MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook on Electrabel to stable, affirms ratings

09 Nov 2020

Paris, November 09, 2020 -- Moody's Investors Service (Moody's) has today changed Electrabel SA ("Electrabel")'s outlook to stable from negative and affirmed the Baa1 long-term issuer rating and the (P)Prime-2 short-term program rating. Moody's has also changed the outlook to stable from negative and affirmed the Baa1 long-term issuer rating for ENGIE CC.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that Electrabel's financial metrics will gradually recover over 2021-2022, from a low point in 2020. Specifically, the rating agency expects an improvement in the ratio of funds from operation (FFO)/net debt supported by (1) a more favorable macroeconomic environment; (2) a gradual back-to-normal nuclear plants' availability factor; and (3) ENGIE's commitment to fund Electrabel's nuclear liabilities over the period 2020-2025. Going forwards, and assuming that the Belgium Nuclear Provisions Commission (CPN)'s 2022 triennial revision will not lead to a material additional nuclear provisioning, Moody's anticipates that FFO/net debt will exceed the 27.5% average over 2016-2018.

The stable outlook for ENGIE CC follows that of Electrabel and reflects the implied support from ENGIE through Electrabel and ENGIE Invest International S.A. ("EII") as intermediate holding companies.

RATIONALE FOR AFFIRMATION OF RATINGS

Affirmation of Electrabel's rating reflects the scale and breadth of its operations, which include leading positions in power generation and supply in its core markets in Belgium and the Netherlands, as well as a strong international presence. Commodity risk is mitigated by the substantial portion of contracted activities and a consistent hedging policy. It also positively reflects the company's relationship with, and importance to, its parent ENGIE SA (ENGIE, Baa1 stable) and an expectation that Electrabel will continue to be capitalised at the current solid levels.

Electrabel's operations over the first half of 2020 evidenced the soundness of mostly contracted thermal and renewable generation as well as the ongoing recovery of nuclear operations, supported by the improvement in hedged prices and reduction in nuclear tax while the availability factor will now recover after finalization of the safety upgrades linked to the lifetime extension at Doel 1-2 and Tihange 1.

The rating action anticipates that ENGIE's strategic shift towards networks and renewables will not materially affect Electrabel's scope of activities, which are likely to remain unchanged, excluding potential further exits from thermal assets.

Affirmation of ENGIE CC's Baa1 rating follows that of Electrabel and reflects the implied support from ENGIE through Electrabel SA and EII as intermediate holding companies.

LIQUIDITY

Electrabel's liquidity is based primarily on its strong cash generation capacity and its substantial holdings of cash and marketable securities. As of 31 December 2019, Electrabel had €6.6 billion of cash and cash equivalents and marketable securities (excluding restricted cash). The group's liquidity is also underpinned by its position within the broader ENGIE group, whose financial policy is founded on the centralisation of financing needs and cash flow surpluses through cash pooling. We expect ENGIE to manage intragroup cash flow so as to ensure that Electrabel comfortably meets its funding needs.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Electrabel's ratings are not likely to be upgraded during the next 18-24 months. The ratings could be upgraded if (1) it appears likely that Electrabel will improve its financial performance on a sustained basis; and (2) the Belgium authorities consider nuclear liabilities sufficiently provisioned in 2022. Any upgrade would be considered in the context of the credit quality of ENGIE which, absent greater insulation between the two entities, will likely act as a constraint.

Electrabel's ratings could be downgraded if the company's operating performance or capitalisation were to deteriorate, or it were no longer considered financially and operationally integrated within the ENGIE group as a result of a change in ENGIE's strategy or financial policy.

The principal methodology used in these ratings was Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1066389. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Electrabel SA (Electrabel) is a leading power utility in the Benelux and globally, with a strong position in its core markets of Belgium and the Netherlands, as well as a broad international presence with a focus on Latin America and Middle East. It is 100% owned by ENGIE. Electrabel combines most of ENGIE's generation activities allocated across several business units. In 2019, Electrabel reported revenue of €17.3 billion and EBITDA of €4.1 billion, compared with €18.0 billion and €3.4 billion, respectively, in 2018.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: Electrabel SA

....LT Issuer Rating, Affirmed Baa1

....Other Short Term, Affirmed (P)P-2

..Issuer: ENGIE CC

....LT Issuer Rating, Affirmed Baa1

Outlook Actions:

..Issuer: Electrabel SA

....Outlook, Changed To Stable From Negative

..Issuer: ENGIE CC

....Outlook, Changed To Stable From Negative

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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