

RATING ACTION COMMENTARY

Fitch Revises Statkraft's Outlook to Negative; Affirms IDR at 'A-'; Removes UCO

Thu 04 Jul, 2024 - 3:37 AM ET

Fitch Ratings - Barcelona - 04 Jul 2024: Fitch Ratings has revised Statkraft AS's Outlook to Negative from Stable, while affirming its Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'A-'. Both ratings have been removed from Under Criteria Observation (UCO), following our unchanged assessment of Statkraft's links with the Norwegian state under our updated Government-Related Entities (GRE) Rating Criteria.

The Outlook revision follows a faster-than-expected decline in power prices in the Nordics and Europe, coupled with its Enerfin acquisition leading to a funds from operations (FFO) net leverage peak in 2024, above its negative sensitivity for its 'bbb+' Standalone Credit Profile (SCP).

Statkraft's rating remains supported by its highly competitive Norwegian hydro power assets, which benefit from low costs of production and high flexibility, driving healthy operating cash flows. On the other hand, the company is exposed to volatile power prices, which are only partly offset by long-term contracts. We expect its shareholder and management to continue to adhere to a conservative financial structure. The IDR continues to benefit from a one-notch uplift for state support under our latest GRE Rating Criteria.

KEY RATING DRIVERS

Weak Leverage for 'bbb+' SCP: Statkraft's SCP is under pressure from the combined effect of lower expected EBITDA from declining power prices and of the Enerfin acquisition. We expect leverage to peak at 3.9x in 2024 and to remain just above its negative sensitivity of 2.5x for its 'bbb+' SCP in the following four years. However, the company has committed to divestments among other measures to support its credit metrics. This, together with moderate capex, would support free cash flow (FCF) and

may lead to a revision of Outlook to Stable; otherwise a one-notch downgrade would be highly likely.

Faster Decline in Prices: We project lower power prices in the Nordics at about EUR40/MWh for 2024-2026, before they decline to EUR35/MWh by 2028. This compares with our previous forecasts of about EUR50/MWh for 2024-2026 and EUR45/MWh thereafter. Our new forecasts are driven by lower fuel prices, good gas storage levels and weaker demand. In Nordics, this has also resulted in a reduction of the spread between price areas.

Growth Ambition Scaled Back: Statkraft's updated strategy, approved in June 2024, focuses on core investments in Norwegian hydropower and market operations while scaling back targets for solar, wind, and battery storage. The strategy aims for 2GW-2.5GW annual development from 2026, down from 2.5GW-3GW previously, while offshore wind targets are also reduced to 6GW-8GW from 10GW by 2040. The updated strategy includes divesting district heating and seeking investors for biofuels and the EV charging business, as well as a higher use of the develop-build-sell model to release capital for growth.

Capex and Divestment Plan: Our forecasts for 2024-2028 include about NOK88 billion of investments, of which NOK75 billion is committed, with NOK21 billion related to the Enerfin acquisition. We forecast annual capex to moderate to an average NOK12 billion in 2025-2028. We also expect divestments to generate material cash inflows over 2024-2028, albeit with moderate execution risk. We believe overall neutral FCF (after acquisition & divestitures) and deleveraging to around 2.5x are key to preserving the rating.

Enerfin Buy Improves Business Profile: The acquisition of Enerfin for an equivalent NOK21 billion was closed in May 2024 and brings 1.5GW of wind and solar assets mainly in Spain and Brazil and a pipeline of over 10GW of projects at various stages of development. Statkraft is in the process of divesting 467MW of Enerfin assets in other countries, with expected cash inflows largely included in our forecast. The acquisition, with an EBITDA contribution of about NOK1.0 billion per year on average (less than 5% of expected consolidated EBITDA), supports geographic and asset diversification but also adds financial pressure due to increased leverage.

Updated GRE Criteria: The update to our GRE Criteria has had no impact Statkraft's ratings. Statkraft benefits from a support score of 12.5 for 'Modest Expectations' of support, resulting in an unchanged one-notch uplift to the SCP.

We assess decision-making and oversight by the state as 'Not Strong Enough' due to the limited government role in day-to-day management and the company's very high strategic autonomy. Precedents of support is 'Very Strong' due to past equity injections and a flexible approach to dividend, if needed, to preserve a solid financial profile. Preservation of government policy role is 'Not Strong Enough' as we expect Statkraft will continue to operate even in financial distress, while contagion risk is also 'Not Strong Enough', as Norway is rated 'AAA/Stable'.

Long-Term Contracts Partially Offset Volatility: Statkraft's exposure to spot price volatility is only partially offset by long-term contracts representing about one-third of its power generation over 2024-2028. Long-term contracts in the Nordics are signed with large industries and with small and medium-size enterprises. In addition, its international segment has secured most of its estimated generation through long-term contracts. We see robust power purchase agreements as quasi-regulated revenues.

Highly Competitive Hydro: Statkraft's strong competitive position in the Nordic generation market remains supported by its Norwegian hydro power assets, which have significant scale at about 25% of Europe's reservoir capacity. It is also supported by its ability to store capacity across multiple years and low production costs.

Statkraft generated 55TWh from hydro power in 2023, of which about 90% was in Nordic countries, at a cash cost of around EUR11/MWh. This supports its position as one of the lowest-cost producers in Europe. Its fleet's high flexibility, which enables optimisation of power generation based on market needs, is an important strength in an environment of increasing intermittent wind and solar power.

DERIVATION SUMMARY

Statkraft (A-/Negative, bbb+ SCP) is firmly positioned relative to its Nordic peer Fortum Oyj (BBB/Stable), allowing a slightly higher debt capacity, due to its low-cost, flexible hydro-asset base and larger quasi-regulated revenues, mainly derived from its long-term contracts in Norway.

Statkraft's leverage profile is less aggressive than Nordic peers' and the company benefits from stronger ties with the Norwegian government (AAA/Stable; resulting in a one-notch IDR uplift from its SCP).

RWE AG (BBB+/Stable) is one of the largest German utilities, focusing on generation from both conventional and renewable sources. Statkraft benefits from a better generation mix, while RWE has a higher share of quasi-regulated earnings and no emerging-market exposure. Therefore, they have similar debt capacities.

Statkraft's SCP is in line with the rating of the global offshore wind leader Orsted A/S (BBB+/Stable). Statkraft, however, has lower debt capacity on a standalone basis, as Orsted's wind farm operations benefit from a quasi-regulated income stream, which is not the case for Statkraft's hydro fleet that is mainly exposed to market conditions. Unlike Statkraft, Orsted is rated on a standalone due to overall weak links with its parent the Danish government (AAA/Stable).

KEY ASSUMPTIONS

Fitch's Key Assumptions within our Rating Case for the Issuer:

- Average Nord Pool prices in Norway gradually to decline towards EUR35/MWh by 2028 from about EUR40/MWh in 2024
- Capex of about NOK39 billion (including Enerfin acquisition) in 2024 and to average NOK12 billion a year in 2025-2028, partially offset by material divestments
- Dividends in line with the company's policy of 85% net profit from its Norwegian hydro power business and 35% net profit from all other business activities
- Slight depreciation of Norwegian krone against the euro

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Positive Rating

Action/Upgrade:

- FFO net leverage declining towards 2.5x or below by 2025 coupled with neutral FCF (after acquisition and divestitures) on a sustained basis would lead to a revision of Outlook to Stable
- Upgrade potential is limited unless the company's business profile improves, including materially higher quasi-regulated earnings or links with the government strengthen

Factors That Could, Individually or Collectively, Lead to Downgrade:

- FFO net leverage above 2.5x on a sustained basis
- Weakening links with the Norwegian state

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity: Total liquidity at end-2023 was over NOK59.1 billion, including NOK44.3 billion of cash and NOK14.8 billion of unused credit facilities maturing in

2028 (with a one-year additional extension option). This compared with short-term maturities of NOK7.0 billion. We expect liquidity to be sufficient to cover NOK14 billion of debt maturities in the next 24 months, even with forecast deeply negative FCF in 2024.

ISSUER PROFILE

Statkraft is Europe's largest generator of hydro energy with around 25% of Europe's reservoir capacity and is the leading power company in Norway.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Statkraft AS	LT IDR A- Rating Outlook Negative	A- Rating Outlook Stable
	Affirmed	

	ST IDR	F2	Affirmed	F2
senior unsecured	LT	A-	Affirmed	A-

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 13 Oct 2023\)](#)
(including rating assumption sensitivity)

[Corporate Rating Criteria \(pub. 03 Nov 2023\)](#) (including rating assumption sensitivity)

[Government-Related Entities Rating Criteria \(pub. 12 Jan 2024\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 21 Jun 2024\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

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Statkraft AS

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