Eviny AS
Norway, Utilities

BBB+ Positive

Key metrics

			Scope estimates	
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**
Scope-adjusted EBITDA/interest cover	10.7x	26.8x	25.2x	22.4x
Scope-adjusted debt/EBITDA	7.7x	2.0x	1.0x	1.6x
Scope-adjusted funds from operations (FFO)/debt	6%	46%	74%	22%
Scope-adjusted free operating cash flow (FOCF)/debt	0%	25%	42%	2%

Rating rationale

The issuer rating reflects a standalone credit rating of BBB and a one-notch uplift based on our assessment of parent support from Eviny's municipal majority owners. The uplift is driven by the anticipated medium capacity and medium willingness of the owners to provide support if needed.

Eviny's business risk profile (assessed at BBB) is supported by its leading position in several business segments, sizeable hydro power production (positive ESG factor), considerable monopoly-like regulated distribution, and above-average profitability for a vertically integrated utility company.

Eviny's financial risk profile (BBB+) reflects good leverage and debt coverage. Further, liquidity is adequate supported by good access to banks and the domestic bond market.

Outlook and rating-change drivers

The Positive Outlook reflects our expectation that the financial risk profile will remain conservative, given the prospect of higher-than-normal achievable power prices in the medium term, thus generating positive FOCF. It further assumes that the company will maintain its prudent approach on expansionary capex and dividend payouts.

A higher rating could be warranted if excess free operating cash flow was used to repay debt while financial policies were maintained, resulting in a sustained improvement in credit metrics, as exemplified by a Scope-adjusted debt/EBITDA sustained below 2.5x. An increasing share of stable and more efficient grid businesses could be positive for the rating.

A negative rating action (back to a Stable Outlook) could be warranted by lower achieved wholesale prices, higher capex and/or structural transactions that create a weaker financial risk profile than we expect, as exemplified by Scope-adjusted debt/EBITDA averaging in the 2.5x-4x range.

Rating history

Date	Rating action	Issuer rating & Outlook
29 June 2022	Outlook change	BBB+/Positive
11 Aug 2021	Affirmation	BBB+/Stable
17 Aug 2020	Affirmation	BBB+/Stable

Ratings & Outlook

Issuer	BBB+/Positive
Short-term debt	S-2
Senior unsecured debt	BBB+

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Related Methodologies

Corporate Rating Methodology; July 2022

European Utilities Rating Methodology; March 2022

Government Related Entities Rating Methodology; May 2022

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Profitable and cost-efficient hydro power production (positive ESG factor), with assets in good locations with high precipitation • High profitability compared to peers, thanks to power generation from hydro power capacities and regulated distribution operations • Committed, long-term majority municipality owners, with willingness and capacity to provide support	• Volatility in earnings and profitability, as generation is sensitive to price changes (in part mitigated by hedging) • Concentration in generating assets • Ambitious investment plan to grow horizontally (production and distribution)

Positive rating-change drivers	Negative rating-change drivers
• Sustainable improvement in credit metrics, as exemplified by Scope-adjusted debt/EBITDA sustained below 2.5x • Increasing share of stable and more efficient distribution business, which could improve the business risk assessment	• Materially lower wholesale power prices and/or reduced hedging that increases volatility • Sustained weaker financial credit profile over time, as exemplified by SaD/EBITDA between 2.5x-4.0x and negative FOCF

Corporate profile

Eviny AS (former BKK AS) is a Norwegian utility company operating in southwestern Norway. Most of its operations revolve around the production and distribution of hydro power. It also offers broadband services, district heating and other energy-related services, and is a minority shareholder in several other Norwegian utilities. In 2021, Eviny reported a revenue of EUR 700m, had a hydro production of 6.8 TWh, and distributed 17,000 GWh of power to 260,000 end-customers through 22,000 km of networks.

Eviny AS is majority-owned by 17 municipalities (54.51%) that together constitute the area Eviny covers with its regulated distribution operation. The remaining shares are held by state-owned Statkraft AS (43.44%), Tysnes Kraftlag (1.7%) and Etne Elektrisitetslag (0.35%).

Financial overview, Scope's base case[1]

			Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Scope-adjusted EBITDA/interest cover	10.7x	26.8x	25.2x	22.4x	19.5x
Scope-adjusted debt/EBITDA	7.7x	2.0x	1.0x	1.6x	2.0x
Scope-adjusted FFO/debt	6%	46%	74%	22%	23%
Scope-adjusted FOCF/debt	0%	25%	42%	2%	6%
Scope-adjusted EBITDA in NOK m					
EBITDA	1,340	4,634	7,315	5,299	4,473
Other items	0	0	0	0	0
Scope-adjusted EBITDA	**1,340**	**4,634**	**7,315**	**5,299**	**4,473**
FFO in NOK m					
Scope-adjusted EBITDA	1,340	4,634	7,315	5,299	4,473
less: (net) cash interest paid	-125	-173	-291	-236	-230
less: cash tax paid per cash flow statement	-683	-133	-1,942	-3,423	-2,285
dividends from associates	271	86	150	267	171
Other cash flow changes	-178	-112	0	0	0
FFO	**625**	**4,302**	**5,232**	**1,907**	**2,129**
FOCF in NOK m					
FFO	625	4,302	5,232	1,907	2,129
Change in working capital	247	-964	-637	158	298
less: capital expenditure (net)	-810	-915	-1,500	-1,800	-1,800
less: lease amortisation	-68	-96	-96	-96	-96
FOCF	**-7**	**2,327**	**3,000**	**168**	**532**
Net cash interest paid in NOK m					
Net cash interest per cash flow statement	125	173	291	236	230
Change in other items	0	0	0	0	0
Net cash interest paid	**125**	**173**	**291**	**236**	**230**
Scope-adjusted debt in NOK m					
Reported gross financial debt	11,472	12,798	11,909	10,751	10,446
less: cash and cash equivalents	-1,410	-3,759	-5,049	-2,406	-1,560
add: non-accessible cash	0	0	0	0	0
add: pension adjustment	227	220	220	220	220
Other items	0	0	0	0	0
Scope-adjusted debt	**10,289**	**9,259**	**7,079**	**8,565**	**9,105**

[1] Scope's base case has not been updated with the latest forward prices or the proposed new tax regime

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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)	

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

ESG profile supportive of market position, profitability, cash flow and access to liquidity

Most of Eviny's operations revolve around the production (over 50%) and distribution of energy from hydro power assets. In addition to its low carbon profile in power generation, Eviny also acknowledges its responsibility beyond this, puts emphasis on social governance and giving back to society through grants, sponsorships and the like. Consequently, Eviny has a good reputation and a strong standing in its region.

The Norwegian utilities sector is subject to regulatory and reputational risks. This became evident when in September 2022, the government announced its intention to impose a temporary[3] windfall tax on hydro power producers. The windfall tax is not implemented as of this report and is subject to change. We still believe it will be implemented in some form and will cap net profit from generators at a level more in line with 2021 results than those observed in the last 12 months to Q2 2022.

Considering the extraordinary circumstances and the temporary nature of these windfall taxes, we do not consider this a shift in the regulatory environment. Historically, the regulatory environment has been very stable, something we do not see changing. This stability is reflected through industry and market assessments.

We believe that Eviny's ESG profile supports its market position, profitability, cash flow and access to liquidity. Hydro power production provides a competitive advantage as the climate crisis is a catalyst for shaping environmental regulation and policy, as well as customer preference for cleaner power.

[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.
[3] Windfall taxation will only last until end-2023.

Business risk profile: BBB

Blended industry risk profile: BBB-

Eviny is vertically integrated and horizontally diversified. Its EBITDA stems from contributions from power generation, regulated distribution and telecoms/broadband (Figure 1).

Each of these segments have their own distinct industry risk fundamentals, and we therefore apply a blended industry risk profile. Reflecting the three-year mean EBITDA contribution from each segment, generation contributes over 70%. This is up from our last assessment, and due to the inherent cyclicality of unregulated generation, we have adjusted Eviny's industry risk profile down one notch, to BBB-.

Eviny's hydro power producing assets had a 10-year mean production of 7.7TWh and an actual production of 6.8TWh at end-2021. The latter is due to a record-low precipitation in H2 2021, which affected all Nordics.

Regional player with around 4% market share

Eviny's production puts it on par with many other Norwegian hydro producers, with an estimated 4% of total generation in 2021 (Figure 2). We consider Eviny a regional player but note that when assessing the market position and credit quality of a generator, size is less important than the position and adeptness of its generating assets.

28 hydro production plants on the west coast of Norway

Eviny's hydro power assets are adept and hold favourable positions in the merit order system with their low-cost structure. Further, the assets are considered adequately diversified, with 28 fully owned hydro production plants spread across the west coast of Norway. This area is affluent and includes Norway's second largest city of Bergen. The latter is comforting in terms of Bergen's relatively stable population of 280,000 inhabitants.

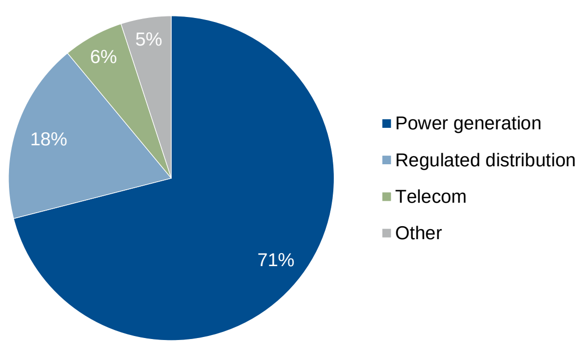
Above-average precipitation making the region attractive for hydro power production

The west coast of Norway is also particularly favourable for hydro power production, due to an above-average precipitation of 2,251mm per year (compared to a Norwegian average of 1,034mm). This provides Eviny with ample precipitation to maintain reservoir levels, which gives an advantage when it comes to timing production depending on price.

Asset concentration

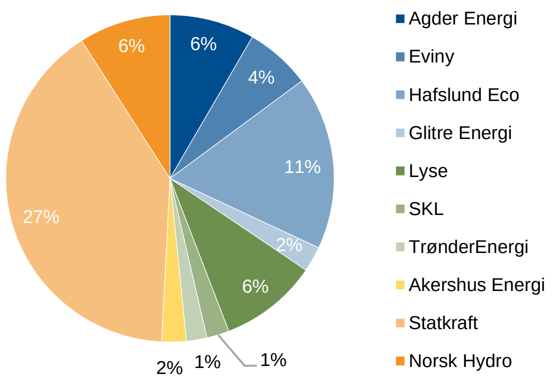
However, we note some concentration risk in Eviny's hydro power production assets. With the largest production facility contributing about 25% of Eviny's total production capability and the top-three contributing 43%, a potential stand-still in any of these facilities could prove material, albeit unlikely.

Figure 1: Business segment normalised EBITDA contribution



Sources: Eviny, Scope

Figure 2: Adjusted market shares, Norwegian hydro power producers, FY 2021



Sources: Eviny, Scope

22,000 km of regulated distribution networks on Norway's west coast

Eviny also operates 22,000 km of regulated distribution networks, transporting power to 260,000 end-customers in its regulated concession area. The customers are also favourably split with approximately 55% being private households and 45% corporations. This makes demand less cyclical, as private households are not likely to reduce consumption to the same extent as corporations, should prices increase.

We note, but do not overemphasise, that Eviny's grid operation is limited to its regulated concession area on Norway's west coast. As Eviny enjoys a state-regulated monopolistic market position for its distribution, geographical outreach is not as crucial as for other corporates.

Regulated distribution, a stabilising force for the overall business

The regulatory framework for power distribution in Norway allows for timely cost coverage. This means that underlying profitability and cash flow are dictated by state-set tariffs rather than short-term market fluctuations. Eviny's distribution (15-20% of recurring EBITDA) is therefore considered a stabilising force and a robust source of cash flow for the overall business.

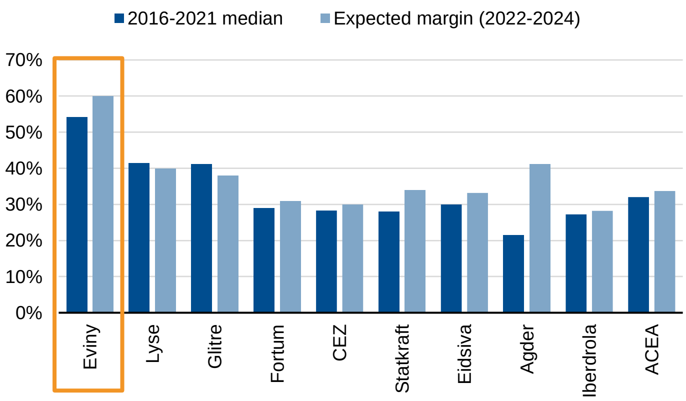
Eviny's operations are growing within telecoms and district heating. Whilst telecoms has grown to contribute 6% of its normalised EBITDA, district heating remains small compared to the overall operation. We favourably note this increased diversification, but do not place great weight on it for the time being.

High EBITDA margin for a vertically integrated utility

The utility's profitability remains strong and above average for an integrated utility. As of end-2021, it reported a five-year median EBITDA margin of 54% (Figure 3). Further, we see this increasing towards 60% in the medium term, driven by higher-than-historical energy prices in the Nordics and a widening operating margin profile for Eviny's low-cost hydro power assets.

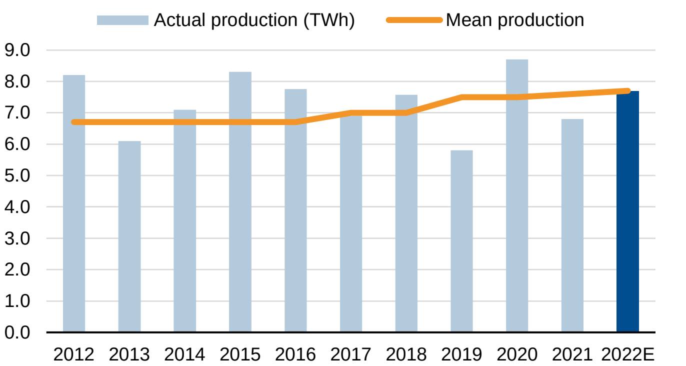
Eviny has a relatively low hedge ratio for future production. Our former rating cases considered this a constraining factor. However, from end-2021, there has been a decoupling between the Nordic system price, used for hedging, and the spot prices for the various Nordic power price regions. This has made it exceedingly difficult to effectively hedge Nordic production, even if the company tried. We therefore see increased volatility in the medium term regardless of hedge ratios.

Figure 3: EBITDA margin peer comparison, FY 2021



Sources: Eviny, Scope estimates

Figure 4: Hydro power production (TWh)



Sources: Eviny, Scope

Financial risk profile: BBB+

Assumptions & adjustments

To assess Eviny's creditworthiness, we look at key credit metrics such as leverage, debt protection and liquidity.

We have made the following adjustments and assumptions in our basecase:

- Updated price scenario;
- Assumed higher paid taxes;
- Assumed higher paid interest costs;
- Assumed higher dividends.

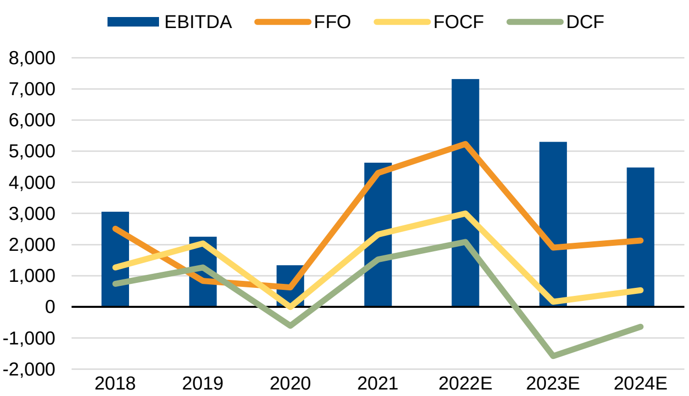
Expectations of a more conservative financial risk profile in the medium term

Eviny's financial risk profile reflects our expectation that it can sustain a more conservative financial risk profile than in the past. This is primarily a result of improved forward market prices and a higher debt absorption of the company's operating business, Eviny's prudent financial policy, and a controllable capex programme in the medium term.

Cash flow positively impacted by higher market prices

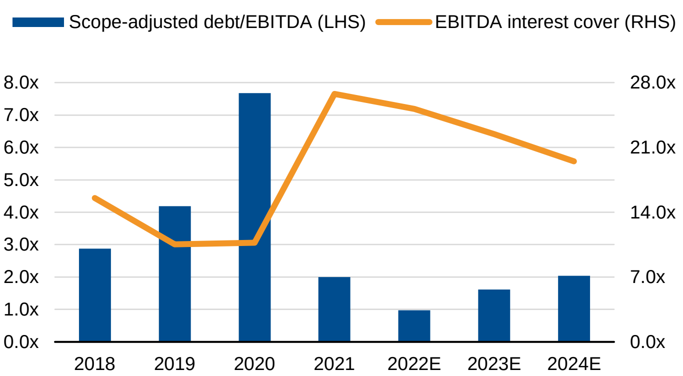
Although we anticipate a lower hedge ratio, Eviny's business diversity and contribution from regulated distribution somewhat helps to stabilise EBITDA and cash flow. Still, the high prices translate into elevated cash flow (Figure 5). Both FFO and FOCF are expected to be positively impacted by higher market prices. FOCF is expected to remain closer to historical averages than FFO, as we anticipate higher-than-historical investments in the medium term. Lastly, we forecast discretionary cash flow turning negative in 2023/2024, due to the timing of taxes paid and our expectations that Eviny will uphold its dividend policy of around 70% of the preceding years' net income.

Figure 5: Scope-adjusted cash flows (NOK m)



DCF = discretionary cash flow
Sources: Eviny, Scope estimates

Figure 6: Scope-adjusted leverage and interest coverage



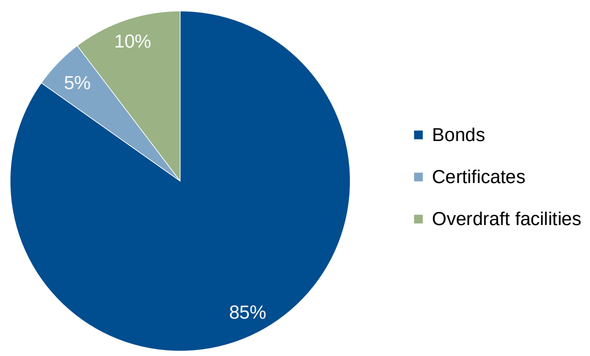
Sources: Eviny, Scope estimates

Eviny to uphold a strong interest coverage and lower leverage in the medium term

Eviny has historically upheld a good interest coverage, driven by favourable interest rates, a relatively low debt burden and solid operating performance. We expect coverage increasing further short term, with a slight normalisation towards 2023/2024 as interest rates are expected to increase. In contrast, leverage has fluctuated more with the price environment (Figure 6) and as such has put some constraints on Eviny's financial risk profile. In line with our updated price scenario and expectations of a normalisation of Nordic power prices above historical averages, we expect Eviny's leverage to remain below 2.0x in the medium term. This is considered favourable for Eviny's financial flexibility.

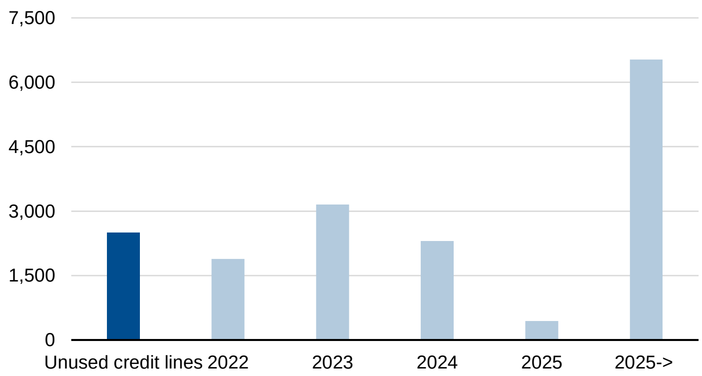
Eviny benefits from access to a diverse range of funding sources (including bonds, overdraft facilities and commercial paper), facilitated by its investment-grade credit rating, municipal ownership, and a balanced debt maturity profile (see Figures 7 and 8). However, only 25% of Eviny's senior unsecured bonds are fixed rate, and the company is exposed to the expected rising interest rates.

Figure 7: Funding sources, FY 2021



Sources: Eviny, Scope

Figure 8: Debt maturity profile (NOK m), FY 2021



Sources: Eviny, Scope

Adequate liquidity

Eviny's liquidity remains adequate, with liquidity (internal and external) cover of over 2x for 2022 and 2023. Short-term debt largely comprises certificate debt and utilisation of Eviny's committed NOK 2.5bn credit line.

Balance in NOK m	2021	2022E	2023E
Unrestricted cash (t-1)	1,410	3,759	5,049
Open committed credit lines (t-1)	1,500	2,500	2,500
FOCF	2,327	3,000	168
Short-term debt (t-1)	1,835	1,889	3,158
Coverage	**> 200%**	**> 200%**	**> 200%**

Supplementary rating drivers: +1 notch

Government-related entity status warrants a one-notch uplift from the BBB standalone rating

Eviny is majority owned by 17 municipalities (54.51%). Using our Government Related Entity Rating Methodology, we apply a bottom-up approach to assess Eviny's parental support.

We anticipate a medium capacity and medium willingness of the owners to provide support if needed. We therefore grant a one-notch rating uplift on Eviny's standalone credit rating.

No adjustment for financial policy

We make no adjustment for financial policy. Still, we note that management has announced that the dividend ratio over time should be 70%, but that it can deviate if investment needs put pressure on the capital structure.

Long-term and short-term debt ratings

Senior unsecured debt rating: BBB+

The BBB+ senior unsecured debt rating is in line with the issuer rating.

Short-term debt rating: S-2

The S-2 short-term rating reflects good short-term debt coverage, as well as good access to both bank loans and debt capital markets.

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