3 July 2019

Corporates

Eidsiva Energi AS
Norway, Utilities

SCOPE BBB+ STABLE

Corporate profile

The new Eidsiva entity will become the largest Norwegian electricity grid company following the merger with Hafslund E-CO, with around 900,000 customers. Activities also include district heating, broadband and retail power sales. The company owns 42.8% in the power production company E-CO Energi AS. Eidsiva is owned by 27 municipalities and two county municipalities, Oppland and Hedmark (50%), and the City of Oslo (50%).

Key metrics

			Scope estimates	
Scope credit ratios	2017	2018	2019P[1]	2020F
EBITDA/interest cover (x)	4.3x	4.1x	6.6x	7.3x
Scope-adjusted debt (SaD)/EBITDA	6.3x	6.1x	5.4x	4.6x
Scope-adjusted FFO/SaD	10.5 %	5.4 %	17.8 %	18.7 %
Free operating cash flow (FOCF)/SaD	2.3 %	-8.4 %	-3.8%	3.5%

Rating rationale

Both the City of Oslo and Eidsiva owners have now granted final approval to merge Eidsiva and Hafslund E-CO's grid and power production units at their General Meetings on 25 and 27 June respectively. The transaction has also been cleared by all the relevant authorities. As a result, the transaction will proceed as planned and as described in our rating action release dated 26 March 2019, in which we upgraded Eidsiva's issuer rating by two notches to BBB+.

Transactional details have altered slightly since the last rating action, but this does not change our credit view of the company. The main change concerns the 42.8% minority interest in E-CO Energi AS, to which Eidsiva will grant a NOK 1.9bn loan. As a result, Eidsiva will receive new cash interest, while dividends will be less than previously assumed. Still, there are no material changes on funds from operations or overall balance sheet.

Eidsiva's corporate issuer rating of BBB+/Stable primarily reflects the high share of EBITDA from monopolistic grid business (around 80%) with its predictable cash flow. Domestic market dominance, customer diversification and efficiency are also key drivers for our business risk assessment. This is coupled with the favourable weighted average industry rating in accordance with our utility rating methodology.

We also expect the financial risk profile of the new Eidsiva to improve, although not as much as the business risk profile. We forecast lower leverage and stronger debt protection ratios in the short to medium term. Scope-adjusted leverage is expected to average around 5x, and debt protection to average around 7x.

We expect free cash flow generation in the new Eidsiva to be only marginally better, as extensive investment plans will negatively affect discretionary cash flow and necessitate external financing until 2020. However, cash flow is expected to be more predictable and less volatile going forward, thereby bolstering the average forward-looking Scope-adjusted FFO/debt ratio to around 18% from 8% historically. Our liquidity assessment now also incorporates the agreed bridge loan and presented refinancing plan.

Ratings & Outlook

Corporate ratings	BBB+
Outlook	Stable
Short-term rating	S-2
Senior unsecured rating	BBB+

Lead Analyst

Henrik Blymke
+47 21 62 31 41
h.blymke@scoperatings.com

Related methodology

European Utility Methodology, March 2019

Corporate Rating Methodology, March 2019

Government Related Entities Methodology, July 2018

Eidsiva´s rating upgraded to BBB+, March 2019

Scope Ratings GmbH

Haakon VII´s gate 6
N-0161 Oslo

Headquarters

Lennéstraße 5
10785 Berlin

Tel. +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Outlook

The Stable Outlook reflects our expectation that the transaction will be implemented as planned, which means the new entity will generate a significant part of EBITDA from monopolistic, regulated grid operations going forward. Further, the Outlook also assumes improved operating profitability and funds from operations for the short to medium term, and that Eidsvia will continue to be owned by Norwegian municipalities.

A positive action could be warranted if the company started to report positive free cash flow or sell assets with the effect of reducing overall leverage, exemplified by a Scope-adjusted leverage ratio of around 4x on a sustained basis.

A negative rating action could be triggered if Scope-adjusted debt/EBITDA stays well above 5.25x for a prolonged period and the interest cover ratio stays below 5x.

Rating drivers

Positive rating drivers	Negative rating drivers
• Norway's largest grid company, with a significant EBITDA share from monopolistic power distribution (~80%) • Long-term, supportive and committed municipality owners • Valuable dividends from its 42.8% ownership in Norway's second largest hydropower production company, as well as profitable broadband and bioenergy businesses	• Ongoing sizeable investment phase, resulting in negative free cash flow and external funding requirements • Somewhat aggressive financial credit ratios expected in the short term • Some integration risk during the implementation process of the transaction

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Reduced leverage via positive free cash flow or asset disposals • Scope-adjusted leverage ratio of around 4x on a sustained basis	• Significantly weaker financial risk profile, exemplified by SaD/EBITDA of well above 5.25x for a prolonged period and interest cover of below 5x.

This publication does not constitute a credit rating action. For the official credit rating action release click here.

Financial overview

			Scope estimates	
Scope credit ratios	**2017**	**2018**	**2019P[1]**	**2020F**
EBITDA/interest cover (x)	4.3x	4.1x	6.6x	7.3x
SaD/EBITDA	6.3x	6.1x	5.4x	4.6x
Scope-adjusted FFO/SaD	10.5 %	5.4 %	17.8 %	18.7 %
FOCF/SaD	2.3 %	-8.4 %	-3.8%	3.5%
Scope-adjusted EBITDA in NOK m				
EBITDA	1,440	1,346	2,293	2,741
Add: operating lease payments in respective year	47	54	155	160
Scope-adjusted EBITDA	**1,487**	**1,400**	**2,448**	**2,902**
Scope-adjusted funds from operations in NOK m				
EBITDA	1,440	1,346	2,293	2,741
Less: (net) cash interest per cash flow statement	-364	-585	-315	-337
Less: cash tax paid per cash flow statement	-109	-110	-326	-358
Add: depreciation component, operating leases	31	35	101	99
Add: other items, (including dividends from E-CO from 2019)	-15	-224	655	425
Scope-adjusted funds from operations	**983**	**462**	**2,508**	**2,670**
Scope-adjusted debt in NOK m				
Reported gross financial debt	7,473	8,240	12,326	12,426
Less: cash, cash equivalents	-291	-366	-509	-346
Add: cash not accessible	72	70	70	70
Add: pension adjustment	269	210	38	37
Add: operating lease obligations	364	409	1,197	1,235
Subordinated owner loan	1,519	0	0	0
Scope-adjusted debt	**9,405**	**8,562**	**13,122**	**13,422**

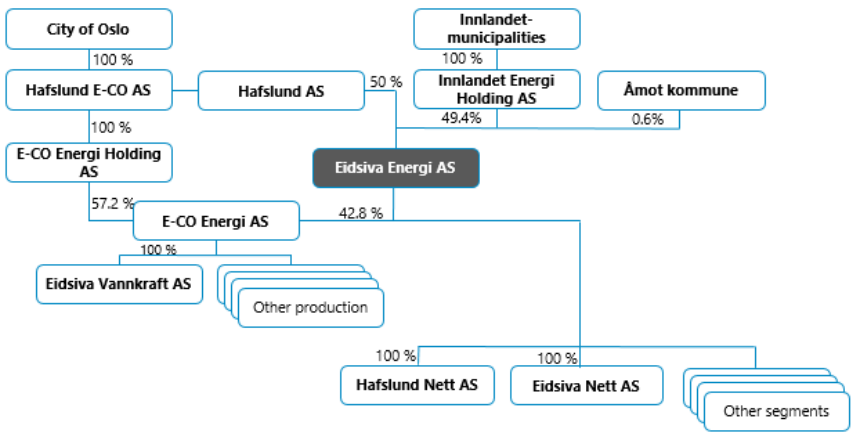
[1] *The 2019-20 numbers assume that the transaction took place on 1 January 2019. FY 2018/17 numbers thus exclude any assumptions on the transaction and represent actual figures for the old Eidsiva group.*

Transactional details affecting our credit view

Liquidity assessment – refinancing to take place in H2 2019

With all owners and regulatory authorities now having approved the transaction, Eidsiva will start its debt refinancing plans when the transaction closes on 30 September 2019. A new short-term NOK bridge loan[2] already received from relationship banks will be used to pay the agreed compensation (NOK 3.3bn) from Eidsiva to Hafslund. Hafslund will clarify its proposals to bondholders at its investor meeting in August. Regardless of the options chosen, we anticipate Eidisva's overall liquidity will not be materially affected, as several longer-term funding options are available for Eidsiva in the market.

Figure 1: Organisational overview post completion in H2 2019



Source: Scope, Company

Åmot municipality not part of Innlandet Energi Holding

During the process of obtaining the owners' approval, one small municipality (Åmot, with 0.6% of the shares) requested to be excluded from the new holding company, Innlandet Energi Holding, and remain an outside owner. This do not change our overall impression that the new holding company gives more formal unity of the owner group. The fact that the City of Oslo is joining as a new equal owner is positive for the potential capacity for financial support in the future.

Accounting gain from the disposal of Eidsiva vannkraft

The transactional transfer of Eidsiva vannkraft to E-CO Energi AS is expected to generate an accounting gain for Eidsiva in 2019.

[2] *Two banks with NOK 1.65bn each. Both have an ordinary tenor of six months, but optional extension of 12 months and 18 months, respectively.*

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

1 Cour du Havre
F-75008 Paris

Phone +33 1 8288 5557

London

Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 20 3457 0444

Madrid

Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

Milan

Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

Oslo

Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

info@scoperatings.com
www.scoperatings.com

Disclaimer