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CREDIT OPINION
4 January 2022

Update

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RATINGS

Electrabel SA

Domicile	Brussels, Belgium
Long Term Rating	Baa1
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Electrabel SA

Update to credit analysis

Summary

Electrabel SA's (Electrabel, Baa1 stable) credit profile is supported by 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, especially in Latin America and the Middle East. Commodity risk is mitigated by the substantial portion of contracted activities and a consistent hedging policy. Our assessment also positively reflects the company's relationship with, and importance to, its parent ENGIE SA (ENGIE, Baa1 stable) and our expectation that Electrabel will continue to be capitalised at the current solid levels.

Credit strengths

» Scale and diversification, which mitigate cash flow volatility

» Contracted generation activities, which underpin its business risk profile

» Close financial integration with ENGIE

» Adequate financial policy, with a solid capital structure and ENGIE's financial support to cover Electrabel's commitment to fund a nuclear-dedicated asset portfolio by 2025

Credit challenges

» Earnings from merchant generation in Europe are exposed to power price volatility.

» Belgian authorities impose regular increases in nuclear provisions.

» Any reduction in ENGIE's ownership would imply a lower probability of the parent providing support to Electrabel in case of need and could lead to a more highly leveraged capital structure.

Rating outlook

The stable outlook reflects our expectation that Electrabel will maintain solid financial metrics over 2021-22. Specifically, we expect funds from operations (FFO)/net debt in the high 20s in percentage terms, supported by a more favourable macroeconomic environment; a back-to-normal nuclear plants' availability factor, as illustrated over the last two years; and ENGIE's financial support to cover Electrabel's commitment to fully fund nuclear waste liabilities by 2025. Assuming that the Belgium Nuclear Provisions Commission's (CPN) 2022 triennial revision will not lead to material additional nuclear provisioning, we expect FFO/net debt to exceed the metric average over the last four years.

Factors that could lead to an upgrade

Electrabel's ratings are not likely to be upgraded in the next 18-24 months. The ratings could be upgraded if Electrabel improves its financial performance on a sustained basis and 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, in the absence of greater insulation between the two entities, will likely act as a constraint.

Factors that could lead to a downgrade

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.

Key indicators

Exhibit 1
Electrabel SA

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Moody's 12-18 Months Forward View
(CFO Pre-W/C + Interest) / Interest	4.4x	4.4x	3.2x	3.9x	4.2x	3.8x - 4.2x
(CFO Pre-W/C) / Net Debt	36.6%	28.5%	21.9%	24.9%	30.9%	28% - 32%
RCF / Net Debt	33.9%	25.0%	17.4%	22.9%	22.5%	20% - 24%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Profile

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 the Middle East. It is 100% owned by ENGIE. Electrabel combines most of ENGIE's generation activities, excluding renewables in France and the USA, allocated across several business units. In 2020, Electrabel reported revenue of €15.1 billion and EBITDA of €3.9 billion, compared with €17.3 billion and €4.1 billion, respectively, in 2019.

Detailed credit considerations

Scale and diversification mitigate cash flow volatility

Electrabel's credit quality benefits from its scale (total assets of €65.3 billion as of year-end 2020) and diversification by geography and asset type. In 2020, Electrabel's EBITDA was mainly generated in Latin America (around 50%) and in Europe (around 35%) with the rest of the world representing 15%. The broad geographic footprint should continue to mitigate the impact of earnings volatility in the context of potentially difficult operating environment in one region.

Electrabel owns and controls most of the ENGIE group's generation assets in Europe and international markets, excluding the subsidiary Solairedirect; the newly commissioned renewable assets in France and the US; and the assets allocated to ENGIE's energy services business. Electrabel's installed generation capacity of 52.6 gigawatts (GW) (in consolidated terms) as of year-end 2020 was spread across Europe (43%), Latin America (30%), the Middle East, Africa and Asia (26%), and North America (1%). The company is well diversified within Europe, where it is the leading generator in Belgium and the Netherlands. The scale and diversity of Electrabel's generation asset base also help absorb the impact of adverse operational developments, such as changes in local market frameworks or the impact of unusual weather conditions across the portfolio.

Contracted assets and hedging policy moderate commodity risk ...

Like many European utilities, Electrabel now has limited commodity risk as ENGIE's asset rotation programme has reduced exposure in recent years. There is a substantial earnings contribution from contracted or regulated activities, which we estimate to typically account for around 70% of its EBITDA. Outside Europe, North America and Australia, commodity risk is generally mitigated by contractual arrangements, which secure the generator's future revenue through tailored power purchase agreements. Although each agreement is different, these are generally characterised by lengthy tenors, minimum contractually agreed revenue streams, fuel costs hedged by cost pass-through mechanisms and protection against inflation.

Hedging reduces the commodity risk in merchant markets. The ENGIE group's strategy is to sell forward a substantial proportion of its outright power generation on a three-year rolling basis. For example, as of 30 September 2021, Electrabel had sold forward 72% of its 2022 nuclear output, 54% of its 2023 output and 23% of its 2024 output at average hedged prices of €54/megawatt-hour (MWh), €52/MWh and €55/MWh, respectively, to compare with €46/MWh for 2021. The group benefits from limited flexibility on its hedging, which can limit the hedged portion of future nuclear output if and when power prices decrease over a short period.

The contribution from regulated assets, which is limited and outside Electrabel's core domestic markets, includes gas transportation and distribution businesses in Chile and Mexico. In April 2019, Electrabel also indirectly acquired a 20.1% net interest in Transpotadora Associada de Gas (TAG) in Brazil, which increased to 22.3% in July 2020. TAG owns the largest natural gas transportation network in Brazil, which consists of 4,500 kilometres of gas pipelines representing 47% of the country's gas infrastructure. TAG is remunerated through long-term gas transportation agreements with take-or-pay clauses that are insulated from volume risk and regulated by the Brazilian National Agency for Petroleum (ANP). Current contracts have an average residual duration of around nine years. Following the expiration of the current agreements, a five-year regulated tariff framework will be implemented under the control of the ANP, in respect of the weighted average cost of capital determination, regulated asset base validation and operating expenditure monitoring.

... but nuclear outages since 2018 highlight volume risk until the phaseout by 2025

The operation of Electrabel's 6.1 GW nuclear capacity across seven reactors has been hurt by planned maintenance and unplanned outages since 2018. These incidents had an especially negative impact on the achieved output in 2018, when nuclear availability was just 52% and output 31.4 terawatt-hour (TWh), with a €700-million adverse effect on EBITDA compared with that in 2017. The group's remedial work progressed as planned, and the availability recovered to 79% and output to 41.7 TWh in 2019, leading to a positive EBITDA of €192 million. However, availability was down again in 2020 at 62.6%, corresponding to a production of 32.6TWh, because of outages specific to long-term operations and maintenance deferrals. In the first nine months of 2021, nuclear availability recovered at 92%, resulting from the end of many long-term operations at the same time, which strongly supported the financial performance of the division, with EBIT up by €556 million to €401 million.

The new Belgian government, formed in October 2020, confirmed its commitment to proceed with a gradual nuclear phaseout by 2025. The nuclear reactors operated by Electrabel are planned to be shut down between 2022 and 2025. However, the Belgian government has also commissioned a study on Belgium's future security of electricity supply, which could lead to the extension of two nuclear reactors, Tihange 3 and Doel 4, after 2025 if the security of supply was found to be threatened.

This is very likely to significantly affect the company's operations and profitability in its domestic market, even if Electrabel plans the construction of two CCGTs in Belgium, which are already qualified for market capacity payments.

Solid capital structure as a result of ENGIE's financial policy and upcoming funding of nuclear fuel provision

Electrabel's financial policy is determined by ENGIE and currently provides for a solid capital structure. Electrabel's financial risk profile remained sound in 2020, supported by a fairly stable EBITDA of €3.9 billion from €4.1 billion in 2019, driven essentially by the recent recovery in nuclear operations. FFO/net debt increased in 2020 to 30.9% from 24.9% in 2019, reflecting the start of ENGIE's funding of an asset portfolio dedicated to the financing of nuclear liabilities. Conversely, retained cash flow/net debt slightly decreased to 22.5% in 2020 from 22.9% in 2019, driven by the resumption of dividend payment to its shareholder (€693 million paid in December 2020), on top of regular dividends paid to minority shareholders (€205 million in 2020).

We expect Electrabel to reinforce its financial risk profile over 2021-25, despite its intention to continue to pay regular dividends to ENGIE. This is because ENGIE will financially support Electrabel's commitment to gradually fully finance the unfunded part of its nuclear fuel provision through investments in dedicated assets over 2021-25 (about €7 billion). We note that the Belgian Minister of Energy intends to force Electrabel to fully fund its nuclear dismantling provisions over 2022-30 for about €4.5 billion. This should contribute to almost completely reduce Electrabel's adjusted net debt, which was mostly represented by nuclear provisions net of dedicated assets for €10.8 billion as of December 2020.

We expect ENGIE to maintain its conservative stance towards Electrabel and ensure that it remains solidly capitalised if, for example, nuclear provisioning levels increase again after the next triennial review, which Synatom, Electrabel's subsidiary responsible for managing nuclear provisions, will have to submit to the CPN by 2022. We note that the Belgian Minister of Energy also intends to force Electrabel to limit dividend payment to €1.5 billion per year.

Electrabel is a strategically important to ENGIE, which rules out any divestment

Our assessment of Electrabel's credit standing reflects the company's standalone credit strength and its position as a strategically important entity within ENGIE, given its significant contribution to the group's EBITDA - 42% in 2020. Although the future ownership of Electrabel had been in question in the recent past and the early departure of ENGIE's previous CEO in 2020 has led to a review of the group's operations, ENGIE confirmed its intention to remain the sole shareholder of Electrabel.

We assume that Electrabel's capital structure and credit ratios will continue to be determined by the overall financing strategy of ENGIE, including the latter's support to finance the unfunded portion of nuclear provisions. This will ensure that the company remains solidly capitalised, and the borrowings required for future investments of ENGIE including Electrabel will be centralised at the parent company level, except for where local circumstances and company policy favour the use of financing at the subsidiary or project level.

ESG considerations

Electrabel's exposure to environmental risks is predominantly related to the European Union's target to reduce greenhouse gas emissions by 55% from the 1990 levels and to increase the contribution of renewables to energy demand to 32% by 2030; and the Belgian government's stance vis-à-vis a potential lifetime extension of two nuclear reactors beyond 2025 (out of the seven reactors under operation). Nuclear provisions substantially increased at the end of 2019 and could potentially increase again following the next triennial review in 2022.

Electrabel is moderately well positioned compared with its peers, given its significant exposure to gas-fired generation, which accounts for around half of its installed capacity, mostly located in the Middle East and not in the EU. This risk is mitigated by its strategy to focus on low-carbon power generation, which we expect to provide resilience to both policy direction and the development of potential disruptive technologies. The group has, since 2015, been pursuing a strategy of reducing the carbon intensity of its fleet, with coal representing around 6% of Electrabel's generation capacity, down from around 13% as of year-end 2015.

Electrabel is moderately exposed to social risk, because, similar to European utilities, affordability and environmental issues, combined with the direct involvement of governments and regulators in setting energy policy, drive socially driven policy agendas. The cost to ensure that nuclear facilities are safe, resulting from stricter safety standards, is significant for Electrabel.

Electrabel's exposure to governance risk is moderately negative, reflecting a concentrated ownership structure, mitigated by a solid financial policy and parent company's financial support to fund future nuclear liabilities.

Liquidity analysis

Electrabel's liquidity is based primarily on its strong cash generation and its substantial holdings of cash and marketable securities. As of 31 December 2020, Electrabel had €7.4 billion of cash and cash equivalents and marketable securities (excluding restricted cash).

Electrabel'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; and as owner of two significant ENGIE treasury vehicles. We expect ENGIE to manage intragroup cash flow so as to ensure that Electrabel comfortably meets its funding needs. Electrabel notably held a €11.8 billion pool of long-term receivables against ENGIE by year-end 2020.

Methodology and scorecard

Electrabel is rated in accordance with our Unregulated Utilities and Unregulated Power Companies rating methodology, published in May 2017. The actual rating of Baa1 is lower than the forward-looking scorecard-indicated outcome of A3, reflecting the constraint of Baa1 parent rating of ENGIE.

Exhibit 2
Rating factors
Electrabel SA

Unregulated Utilities and Unregulated Power Companies Industry Grid [1][2]	Current FY 12/31/2020		Moody's 12-18 Month Forward View As of December 2021 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (USD Billion)	Aa	Aa	Aa	Aa
Factor 2 : Business Profile (40%)				
a) Market Diversification	Aaa	Aaa	Aaa	Aaa
b) Hedging and Integration Impact on Cash Flow Predictability	A	A	A	A
c) Market Framework & Positioning	A	A	A	A
d) Capital Requirements and Operational Performance	Baa	Baa	Baa	Baa
e) Business Mix Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	3.7x	Ba	3.8x - 4.2x	Ba / Baa
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	25.7%	Baa	28% - 32%	Baa
c) RCF / Net Debt (3 Year Avg)	21.0%	Baa	20% - 24%	Baa
Rating:				
a) Scorecard-Indicated Outcome		A3		A3
b) Actual Rating Assigned				Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2019. [3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 3

Category	Moody's Rating
ELECTRABEL SA	
Outlook	Stable
Issuer Rating -Dom Curr	Baa1
Other Short Term -Dom Curr	(P)P-2
PARENT: ENGIE SA	
Outlook	Stable
Issuer Rating	Baa1
Sr Unsec Bank Credit Facility -Dom Curr	Baa1
Senior Unsecured	Baa1
Subordinate MTN -Dom Curr	(P)Baa2
Commercial Paper	P-2
Other Short Term -Dom Curr	(P)P-2
ENGIE CC	
Outlook	Stable
Issuer Rating	Baa1
ENGIE INVEST INTERNATIONAL S.A.	
Outlook	Stable
Issuer Rating -Dom Curr	Baa1

Source: Moody's Investors Service

Moody's related publications

Credit Opinion

» ENGIE SA, 9 July 2021

Press Release

» Moody's changes outlook on Electrabel to stable, affirms ratings, 9 November 2020

» Moody's downgrades ENGIE's issuer rating to Baa1; stable outlook, 9 November 2020

Issuer Comments

» Acquisition of 40% share in EDP's hydro assets in line with strategy, modest weakening of financial metrics, 20 December 2019

» Rising Nuclear Provisions Will Weaken ENGIE's Credit Metrics, 13 December 2019

Sector In-Depth

» Europe's electricity markets: In Europe, high energy prices will not derail theenergy transition, 30 November 2021

» Europe's electricity markets: In France, the rise in power prices and decarbonisationtargets will support new nuclear capacity, 30 November 2021

» Europe's electricity markets: In Europe, the energy transition is accelerating, 19 October 2020

» Europe's electricity markets - France: In France, concerns around nuclear availability highlight need to make renewables transition, 14 October 2020

» Non-financial Corporates - France: Bond issuance in 2020 to ease from record high, while credit quality weakens, 16 January 2020

» Corporate government-related issuers (GRI) - France Government ownership and support for some GRIs will likely decline over time, 19 October 2018

Industry Outlook

» 2022 outlook stable as intervention risk, high capex overshadow earnings growth, 9 December 2021

» Unregulated electric and gas utilities - Europe: Higher energy prices raise affordabilityconcerns and political risk, 7 October 2021

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