

Credit Rating Announcement

15 November 2024

Scope affirms Østfold Energi's BBB+/Stable issuer rating

The rating is driven by Østfold Energi's low-cost and environmentally friendly hydropower generation as well as strong credit metrics. High volatility of achievable power prices and low diversification are constraints.

The latest information on the rating, including rating reports and related methodologies, is available on this [LINK](#).

Rating action

Scope Ratings GmbH (Scope) has today affirmed Østfold Energi AS' BBB+/Stable issuer rating. Scope has also affirmed the senior unsecured debt rating at BBB+ and the short-term debt rating at S-2.

The full list of rating actions and rated entities is at the end of this rating action release.

Key rating drivers

Østfold Energi's BBB+ issuer rating reflects a standalone credit assessment of BBB and a one-notch uplift reflecting the company's status as a government-related entity.

Business risk profile: BBB- (unchanged). The business risk profile remains driven by Østfold Energi's core exposure to low-cost, flexible and environmentally friendly hydropower generation (ESG factor: positive). This exposure ensures strong profitability and a long-term, favourable position in the merit order for the power generation portfolio. However, challenges persist, including industry-inherent fluctuations in achievable market prices as well as low diversification, with recurring cash flow generation being concentrated around a few key power plants.

Profitability continues to normalise as power prices in south Norway are becoming more moderate than in 2022 and H1 2023. Østfold Energi is mainly exposed to the NO5 bidding zone, where the average power price has been NOK 463/MWh in YTD 2024, compared to NOK 762/MWh in FY 2023 and NOK 1,934/MWh in FY 2022. Based on the current pricing environment, the agency anticipates that the Scope-adjusted EBITDA margin* will stabilise in a range of 65% to 70% over the coming years. This is well below the 2022 peak of 80% and compares with 75% in 2023 and 72% in H1 2024.

Financial risk profile: A (unchanged). Østfold Energi's financial risk profile remains a key support of its standalone credit assessment. As of YE 2023, the company had a net cash position (as measured by Scope-adjusted debt) of NOK 0.2bn.

Scope expects a gradual increase in leverage (Scope-adjusted debt/EBITDA) over 2024-2026 considering the more moderate power prices and the company's plans for higher-than-historical capex. However, as the company is mostly deploying the cash accrued over 2021-2023, leverage is still projected to remain relatively low, within a range of 0.5x-1.5x in the forecast period.

Debt protection, as measured by EBITDA interest coverage, continues to be solid at levels exceeding 10x despite a projected increase in debt exposure over the next few years.

Under the current capex plan for 2024-2026, which amounts to almost NOK 1bn, the average free operating cash flow is expected to be slightly negative over the forecast period. As a result, the company is likely to rely on external financing to maintain its dividend policy.

Liquidity: adequate (unchanged). Liquidity is adequate. The NOK 400 million bond with maturity in August 2025 is expected to be refinanced with a similar debt instrument. The bond is currently the only outstanding debt of the company. In Scope's view, external financing for growth investments and refinancing should not be a problem, given Østfold Energi's good access to bank and capital market financing.

Supplementary rating drivers: +1 notch (unchanged). The issuer rating incorporates a one-notch uplift for parent support to the standalone credit assessment of BBB, resulting in a final issuer rating of BBB+. Scope continues to apply a bottom-up approach using the framework outlined in its Government Related Entities Methodology, reflecting an assessment of the municipal owners' ability to provide a credit uplift and their willingness to give financial support if needed. 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.

On 1 January 2024, Viken county municipality was officially dissolved into its constituent parts. This resulted in a change to the ownership structure of Østfold Energi, which returned to the structure that existed prior to the establishment of Viken county municipality on 1 January 2020, with Østfold county municipality again becoming the largest shareholder with a 45% stake.

One or more key drivers of the credit rating action are considered an ESG factor.

Outlook and rating sensitivities

The **Stable Outlook** reflects Scope's expectation that Østfold Energi will maintain strong credit metrics, with leverage (Scope-adjusted debt/EBITDA) remaining between 0.5x and 1.5x in the next few years amid higher-than-historical investments and more moderate power prices.

The **upside scenario** for the ratings and Outlook is:

1. A sustained net cash position, albeit deemed remote, as such leverage headroom likely could eventually be deployed for growth or shareholder remuneration.

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

1. Sustained deterioration of leverage with Scope-adjusted debt/EBITDA above 2.5x.
2. Loss of government-related entity status (remote).

Debt ratings

The senior unsecured debt rating has been affirmed at BBB+, in line with the issuer rating.

The affirmed S-2 short-term debt rating is based on the underlying BBB+/Stable issuer rating, and also reflects adequate short-term debt coverage as well as adequate access to external financing from banks and capital markets.

Environmental, social and governance (ESG) factors

Østfold Energi's business model is mainly exposed to hydropower generation. This limit transition and stranded risk and should support the company's future cash flow generation through high utilisation factors of power plants with a continued, strong position in the merit order. The core hydropower business is supplemented with other types of sustainable energy generation.

We consider Østfold Energi's large hydropower plants to underpin its government-related entity status, as these assets are required to be at least two-thirds publicly owned.

All rating actions and rated entities

Østfold Energi AS

Issuer rating: BBB+/Stable, affirmation

Short-term debt rating: S-2, affirmation

Senior unsecured debt rating: BBB+, affirmation

**All credit metrics refer to Scope-adjusted figures.*

Stress testing & cash flow analysis

No stress testing was performed. Scope Ratings performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for these Credit Ratings and/or Outlook, (General Corporate Rating Methodology, 16 October 2023; European Utilities Rating Methodology, 17 June 2024; Government Related Entities Rating Methodology, 4 September 2024), are available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://scoperatings.com/governance-and-policies/regulatory/eu-regulation>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

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Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings and/or Outlook were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlook are UK-endorsed.

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The Credit Ratings/Outlook were first released by Scope Ratings on 10 November 2023.

Potential conflicts

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