MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades ENGIE to A2; stable outlook

Global Credit Research - 27 Apr 2016

London, 27 April 2016 -- Moody's Investors Service (Moody's) has today downgraded to A2 from A1 the issuer and senior unsecured ratings of ENGIE SA (ENGIE), as well as its senior unsecured MTN rating to (P)A2 from (P)A1, its subordinated rating to (P)A3 from (P)A2 and its junior subordinated debt ratings to Baa1 from A3. Moody's has also downgraded the ratings of ENGIE's subsidiaries: (1) the issuer and senior unsecured ratings of GIE GDF SUEZ Alliance (now GIE ENGIE Alliance) to A2 from A1; (2) the issuer rating of ENGIE Invest International S.A. (EII) to A3 from A2; (3) the issuer rating of Electrabel SA to Baa1 from A3; and (4) the issuer rating of GDF SUEZ CC (now ENGIE CC) to Baa1 from A3. At the same time, Moody's has affirmed the short-term P-1 and (P)P-1 ratings of ENGIE, the short-term P-1 rating of GIE GDF Suez Alliance (now GIE ENGIE Alliance), and the short-term (P)P-2 rating of Electrabel SA. The outlook on all ratings is stable.

RATINGS RATIONALE

Today's rating action concludes the review initiated on 13 February 2016. The rating downgrade reflects Moody's view that the group's improved business risk profile stemming from its accelerated shift towards contracted and regulated activities will not be sufficient to fully offset credit metrics that the agency expects and which will remain well below the guidance for the previous rating.

European gas prices have declined by 22% in the past six months, whilst power prices in Belgium and France have declined by 29% and 25%, respectively, over the same period. A prolonged period of low prices will affect ENGIE given its partial exposure to commodity-linked activities, which account for around 30% of ENGIE's EBITDA. These include the group's Energy Europe and Global Gas and LNG divisions, which accounted for 14% each of group EBITDA in 2015 and are exposed to merchant power generation and oil and gas prices.

As hedges roll off, the pressure on cash flows exerted by lower commodity and power prices will hamper the group's ability to strengthen its financial profile, despite the restart of certain nuclear plants in Belgium. As a result, the group anticipates for 2016 an EBITDA of EUR10.8-11.4 billion (assuming no significant scope out impact), slightly down from the 2015 level of EUR11.3 billion. Moody's therefore expects that ENGIE's key adjusted credit metrics will remain broadly stable in the medium term compared with funds from operations (FFO)/net debt around 21% and retained cash flow (RCF)/net debt around 14% at year-end 2015. These ratios are well below the guidance for the previous A1 rating, which included FFO/net debt in the mid-twenties in percentage terms.

Moody's views this financial profile as consistent with the revised A2 rating, taking into account the three-year transformation plan launched by the group, which includes a EUR15 billion portfolio rotation program, a EUR22 billion capex program and a cost-reduction program of EUR1 billion by 2018. Moody's views this plan as positive from a business risk profile perspective, as it will reduce ENGIE's commodity price exposure and by the same token raise the share of its contracted and regulated activities. ENGIE expects the latter to account for more than 85% of group EBITDA by the end of 2018.

Moody's notes, however, that the contribution to cash flows of commodity-exposed activities will be replaced in part by downstream energy services, which have a lower credit quality than capital intensive infrastructure and long-term contracted generation activities. Moody's also notes the execution risk associated with this plan, although the agency takes some comfort from the fact that a third of the portfolio rotation program has already been achieved following the announced disposal in February of merchant generation assets in the US, India and Indonesia for a net debt impact of EUR5.5 billion.

Moody's adds that the A2 rating also factors in the group's scale and geographic diversification, which should continue to limit the negative effect on earnings from deterioration in any one business line or region. It also factors in ENGIE's balanced financial policy, as evidenced by a leverage target (expressed as net debt to EBITDA) of no more than 2.5x and the recent decision to reduce dividend from 2017.

Given ENGIE's 32.8% ownership and 36.7% control by the Government of France (Aa2 stable), the A2 rating continues to incorporates a one-notch uplift from its standalone credit quality or Baseline Credit Assessment (BCA) of a3.

RATIONALE FOR RATING DOWNGRADE OF GIE GDF SUEZ ALLIANCE (NOW GIE ENGIE ALLIANCE)

The downgrade of GIE GDF SUEZ Alliance's (now GIE ENGIE Alliance) issuer and senior unsecured ratings to A2 from A1 follows that of ENGIE and reflects that these are aligned with ENGIE's rating because members of the GIE have unlimited joint and several liability for the debt and liabilities incurred by it.

RATIONALE FOR RATING DOWNGRADE OF ELECTRABEL SA

The downgrade of Electrabel SA's issuer rating to Baa1 from A3 follows that of its parent ENGIE, and reflects that (1) Electrabel SA's standalone credit quality is weaker than that of ENGIE; and (2) its rating incorporates a degree of uplift because of its strategic importance to the larger group.

RATIONALE FOR RATING DOWNGRADE OF ENGIE INVEST INTERNATIONAL S.A.

The downgrade of EII's issuer rating to A3 from A2 follows that of its ultimate parent and is based on the Declaration of Responsibility by ENGIE in favour of EII. According to this, ENGIE unconditionally guarantees all obligations and liabilities until revocation by ENGIE of the Declaration.

RATIONALE FOR RATING DOWNGRADE OF GDF SUEZ CC (NOW ENGIE CC)

The downgrade of GDF SUEZ CC's (now ENGIE CC) issuer rating to Baa1 from A3 rating follows that of ENGIE, Electrabel SA and EII and is based primarily on the implied support from ENGIE through Electrabel SA and EII as intermediate holding companies.

RATING OUTLOOK

The outlook is stable, reflecting Moody's expectation that ENGIE's key credit metrics will remain aligned with the guidance for the current A2 rating, which includes FFO/net debt at or above 20% and RCF/net debt in the mid-teens in percentage terms.

WHAT COULD CHANGE THE RATING UP/DOWN

Given the execution risk associated with ENGIE's transformation plan, upward rating pressure is unlikely to arise in the medium term. Nevertheless, the ratings could be upgraded provided that credit metrics strengthen towards FFO/net debt in the mid-twenties in percentage terms and RCF/net debt in the upper teens in percentage terms.

The ratings could be downgraded if (1) credit metrics fall persistently below our guidance for the A2 rating; or (2) a change in the group's relationship with the government were to cause Moody's to remove the uplift for potential extraordinary government support, or if there were to be a significant downgrade of France's government rating.

The principal methodologies used in rating ENGIE SA, GIE GDF SUEZ Alliance (now GIE ENGIE Alliance) and ENGIE Invest International S.A. were Unregulated Utilities and Unregulated Power Companies published in October 2014, and Government-Related Issuers published in October 2014. The principal methodology used in rating Electrabel SA and GDF SUEZ CC (now ENGIE CC) was Unregulated Utilities and Unregulated Power Companies published in October 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

Headquartered in Paris, France, ENGIE SA is one of the world's leading energy providers. It reported group turnover of EUR69.9 billion and EBITDA of EUR11.3 billion in 2015. It is 32.8% owned and 36.7% controlled by the French government.

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