also the way we present figures in this report. Due to the transaction and our view that prices will not be sustained at levels seen in 2022-23, our analysis remains mostly forward-looking.

Sustained higher power prices drives improved financial risk profile

The financial risk profile, upgraded to A- from BBB+, continues to support Å Energi's strong credit rating. It is driven by the company's low Scope-adjusted debt/EBITDA, robust interest cover and solid internal financing capacity over time. At the same time, it is somewhat constrained by high shareholder remuneration which weighs on discretionary cash flows. The upgrade of the financial risk profile is mainly driven by our view that power prices will be sustained at higher levels than historically in the next years.

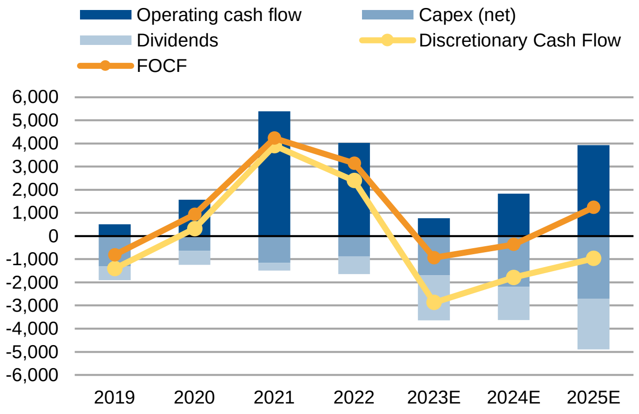
Increased tax burden from raised resource rent tax introduced in 2022

Last year was an extraordinary year in the Norwegian utilities sector with average power prices in southern Norway of around NOK 2.00/kWh (see Figure 4). The level compares to NOK 0.76/kWh in 2021 and an average of around NOK 0.30/kWh historically. As a reaction, the government introduced in September 2022 a temporary surcharge of 23% for volumes sold at prices above NOK 0.70/kWh (in place through 2024). It also raised the effective resource rent tax rate for hydropower generation permanently to 45% from 37%, taking the overall effective marginal tax rate to 67%. For utilities like Å Energi with significant hydropower production, this has led to a further increase in the tax burden.

NOK 10bn investment programme for 2023-27

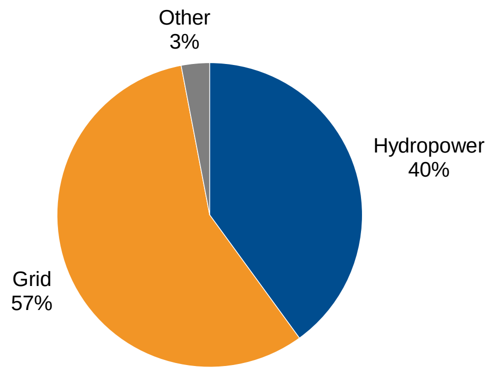
The company has communicated that it expects to invest around NOK 2bn p.a. on average in 2023-27, including some uncommitted projects. Most funds are allocated to the grid and hydropower businesses, as shown in Figure 9 – with around half of the programme for reinvestments. We assume no major changes to the programme from the upcoming revision of the post-merger corporate strategy, which is expected to be finalised in Q3 2023.

Figure 8: Cash flow profile (NOK m)



Sources: Å Energi, Scope

Figure 9: Expected capex distribution in 2023-27



Sources: Å Energi, Scope

Net debt development towards 2025 likely correlated to power price levels

Despite its solid internal financing capacity as measured by Scope-adjusted FOCF/debt, which we foresee remaining structurally neutral to positive over time, the company's policy for dividend payouts of 70% of underlying profit weighs on discretionary cash flows. We do not expect dividend payments or capex to be adjusted significantly at current leverage levels to avoid an expansion of net debt, illustrated by our estimate of an increase of Scope-adjusted debt to around NOK 12bn by 2025. At the same time, we do not expect any large capex increase in the event of higher power prices than those assumed in our base case. Consequently, we believe the development of net debt in the next years will be somewhat correlated with power price levels.

Periodisation effects in cash flow

With reference to Figure 8, we highlight that cash flows can appear more volatile than underlying performance. For instance, it should be noted that taxes are paid in the year after they are incurred. This means that a low tax payment can occur in a year with high power prices, and vice versa. For 2023, we stress that a large cash outflow of around NOK 3.7bn is expected from various hedge positions that were mostly closed in 2022.

Key assumptions

The higher level of Scope-adjusted EBITDA forecasted in 2023-25 is driven by:

i) Higher power prices than historically in southern Norway. Our base case assumes that NO1 and NO2 spot prices will fall from close to NOK 1.00/kWh in 2023 to around NOK 0.75/kWh in 2025.

ii) Hydropower production being closer to the annual mean production than in 2022 as that year was extraordinarily dry with low hydro reservoir levels.

iii) Increase of the annual mean hydropower production to 11.3 TWh from 8.7 TWh, and more EBITDA in the grid business, following the inclusion of Glitre Energi from December 2022.

iv) A stronger than usual result in Entelios Norden in 2023 driven by prudent management and profit split in an environment of volatile and extremely high power price levels.

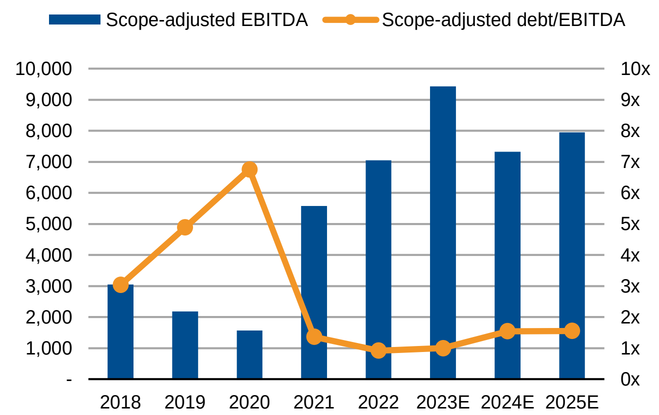
Legacy hedging portfolio negatively affects results

The company has a relatively large hedging portfolio for its hydropower generation at prices well below our applied price curve. As a result, the hedging portfolio is expected to negatively affect results which is also incorporated in our estimates. Simultaneously, the hedging portfolio works as a stabilising factor on our forecasted results if spot prices would end below our base case.

Scope-adjusted leverage likely to stay below 2.0x

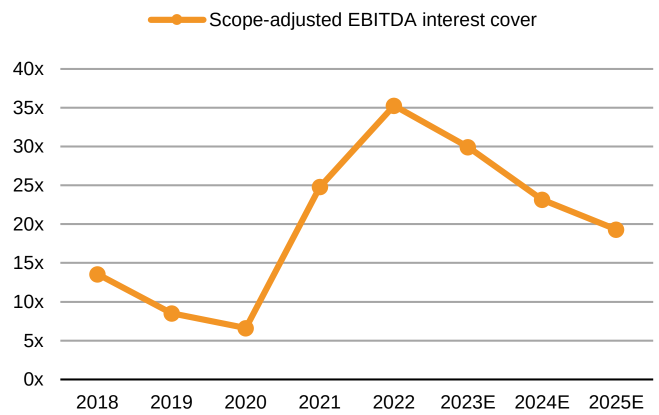
We expect Å Energi's leverage, as measured by Scope-adjusted debt/EBITDA, to remain comfortably below 2.0x throughout 2023-25 – relatively aligned with levels forecasted in our previous rating update from September 2022. Further, it should be pointed out that high taxes in hydropower generation are not directly reflected in the denominator of the EBITDA-based leverage, but still accounted for in our assessment of leverage and the financial risk profile.

Figure 10: Scope-adjusted EBITDA (NOK m, lhs) and leverage (x, rhs)



Sources: Å Energi, Scope

Figure 12: EBITDA interest cover



Sources: Å Energi, Scope

Very strong debt protection metrics

Debt protection metrics, as measured by Scope-adjusted EBITDA interest cover, are expected to be at very strong levels of 20-30x. Consequently, debt protection is a strong factor in Å Energi's financial risk profile. The forecasted weakening towards 2025 is driven mainly by a higher interest burden, primarily caused by rising interest rates feeding through to the cost of existing and refinanced debt. This is partly offset by a sizeable share of debt being fixed rate or hedged. In addition, we estimate an external financing need of around NOK 2bn, assuming that power prices develop similarly to those assumed in our base case.

Adequate liquidity

At year-end 2022, Å Energi had NOK 4.4bn in unrestricted cash plus NOK 3.5bn in unused credit lines (including a NOK 500m overdraft facility). The company recently expanded its overdraft facility to NOK 1.5bn. While parts of the NOK 3bn of committed credit lines expire in 2024-25, these can in all likelihood easily be renewed, or even expanded, if required.

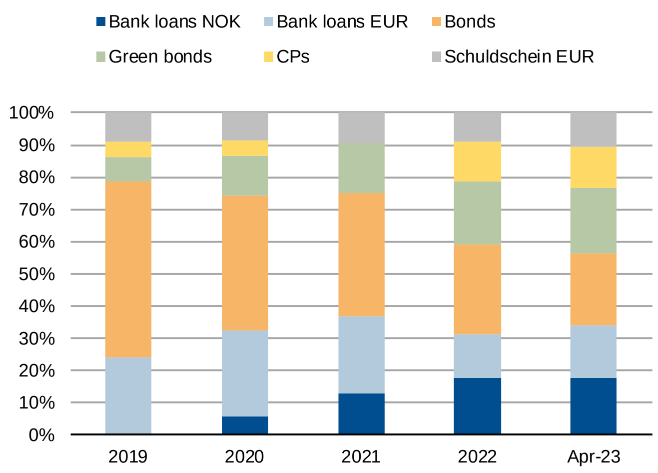
Liquidity is expected to remain strong. Scheduled debt maturities of NOK 3.2bn in 2023 and NOK 1.3bn in 2024 can likely be covered by available liquidity sources. We highlight the periodisation effect in FOCF from an expected cash outlay of around NOK 3.7bn in 2023 (not included in Scope-adjusted debt but illustrated in Figure 12) relating to settlement of hedge positions from last year, which explains the high cash position at year-end 2022.

Balance in NOK m	2022	2023E	2024E
Unrestricted cash (t-1)	1,407	4,415	383
Open committed credit lines (t-1)	2,500	3,500	4,500
Free operating cash flow	3,146	-936	-363
Short-term debt (t-1)	1,283	3,158	1,316
Coverage	**550%**	**221%**	**343%**

Refinancing not a concern

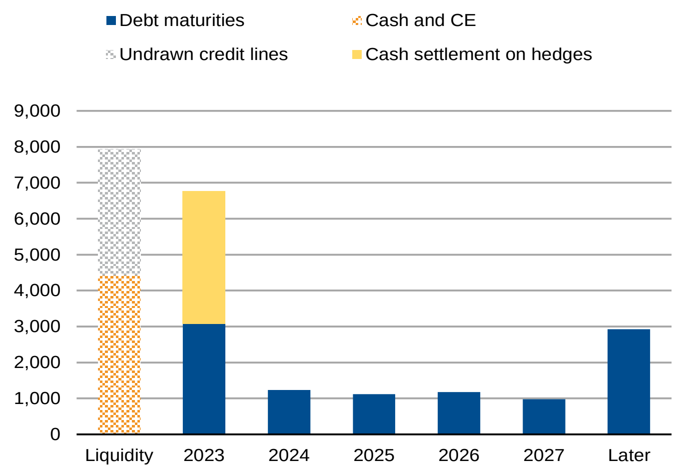
Refinancing is not assessed to be an issue due to Å Energi's solid investment grade rating, bolstered by: i) strong business and financial risk profiles; ii) its status as a government-related entity; and iii) broad access to financing opportunities.

Figure 11: Debt funding by source



Sources: Å Energi, Scope

Figure 12: Maturity profile and liquidity at YE 2022 (NOK m)



Sources: Å Energi, Scope

Supplementary rating drivers: +1 notch

We assess no impact from Å Energi's financial policy. Nevertheless, we highlight:

i) Its relatively aggressive dividend policy of paying out 70% of net profit over time – with proposed dividends in a given year being based on underlying profit in the preceding year. At the same time, we point out that high payout ratios are rather common for municipality-owned Norwegian utilities.

ii) The company's publicly stated goal of keeping a credit rating of minimum BBB+, and thus its implicit awareness of credit ratios required to maintain such rating levels.

iii) The plan of a revised corporate strategy for the merged company is expected to be completed during Q3 2023.

Revised corporate strategy expected in Q3 2023

While the company is currently in the process of revising its corporate strategy for the merged company, we do not expect any major changes that would alter our rating case.

A one-notch uplift is granted for parent support

The issuer rating incorporates a one-notch uplift for parent support on the standalone credit assessment of BBB+, leading to a final issuer rating of A-. We have applied a bottom-up approach using the framework outlined in Scope's Government Related Entities Methodology. Our conclusion of a one-notch uplift reflects the public sponsor's capacity and willingness to provide support. Å Energi is owned by Statkraft (33.3%), a group of 26 municipalities (53.5%) within Å Energi's service territory, and Vardar AS (13.2%). Statkraft is in turn owned fully by the Norwegian state (rated AAA/Stable) while Vardar is fully owned by 19 municipalities. We disregard the ownership of Statkraft in our assessment of parent support, due to less strategic importance and our view that incentives to provide financial support likely are more pronounced among the municipality owners. Similar as for other regional Norwegian utilities with several municipality owners, we view the municipalities as a single shareholder. The public sponsor's creditworthiness is assessed to be materially higher than Å Energi's standalone credit assessment, signaling solid capacity for a credit uplift. We view Å Energi as important in the policy objectives of its sponsor due to its grid infrastructure and importance in electricity supply. In addition, hydropower generation in Norway is by law required to be owned at least 2/3 by the state or municipalities.

The rating uplift on Å Energi's standalone credit assessment is limited to one notch considering: i) the dominant exposure to competitive utility segments, i.e. hydropower generation and energy retail, and ii) a peer context with national utility incumbents Statkraft and Statnett which can be argued to be more system critical. The one-notch 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.

Long-term and short-term debt ratings

Senior unsecured debt rating: A-

The senior unsecured debt rating has been upgraded to A-, the same level as the issuer rating.

Short-term debt rating: S-1

The upgraded short-term debt rating of S-1 reflects the underlying issuer rating of A-/Positive and robust short-term debt coverage, in addition to strong access to external financing from banks and debt capital markets.

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