MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook on Engie and subsidiaries to negative, affirms ratings

05 May 2020

Paris, May 05, 2020 -- Moody's Investors Service, (Moody's) has today changed ENGIE SA's outlook to negative from stable and affirmed the A3 long-term issuer senior unsecured ratings as well as the (P)A3 senior unsecured MTN program rating, the (P)Baa1 subordinated MTN program rating, the Baa2 perpetual junior subordinate debt rating and Prime-2 short-term rating. Moody's has also changed the outlook to negative from stable for ENGIE Alliance, ENGIE Invest International S.A. (EII), Electrabel SA and ENGIE CC. At the same time, Moody's has affirmed the A3 long-term issuer rating for ENGIE Alliance's and EII as well as the Baa1 long-term issuer rating for Electrabel and ENGIE CC. Moody's also affirmed Electrabel's (P)Prime-2 short-term ratings.

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

RATINGS RATIONALE

RATIONALE FOR THE NEGATIVE OUTLOOK

The rapid and widening spread of the coronavirus outbreak, a deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. Although the sector as a whole has reduced its exposure to commodity-driven activities, electricity utilities are facing depressed demand, lower wholesale power prices and operational challenges with elevated political risk as governments seek to shield consumers from the economic fallout. Moody´s regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety.

The negative outlook for ENGIE SA reflects that the coronavirus outbreak will weigh on earnings and increases the risk that, even after mitigation measures, already weak metrics will not recover to levels consistent with the current rating over the next 2-3 years.

Moody's anticipates that ENGIE's operations will be significantly affected by the COVID-19 crisis, taking into account (1) a drop in demand for energy services, gas and electricity since the implementation of lockdown measures, which will drive revenue losses; (2) a c. 12% fall in European forward baseload power prices since the start of March, which will pressure the profitability of ENGIE's mainly fixed-cost nuclear and hydro generation merchant generation; and (3) supply chain disruptions which may slow the development of new renewable capacity and hence anticipated future earnings growth. These headwinds will be mitigated but not offset by the additional cost optimisation measures.

The virus outbreak follows several years of weak financial performance in the context of the rating agency's guidance for ENGIE's current rating. The ratio of funds from operations (FFO) to net debt was 18.1% for 2019, in line with the outcome for 2018 but below guidance for the A3 rating of at least 20%. Key credit metrics were depressed in 2019 by higher net financial debt given that (1) development capital expenditure and dividend payments outpaced cash flow generation as the group pursues its strategic shift towards networks, clients solutions and renewables divisions; and (2) nuclear provisions grew by EUR2.1 bn following a triennial review by Belgian authorities (see Rising Nuclear Provisions Will Weaken ENGIE's Credit Metrics 13 December 2019, https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1207317).

Moody's views the mitigations measures being implemented following the beginning of the coronavirus pandemic, including the dividend cut announced on April 1. 2020 and the postponement of some capital expenditures from 2020 to 2021, as credit positive. The rating agency further acknowledges that Engie benefits from the resilience of cash flows generated by regulated and contracted activities that represented c. 60% of 2019 EBITDA. However, Moody's sees now an elevated risk of FFO/net debt remaining in the high teens in percentage terms over the medium term.

The coronavirus outbreak occurs in the context of some governance turbulence for ENGIE. The early departure of the CEO in February 2020 has led to interim collegial governance which could challenge the group's ability to respond to the crisis and best pursue it strategy. At the same time, and while appointment of a new CEO is not intended to drive any material change in the strategic plan, it seems that the Board will encourage an acceleration of the strategic shift, resulting in higher growth investments and M&A operations, which will in the short term weaken ENGIE's financial metrics.

The change of outlook for ENGIE Alliance and EII follows that for ENGIE SA and reflects the close linkages between the companies and the ultimate parent as described below.

The change of Electrabel's outlook follows that of ENGIE. Like its parent company, Electrabel has faced a declining financial performance over the recent years. FFO/net debt was 23.6% for 2019 compared with an average of 27.5% over 2016-2018. Moody's expects the ratio to recover from 2021 onwards, given ENGIE's commitment to fully fund the nuclear fuel provisions by the end of 2025.

The change of outlook for ENGIE CC follows that of Electrabel and reflects the implied support from ENGIE through Electrabel and EII as intermediate holding companies.

RATIONALE FOR AFFIRMATION OF RATINGS

Affirmation of ENGIE's A3/P-2 ratings reflects the group's scale and diversification, which are illustrated by its leading business positions across the energy value chain in many different markets. These factors limit earnings volatility and, in combination with the progress made by the group under its cost-reduction programme, should continue to offset the negative effects of nuclear outages albeit being reduced, underpinning EBITDA. The group's business risk profile continues to evolve positively as it shifts from commodity-exposed activities and towards contracted and regulated activities.

ENGIE's rating is further supported by its relatively balanced financial policy, reflected by a leverage target of no more than 4.0x Economic net debt/EBITDA.

These positives are balanced by (1) the execution risk associated with growth model and capital redeployment to replace the loss of earnings from asset disposals; (2) the risk of higher capital spending to accelerate the strategic shift towards renewables and client solutions; and (3) the particular governance for a large part of 2020, absent a CEO.

Affirmation of ENGIE Alliance's A3 ratings follows that of ENGIE. As a Groupement d'Interet Economique (GIE), ENGIE Alliance's ratings are aligned with ENGIE's which as a member of the GIE has unlimited joint and several liability for the debt and liabilities incurred by it.

Affirmation of EII's A3 ratings follows that of ENGIE. It reflects (1) EII's importance and core function within ENGIE's financial management, and (2) that EII's obligations and liabilities are guaranteed by ENGIE under a Declaration of Responsibility, which in combination underpin the alignment of EII's rating with that of ENGIE, its ultimate parent.

Affirmation of Electrabel's Baa1/P-2 ratings is based upon (1) its stand-alone credit strength, reflecting its scale and diversification, and its sound capital structure with average funds from operations/net debt of approximately 25% over 2017-2019; and (2) that its rating incorporates a degree of support from its core position within, and importance to, the broader ENGIE group.

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

Liquidity remains excellent in the next 18 months for ENGIE. ENGIE's strong liquidity was supported by EUR13.2 billion of available cash and financial assets and a total of EUR12.1 billion of undrawn confirmed covenant-free credit facilities as of 31 March 2020. These include EUR5.5 billion and EUR5.0 billion syndicated loan facilities maturing in November 2022 and December 2025, respectively. Together with strong cash generation, these sources are sufficient to cover the group's debt maturities (including EUR5.6 billion of commercial paper outstanding as of 31 March 2020 and EUR5.2 billion of other debt maturities), capital spending and expected dividend payments for FY20 over the next 12 months. In addition, Engie issued EUR2.5 billion of bonds at the end of March 2020 to reinforce its cash position.

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 EUR6.4 billion of cash and cash equivalents and marketable securities (excluding restricted cash).

Electrabel's liquidity profile 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

Upward rating pressure is unlikely in the medium term, given the group's negative outlook. Nevertheless, ENGIE's outlook could be stabilised if it appears that the group will be able to maintain metrics in line with guidance for the current rating i.e. FFO/net debt ratio to remain at or above 20% and retained cash flow (RCF)/net debt at least in the midteens in percentage terms.

ENGIE's ratings could be downgraded if credit metrics appear likely to remain below our guidance for the A3 rating on a sustained basis.

ENGIE Alliance's and EII's outlook could be stabilised if that of ENGIE is and the ratings could be downgraded if those of ENGIE are.

Electrabel's ratings are not expected to be upgraded given the negative outlook. The outlook could be stabilised if the outlook of ENGIE is stabilised or it appears likely that Electrabel will improve its financial performance on a sustainable basis.

Electrabel's ratings could be downgraded if (1) Electrabel's operating performance or capitalisation were to further deteriorate; or (2) Electrabel was no longer considered to be financially and operationally integrated within the group as a result of a change in ENGIE's strategy or financial policy.

ENGIE CC's outlook could be stabilised if that of Electrabel is and the rating could be downgraded if those of Electrabel are.

ENGIE is among the largest European integrated utilities, with consolidated revenue of EUR60.1 billion and EBITDA of EUR10.4 billion in 2019. It is also one of the most diversified groups, with substantial assets along the energy value chain, both in Europe and further afield, as well as in energy services. The group is organised by six activity segments as follows: (1) Networks, which mostly comprises gas infrastructure activities in France (39% of the EBITDA in 2019); (2) Thermal generation (17%); (3) Renewables (17%); (4) Client Solutions (18%); (5) Supply (6%); and (6) Nuclear (2%).

The group is listed on Euronext Paris and Euronext Brussels, with a market capitalisation of around EUR23.2 billion at the beginning of May 2020. It is currently 23.64% owned and 34.38% controlled by the French government.

The methodologies used in these ratings were Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1066389, and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: Electrabel SA

.... LT Issuer Rating, Affirmed Baa1

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

..Issuer: ENGIE Alliance

.... LT Issuer Rating, Affirmed A3

.... ST Issuer Rating, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed A3

..Issuer: ENGIE CC

.... LT Issuer Rating, Affirmed Baa1

..Issuer: ENGIE Invest International S.A.

.... LT Issuer Rating, Affirmed A3

..Issuer: ENGIE SA

.... Commercial Paper, Affirmed P-2

....LT Issuer Rating, Affirmed A3

....Junior Subordinated Regular Bond/Debenture, Affirmed Baa2

....Senior Unsecured Medium-Term Note Program, Affirmed (P)A3

....Subordinate Medium-Term Note Program, Affirmed (P)Baa1

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

....Senior Unsecured Regular Bond/Debenture , Affirmed A3

Outlook Actions:

..Issuer: Electrabel SA

....Outlook, Changed To Negative From Stable

..Issuer: ENGIE CC

....Outlook, Changed To Negative From Stable

..Issuer: ENGIE Invest International S.A.

....Outlook, Changed To Negative From Stable

..Issuer: ENGIE SA

....Outlook, Changed To Negative From Stable

ENGIE Alliance

....Outlook, Changed To Negative From Stable

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 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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.

Celine Cherubin
UNKNOWN
Infrastructure Finance Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Neil Griffiths-Lambeth
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE