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INVESTORS SERVICE

CREDIT OPINION
12 September 2023

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 quality is supported by the scale and breadth of its operations, which include leading positions in power generation and supply in its core markets of Belgium and the Netherlands, as well as a strong international presence, especially in Latin America and the Middle East. The sizeable portion of its contracted activities and a consistent hedging policy mitigate commodity price risk. Our assessment also factors in the company's relationship with, and importance to, its parent ENGIE SA (ENGIE, Baa1 stable), and our expectation that Electrabel will maintain its capitalisation at the current solid levels over the next 18-24 months.

Credit strengths

» Scale and diversification, which mitigate cash flow volatility

» Sizeable contracted generation activities, which underpin its business risk profile

» Close financial integration with ENGIE

» Adequate financial policy, with a solid capital structure and financial support from ENGIE 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

» Imposition of regular increases in nuclear provisions by the Belgian authorities, although the risk is reduced by the interim agreement signed with the Belgian government in June 2023

» 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 2023-25. Specifically, we expect funds from operations (FFO)/net debt in 2024-25 to exceed the metric average over 2018-22, supported by a high power price environment; a normalised availability factor for nuclear plants, as illustrated over 2020-22; and ENGIE's financial support to cover Electrabel's commitment to fully fund nuclear waste liabilities by 2025.

Factors that could lead to an upgrade

We are not likely to upgrade Electrabel's ratings in the next 18-24 months. The ratings could be upgraded if Electrabel improves its financial performance on a sustained basis. 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

We could downgrade Electrabel's ratings if the company's operating performance or capitalisation were to deteriorate and were not offset by support from ENGIE, 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-18	Dec-19	Dec-20	Dec-21	Dec-22	Moody's 12-18 Months Forward View
(CFO Pre-W/C + Interest) / Interest	3.2x	3.9x	4.2x	4.9x	3.1x	2.5x - 3.5x
(CFO Pre-W/C) / Net Debt	21.9%	24.9%	29.5%	43.8%	26.6%	35% - 45%
RCF / Net Debt	17.4%	22.9%	21.5%	40.8%	17.0%	20% - 30%

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

Profile

Electrabel SA is a leading power utility in the Benelux and globally, with a strong position in its core markets of Belgium (Aa3 stable) and the Netherlands (Aaa stable), 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 power generation activities, excluding essentially renewable generation assets in the US as well as renewables and gas-fired power plants in France (Aa2 stable), allocated across several business units. In 2022, Electrabel reported revenue of €43.6 billion and EBITDA of €5.6 billion, compared with €21.9 billion and €4.8 billion, respectively, in 2021.

Detailed credit considerations

Scale and diversification mitigate cash flow volatility

Electrabel's credit quality benefits from its scale (total assets of €104.5 billion as of year-end 2022), and diversification by geography and asset type. In 2022, Electrabel's EBITDA was mainly generated in Europe (around 60%) and Latin America (around 33%), with the rest of the world representing 7%. The broad geographic footprint is likely to continue to mitigate the impact of earnings volatility in the context of a potentially difficult operating environment in one region.

Electrabel owns and controls most of the ENGIE group's power generation assets in Europe and international markets, excluding essentially renewable assets in the US as well as gas-fired and renewable power plants in France; and the assets allocated to ENGIE's energy services business. As of year-end 2022, Electrabel's installed generation capacity of 48.4 gigawatts (GW) (in consolidated terms) was spread across Europe (44%), Latin America (32%), the Middle East, Africa and Asia (23%), 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 mitigate commodity price risk ...

Similar to many European utilities, Electrabel currently has limited commodity price risk as ENGIE's asset rotation programme has reduced exposure in recent years. Contracted or regulated activities contribute substantial earnings, which we estimate to typically account for around 70% of its EBITDA. Outside Europe, North America and Australia, commodity price 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 price 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 June 2023, the group had sold in advance 89% of its 2023 nuclear and hydro output, 61% of its 2024 output and 22% of its 2025 output at average hedged prices of €99/megawatt-hour (MWh), €129/MWh and €155/MWh, respectively. The group benefits from limited flexibility on its hedging, which can limit the hedged portion of the 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 (A2 stable) and Mexico (Baa2 stable). In April 2019, Electrabel also indirectly acquired a 20.1% net interest in Transpotadora Associada de Gas (TAG) in Brazil (Ba2 stable), 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, accounting for 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. Current contracts have an average residual duration of around eight years.

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

Over 2018-22, Electrabel's nuclear output was volatile because of unplanned outages and maintenance deferrals. Electrabel's nuclear availability recovered in 2021 and 2022 at 92% and 84%, respectively, from 63% in 2020.

Despite an estimated €1.1 billion EBIT impact from the Belgian nuclear tax and inframarginal rent cap, nuclear activities benefitted from high power prices, with EBIT up by 6.9% in 2022 to €1.0 billion. We expect the EBITDA contribution from nuclear power generation to increase by 2024-25 from the 2022 level, despite the gradual phaseout that started in September 2022, as a result of higher hedged prices.

Electrabel remains exposed to risks of further nuclear liabilities increases in Belgium, as demonstrated in December 2022, when the Belgian Commission for Nuclear Provisions concluded its triennial revision with a €3.3 billion increase in provisions for the dismantling of nuclear power plants and nuclear waste treatment (see Higher Belgium nuclear provisions and inframarginal rent cap are credit negative, 22 December 2022). In June 2023, the Belgian government signed an interim agreement with ENGIE to extend the lifetime of ENGIE's two youngest nuclear reactors in Belgium (Tihange 3 and Doel 4) by ten years. This agreement, if implemented, would raise ENGIE's and Electrabel's economic net debt by €4.5 billion, but at the same time eliminate both companies' exposure to the risk of a further increase in nuclear waste liabilities (see Agreement with Belgian government would de-risk ENGIE's nuclear waste exposure at the expense of credit headroom, 30 June 2023). The agreement will not affect the scheduled phaseout of Electrabel's other three reactors in the country in 2025, which will significantly reduce Electrabel's operations and earnings contribution from Belgium.

Electrabel is constructing an 890 MW combined cycle gas turbine in Belgium, which is already qualified for market capacity payments over 15 years, starting in 2025.

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

Electrabel's financial policy is determined by ENGIE and currently supports a solid capital structure. Electrabel's financial risk profile remained sound in 2022, supported by EBITDA of €5.6 billion, up 17% from 2021, driven essentially by favourable high power prices across all power generation activities and improved nuclear availability. Its FFO/net debt and retained cash flow/net debt dropped in 2022 to 26.6% and 17%, respectively, from 43.8% and 40.8% in 2021, mainly resulting from a €3.3 billion increase in nuclear provision following the triennial review in Belgium and higher dividends paid.

We expect Electrabel to reinforce its financial risk profile over 2023-25, 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 2023-25. The Belgian Minister of Energy requires Electrabel to fully fund its nuclear dismantling provisions over 2023-30 for about €4.5 billion. This should contribute to a significant reduction in Electrabel's Moody's-adjusted net debt, which was mostly represented by nuclear provisions net of dedicated assets of €12.2 billion as of December 2022. If implemented, the nuclear agreement signed in June 2023 would increase adjusted net debt by €4.5 billion, but still allow for an improvement in Moody's-adjusted FFO/net debt over 2024-25 from the 2022 levels.

We expect ENGIE to maintain its conservative stance towards Electrabel and ensure that it remains well capitalised. Also, the Belgian Commission for Nuclear Provisions currently requires to approve any capitalistic decision (including dividend payment) by Electrabel exceeding €1.5 billion per year.

Under the agreement signed by ENGIE in June 2023, certain restrictions on international assets currently held by Electrabel would be lifted. This would allow Engie to increase control and organizational flexibility over non-European activities while focusing Electrabel on its European scope, following the de-risking of Electrabel's nuclear waste exposure after payment of the lump sum caps on nuclear fuel and waste liabilities.

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

Our assessment of Electrabel's credit quality 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 — 41% in 2022. Although the future ownership of Electrabel had been uncertain in the past, ENGIE confirmed its intention to remain the sole shareholder of Electrabel.

We assume that the overall financing strategy of ENGIE will continue to determine Electrabel's capital structure and credit ratios, including support to finance the unfunded portion of nuclear provisions. This will ensure that the company remains well 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 SA's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 2
ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Electrabel's **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating, with potential for greater negative impact over time. Its score reflects high environmental risks, moderate social and governance risks, and its full ultimate ownership by ENGIE (CIS-3).

Exhibit 3
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-4	S-3	G-3
Highly Negative	Moderately Negative	Moderately Negative

Source: Moody's Investors Service

Environmental
Electrabel's **E-4** score reflects the group's high exposure to waste and pollution risks, given the group's responsibility for nuclear liabilities (€19 billion as of December 2022) which still materially exceed the dedicated asset portfolio (€6.6 billion), and because of the high likelihood of an additional increase in costs associated with Belgian nuclear liabilities, although the risk is reduced by the interim agreement signed with the Belgian government in June 2023. The score also captures a moderate exposure to carbon transition risk, as a result of the predominance of gas in the generation mix (47%), albeit mainly located in Middle East. Exposure to physical climate risks is also moderate to incorporate the group's exposure to hydro conditions in Latin America and risks associated with potential floods in the Walloon region where Electrabel operates power stations.

Social
Electrabel's **S-3** score reflects the fundamental utility risk that demographics and societal trends could include public concerns over affordability. These pressures could turn into adverse political intervention, as evidenced by the implementation of a tax on nuclear in Belgium to moderate the affordability burden. This also includes nuclear and gas exposures and associated risk to public health.

Governance
Electrabel's **G-3** score reflects risks related to board structure, policies and procedure, given concentrated ownership (fully owned by ENGIE) and the large control and oversight exercised by its parent company. However, these risks are moderated by neutral to low risks related to financial strategy and risk management, management credibility and track record, organizational structure, and compliance and reporting.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis
Electrabel's liquidity is based primarily on its strong cash generation and substantial holdings of cash and marketable securities. As of 31 December 2022, Electrabel had €7.7 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 the 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 €12.7 billion pool of long-term receivables from ENGIE as of year-end 2022.

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 one notch lower than the scorecard-indicated outcome of A3, reflecting the constraint from the credit quality of its parent company ENGIE.

Exhibit 4

Rating factors
Electrabel SA

Unregulated Utilities and Unregulated Power Companies Industry Grid [1][2]	Current FY 12/31/2022		Moody's 12-18 Month Forward View As of July 2023 [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)	3.8x	Ba	2.5x - 3.5x	Ba
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	32.0%	Baa	35% - 45%	A
c) RCF / Net Debt (3 Year Avg)	24.6%	Baa	20% - 30%	A
Rating:				
a) Scorecard-Indicated Outcome		A3		A3
b) Actual Rating Assigned				Baa1

[1] All ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2022. [3] This represents our 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 5

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 -Fgn Curr	A3
Senior Unsecured -Dom Curr	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, 13 July 2023

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

» ENGIE SA: Agreement with Belgian government would de-risk ENGIE's nuclear waste exposure at the expense of credit headroom, 30 June 2023

» ENGIE SA: Higher Belgium nuclear provisions and inframarginal rent cap are credit negative, 22 December 2022

Sector In-Depth

» In Europe, Tight supply will keep power prices high and prompt further government intervention, 16 November 2022

Industry Outlook

» Unregulated electric & gas utilities – Europe: 2023 Outlook moves to stable as energy market normalises, 28 June 2023

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