ENGIE SA

Primary Credit Analyst:
Claire Mauduit-Le Clercq, Paris + 33 14 420 7201; claire.mauduit@spglobal.com

Secondary Contacts:
Pierre Georges, Paris (33) 1-4420-6735; pierre.georges@spglobal.com
Beatrice de Taisne, CFA, London (44) 20-7176-3938; beatrice.de.taisne@spglobal.com

Research Contributor:
PAULINE PASQUIER, Paris (33) 1-4420-6771; pauline.pasquier@spglobal.com

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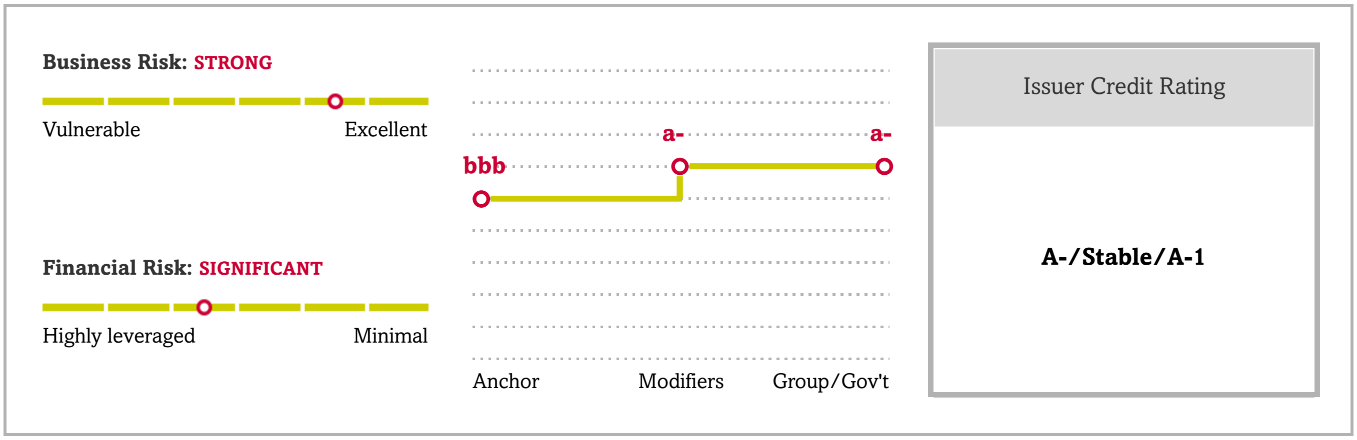
ENGIE SA



Credit Highlights

Overview

Key Strengths	Key Risks
Large scale with significant business and geographic diversity.	Appetite for mergers and acquisitions to support growth of client solutions business.
Sizable and increasing share of regulated and contracted operations, following recent disposals in merchant power and oil and gas upstream activities.	Exposure to fast-growing, but historically volatile, overseas markets, with growing presence in Latin America (Latam).
Favorable market positions and growth prospects in its energy services division.	Potential for increasingly complex financial engineering, with minority stakes in highly indebted vehicles.
Improving credit metrics supported by EBITDA growth, including funds from operations (FFO) to debt above 20% and debt to EBITDA of about 4x.	Material nuclear liabilities exposure in Belgium (about €10 billion asset retirement obligations end of 2018).
Supportive financial policy and proven financial flexibility from a diverse portfolio of activities, along with an exceptional liquidity.	

2019-2021 strategic plan is pursuing the transformation of the group. ENGIE's updated strategic plan reiterates ENGIE's focus on infrastructure (including regulated gas networks and district heating and cooling) and long-term contracted activities (including renewables), away from merchant power generation. The group also has ambitions to grow and diversify its client solutions portfolio, providing a wide array of services to industrials and territories, potentially bolstered by large acquisitions.

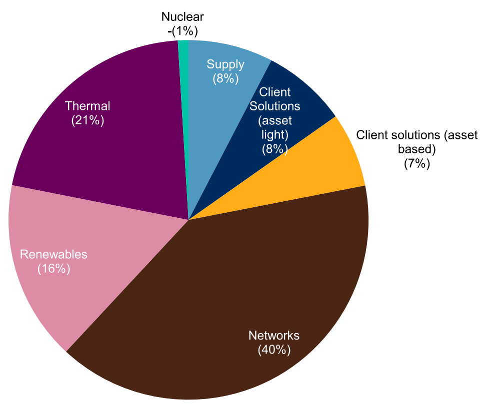
Growing share of regulated activities following Brazilian gas network acquisition. ENGIE-led consortium won the bid for the Brazilian transmission pipeline Transportadora Associada de Gás S.A. (TAG) on April 8, 2019, with a resulting noncontrolling stake for ENGIE of 49.3%. While with this acquisition ENGIE increases its exposure to stable infrastructure-based cash flow streams (because TAG network revenue is protected by contracts with 12-year average remaining life) it is also increasing its presence in Latam, which entails potentially more volatile macroeconomic, regulatory and political risks.

More capital deployment expected to foster client solutions. ENGIE's customer solutions segment, mostly developed under the Cofely brand in Europe, is the world's largest by revenue. It is highly diversified by contract and geography, with strong positions in a highly fragmented industry. While growth prospects seem promising in this segment, we will monitor the evolution of return on investments, profitability, and contract tenor length in the coming years.

Strong financial discipline. ENGIE management shows continuous commitment to financial discipline and to maintaining the current rating. We view positively the group's good degree of financial flexibility, notably in its investment program; its proactive and prudent liability management; its disposal program of about €6 billion over 2019-2021; and a consistently strong liquidity position--which we see as exceptional. We understand large acquisitions will be combined with remedial measures to allow ENGIE to maintain its credit metrics in line with our expectations for the 'A-' rating, notably adjusted FFO to debt above 20% over 2019-2021. Other factors in our assessment include the group's commitment to a rating in the 'A' category.

Chart 1

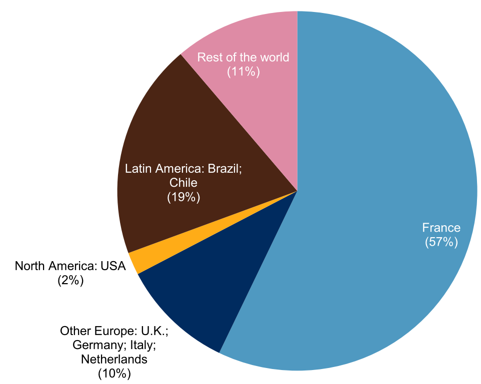
ENGIE EBITDA Split By Activity, 2018
€9.2 billion



Source: Company results and S&P Global Ratings.

Chart 2

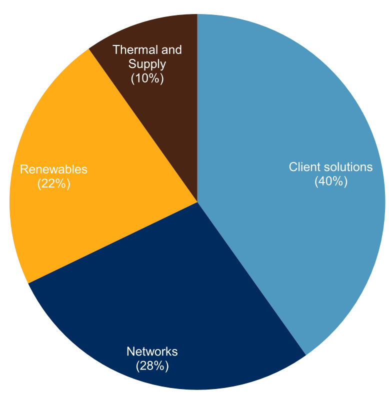
ENGIE EBITDA Split By Geography 2018 (Inc. TAG Dividends)
Engie will exit 20 countries over the next three years.



incl.--Including. Source: Company results and S&P Global Ratings.

Chart 3

ENGIE Growth Capex Expectations, 2019-2021



Source: Company results and S&P Global Ratings.

Chart 4

Transformation Of The ENGIE Group Over 2016-2018

Source: Company results and S&P Global Ratings.

Outlook: Stable

The stable outlook is based on our view that ENGIE will continue reducing its merchant-exposed activities, focusing on infrastructure growth, decarbonizing its generation mix, asset-based services, as well as a more focused geographic footprint. The new strategic plan should help ENGIE achieve sustainable growth and maintain predictable cash flow. Over 2019-2021, we also anticipate improved performance of the group's nuclear operations, reflecting a higher availability of its plants, supporting earnings growth.

We believe that this--together with the proceeds from announced and planned disposals--will support improving credit metrics over the next three years. We expect FFO to debt of about 20% for 2019, increasing beyond this level from 2020, which we deem as commensurate with an 'A-' rating under this business scenario.

The stable outlook also shows our expectation that management will maintain a high level of financial discipline, with some material financial flexibility if needed to fund growth projects. In addition, it factors in our view that the EBITDA contribution from infrastructure assets will remain stable. A reduction in shareholding from the French state, as envisaged in the PACTE law, will not trigger any change to our rating, since we do not currently incorporate exceptional support from the French state.

Downside scenario

We could lower the rating if ENGIE struggles to effectively restore its nuclear fleet or incurs further unplanned maintenance costs, hurting its financial performance; if materially adverse regulatory measures on its infrastructure portfolio are implemented; or if the group becomes more aggressive in investments so that credit metrics deteriorate.

We believe ENGIE will most likely use any financial headroom--projected to build up gradually over the next three years--to increase investments and fuel its growth in core activities. We could, however, consider lowering the rating if the group embarked on a large debt-financed acquisition without implementing credit remedy measures, translating to adjusted FFO to debt deteriorating below 20% on a prolonged basis.

A more aggressive financial policy, notably from a material increase in shareholder remuneration, could also pressure the rating.

In addition, we would consider increasing our credit metrics requirements if the asset-light client solutions business were to represent an even greater share of the group's earnings, associated with a lower profitability and different operating model; or if complex financial engineering were to materially increase, reducing cash flow predictability.

Upside scenario

Given the hefty investment program, including acquisitions and still-limited financial flexibility forecast over the next three years, we do not see rating upside potential at this stage. Nevertheless, we could consider an upgrade if the business profile shifted toward more regulated activities, combined with profitable growth in the remaining core businesses.

Our Base-Case Scenario

Assumptions

In our base case, we assume:

- Reported EBITDA increases by 3.5% in 2019, compared with 2018, and 4.5%-5.5% thereafter, supported by organic growth and tuck-in acquisitions in customer solutions, and international networks.
- Cost of debt rises over 2019-2021 because of a slightly larger share of local debt in riskier countries.
- Working-capital movements reverse in 2019 after minor inflows in 2018.
- Expected proceeds of about €3 billion in 2019 from the ongoing disposal program, including the sale of the Glow coal plant in Thailand and a series of smaller assets.
- Investments (including tuck-in acquisitions) of about €6 billion-€7 billion over 2019-2021.
- In 2019, €1.6 billion acquisition of 49.3% of TAG pipeline with €100 million-€110 million annual net income from the contracted asset on the period.
- Cash dividends of about €2.6 billion in 2019, in line with the new dividend payout ratio guidance of 65%-75%, increasing with recurring net income thereafter.

Based on these assumptions, we arrive at the following credit measures:

- Adjusted FFO of about €8.3 billion in 2019, increasing to €8.6 billion and beyond from 2020.
- Adjusted debt decreasing to €40 billion in 2019 and then maintained around this level from 2020.
- FFO to debt above 20% in 2019 and above 21% thereafter.

Key Metrics

	2018A	2019E	2020E
Unadjusted EBITDA (Bil. €)	9.2	9.5-10.0	9.8-10.3
Capex (Bil. €)	6.0	6.1-6.40	6.1-6.4
Debt (Bil. €)	40.5	40.0-40.2	40.1-40.3
FFO/Debt (%)	19.7	19.5-20.5	20.5-21.5
Debt/EBITDA (x)	4.2	3.7-4.1	3.6-4.0

A--Actual. E--Estimate. FFO--Funds from operations.

Base-case projections

ENGIE's future EBITDA increase is mainly based on recovery of nuclear generation, combined with growth in client solutions and renewables. Nuclear recovery should play a key role in the group's EBITDA growth in the coming two to three years. We forecast a gradual recovery of the group's nuclear operations based on the rising availability of its plants, including the absence of unplanned outages related to the life-extension process and more favorable hedged power prices. Growth from customer solutions will be driven by organic expansion and tuck-in acquisitions.

ENGIE's extensive investment program has increased focus on customer solutions and renewables. We expect overall capital expenditure (capex) and acquisitions of €20 billion over 2019-2021.

We believe credit metrics resilience will be further supported by the group's continued disposal program. This amounts to €6 billion, including about €2.6 billion received from the disposal of its 69.1% stake in Thailand-listed independent power producer Glow in March 2019. We anticipate this disposal program will support free cash flow neutrality over 2019-2021.

Company Description

With the disposal of its upstream activities in oil and gas exploration and production (E&P) and liquefied natural gas (LNG), ENGIE now has a strategic focus on power generation, gas infrastructure, and energy services. The group's strategic plan is to increase the share of long-term contracted energy activities, while maintaining a stable-to-increasing share of regulated business.

ENGIE notably operates the regulated French gas distribution and transmission networks, as well as downstream storage infrastructures. As of Jan. 1, 2018, the group had a total French regulated asset base (RAB) of €27.3 billion (including the €3.6 billion storage assets regulated from the same date) and €2.8 billion international gas and power networks. In addition, ENGIE had an installed generation capacity of 104.3 gigawatts (GW), or 59.6GW in net ownership, of which about half is in Europe. The generation portfolio is mostly gas (55% on a net-ownership basis), hydro (15%), nuclear (14%), and coal (7%). ENGIE also benefits from a large and broad customer base, including 7.3 million residential gas contracts (68% market share) and 4.0 million electricity contracts in France at end-2018. ENGIE is also a world leader in energy services, mainly through the Cofely brand. It generated over €1.5 billion of EBITDA in client solutions in 2018 (including €0.8 billion in asset-based services such as district heating and €0.7 billion in asset-light services), and €0.8 billion in supply.

ENGIE reported revenue of €60.6 billion and EBITDA of €9.2 billion as of Dec. 31, 2018. The company is listed on the Paris stock exchange and is part of the CAC 40, a benchmark French stock market index. It had a total market capitalization of about €32 billion as of March 28, 2019. The French state owns 23.6% of the company, and has held about 34.84% of the voting rights since April 2018.

Business Risk: Strong

The strong business risk profile is supported by ENGIE's diversified and less risky business mix since the transformation, which stems from substantial disposals of its merchant activities: the €15 billion disposal plan is closed or signed, with the sale of U.S. and Asian merchant assets realized; the sale of E&P activities completed on February

2018; and the sale agreement of Glow concluded in March 2019. The resulting shift toward nonmerchant business, with an increase in regulated activities to almost 40% of operations, will support a more visible and resilient cash flow stream.

Other positive factors include the group's:

- Large size and significant diversification;
- Recent and low-carbon dioxide (CO2) power generation assets, increasingly supported by long-term power purchase agreements; and
- Strong market positions in energy services with industrial and public entities, and energy supply to its large residential customer base in France and Belgium.

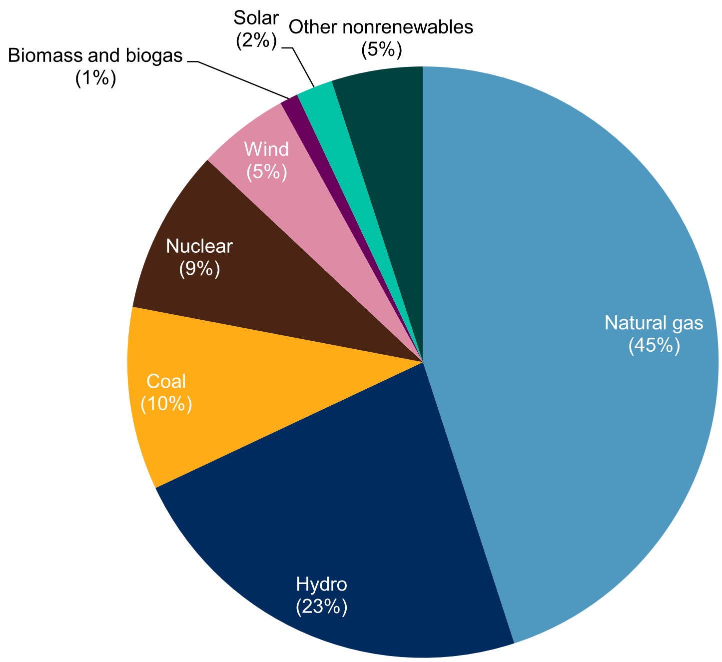
Large and diversified portfolio

ENGIE's major competitive advantages lie in its comprehensive scale, significant business and geographic diversity, and leading market positions, which support the group's business risk profile.

The group has a dominant position in the Belgian power market and in gas supply in France. It occupies a substantial portion of the Central and Western European markets and leading positions in a number of the fast-growing markets, where it has become a system operator through some vertical integration of its operations. The group also has a highly diversified generation mix, underpinned by the number of plants (about 1,000), geographies (70), and technologies (about 10). This outstanding scale and diversification significantly contributes to the group's earnings resilience, in our view. We see as positive ENGIE's refocus on its 30 key markets where it holds leading positions, the group announced its exit from 20 countries presenting political risks or nonstrategic positions over the next three years. We also value the group's heterogeneous business mix, with its regulated network operations, contracted fleet, merchant generation, and wide-range of contracted energy servicesthat are relatively uncorrelated with each other. In addition, the highly diversified portfolio of energy services, which was developed well ahead of most peers', fosters growth opportunities, and helps strengthen the group's positions in the worldwide energy transition.

Chart 5

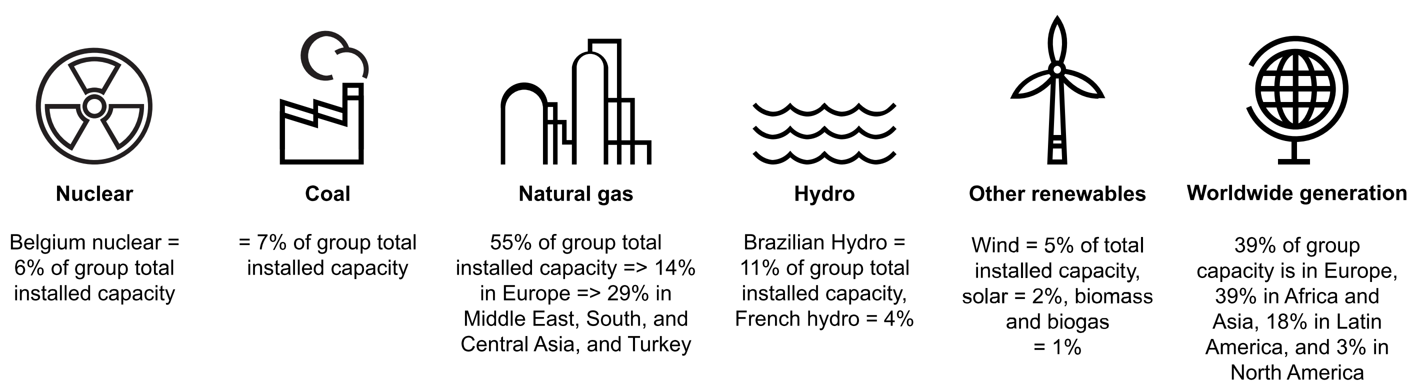
ENGIE's Generation Breakdown By Technology, 2018 (% Consolidation)*



*Breakdown is based on net ownership. Source: Company results and S&P Global Ratings.

Chart 6

ENGIE Power Generation Fleet Key Highlights (As Of Dec. 31, 2018)



Breakdown is based on net ownership. Sources: Company results, S&P Global Ratings.

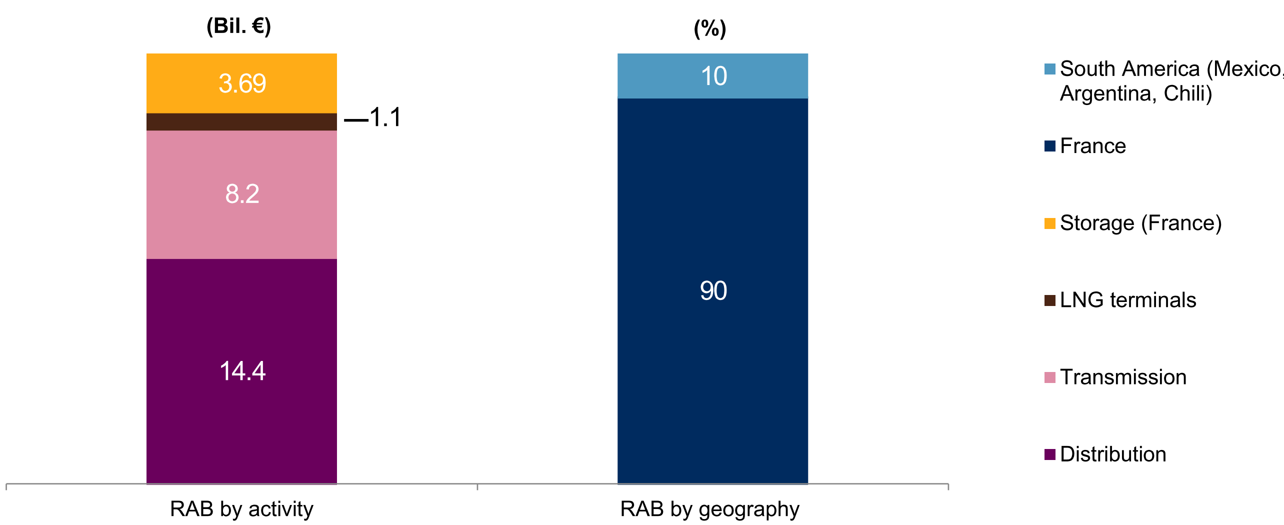
Growing share of regulated gas networks (about 40% of EBITDA) after Brazil's TAG acquisition

With a RAB worth about €27.3 billion, the French gas distribution and transmission regulated networks; the newly regulated French storage capacities; and, to a lesser extent, regulated LNG terminals fuel ENGIE's strong business risk profile. We see the regulatory framework in France as strong, providing a good degree of earnings stability. For more details about our views on the French regulatory framework, please refer to our article "Why Do We See The French Electricity And Gas TSO Regulatory Framework As Supportive?" published March 11, 2016, on RatingsDirect. From 2018, the RAB includes €3.6 billion in additional assets for the storage activities of Storengy and Géométhane. The new regulation is RAB-based and supports cash flow predictability. Over the next three years, We expect ENGIE's RAB will expand moderately on the back of constant investments, with lower, albeit contained, associated remuneration from April 1, 2020, when the new regulatory period starts, setting up a lower tariff for gas transmission (ARTR7) compared with current one (ATRT6 real pre-tax set at 5.25% excluding incentives) and a lower tariff for distribution as well (ATRD).

Its regulated assets are further complemented by expansion into transmission pipelines in Latam that benefit from long-term contracts. We understand ENGIE is likely to spend more on these activities, as shown by the acquisition of the TAG gas pipeline in Brazil. The asset is long-term contracted with an average remaining life of 13 years, tempering the riskier geography. The group's strategy continues to include a strong focus on infrastructure and low-risk regulated or contracted assets.

Chart 7

ENGIE RAB Split By Activity And Geography, Jan. 1, 2019



RAB--Regulated asset base. Source: Company and S&P Global Ratings.

Merchant exposure in Europe remains a key source of volatility for the group's earnings

Following the disposals over the past three years (E&P assets in the U.S., upstream LNG activities, 1GW Australian Loy Yang B coal plant, stake in Glow combined cycle gas turbines), ENGIE's share of merchant generation decreased to the benefit of a growing and more contracted generation fleet (renewables and thermal generation assets contracted under purchase price agreements [PPAs]).

However, the group's generation activities will remain materially exposed to merchants, with significant outright production, be it nuclear (Belgium) or hydro (France), subject to market price volatility.

In Europe, the exposure is the greatest (although contribution to consolidated earnings is low). While the European thermal fleet has been displaced in the merit order (gas) for the past five years, the nuclear plants in Belgium have suffered from significant operating issues in 2017 with a peak in 2018, entailing unplanned outages and a historically low availability rate (52% in 2018). From 2019, we forecast a gradual recovery of the group's nuclear operations based on the rising availability of its plants, including the absence of unplanned outages related to the life-extension process and more favorable hedged power prices. This should play a key role in the group's EBITDA growth in the coming two to three years.

Long-term contracted generation fleet outside of Europe provides visibility (about 20% group's EBITDA in 2018)

This is, however, mitigated by the majority of the group's gas-based and renewable capacity being under long-term contracts outside Europe.

Generation activities include a large range of facilities, including regulated renewables and plants under long-term PPAs (10 to 30 years) that provide a relatively high degree of cash flow predictability. We also view as positive that the group's power generation assets are newer than those of most peers. They are low CO2 assets that could eventually benefit from more stringent environmental rules, including the introduction of a carbon floor price, and a political push to accelerate the exit of coal energy sources. The group's thermal capacity will be further reduced by announced disposals of coal plants in Europe and intended disposal of Brazilian coal plants, in line with stated intentions to decarbonize the portfolio.

In December 2018, the installed generation capacity had increased to 104.3GW, or 59.6GW in net ownership, from 102.7GW in December 2017. About half of the generation fleet is in Europe.

ENGIE favors project development rather than contracted revenue in renewables (about 16% of group EBITDA in 2018)

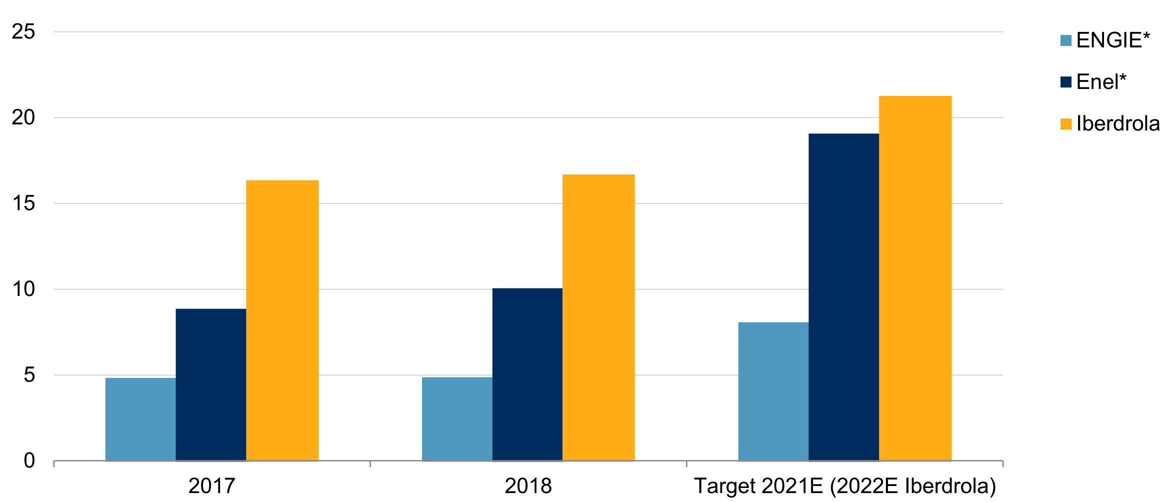
We believe ENGIE is still a relatively small player in renewables compared with its European peers, despite its strong positions in French onshore wind. The group has an installed capacity of 17.9 GW (as % consolidation). Renewables contributed 16% of the group's total 2018 EBITDA. While the group has strong ambitions in this area, we believe its developer business model is likely to result in little change in the coming years. Essentially, we see ENGIE's growth in renewables driven by the realization of development margins rather than the long-term contracted or subsidized revenue stream from the group's investment pipeline. We recognize the group has a good track record and in-house expertise in building renewable assets but see this activity as sharing the speculative and volatile nature of project developers.

While ENGIE plans to increase its installed capacity by nine GW in the next three years, mainly in onshore wind and solar, its renewable asset base remains small compared with other integrated peers in Europe, like Iberdrola, Enel, and EDP.

We forecast that its installed capacity will increase to about 17GW in net ownership (from 13.6GW in 2018) or to about 21.1GW in net consolidation (from 17.9GW in 2018). The company's significant asset-rotation strategy also limits EBITDA contribution from these assets in the coming years.

Chart 8

Evolution Of Renewable Installed Capacity, Excluding Hydro (GW)



GW--Gigawatts. *Consolidated capacity only. E--Estimate. Source: S&P global ratings, companies.

High capex deployment in client solutions (about 15% of 2018 EBITDA)

The rest of ENGIE's portfolio mainly comprises energy services with industrial and public entities, and energy supply to its large residential customer base in France and Belgium. In addition, the group developed a much broader spectrum of asset-light products and services to its industrial customer base, including information technology systems and data management, which could be areas of growth in the future, notably through cross-selling.

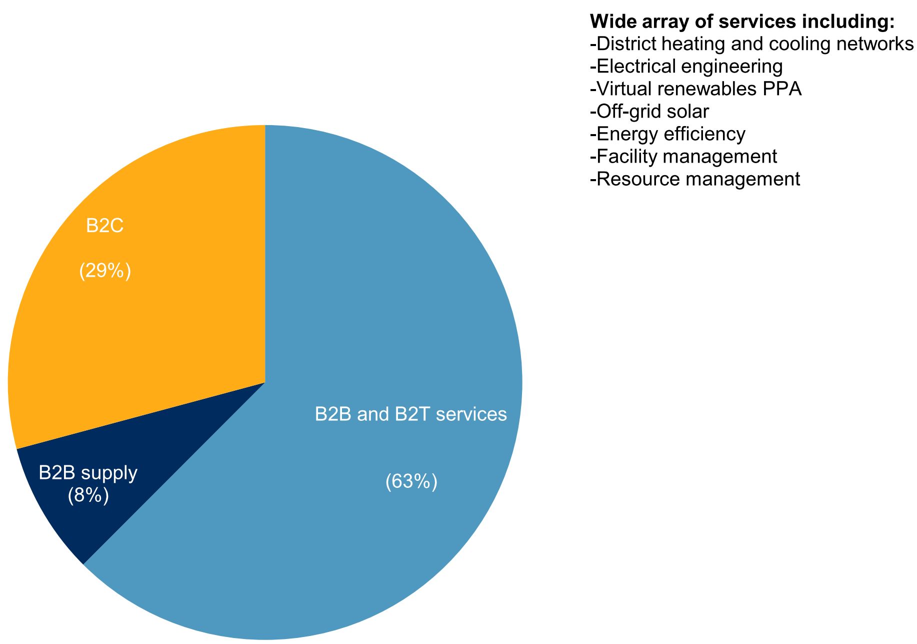
We believe the group now has a more established track record of growth and resilience in its customer-solutions businesses. ENGIE focuses on more sophisticated and holistic solutions to meet the clients' environmental targets, rather than more commodity-like residential energy offers. These features allow for longer-term contracts and higher renewal rates. We also consider the customer solutions segment, mostly developed under the Cofely brand in Europe, to be highly diversified by contract and geography, with strong positions in a highly fragmented market.

However, we will monitor the deployment of capital, and return on investments of this service business in the coming years. We understand segment growth will be both organic and driven by tuck-in acquisitions, with a relatively high level of discretionary investments. At this stage, we still lack clarity on the assets and companies that ENGIE will acquire in the coming years. Depending on the nature of the acquired assets and underlying cash flows, these acquisitions may slightly change our views on the group's business risk profile. More specifically, we would likely see more risks should the group expand materially into asset-light activities with short-term contracts.

Regarding retail markets (to be noted, supply will be combined with generation activities in new reporting matrix from 2019), growth is made harder by increasing competition in more mature markets like Belgium and France. That said, ENGIE has leading positions in business-to-consumer gas.

Chart 9

Client Solutions And Supply 2018
€2.4 billion EBITDA split



B2B--Business to business (industry, large infrastructure, private tertiary buildings). B2C--Business to customer (retail and services, individual housing). Source: Company results and S&P Global Ratings.

Peer Comparison

Table 1

ENGIE SA Peer Comparison

Industry Sector: Energy

	ENGIE SA	Iberdrola S.A.	Electricite de France S.A.	E.ON SE	Enel SpA
Rating as of May 21, 2019	A-/Stable/A-1	BBB+/Stable/A-2	A-/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
(Mil. €)	**--Fiscal year ended Dec. 31, 2018--**			**--Fiscal year ended Dec. 31, 2017--**	
Revenues	60,596.0	35,075.9	68,976.0	37,965.0	74,437.0
EBITDA	9,590.0	9,247.5	16,155.0	5,082.1	14,993.0

Table 1

ENGIE SA Peer Comparison (cont.)					
FFO	7,947.6	7,770.5	13,788.0	3,535.7	10,915.5
Interest Expense	1,414.0	1,793.6	3,140.5	1,378.4	2,469.5
Cash Interest Paid	966.5	1,144.1	1,978.0	1,063.4	2,498.5
Cash flow from operations	7,549.7	6,951.6	12,994.0	(2,905.4)	10,366.5
Capital expenditures	6,068.0	6,543.8	15,684.0	3,033.0	8,499.0
Free operating cash flow	1,481.7	407.9	(2,690.0)	(5,938.4)	1,867.5
Discretionary cash flow	(1,104.8)	(1,571.4)	(3,095.0)	(6,488.4)	(1,616.0)
Cash and short-term investments	8,579.0	2,808.7	23,593.0	3,378.0	6,781.7
Debt	40,434.3	39,029.8	70,013.5	19,273.7	45,244.4
Equity	39,067.0	42,949.3	47,595.5	6,708.0	54,314.5
Adjusted ratios					
EBITDA margin (%)	15.8	26.4	23.4	13.4	20.1
Return on capital (%)	6.5	7.2	5.6	14.1	10.5
EBITDA interest coverage (x)	6.8	5.2	5.1	3.7	6.1
FFO cash interest coverage (x)	9.2	7.8	8.0	4.3	5.4
Debt/EBITDA (x)	4.2	4.2	4.3	3.8	3.0
FFO/debt (%)	19.7	19.9	19.7	18.3	24.1
Cash flow from operations/debt (%)	18.7	17.8	18.6	(15.1)	22.9
Free operating cash flow/debt (%)	3.7	1.0	(3.8)	(30.8)	4.1
Discretionary cash flow/debt (%)	(2.7)	(4.0)	(4.4)	(33.7)	(3.6)

Financial Risk: Significant

In 2018, ENGIE reported consolidated EBITDA of €9.2 billion (€9.6 billion adjusted), stable year on year. Growth was robust in ENGIE's core businesses, except for the substantial loss recorded in its nuclear operations due to the low availability of its fleet and related unplanned outages.

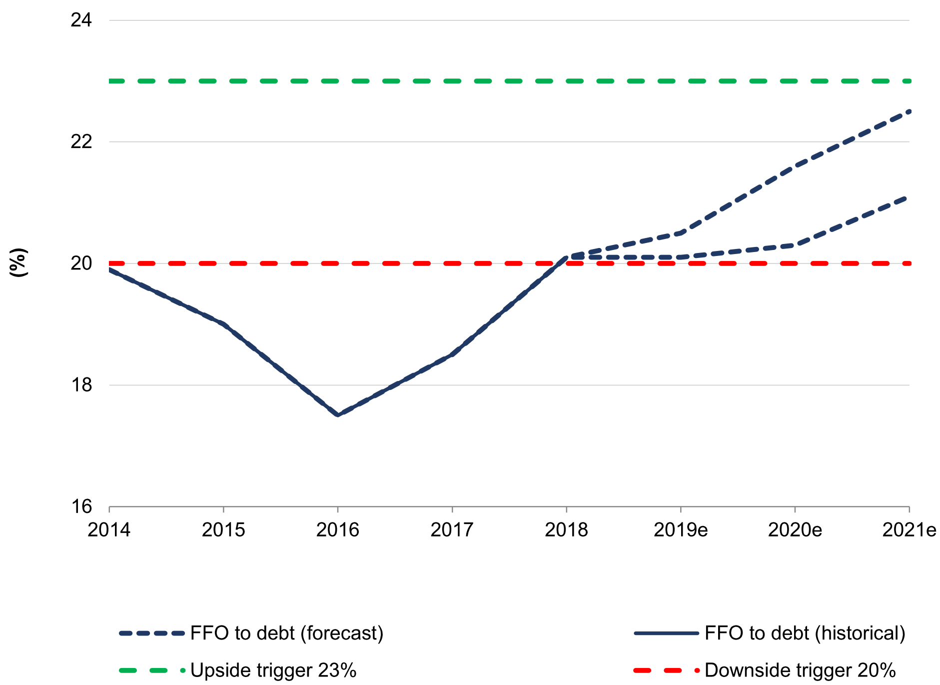
Neutral free cash flows, thanks to further portfolio streamlining

Our assessment of ENGIE's financial risk profile as significant, based on our expectation that the company will continue improving its credit metrics over the coming three years, with adjusted FFO to debt increasing comfortably beyond 20%, and debt to EBITDA decreasing below 4x. Given the relatively high share of EBITDA generated by regulated network activities (around 40% as of 2018), we benchmark ENGIE's credit metrics against our medial volatility table.

We believe credit metric resilience will be further supported by the group's continued disposal program. This amounts to €6 billion, including about €2.6 billion received from the disposal of its 69.1% stake in Thailand-listed independent power producer Glow in March 2019. We anticipate this disposal program will support free cash flow neutrality over 2019-2021. We also expect the group's extensive investment program, involving overall capex and acquisitions of €20 billion over 2019-2021, and moderately increasing shareholder returns, in line with the sector average, to be mitigated by the improved operating performance of its merchant-exposed earnings, and customer solutions business. At end-2018, despite one-off losses weighing on the performance of its Belgian nuclear fleet, FFO to debt was about 20%, and debt to EBITDA was 4.2x.

Chart 10

Evolution Of Funds From Operations To Debt



e--estimate. (S&P global Ratings adjusted metrics).

Supportive financial policy that incorporates commitment to the rating

Positive factors also include management's continuous commitment to financial discipline with a revised dividend policy from a dividend per share to a range of 65%-75% payout ratio, leaving flexibility on the plan period. We also view positively the group's good degree of financial flexibility; its proactive and prudent liability management, with a consistently strong liquidity position; and financial debt reduction from further disposals over the next two years. We understand large acquisitions will be combined with remedial measures to allow ENGIE to maintain its credit metrics in line with our expectations for the 'A-' rating, notably adjusted FFO to debt above 20% over 2019-2021. We consider the group's financial debt has a well staggered maturity profile. Its debt mainly comprises bonds, bank lines, and commercial paper.

Asset Retirement Obligations could be revised upward

Weaknesses include significant asset-retirement obligations mostly related to the Belgian nuclear fleet. We understand that a triennial revision of back-end cycle nuclear provisions will occur by end-2019, including a revision of the discount rate potentially affecting the net present value of ENGIE's ultimate asset retirement obligations from 2020. At this stage, our base case includes an increase of €2 billion, to about €11.5 billion, in our debt adjustment, which we believe is the maximum potential increase.

At end-2018, adjusted debt was €40.4 billion, including €21.7 billion of net financial debt, €9.8 billion of asset-retirement obligations (coming mostly from Belgian nuclear), €4.7 billion of pensions, €2.3 billion of operating leases, and €1.9 billion of hybrids, reported as equity.

Financial engineering in project financing brings complexity to ENGIE's growth activities.

ENGIE's model in globally developing renewable generation--develop, build, partially sell and operate (DBpSO) brings margins up with the sale of the assets. However, this activity is more and more exposed to competition and ENGIE does not retain the secured revenue from long-term contracted renewables because it keeps only a minority share in the assets commissioned.

We also view the significant use of nonrecourse debt in project finance operations (notably in the Middle East) as representing an additional contingent risk for ENGIE if it sought to avoid any reputation threat.

Financial summary

Table 2

ENGIE SA Financial Summary

Industry sector: Energy					
	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Rating history	**A-/Stable/A-2**	**A-/Negative/A-2**	**A-/Negative/A-2**	**A/Stable/A-1**	**A/Stable/A-1**
(Mil. €)					
Revenues	60,596.0	65,029.0	66,639.0	69,883.0	74,686.0
EBITDA	9,590.0	9,244.0	10,836.5	11,428.0	12,495.5
FFO	7,947.6	7,276.1	8,573.3	8,527.8	9,386.5
Interest expense	1,414.0	1,675.9	1,829.2	1,887.7	1,952.5
Cash interest paid	966.5	1,107.9	1,055.2	1,178.2	1,304.0
Cash flow from operations	7,549.7	8,517.1	10,016.3	10,201.8	8,312.5
Capital expenditures	6,068.0	5,675.0	6,230.0	6,459.0	5,790.0
Free operating cash flow	1,481.7	2,842.1	3,786.3	3,742.8	2,522.5
Discretionary cash flow	(1,104.8)	(96.9)	693.3	708.3	(1,164.0)
Cash and short-term investments	8,579.0	8,790.0	9,579.0	8,925.0	8,310.0
Gross available cash	9,732.0	9,898.0	10,395.0	9,722.0	9,118.0
Debt	40,434.3	41,381.7	44,953.8	45,240.2	45,078.6
Equity	39,067.0	41,012.5	43,810.5	47,041.5	54,177.0
Adjusted ratios					
EBITDA margin (%)	15.8	14.2	16.3	16.4	16.7
Return on capital (%)	6.5	6.1	6.7	6.5	7.7
EBITDA interest coverage (x)	6.8	5.5	5.9	6.1	6.4
FFO cash interest coverage (x)	9.2	7.6	9.1	8.2	8.2
Debt/EBITDA (x)	4.2	4.5	4.1	4.0	3.6
FFO/debt (%)	19.7	17.6	19.1	18.8	20.8
Cash flow from operations/debt (%)	18.7	20.6	22.3	22.6	18.4
Free operating cash flow/debt (%)	3.7	6.9	8.4	8.3	5.6

Table 2

ENGIE SA Financial Summary (cont.)

Industry sector: Energy					
	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Rating history	**A-/Stable/A-2**	**A-/Negative/A-2**	**A-/Negative/A-2**	**A/Stable/A-1**	**A/Stable/A-1**
(Mil. €)					
Discretionary cash flow/debt (%)	(2.7)	(0.2)	1.5	1.6	(2.6)

FFO--Funds from operations.

Liquidity: Exceptional

The 'A-1' short-term rating is supported by ENGIE's liquidity, which we now assess as exceptional, compared with strong previously.

Projected sources of funds exceed projected uses by about 2.2x over the next 12 months and by more than 2.0x over the subsequent 12-24 months.

Our assessment is further supported by the group's commitment to maintaining strong levels of liquidity, its ongoing and proactive cash and debt management, solid relationships with banks, and ample and proven access to capital markets, even under dire market conditions.

Principal Liquidity Sources	**Principal Liquidity Uses**
• About €10 billion in available cash at group level as of March 31, 2019 (including proceeds from Glow disposal completed during Q1 for €2.6 billion). • About €13.2 billion in available committed credit lines maturing beyond 12 months, of which €10 billion relates to two syndicated facilities maturing in 2022 and 2023. • Unadjusted FFO of about €7.7 billion over the next 12 months. • No further asset disposals in 2019.	• Long-term and short-term debt maturities of about €4.95 billion, including €3.7 billion of outstanding commercial paper (debt maturities for 2019: €1.3 billion). • Gross capex (with limited flexibility) not exceeding €6.5 billion from 2019. • TAG acquisition for €1.6 billion. • Dividend cash payments of about €2.7 billion (including payments by subsidiaries to minority shareholders).

Debt maturities

- 2019: €1.3 billion
- 2020: €4.1 billion
- 2021: €2.3 billion

- 2022: €3.0 billion
- 2023: €3.0 billion
- Thereafter: €14.2 billion

Government Influence

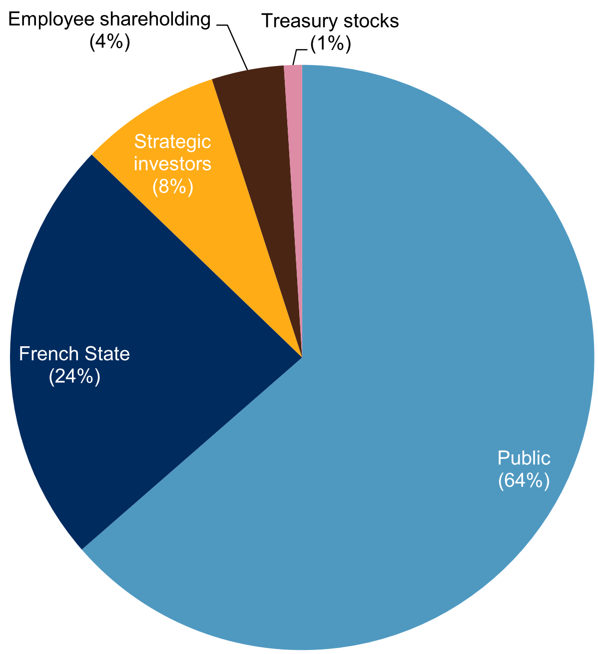
ENGIE is a government-related entity (GRE). Although the French state is the group's largest shareholder, and has a 23.6% direct stake after the sale of 4.1% in September 2017, it does not control it. The enactment of the Florange law in March 2014 gave the government greater economic flexibility regarding ENGIE: the government is now required to hold more than one-third of ENGIE's shares or voting rights. The government also holds a golden share in the group to protect the national interest and ensure energy supply security, which legally entitles it to veto any decisions made by the group and its subsidiaries to sell, transfer operations, or assign as collateral its regulated assets in France.

The French law for companies' growth and transformation, the "Loi PACTE" was approved by the parliament in April 2019 and by Constitutional Council, revising the obligation of the French state to hold minimal voting rights within ENGIE (set at two-thirds of voting rights by the Energy Law. At this stage, however, we lack clarity on the potential timing of the government's disposal of any stake.

As of Dec. 31, 2018, 63.57% of ENGIE was under public ownership and 23.6% under state ownership (compared with 24.1% in 2017). The state holds 33.84% of the voting rights.

Chart 11

ENGIE's Shareholding Structure As Of Dec. 31, 2018



Source: Company.

Issue Ratings - Subordination Risk Analysis

Capital structure

At end-2018, ENGIE's capital structure comprises about €32 billion of senior unsecured debt and about €3.75 billion of hybrid securities unsecured debt issued by ENGIE SA and its financing subsidiaries. The group has debt of about €5.6 billion under local subsidiaries.

Analytical conclusions

We do not see any material structural subordination risk on the senior unsecured debt instruments issued by the group and rate them 'A-', in line with the issuer credit rating on ENGIE.

Environmental, Social, And Governance

In our view, ENGIE is now in a better position from an environmental perspective, with a relatively low carbon footprint, following its successful transformation. This includes the disposals of its oil and gas E&P and LNG businesses, stronger focus on renewables generation, and sale of part of its European and international thermal generation assets--notably coal-fired plants. The group has sold and/or closed nearly 60% of its coal-installed capacity since 2015. We believe the resulting shift toward regulated activities for more than 40% of its operations will provide more visible and resilient cash flows, underpinning the strong business-risk profile. We note ENGIE has a strong track record of managing regulatory risks for its network operations.

However, the company's nuclear operations in Belgium pose several threats related to the future of long-term storage of nuclear waste, the government's willingness to phase out nuclear power, and severe operational issues. Since 2015, the latter have resulted in unplanned nuclear outages, limiting the overall load factor to just over 50% for 2018. We include ENGIE's massive €9.8 billion of end-of-cycle liabilities (for decommissioning and nuclear waste storage) in our adjustment of ENGIE's debt for asset-retirement obligations, most of which relate to the Belgian operations, but remain subject to some uncertainty. We believe the lack of visibility on the Belgian government's future energy policy will further complicate the group's overall strategic direction.

In our view, the group's streamlined structure under its transformation reduces risks, compared with its previously broad range of activities with relatively complex financing engineering.

Reconciliation

Table 3

Reconciliation Of ENGIE SA Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2018--								
ENGIE SA reported amounts									
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Dividends**	**Capital expenditure**
Reported	32,179.0	35,551.0	8,326.0	2,646.0	710.0	9,590.0	7,856.0	2,659.0	6,202.0
S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	(757.0)	--	--	--
Cash taxes paid - Other	--	--	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	--	(727.0)	--	--	--
Cash interest paid - Other	--	--	--	--	--	111.8	--	--	--
Operating leases	1,500.4	--	481.0	144.8	144.8	(144.8)	336.2	--	--

Table 3

Reconciliation Of ENGIE SA Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)									
Intermediate hybrids reported as equity	1,875.0	(1,875.0)	--	--	--	(72.5)	(72.5)	(72.5)	--
Postretirement benefit obligations/deferred compensation	4,696.0	--	(5.0)	(5.0)	118.0	--	--	--	--
Accessible cash and liquid investments	(9,732.0)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	134.0	(134.0)	(134.0)	--	(134.0)
Share-based compensation expense	--	--	86.0	--	--	--	--	--	--
Dividends received from equity investments	--	--	572.0	--	--	--	--	--	--
Asset retirement obligations	9,814.3	--	--	--	419.0	--	--	--	--
Income (expense) of unconsolidated companies	--	--	(361.0)	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	265.0	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(436.0)	--	--
Noncontrolling interest/minority interest	--	5,391.0	--	--	--	--	--	--	--
Debt - Derivatives	(404.0)	--	--	--	--	--	--	--	--
Debt - Fair value adjustments	(339.0)	--	--	--	--	--	--	--	--
Debt - Put options on minority stakes	46.0	--	--	--	--	--	--	--	--
Debt - Other	798.6	--	--	--	--	--	--	--	--
EBITDA - Gain/(loss) on disposals of PP&E	--	--	150.0	150.0	--	--	--	--	--
EBITDA - Fair value changes of contingent consideration	--	--	147.0	147.0	--	--	--	--	--
EBITDA - Derivatives	--	--	223.0	223.0	--	--	--	--	--
EBITDA - Other	--	--	(29.0)	(29.0)	--	--	--	--	--
D&A - Impairment charges/(reversals)	--	--	--	1,798.0	--	--	--	--	--
D&A - Other	--	--	--	(106.0)	--	--	--	--	--
Interest expense - Other	--	--	--	--	(111.8)	--	--	--	--
FFO - Other	--	--	--	--	--	81.1	--	--	--
Total adjustments	8,255.3	3,516.0	1,264.0	2,587.8	704.0	(1,642.4)	(306.3)	(72.5)	(134.0)

Table 3

Reconciliation Of ENGIE SA Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)

S&P Global Ratings' adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditures
Adjusted	40,434.3	39,067.0	9,590.0	5,233.8	1,414.0	7,947.6	7,549.7	2,586.5	6,068.0

FFO--Funds from operations.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-1

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Intermediate
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Moderate (+1 notch)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Exceptional (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Likelihood of government support:** Low (no impact)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued By Corporate Entities And Other Issuers Not Subject To Prudential Regulation, Jan. 16, 2018

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | Industrials: Key Credit Factors For The Engineering And Construction Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Insurance | General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of May 24, 2019)*

ENGIE SA	
Issuer Credit Rating	A-/Stable/A-1
Commercial Paper	A-1
Junior Subordinated	BBB
Senior Unsecured	A-

Ratings Detail (As Of May 24, 2019)*(cont.)	
Issuer Credit Ratings History	
02-Apr-2019	A-/Stable/A-1
30-Apr-2018	A-/Stable/A-2
29-Apr-2016	A-/Negative/A-2
26-Feb-2016	A/Watch Neg/A-1
30-Jul-2014	A/Stable/A-1
Related Entities	
Engie Energia Chile S. A.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB
GIE ENGIE Alliance	
Issuer Credit Rating	A-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.