MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades ENGIE's issuer rating to Baa1; stable outlook

09 Nov 2020

Paris, November 09, 2020 -- Moody's Investors Service (Moody's) has today downgraded to Baa1 from A3 the issuer rating and senior unsecured ratings of ENGIE SA (ENGIE). Concurrently, it has downgraded ENGIE's senior unsecured MTN program rating to (P)Baa1 from (P)A3, the subordinated MTN program rating to (P)Baa2 from (P)Baa1 and the rating of ENGIE's perpetual junior subordinate debt to Baa3 from Baa2.

Moody's has also downgraded to Baa1 from A3 the long-term issuer rating for ENGIE Alliance and ENGIE Invest International S.A. (EII).

Moody's has affirmed Prime-2 short-term ratings for ENGIE and its subsidiaries.

Moody's has also changed the outlook to stable from negative for all entities.

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

RATINGS RATIONALE

Today's rating action reflects Moody's expectation that ENGIE's recently weak credit metrics will not recover to levels consistent with an A3 rating by 2022, despite a likely upturn over the period. This view takes into account (1) the substantial exposure of ENGIE's operations and earnings to the economic fallout of the coronavirus pandemic, as evident in results for the first half of 2020; and (2) high capital investment requirements, including acquisitions, associated with the new strategic shift towards renewables and regulated electricity networks. Moody's expects ENGIE's funds from operations (FFO)/net debt ratio not to exceed the high teens in percentage terms over 2020-22, below the rating agency's minimum guidance for the A3 rating of 20%. Similarly, Moody's forecasts that, with the resumption of dividend payments from 2020, the retained cash flow (RCF) / net debt ratio will remain below guidance of at least in the mid-teens in percentage terms.

ENGIE enjoys relatively stable earnings from its regulated and contracted activities (c. 70% of 2019 EBITDA) but the H1 2020 financial results showed the group's sensitivity to the macro-economic downturn. This is a consequence of the Client Solutions and Supply divisions' exposure to I&C customers. Mitigation measures implemented following the beginning of the coronavirus pandemic, including additional cost reductions and dividend cut, did not offset the severe revenue drop reported by Client Solutions and Supply. In addition, cashflow from the Renewable division did not increase despite EUR3.6 billion of investment over the last 18 months, mainly because a large part is captured by ENGIE's financial partners. Poor H1 results followed several years of weak financial performance, affected in particular by high capital spending and an increase in nuclear provisions in 2019. Moody's expects a recovery from the 2020 low point but also that the pace will not be sufficient to achieve metrics commensurate with an A3 rating over the medium-term.

ENGIE's new strategy targets over EUR8 billion of asset disposals but Moody's anticipates limited deleveraging of the group over the coming 2-3 years. Proceeds will instead be used to finance accelerated renewables development and acquisitions as the group seeks to balance regulated networks between gas and electricity in France and internationally.

Moody's acknowledges that successful implementation of ENGIE's new strategy will simplify the group and the focus on networks and renewables, excluding Client Solutions, will strengthen the risk profile and stability of cashflow generation. However, the transition will take time given (1) the size of the group; (2) the scale of the planned changes, just 18 months after the previous strategy revision; and (3) recent governance turbulence. In addition, ENGIE must still address the future of gas in France, following the government's decision to phase out gas by 2050, and that of nuclear in Belgium, with the partial phase out of 5 out of 7 reactors by 2025 and no visibility about a potential extension for the last two reactors.

The Baa1 rating is supported by the group's scale and diversification given leading business positions across the energy value chain and many different markets. The prevalence of regulated and contracted activities limit earnings volatility and, together with continued progress under the group's cost-reduction programme, should continue to support earnings. The group's focus on contracted and regulated assets, over activities exposed to I&C customers, will benefit its business risk profile over time.

These positives are balanced by the challenges associated with the planned strategic shift including (1) implementation risk of the large and complex disposal programme; and (2) successful capital redeployment to replace lost earnings. The arrival of Catherine MacGregor, expected in January 2021, should establish management stability but the new CEO may also seek to refine the group's strategy. Finally, ENGIE faces the risk of rising nuclear provisions in 2022, following the new triennial revision.

The change of ENGIE Alliance's ratings to Baa1 from A3 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.

The change of EII's rating to Baa1 from A3 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.

LIQUIDITY

Liquidity remains excellent in the next 18 months for ENGIE. ENGIE's strong liquidity was supported by EUR13.1 billion of available cash and financial assets and a total of EUR15.7 billion of undrawn confirmed covenant-free credit facilities as of 30 June 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 EUR5.3 billion of commercial paper outstanding as of 30 June 2020 and EUR2.4 billion of other debt maturities), capital spending and expected dividend payments for FY20 over the next 12 months.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

ENGIE's exposure to environmental risks is predominantly related to the European Union's (EU) target to reduce greenhouse gas emissions by 40% from 1990 levels and to France's energy transition plan which aims to reach carbon neutrality, including phasing out natural gas by 2050.

Moody's believe that ENGIE is moderately well positioned compared with its peers given its remaining exposure to gas-fired generation, albeit mostly located in the Middle East and not in the EU. The exposure to gas fired generation is mitigated by the group's strategy to focus on regulated networks and renewables. In the long term, ENGIE's predominant position in gas transmission and distribution in France will be challenged by France's commitments to exit from gas.

Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety.

ENGIE has experienced some governance turbulence. In February 2020, the CEO stepped down after the board announced that it decided not to renew her mandate. Operational management has subsequently been on an interim collegial basis, pending arrival of a new Chief Executive. Catherine MacGregor is expected to assume the role in January 2021.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that ENGIE's credit metrics will strengthen over the short to medium term, to be in line with the agency's guidance for the Baa1 rating, which includes FFO/net debt in the upper teens in percentage terms and RCF/net debt in the lower teens in percentage terms.

The stable 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 above.

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

Given ENGIE's material strategic shift and associated investment programme, an upgrade is unlikely during the next 18-24 months. Nevertheless, the ratings could be upgraded, provided that credit metrics strengthen towards FFO/net debt at or above 20% and RCF/ net debt in the midteens in percentage terms on a sustainable basis.

Conversely, the rating could be downgraded if its credit metrics remain below our guidance for the Baa1 rating on a sustained basis.

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 accross six segments: (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 EUR25.9 billion at the beginning of November 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

Downgrades:

..Issuer: ENGIE Alliance

.... LT Issuer Rating, Downgraded to Baa1 from A3

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa1 from A3

..Issuer: ENGIE Invest International S.A.

....LT Issuer Rating, Downgraded to Baa1 from A3

..Issuer: ENGIE SA

.... LT Issuer Rating, Downgraded to Baa1 from A3

....Junior Subordinate Regular Bond/Debenture, Downgraded to Baa3 from Baa2

....Subordinate Medium-Term Note Program, Downgraded to (P)Baa2 from (P)Baa1

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa1 from (P)A3

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa1 from A3

Affirmations:

..Issuer: ENGIE Alliance

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

..Issuer: ENGIE SA

.... Commercial Paper, Affirmed P-2

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

Outlook Actions:

..Issuer: ENGIE Alliance

....Outlook, Changed To Stable From Negative

..Issuer: ENGIE Invest International S.A.

....Outlook, Changed To Stable From Negative

..Issuer: ENGIE SA

....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.

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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.

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