



Scope rates Eidsiva Energi at BBB-, Outlook Stable

Scope Ratings today assigns a first-time corporate issuer rating of BBB- to Norway-based Eidsiva Energi AS. The Outlook for the rating is Stable. Scope also assigns an S-2 short-term rating. The company's senior unsecured debt is also rated BBB-.

Rating rationale

The corporate issuer rating reflects Scope's view that Eidsiva benefits from the relatively large share of protected infrastructure business provided by its power distribution grid, coupled with a growing portion of fibre business within its broadband activities. Moreover, Scope recognises the improved profitability and efficiency which the company has developed in its bioenergy business, which now makes a meaningful contribution to overall EBITDA. The company's fully integrated utility value chain is also supportive of overall business risk which, combined with its broadband business, creates a more stable and less volatile profitability pattern. Negative business risk assessment factors include Eidsiva's limited geographical outreach for some business segments outside its local counties in Norway.

With regard to Eidsiva's financial risk profile, Scope notes the highly leveraged situation in which the company is currently operating. Even including the assumed conversion of the subordinated debt to equity, leverage is expected to remain high in the medium term (until 2020) due to extensive grid investment plans. The present situation results in negative free cash flow and the need for external financing. Even so, Scope assesses liquidity as more than sufficient, backed by the company's undrawn credit lines, as well as its track record of good access to both bank debt and debt capital markets.

Scope highlights the fact that Eidsiva's issuer credit rating of BBB- is not based on any explicit support or guarantees from its owners. Nevertheless, Scope regards Eidsiva's municipality ownership structure as strongly supportive of overall credit quality, leading to a one-notch uplift from the stand-alone credit rating of BB+.

Outlook

The Stable Outlook reflects Scope's expectation that Eidsiva will continue to be a diversified utility, with operations in power production, distribution and sales, coupled with broadband-related businesses. Scope's rating Outlook also anticipates that the infrastructure business segments will continue to represent a meaningful part of the company's EBITDA. The rating Outlook incorporates somewhat weaker credit metrics in the short term, driven by Scope's projection of negative free cash flow after investments. Nevertheless, the Outlook assumes that liquidity will remain more than sufficient based on new financing, which has already been announced, and the expectation that the company will continue to enjoy good access to both the bank and bond

market, coupled with Scope projections of improved operating profitability and funds from operations in the short to medium term. The rating Outlook also reflects Scope's assumption of continued majority ownership by the municipalities.

A rating upgrade could be warranted if the company converted its shareholder loan to equity, reported positive free cash flow and conducted asset sales, all of which together would reduce overall leverage, interest payments and the net investment in the company. This would result in a Scope-adjusted leverage ratio below 5x and Scope-adjusted interest cover above 5.5x on a sustainable basis. A negative rating action could be triggered if the company participated in a debt-financed structural transaction that proved detrimental to its business risk profile or if its financial risk profile was weakened due to sustainably lower wholesale prices.

The full rating report, including rating rationale and analytical details is available at www.scooperatings.com or [HERE](#)

Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings AG.

The rating analysis has been prepared by Henrik Blymke, Managing Director. Responsible for approving the rating: Olaf Tölke, Managing Director

The rating was first assigned by Scope on 08.12.2017. / The rating was last updated on 08.12.2017.

Methodology

The methodologies used for this ratings and/or rating outlooks are Rating Methodology Corporate Ratings 2017 Jan & Rating Methodology European Utilities 2017 Jan. Available on www.scooperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on <https://www.scooperatings.com/#governance-and-policies/regulatory-ESMA> Please 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's definition of default as well as definitions of rating notations can be found in Scope's public credit rating methodologies on www.scooperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months.

Stress testing & cash flow analysis

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

Solicitation, key sources and quality of information

The rated entity and/or its agents participated in the rating process.

The following substantially material sources of information were used to prepare the credit rating: public domain, the rated entity, third parties and Scope internal sources. Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Potential conflicts

Please see www.scooperatings.com. for a list of potential conflicts of interest related to the issuance of credit ratings.

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