S&P Global Ratings

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Tear Sheet:

Engie

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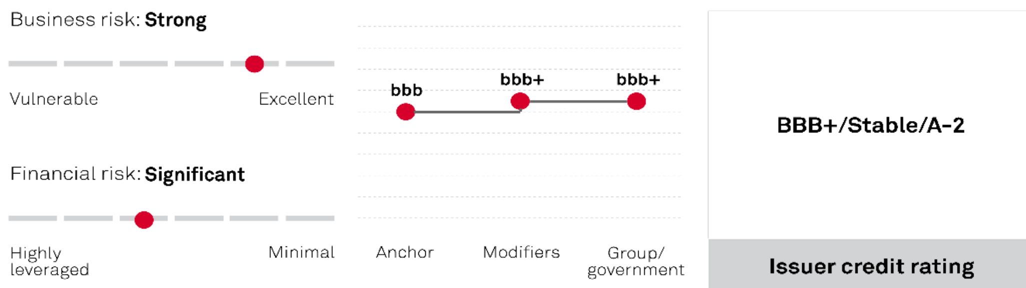
S&P Global Ratings expects Engie S.A.'s EBITDA to normalize in 2023 after exceptional performance in 2022. Engie reported strong first-quarter 2023 performance, with locked-in prices from 2022 and over-performance from energy management activities, while asset optimization and risk management supported its other business lines. This follows extraordinary 2022 EBITDA growth of 27% year on year to €13.7 billion, equivalent to €12.9 billion adjusted EBITDA, thanks to an exceptional contribution from its trading and generation earnings (renewable ramp up, nuclear production, and high thermal spread). We expect S&P Global Ratings-adjusted EBITDA will decline to about €12.6 billion in 2023, driven by the expected reduction in energy prices, a lower clean spark spread (net revenue from selling power), and reduced volatility. These factors should normalize global energy management and sales (GEMS) and conventional generation performance; combined with inframarginal price caps and solidarity taxes in France, Italy, and Belgium that should negatively affect thermal generation EBITDA by about €1.0 billion.

Engie will maintain some rating headroom over 2023-2025 despite accelerated capital expenditure (capex). At year-end 2022, economic net debt to EBITDA reduced to 2.8x, equivalent to S&P Global Ratings-adjusted debt of 3.2x, which was below our expectation of 3.8x and down from 3.6x in 2021. This was mainly achieved thanks to strong EBITDA growth and completion of the €11.0 billion disposal program in 2022 that led to almost flat economic net debt of €38.8 billion by year-end 2022 compared to 2021. Therefore, we expect funds from operations (FFO) to debt will be sustained at about 20%-22% over 2023-2025, down from 24.8% in 2022 but leaving some headroom compared to our 18% threshold for the 'BBB+' rating. S&P Global Ratings-adjusted net debt is expected to increase toward about €53 billion in 2025, mainly due to a capex increase (averaging €7.6 billion per year), contributions to the nuclear fund and phase-out costs (averaging €3 billion per year), and anticipated negative discretionary cash flow of about €3.4 billion annually.

Engie's EBITDA growth is fueled by the ramp up of renewable installed capacity. We view positively the high growth rate of Engie's renewable segment, developed in low-risk countries with largely contracted features. Under its 2023-2025 strategy, Engie presented a strong acceleration of growth capex by up to 50% to €22 billion-€25 billion versus €13.7 billion over 2021-2023, notably driven by a continuous acceleration in renewables ramp up (about 55% of total growth capex). Engie targets 50 gigawatts (GW) of capacity installed in 2025 and 80 GW in 2030 versus 38 GW at year-end 2022 (at 100% ownership), the majority of which is contracted through long-term power purchase agreements (PPAs). This is supported by an 80 GW pipeline. In 2022, renewables EBIT was up 19.1% year on year to €1.6 billion, thanks to 3.9 GW of new capacity installed and volume and price effects. We expect the capacity ramp-up to increase to 4 GW annually over 2023-2025. The contribution to 2023-2025 EBIT from new capacity commissioned should amount to €1.5 billion, as per our estimate.

We expect Engie to maintain a conservative financial policy and strong liquidity and risk management. The company reaffirmed its dividend policy with a payout of 65%-75% and leverage target of economic net debt to EBITDA below or equal to 4.0x. We do not expect large debt-funded acquisitions over the plan period. Liquidity is supported by the reversal of margining requirements and solid support from the undrawn €12.6 billion of credit lines

Ratings Score Snapshot



Recent Research

- Industry Top Trends 2023: EMEA Utilities, Jan. 23, 2023
- French Utility Engie's Proposed Hybrid Bond Buyback Does Not Affect Remaining Hybrids' Equity Content, Oct. 12, 2022
- Engie S.A., Aug. 17, 2022
- French Utility Engie Affirmed At 'BBB+/A-2' On Solid Financial Ratios, Supportive Financial Policy; Outlook Stable, April 22, 2022

Company Description

With the disposal of its upstream activities in oil and gas exploration and production and liquefied natural gas (LNG), Engie is now focusing on renewable power generation, gas and power infrastructure, and asset-backed energy services following the 2022 disposal of asset-light client solutions activities of EQUANS. The group's strategic plan is to increase the share of long-term contracted energy activities, while maintaining a stable share of regulated networks at about 35%. Engie notably operates the regulated French gas distribution and transmission networks, as well as downstream storage infrastructures.

Overall, the group's regulated asset base (RAB), in France and internationally, is expected to reach €39 billion in 2025, compared to €36 billion in 2022. In addition, in 2022, Engie had installed generation capacity of over 102.7 GW at 100%, or 63 GW in consolidation, of which 39% was in Europe, 19% in Latin America, 37% in the Middle East, Asia, and Africa, and 5% in North America.

The generation portfolio is mostly natural gas, the share of which is gradually decreasing in favor of renewable development, (38% in percentage of consolidation), hydro (25%), wind (14%), nuclear (8%), solar (6%), and coal (3%), other non-renewables (5%), and other renewables (1%).

Engie also benefits from a large and broad customer base, including 6.2 million residential gas contracts (60% market share) and 5 million electricity contracts in France (roughly 15% market share) at year-end 2022. The group is a world leader in energy services. It generated almost €879 million of EBITDA in energy solutions in 2022 and €258 million in supply.

Engie reported revenue of €93.86 billion and EBITDA of €13.7 billion for the year to Dec. 31, 2022. 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 more than €35.8 billion as of May 2023. The French government owns 23.64% of the company and holds 33.56% of the voting rights.

Outlook

The stable outlook reflects our expectation that Engie will manage the effects of extreme market volatility linked to the Russia-Ukraine conflict thanks to its strong liquidity position, but also benefit from structurally higher power prices.

Execution risk has significantly reduced through the completion of a large part of its disposal program, which resulted in some debt reduction in 2022 and ensure the adjusted FFO-to-net debt ratio remains comfortably above 18%.

Downside scenario

We could lower the rating if FFO to debt sustainably falls below 18% or if the group's market or business strengths reduce.

Downside could also arise due to a major energy market shock prompting acute price volatility (like in 2022) and potentially hard-to-predict adverse financial effects for the group. We currently see Engie as prepared for such a scenario but equally assume some regulatory or governmental intervention to prevent a sharp energy bill increase. For instance, an uncontained surge in margin-call requirements, the lack of timely mitigating measures by the states and/or the EU to manage gas scarcity, and extra costs related to securing LNG imports, could materially hamper the group's earnings.

In addition, high energy prices expose the group to adverse regulatory measures, such as an extension to the French gas regulated-tariff freeze, limiting its ability to capture extra profits and most likely leading to additional negative working capital movements.

Other downside risks could stem from increased risk exposure in its Belgian nuclear operations and related failure to transition its earnings profile away from nuclear generation by 2025.

In the longer term, increased uncertainty on the role of gas infrastructure in France through an unsupportive public policy and regulatory framework could also pressure the rating.

Upside scenario

We see rating upside as less likely given the increased market risks but also the need to gain more visibility on Engie's future business mix and profitability in 2025, and the continued role of gas in France.

Reduced responsibility for nuclear liabilities and a clear strategy for its Belgian nuclear activities, including benefits and risk sharing for any life extensions on two of the seven reactors, could also benefit the group's credit quality.

These scenarios would need to combine with stronger credit metrics, specifically FFO to net debt staying comfortably above 21%.

Key Metrics

Engie S.A.--Key Metrics*

Mil. €	2021a	2022a	2023e	2024f	2025f
EBITDA	10,203	12,967	12,500-12,800	13,600-13,900	14,200-14,500
Funds from operations (FFO)	8,794	10,450	9,500-9,700	10,900-11,200	11,300-11,600
Capital expenditure	5,895	6,226	8,500-9,500	11,500-11,500	10,500-11,500
Dividends	1807	2,620	3,300-3,500	3,200-3,400	3,400-3,600
Debt	43,051	42,089	45,000-45,200	49,500-49,700	52,600-52,800
Debt to EBITDA (x)	4.2	3.2	3.5-3.7	3.5-3.7	3.6-3.8
FFO to debt (%)	20.4	24.8	21.0-22.0	22.0-23.0	22.5-23.5

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Financial Summary

ENGIE SA--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	65,029	60,596	60,058	55,751	57,866	93,865
EBITDA	9,244	9,590	10,299	8,903	10,203	12,967
Funds from operations (FFO)	7,276	7,948	8,844	7,503	8,795	10,450
Interest expense	1,676	1,414	1,499	1,477	1,545	1,806
Cash interest paid	1,108	967	940	832	840	1,013
Operating cash flow (OCF)	8,517	7,550	7,415	6,888	6,102	7,643
Capital expenditure	5,675	6,068	6,418	5,012	5,895	6,226
Free operating cash flow (FOCF)	2,842	1,482	997	1,876	207	1,417

ENGIE SA--Financial Summary

Discretionary cash flow (DCF)	(97)	(1,105)	(2,801)	1,318	(1,601)	(1,577)
Cash and short-term investments	8,790	8,579	10,433	12,912	13,718	15,558
Gross available cash	9,898	9,732	10,887	13,488	14,268	16,262
Debt	41,382	40,434	46,866	42,791	43,051	42,090
Common equity	41,013	39,067	36,081	31,817	40,096	37,589
Adjusted ratios						
EBITDA margin (%)	14.2	15.8	17.1	16.0	17.6	13.8
Return on capital (%)	6.1	6.5	7.3	5.5	6.4	10.6
EBITDA interest coverage (x)	5.5	6.8	6.9	6.0	6.6	7.2
FFO cash interest coverage (x)	7.6	9.2	10.4	10.0	11.5	11.3
Debt/EBITDA (x)	4.5	4.2	4.6	4.8	4.2	3.2
FFO/debt (%)	17.6	19.7	18.9	17.5	20.4	24.8
OCF/debt (%)	20.6	18.7	15.8	16.1	14.2	18.2
FOCF/debt (%)	6.9	3.7	2.1	4.4	0.5	3.4
DCF/debt (%)	(0.2)	(2.7)	(6.0)	3.1	(3.7)	(3.7)

Peer Comparison

ENGIE SA--Peer Comparisons

	Engie S.A.	Electricite de France S.A.	Enel SpA	Iberdrola S.A.	SSE PLC
Foreign currency issuer credit rating	BBB+/Stable/A-2	BBB/Stable/A-2	BBB+/Negative/A-2	BBB+/Stable/A-2	BBB+/Positive/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	BBB/Stable/A-2	BBB+/Negative/A-2	BBB+/Stable/A-2	BBB+/Positive/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2021-12-31	2021-12-31	2021-12-31	2022-03-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	93,865	84,461	86,159	39,114	10,186
EBITDA	12,967	17,456	14,676	11,072	2,330
Funds from operations (FFO)	10,450	13,413	11,012	9,258	1,831
Interest	1,806	(621)	3,265	1,629	476
Cash interest paid	1,013	1,768	1,819	982	372
Operating cash flow (OCF)	7,643	11,150	10,155	6,954	1,892
Capital expenditure	6,226	17,045	12,201	7,181	1,672
Free operating cash flow (FOCF)	1,417	(5,896)	(2,047)	(227)	220
Discretionary cash flow (DCF)	(1,577)	(6,419)	(7,186)	(2,970)	(948)
Cash and short-term investments	15,558	22,458	8,780	4,045	1,242
Gross available cash	16,262	22,203	8,780	4,146	1,242

ENGIE SA--Peer Comparisons

Debt	42,090	74,843	70,374	44,488	9,933
Equity	37,589	55,857	39,935	52,001	10,840
EBITDA margin (%)	13.8	20.7	17.0	28.3	22.9
Return on capital (%)	10.6	5.3	9.9	8.1	8.4
EBITDA interest coverage (x)	7.2	(28.1)	4.5	6.8	4.9
FFO cash interest coverage (x)	11.3	8.6	7.1	10.4	5.9
Debt/EBITDA (x)	3.2	4.3	4.8	4.0	4.3
FFO/debt (%)	24.8	17.9	15.6	20.8	18.4
OCF/debt (%)	18.2	14.9	14.4	15.6	19.0
FOCF/debt (%)	3.4	(7.9)	(2.9)	(0.5)	2.2
DCF/debt (%)	(3.7)	(8.6)	(10.2)	(6.7)	(9.5)

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

- Climate transition risks	- N/A	- N/A

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit rating analysis of Engie, although we note the company's progress in managing its environmental risks since 2015 through an in-depth transformation. On its path to net-zero emissions by 2045 across all scopes, Engie plans to reduce its carbon intensity with a target to reach 230 grams of carbon dioxide equivalent per kilowatt hour (g CO2 eq./kWh) in 2025, then 158g CO2 eq./kWh in 2030, from 240g/KWh in 2021 (excluding Equans) and its greenhouse gas (GHG) emissions from energy production to 43 million tons of carbon dioxide equivalent (MtCO2e) in 2030 from 67 MtCO2e in 2021. These targets should be facilitated by the group's coal exit plan and larger share of renewables in the mix, even if they remain ambitious given that Engie's carbon intensity remains higher than best-in-class peers, such as Iberdrola, Orsted, and EDP.

The company's nuclear operations in Belgium also pose several challenges related to the future of long-term nuclear waste storage, with increasing liabilities net of dedicated assets (€12.5 billion at year-end 2022 from €9.6 billion in 2021) to reflect the regulatory triennial revision in Belgium.

Social risks are increasing in France in the context of affordability pressures building on rising energy prices. The government announced a gas tariff freeze to retail customers under fixed price contracts or regulated tariffs applied between Jan. 1, 2022, and Dec. 31 2022, and a 15% cap on increases in tariffs for households for 2023. Although this will entail a working capital burden for the group, it will not trigger a loss and it should be recovered progressively by subsequent tariff increases or be compensated by the state through the "public service charges for energy" mechanism, therefore limiting the financial impact. We also positively note that the group is taking action to support affordability, with the introduction of two new schemes: an extra €100 to 880,000 of its customers that already receive energy vouchers, for a total of €90 million; and a €60 million fund to help small and midsize companies in the current situation.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Stable/A-2
Local currency issuer credit rating	**BBB+/Stable/A-2**
Business risk	**Strong**
Country risk	Low
Industry risk	Intermediate
Competitive position	Strong
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bbb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	**bbb+**

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010