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Ratings

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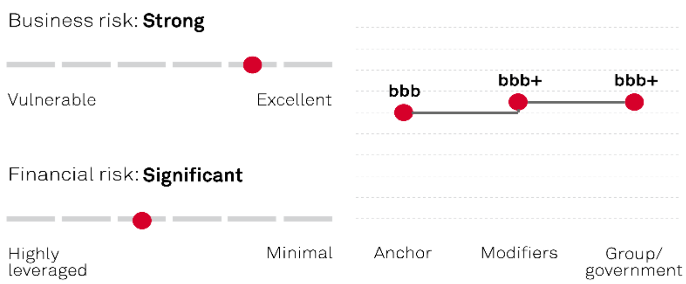
Engie S.A.

November 23, 2023

Ratings Score Snapshot



BBB+/Stable/A-2

Issuer credit rating

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Credit Highlights

Overview

Key strengths	Key risks
Large global integrated utility, with significant business and geographic diversity and reported EBITDA of €13.7 billion in 2022.	High exposure to gas (power generation, networks, midstream and supply, together more than 40% of EBITDA) with an evolving role in the energy transition.
About 30% of 2023-2025 EBITDA from purely regulated gas infrastructure (transmission, distribution, storage, and Liquified Natural Gas [LNG] terminals), mainly in France, with a very supportive regulatory framework, contributing to cash flow predictability.	Exposure to more volatile energy trading activities of Engie's Global Energy Management & Sales (GEMS) (approximately 18% of EBITDA in 2022) and a diminishing contribution from purely regulated earnings in the mix (30% in 2023-2025 from 40% in 2021) while contracted remuneration from energy solutions and renewable growth should gradually increase.
A sizable share of operations (more than 20% of 2023-2025 EBITDA) is contracted (with a greater than five-year residual life), and Engie targets 50 gigawatts (GW) of renewable capacity by 2025 (from 38.6 GW on Q3 2023) and 80 GW by 2030 (70% contracted).	Exposure to fast-growing, but historically volatile, emerging markets, with a substantial presence in Latin America (15% of 2022 EBITDA).
Rating headroom supports organic and inorganic growth, with adjusted funds from operations (FFO) to debt easily exceeding the 18% threshold for the rating over 2023-2025.	Negative discretionary cash flows and increase in debt over 2023-2025 because of an increase in investments (€32 billion in 2023-2025) and dividends (€10 billion in 2023-2025).

Supportive financial policy targeting economic net debt to EBITDA below 4x (equivalent to adjusted FFO to debt well above 18%) and proven flexibility and track record in terms of dividend policy, along with strong liquidity maintained over the last 18 months.

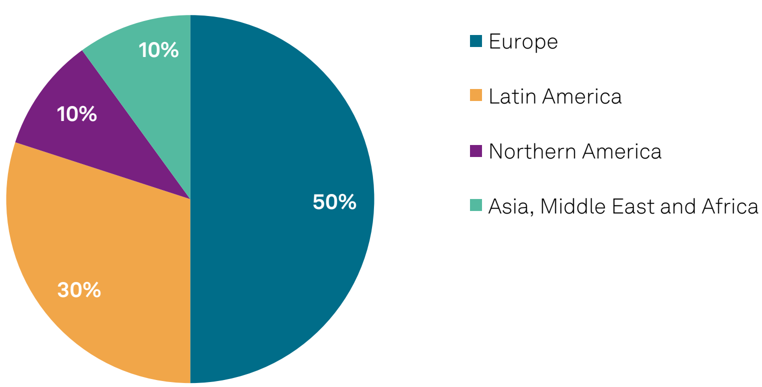
We expect Engie's large scale and integrated and diversified business mix will remain key strengths amid the group's green transition. Engie is Europe's third-largest utility based on its €12.7 billion 2022 S&P Global Ratings-adjusted EBITDA, close to Iberdrola's €12.4 billion and smaller than EDF's and ENEL's, at about €17 billion each. It is within the top three based on its generation installed capacity with 100 GW as of year-end 2022 (full consolidation, or 64 GW in percentage of consolidation) compared with EDF's 117 GW, Enel's 85 GW, and Iberdrola's 61 GW. Engie's generation mix includes thermal (mostly gas 45.1 GW--in percentage of consolidation as of June 2023--and some residual 2.1 GW coal), hydro (24.7 GW), wind (13.5 GW, mostly onshore), solar (3.7 GW), nuclear (1.3 GW), and biomass and biogas plants.

The company is geographically well diversified across 30 countries, primarily France (41% of 2022 EBITDA, excluding its trading business line GEMS), the rest of Europe (35%) and Latin America (18%, mostly Chile and Brazil). Renewables and thermal assets are well dispersed geographically, which partly smooths price conditions, even if most are exposed to the European correlated price market. We expect this diversification to increase as the company invests heavily in the U.S. and Latin America.

This scale and diversification allow Engie to cope with downside volume risk (volatile hydro conditions, nuclear outages, etc.) or downturns in specific markets compensated by the rest of the group. For example, during the 2022 energy crisis, renewable and energy trading overperformance compensated the lower profitability of the gas-based generation and retail businesses, while gas storage and liquid natural gas (LNG) regasification activities revealed themselves to be strategic regulated assets. The latter's short-term expansion is considered core to ensuring security of supply in Europe and reinforces Engie's regulated asset base and earnings. Engie's presence in both generation and retail activities is a key strength amid a volatile price environment as it offers a partial hedge to a profitability squeeze.

Renewable growth reinforces Engie's geographic diversification

About 50% of 2023-2025 renewable growth capex will be invested ouside of Europe



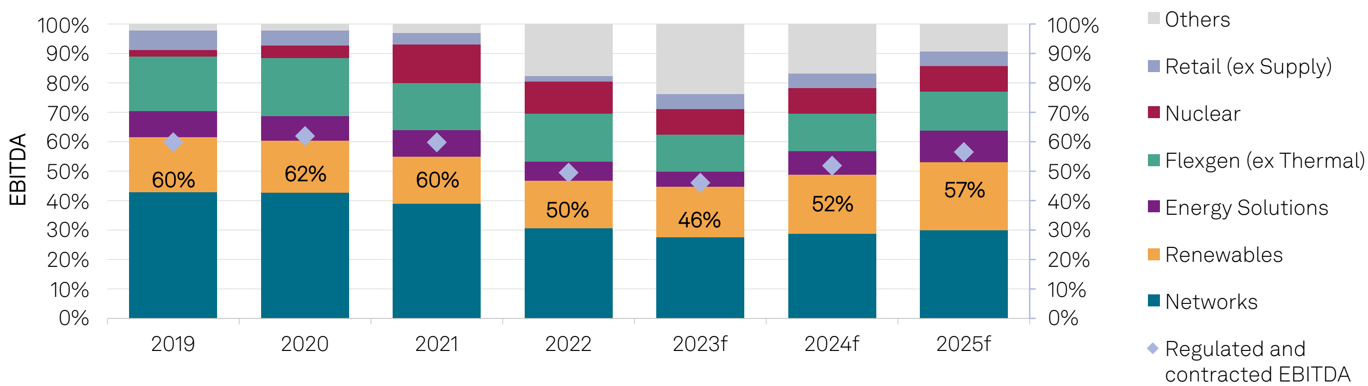
Source: S&P Global Ratings.

We believe Engie will retain a greater than 50% share of both regulated and contracted activities within its business mix. During the European energy crisis and the pandemic, Engie demonstrated its resilience, notably thanks to the stability of its 30% of EBITDA coming from purely regulated networks and more than 20% of EBITDA coming from long-term contracted activities. The vast majority of Engie's renewable business is contracted, with wind and solar plants benefiting from 10-15-year contract residual lives, and a target to maintain about 70% of renewable capacity contracted by 2030 from 78% as of 2022 (at 100% consolidation) with merchant hydro accounting for about 15% and merchant onshore wind and solar for the remainder. About 35% of thermal generation is contracted (with medium-term average residual life). Most asset-based energy solutions benefit from very long-term contracts, like district heating and cooling concessions lasting for 25 to 50 years. We recognize that the growth of these activities could support cash flow predictability with an additional contracted share of EBITDA of about 3%-4% over 2023-2025. Finally, from 2026, prolonged nuclear generation in Belgium will benefit from a contract-for-difference type of remuneration versus the merchant type prevalent today. All the above enhances greatly the predictability and stability of cash flow generation.

Volatility in Engie's portfolio will continue to stem from GEMS' energy trading activities, which will contribute significantly to EBITDA (about 24% of EBITDA on 2023, reducing to 9% in 2025) along flexible generation and battery storage development, and the likely increasing share of merchant power generation in the mix (including battery storage). In our view, the higher earnings at the nonregulated business will reduce the EBITDA contribution at the regulated network to about 30% of the group total over 2023-2025, compared with about 45%-50% historically. We will notably monitor that the contribution from highly predictable French regulated activities--supported by a strong regulatory framework--remains the vast majority of group's regulated earnings.

Engie's business transformation by share of EBITDA

Regulated and contracted EBITDA to remain above 50% on average in 2023-2025



e--Estimate. f--Forecast. Source: S&P Global Ratings.

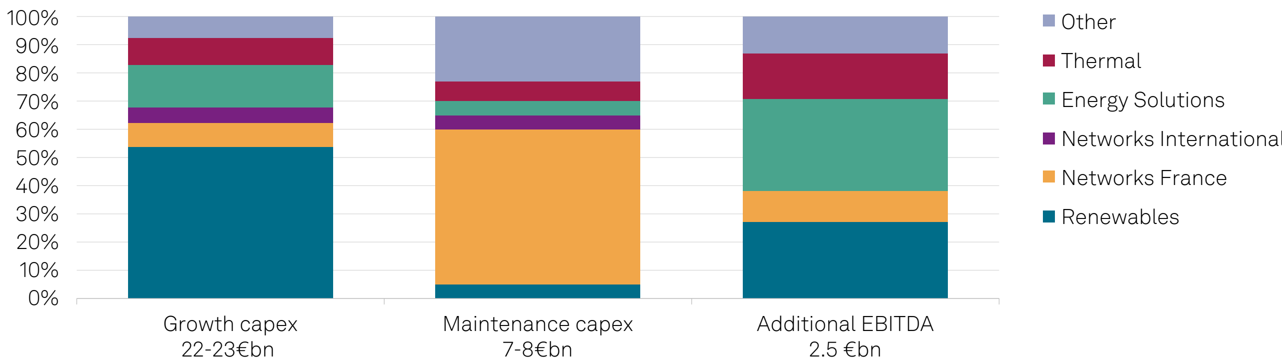
Engie is building a solid track record of executing its strategic plan, with business simplification and transition of its generation mix. Engie achieved a large disposal plan of €11 billion over 2021-2022, notably of Equans for €7 billion In 2022. The latter enabled Engie to exit more competitive and very fragmented client services activities with less predictable cash flows, and to refocus its offering and client basis on infrastructure-like asset-heavy solutions like district heating and cooling or decentralized power. The company also effectively re-centered on 10 core geographies (France, the Netherlands, Italy, Belgium, U.K., U.S., Brazil, Mexico, Chile, and Germany) and elsewhere will exit a few of the relatively riskier markets. Engie's full coal exit is scheduled for 2025 in Europe and 2027 worldwide.

The group is pursuing its transformation with a strategic refocus on infrastructure, allocating €13 billion-€14 billion growth capex in 2023-2025 to renewables, €2 billion-€3 billion to networks, and €2 billion-€3 billion to asset-backed energy solutions. Engie targets 50 GW of renewables capacity in 2025 (at 100% consolidation) and 80 GW in 2030, from 36 GW currently, and has a global pipeline of 34 GW over 2023-2025.

Engie’s EBITDA growth over 2023-2025 is fueled by the ramp-up of renewables installed capacity. We expect adjusted EBITDA to grow to about €14.4 billion in 2023-2024 from €13.7 billion in 2022 including nuclear, as we forecast exceptional GEMS results (€3.3 billion EBITDA at Q3 2023, €1.5 billion expected annually in 2024-2025 as transactions locked during 2022 will gradually materialize) due to the lasting high and volatile price environment over 2022. Renewables should also deliver above-expected results in 2023, thanks to higher prices, good hydrologic conditions, better price capture in hydro generation in France and Portugal and the circa 4 GW yearly capacity additions in wind and solar until 2025. EBITDA contribution from renewables was 16% in 2022 and we expect it to grow to 20% by 2025. We expect execution risk on wind plants to remain quite high, key hurdles being permitting, supply crunches, technology's rapid evolution, and the rising cost of raw materials with a concentration of suppliers to a few countries, mitigated by Engie's significant repowering opportunities with existing plants and strong know-how in equipment procurement and regulatory processes. Along with the relative stability of networks and stronger margins in retail and thermal generation, we expect renewables performance will largely compensate for high decommissioning costs related to nuclear in 2023, while we expect exceptional market conditions benefitting GEMS will normalize over 2024-2025.

Healthy EBITDA growth supported by capex focus on contracted infrastructure

About 50% of Engie's 2023-2025 growth capex will be invested in renewables



Source: S&P Global Ratings.

The recent agreement with the Belgian state effectively de-risks the prolongation of nuclear generation and the exposure to nuclear waste liabilities, which will be transferred to the state. Belgium and Engie recently decided that the two newest reactors, Doel 4 and Tihange 3 (1038 MW each, or 50% of the country's nuclear capacity), would operate for an additional 10 years from restart date instead of closing in 2025, under a remuneration scheme that provides cash flow visibility to the group and embeds a risk-sharing mechanism.

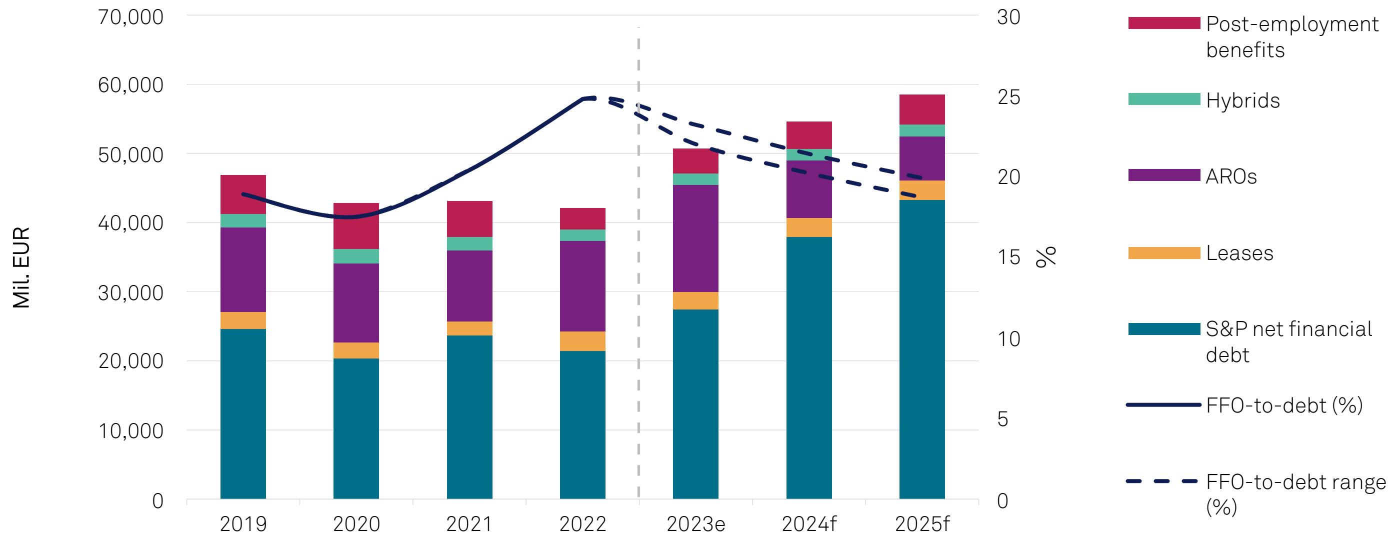
Engie will effectively transfer the liabilities related to waste management for a fixed amount of about €15 billion to the Belgian state, eliminating valuation risks, while retaining the more predictable obligations related to plant dismantling of about €8 billion. In return, Engie supports a cap premium on waste obligations of €4.5 billion (funded in 2024 in our base case). This is a mild positive development from our base case, even including the resulting slight erosion of Engie's financial metrics. See Engie's Future Transfer Of Belgian Nuclear Waste Liabilities Will Reduce Its Long-Term Financial Risk, published July 3, 2023, on RatingsDirect.

We expect Engie to maintain some headroom at the current rating level over 2023-2025, despite accelerated capex and some acquisitions. ENGIE aims for growth capex of €22 billion-€25 billion in 2023-2025 and the split will be 55%-65% for renewables, 10%-15% for networks, 10%-15% for energy solutions, and about 10% will be set aside to ramp up renewable gas and batteries. Maintenance capex in 2023-2025 will be around €7 billion-€8 billion, half of which on credit-supportive French regulated infrastructure activities.

Despite this accelerated capex, we expect S&P Global Ratings-adjusted FFO to debt will reach close to 23% in 2023 and will be sustained at about 19%-21% over 2024-2025; while down from 24.8% in 2022, this leaves some headroom versus our 18% minimum expectation for the 'BBB+' rating. S&P Global Ratings-adjusted debt increasing toward about €59 billion by end-2025 essentially reflects (given broadly neutral FOCF) about €4.9 billion of higher nuclear provisions, bolt-on acquisitions of about €800 million in 2023. and €11 billion dividends.

Engie's FFO-to-debt headroom will diminish due to financial debt increase

2019a-2025f



Mil.--Million. e--Estimate. AROs: asset-retirement obligations. Source: S&P Global Ratings.

Outlook

The stable outlook reflects our expectation that Engie will maintain some headroom in its credit metrics with adjusted FFO-to-net debt remaining comfortably above 18%. We expect execution risk of renewable growth to be mitigated by Engie's large pipeline of projects and we will monitor closely the long-term transition risk on gas operations.

Downside scenario

We could lower the rating if FFO to debt sustainably falls below 18% or if the group's business strengths reduce. This could arise if the group was unsuccessful in executing its renewable deployment program at attractive profitable levels or faced major energy market shock that prompted acute price volatility and potentially hard-to-predict adverse financial effects. We could also lower the rating should we perceive a material dilution of the regulated business within the group. 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 conditional on gaining more visibility on Engie's future business mix and profitability in 2025, and on the continued role of gas in France.

If combined with stronger credit metrics, specifically FFO to net debt comfortably above 21%, we could upgrade Engie.

Our Base-Case Scenario

Assumptions

- Real GDP growth for France: 0.4% in 2023, 1.2% in 2024, and 1.6% in 2025; for the U.S.: 2.3% in 2023, 1.3% in 2024, and 1.4% in 2025; for Belgium: 1.0% in 2023, 1.0% in 2024, and 1.9% in 2025; for Italy: 0.9% in 2023, 0.7% in 2024, and 1.3% in 2025; and for Brazil: 1.7% in 2023, 1.5% in 2024, and 1.8% in 2025.
- We expect a sustained contribution from Engie's nuclear generation fleet, thanks to availability rates above 80% on average over 2023-2025. For nuclear, we forecast 3.2 GW of capacity remaining operational until 2025. We include extension of the Doel 4 and Tihange 3 reactors (total capacity of 1.8 GW) through 2035, and the closure of the other three reactors in 2025.
- EBITDA growth is led by a step-up in renewables commissioning to 4 GW per year until 2025, increasing EBIT by €1.3 billion - €1.5 billion over 2023-2025, and by high increase in Energy Solutions services. Strong contribution from GEMS for about €3 billion-€4 billion in 2023 and €1 billion in 2024-2025.
- Limited additional cost efficiencies due to inflationary context in 2023-2025, versus Engie's target of €600 million additional EBIT in 2023-2025.
- We assume working capital outflow of €1 billion annually in 2023-2025 as power prices materially decreased in the first quarter of 2023 with reduced client receivables and derivative initial margins.
- We expect over 2023-2025 average capex of €10.8 billion per year including €6.0 billion-€8 billion for growth, €2.5 billion for maintenance, and €0.6 billion-€1.2 billion financial investments.
- Total disposals (not including develop, build, sell, and operate [DBSO] proceeds) of €3.8 billion over 2023-2025. We expect the bulk of these proceeds to be cashed in during 2024 and 2025 (€3.4 billion).
- A dividend payout of 65%-75% of net recurring income group share (NRIgs as defined by Engie), with a floor at €0.65 per share translating into cash outflows of €11 billion over 2023-2025 (including dividends to minorities).
- Cash outflow of €9 billion over 2023-2025 (€3 billion per year) related to Belgium nuclear phase out and an additional €4.5 billion in 2024 from funding of upward revision of nuclear provisions by ONDRAF (Belgium's national agency for radioactive waste and enriched fissile material).
- A material decrease of unfunded nuclear asset-retirement obligations by end of 2025 mainly due to our above estimate of a funding of about €3 million yearly. Funded nuclear waste management obligations transferred to the state for about €12 billion in 2024 (the remaining €3 billion will be transferred after reactors restart date). Those elements are neutral on adjusted debt.
- Pension provisions increasing by €1.25 billion over 2023-2025.
- Stable hybrid debt level.

Key metrics

ENGIE SA--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. EUR)	2021a	2022a	2023e	2024f	2025f
EBITDA	10,203	12,967	14,500-15,000	14,000-14,500	14,100-14,600
Funds from operations (FFO)	8,795	10,450	11,200-11,800	11,100-11,700	11,000-11,600
Capital expenditure (capex)	5,895	6,226	8,500-9,500	11,500-12,500	10,500-11,500
Dividends	1,808	2,620	4,000-4,500	3,300-3,800	3,000-3,500
Debt	43,051	42,090	50,000-52,000	54,000-56,000	58,000-60,000
Adjusted ratios					

ENGIE SA--Forecast summary

Debt/EBITDA (x)	4.2	3.2	3.3-3.5	3.7-3.9	4.0-4.2
FFO/debt (%)	20.4	24.8	22.0-23.0	20.5-21.5	19.0-20.0

We expect adjusted EBITDA to stabilize at about €14.4 billion based on business-risk-supportive capex focused on regulated networks, renewables, and infrastructure-liked energy solutions. EBITDA growth over 2023 guided at 11% followed by a stabilization on 2024-2025 at 0%-1% per year, should be fueled primarily by the group's growth in the Energy Solutions, Renewables, Networks and GEMS divisions as well as performance and efficiency plan. The exceptional performance of GEMS in 2023, close to €3.5 billion EBITDA, will gradually reduce to €1 billion-€1.5 billion by 2025 with lost EBITDA compensated by Energy Solutions, Renewables and Networks segments' growth. This EBITDA growth will also mitigate the loss of earnings from disposed or phased-out businesses. Engie's investment plan comprises around €22 billion-€25 billion capex in 2023-2025 and supports a healthy and less-volatile EBITDA stabilization over our forecast period of about €14.4 billion. We expect that about 75% of the investments align with the EU's green taxonomy classification. Engie will spend the majority (€13 billion-€14 billion) on expanding its renewable asset base internationally, followed by Energy Solutions (€2 billion-€3 billion) and Networks (€2 billion-€3 billion). Engie expects to maintain around 30% of EBITDA from regulated operations.

Credit headroom will gradually reduce in 2023-2025 due to the heavy capex plan. We anticipate Engie will generate negative cash flows after capex and dividends due to the narrower business scope, gradual increase in investments (including nuclear extension works), and dividend distributions. We forecast net debt will increase to around €51 billion in 2023 and then to around €59 billion in 2025, from €42 billion in 2022, in line with increased capex and higher nuclear provisions. We project Engie will post S&P Global Ratings-adjusted FFO to debt of about 23% in 2023 and 19%-21% over 2024-2025.

Company Description

With the disposal of its upstream activities in oil and gas exploration and production and 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 30%. Engie notably operates the regulated French gas distribution and transmission networks, as well as downstream storage infrastructures.

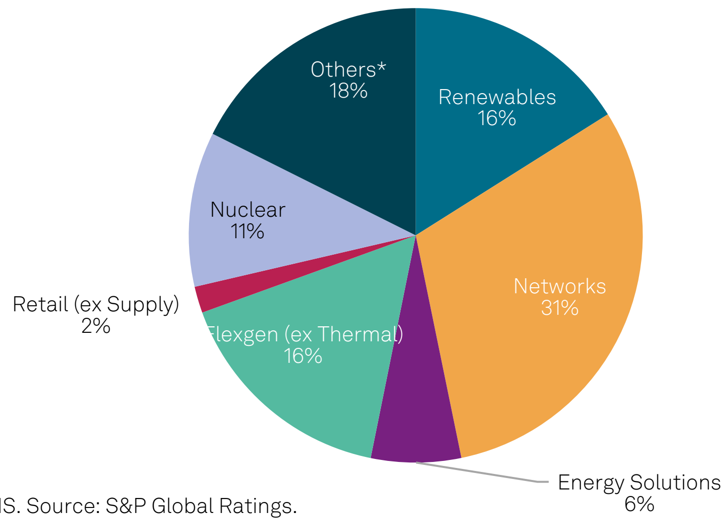
Overall, the group's regulated asset base (RAB), in France and internationally, is expected to reach €39 billion in 2025, compared with €36 billion in 2022. In addition, at end-2022, Engie had installed generation capacity of over 102.7 GW at 100%, or 64.2 GW in percentage of consolidation, of which 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 skewed toward natural gas, the share of which (38% in percentage of consolidation) is gradually diluted by renewable development, hydro (25%), wind (14%), nuclear (8%) and solar (6%).

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 €13.70 billion in 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 market capitalization of more than €36.6 billion as of Nov. 1, 2023. The French government owns 23.64% of the company and holds 33.56% of the voting rights.

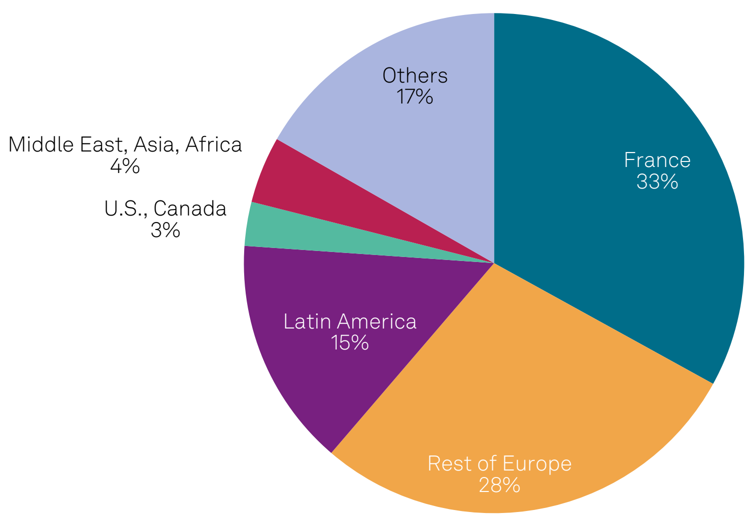
Engie is structured around four global business units that represent the group's four key activities: Renewables (16.1% EBITDA contribution in 2022), Networks (30.7%), Energy Solutions (6.4%), FlexGen and Retail (18.2%), as well as two operating units: Nuclear (11%) and GEMS (20.7%).

Engie's EBITDA breakdown by business line (2022)



*Mainly GEMS. Source: S&P Global Ratings.

Engie's EBITDA breakdown by geography (2022)



Source: S&P Global Ratings.

ENGIE power generation fleet key highlights
As of Dec. 31, 2022

	Nuclear	Coal	Natural gas	Hydro	Other renewables	Worldwide generation
Electricity output (TWh, % of consolidation)	42	7	104	52	32	242
% of total	17.4%	3.0%	42.8%	21.6%	13.2%	100.0%
	Belgium accounts for 85% of nuclear production despite planned plant closures, and France the rest.	Latin America represents 56% and Africa represents 43% of coal output.	Constitutes the bulk of the group's electricity output. 54% of production is located in Asia, Middle East and Africa and 35% from Europe.	Brazil represents 65% of hydro output, while France accounts for 24%.	71% of this output comes from onshore wind spread across Europe, Latin America, North America, Asia-Pacific, the Middle East, and Africa. Solar accounts for 18%.	21% of the group's production is from Belgium, 19% from the Middle East and Turkey, 17% from Brazil, 12% from France, 6% from Asia, and 5% from North America.

TWh--Terawatt hour. Source: Company disclosures.

Peer Comparison

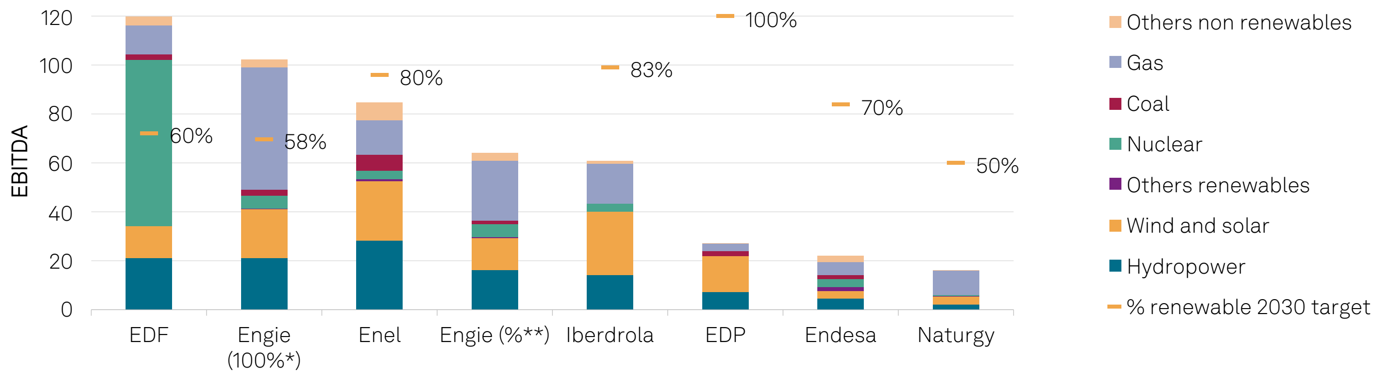
ENGIE's closest peers are the large European integrated utilities, notably Enel SpA and Iberdrola S.A. We believe that the sale of its asset-light client solutions business (Equans) and the acceleration into renewables will contribute to repositioning Engie closely with the energy transition champions, such as Iberdrola or Enel.

Uncertainties remain, however, on the long-term role of gas, to which ENGIE is more exposed than its peers (Enel only has power networks, while Iberdrola has only some gas distribution networks in the U.S., representing less than 5% of total EBITDA) through a sizable thermal generation fleet and its grid operations, which are almost exclusively gas and offer reduced growth prospects amid massive electrification trends. Engie is relatively more exposed than its main European peers to carbon price and transition risk, however, the company's full exit from coal by 2027 and renewable development will improve its power production carbon intensity. The group is however better positioned when compared to German utilities or Czech EPH.

Over the medium term, lowering its carbon footprint entails further initiatives such as potentially replacing the natural gas network assets with renewable gases and hydrogen. That said, the group has not embarked on major investments yet and is keeping its options open regarding its role in the hydrogen value chain, including production (targets of 0.6 GW green hydrogen production capacity by 2025 and 4GW by 2030), midstream (making a transmission pipeline fit for hydrogen), or mobility (through refueling stations).

Engie's installed capacity is skewed toward gas

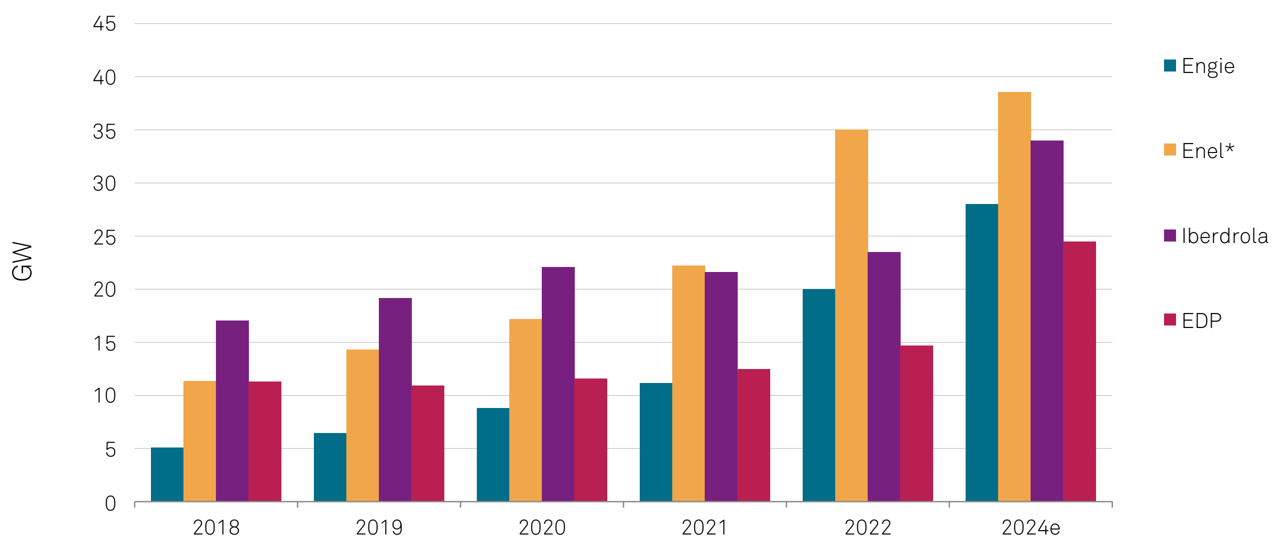
Low-CO2 fleet will increasingly contribute to production mix but still less than peers



* Full consolidation **In percentage of consolidation. Source: S&P Global Ratings.

Evolution of renewable installed capacity, excluding hydro

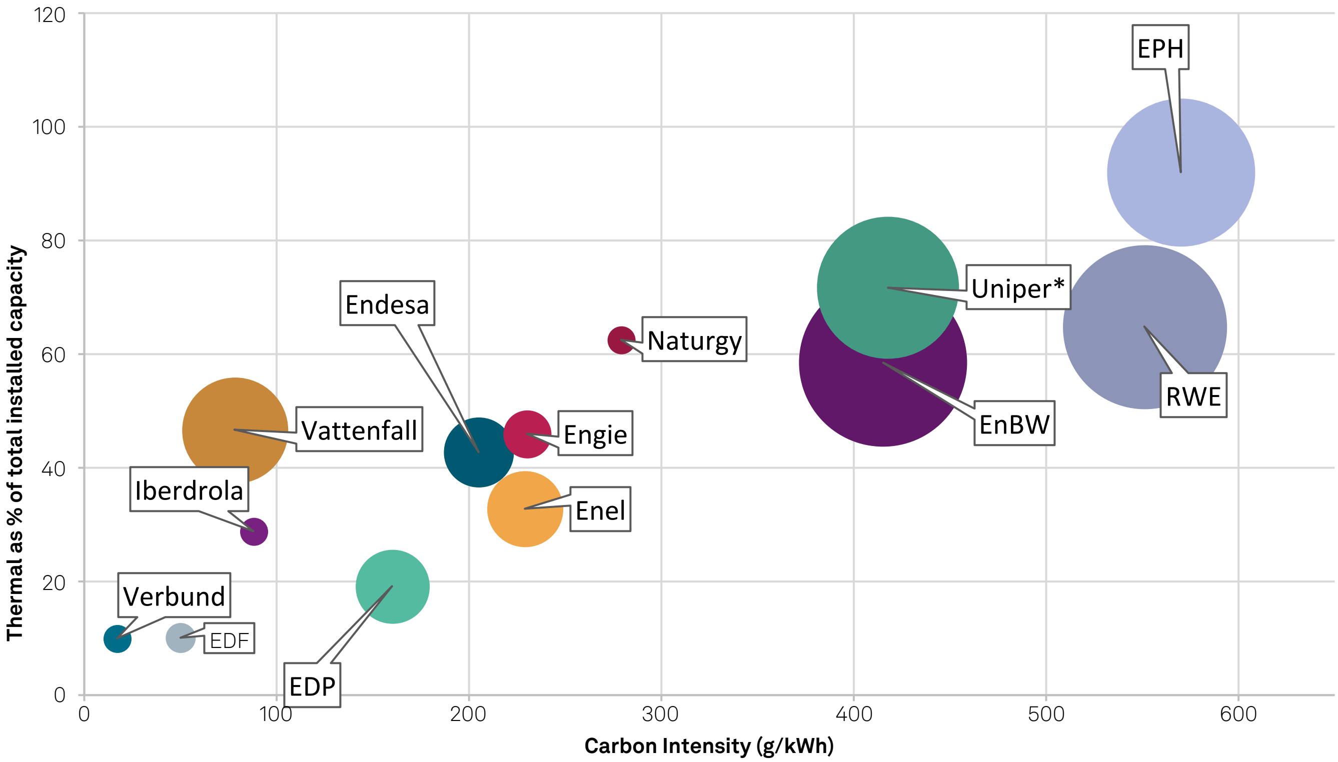
Engie and closest peers



*Consolidated capacity from 2020 onwards. Source: S&P Global Ratings.

Power generators are likely to decarbonize their generation mix by 2030

German operators' CO2 footprint reflects the stickiness of coal generation



*Excluding Russian activities. §Size of the bubble represents hard and brown coal as % of total installed capacity. TWh--Tera-watt hour. Source, own elaboration with data from annual and sustainability reports.

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	2022-12-31	2022-12-31	2022-12-31	2023-03-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	93,865	143,476	138,549	53,949	14,223
EBITDA	12,967	(13,038)	17,345	12,407	3,436
Funds from operations (FFO)	10,450	(16,563)	13,142	9,523	2,800

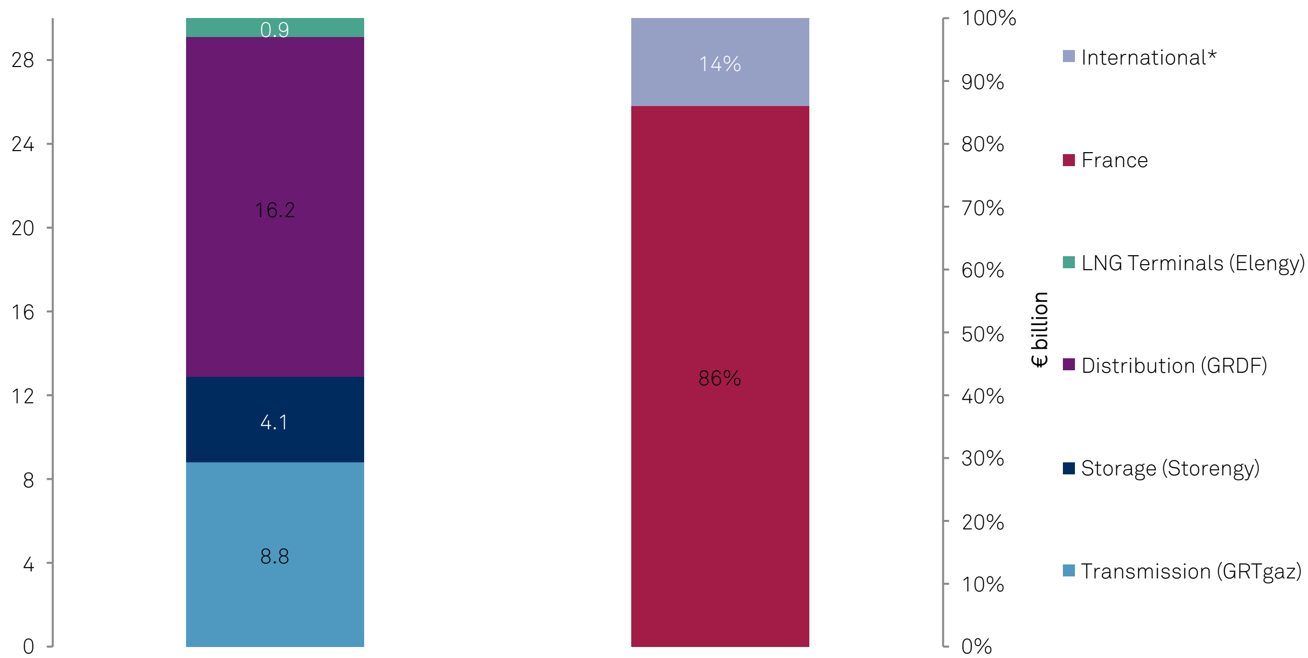
ENGIE SA--Peer Comparisons

Interest	1,806	(920)	3,059	2,356	524
Cash interest paid	1,013	2,243	2,270	1,830	300
Operating cash flow (OCF)	7,643	(9,199)	8,966	8,726	1,629
Capital expenditure	6,226	17,861	13,193	7,634	2,002
Free operating cash flow (FOCF)	1,417	(27,060)	(4,228)	1,092	(373)
Discretionary cash flow (DCF)	(1,577)	(27,842)	(9,240)	(2,186)	(1,084)
Cash and short-term investments	15,558	28,889	10,964	4,642	1,015
Gross available cash	16,262	28,889	10,964	4,749	1,015
Debt	42,090	95,203	83,888	48,469	10,513
Equity	37,589	40,751	40,007	53,989	11,585
EBITDA margin (%)	13.8	(9.1)	12.5	23.0	24.2
Return on capital (%)	10.6	(18.8)	8.6	8.4	13.7
EBITDA interest coverage (x)	7.2	14.2	5.7	5.3	6.6
FFO cash interest coverage (x)	11.3	(6.4)	6.8	6.2	10.3
Debt/EBITDA (x)	3.2	(7.3)	4.8	3.9	3.1
FFO/debt (%)	24.8	(17.4)	15.7	19.6	26.6
OCF/debt (%)	18.2	(9.7)	10.7	18.0	15.5
FOCF/debt (%)	3.4	(28.4)	(5.0)	2.3	(3.5)
DCF/debt (%)	(3.7)	(29.2)	(11.0)	(4.5)	(10.3)

Business Risk

A sizable share of regulated earnings supports Engie's cash flows and underpins its strong business risk profile. With a RAB worth €30 billion in France and €6 billion internationally, the company's regulated infrastructure business provides some earnings resilience (via its 30.7% contribution to group EBITDA in 2022) and is paramount to its credit profile, given the more defensive features of these assets. Over the next three years, we expect Engie's RAB, including its €4.5 billion of quasi-RAB in international locations, to expand moderately on continued investments and contribute steadily to group earnings, despite lower associated remuneration from French gas activities.

Engie's €30 billion RAB split by activity and geography (as of Dec. 31, 2022)



GRTgaz: Gaz Réseau Transmission Gaz. GRDF: Gaz Réseau Distribution France. *Brazil, Mexico, Chile, Romania and Germany. Source: Company disclosures and S&P Global Ratings.

France:

We see the regulatory framework as strong, providing good earnings stability. For more details about our views on the French regulatory framework, see "**French Electricity And Gas Regulatory Frameworks: Very Supportive**," published March 5, 2021, on RatingsDirect. Engie's business spans gas distribution, transmission, storage and LNG terminals, with a combined RAB of about €30 billion as of Jan. 1, 2022. A new four-year regulatory period (ATRT8) for gas transmission business operated by 61%-owned subsidiary GRTgaz will start in April 2024, and while it will present high continuity with the current period, updated tariffs may reduce the return on RAB, although not yet finalized by the regulator. The rate of return calculation and RAB depreciation will likely be adjusted to cover large recent increase in interest rates and decreasing investment needs since (beyond integrating renewable gases) gas networks have been well invested over the past decade and consumption is forecast to decline by 2030. By 2050, we anticipate a lower strategic role of gas infrastructure, given the target of zero carbon emissions under the European Green Deal. Over the outlook horizon through 2025, we expect the EBITDA contribution of network and concessions activities will slightly decline toward 30% of the group's total. A more pronounced decline or a significant rebalancing from French to international grid exposure, could prompt us to raise our FFO-to-debt expectations at the current rating level.

International regulated gas assets:

Engie's network asset base growth was driven by the acquisition of a noncontrolling stake (54.8% from 2020) in Brazilian transmission gas pipeline, Transportadora Associada de Gás S.A. (TAG). This acquisition increases the company's exposure to stable infrastructure-based cash flow streams because TAG's network revenue is protected by contracts with a seven-year average remaining life, but it also expands its presence in Brazil, which entails potentially more volatile macroeconomic, regulatory, and political risks. At this stage, Engie does not have a controlling ownership of TAG, directly or indirectly, favoring its status of industrial pipeline operator. For this reason, we follow the group's reporting and apply equity consolidation of TAG within the group, with a dividend contribution of €184 million in 2022 (€222 million in 2021). If this strategy changes toward a higher stake in the asset, we may revise our approach and start applying full consolidation of TAG. Remaining networks in Mexico, Chile, Romania, and Germany are supported by a mix of long-term contracts, and regulation.

We view positively the acceleration of investments in renewables that allow Engie to better defend its competitive position in gas operations through a greener generation mix. Engie plans to increase its renewables generation capacity to 50 GW in 2025 and 80 GW in 2030, from 38 GW in December 2022, by adding 4 GW per year in 2023-2025 and accelerating to 6 GW per year in 2026-2030. While we see this acceleration as positive for the group's business risk, we will monitor its ability to retain a high contracted portion of renewable production and limit its merchant exposure to 25%-30%. The bulk of additional capacity will come from onshore wind and solar (10 GW) and about 2 GW from offshore wind (U.K. Moray projects developed through its 50%-owned and accounted Ocean WInd JV with Energias de Portugal Renovaveis (EDPR)). We expect the renewables segment's contribution to increase to about 23% of EBITDA in 2024 from 16% in 2021. As part of its energy solutions activities, Engie also targets an additional 8 GW of decentralized energy by 2025 versus 2020. A smooth execution of these ambitious capacity addition targets will be key to Engie achieving its decarbonization targets, especially as it remains a relatively small player in renewables compared with large European peers, despite its strong positions in French onshore wind.

We see manageable execution risk for Engie in achieving its renewables capacity addition targets through 2025. In general, we expect execution risk on wind plants to remain elevated, key hurdles being supply crunches, technology's rapid evolution, and the rising cost of raw materials with a concentration of suppliers in a few countries. However, Engie has some repowering opportunities with existing plants that are an effective way to naturally grow capacity, and a strong know-how in equipment procurement and regulatory processes that could mitigate delays. This is because 7.6 GW is already either under construction or secured, and the group has a robust pipeline of 80 GW well diversified across Europe (mainly France), Latin America, Africa-Middle East-Asia and the U.S., of which 27 GW shall be delivered in 2023-2025. Exposure to less mature offshore wind technology will only be material after 2025 and thus represents a limited risk over the coming years. Moreover, as the group's business model evolves, it will retain more capacity and eventually have the majority of renewable assets operating under a DBSO model. This should translate into a progressively higher earnings contribution.

Engie’s business model is underpinned by gas infrastructure, which should remain strategic within the next decade, although uncertainties of demand remain in the medium-to-long term. Despite a big push in renewables, gas-based activities will continue to contribute more than 40% of EBITDA on 2023-2025. We believe over the next decade, gas generation and infrastructure will continue to play an essential role in energy systems, because it offers flexibility and ensures system resilience. Regarding infrastructure, Europe's recent energy crisis underlined the value from a security of supply standpoint of gas, and Engie’s storage and LNG activities became more strategic as import of gas from the U.S. increased. Storengy will add 10 terawatt hours (TWh) of storage capacity while Elengy is building new LNG terminals in 2023 and 2024.

Regarding generation, Engie "FlexGen" flexible generation thermal business enjoys a large 50 GW capacity, which it expects more and more to be used as back-up generation for security and balance of the system needs along the rise in renewable intermittent generation globally. Engie currently has 200 MW of battery electric storage system (BESS) in operation and an additional 740 MW under construction, primarily focused on the U.S., Chile, and Australia. In September 2023, it acquired Broad Reach Power, a Houston-based company, specialized in BESS, with 350 MW battery capacity, 880 MW additional by year-end 2024, and 1.7 GW project pipeline. We understand that the remuneration is mostly merchant and Engie targets 10 GW BESS capacity by 2030. This target is difficult to compare among peers. It seems relatively in line compared with Enel's target of 9 GW of total capacity of storage by 2030 to accompany its growing renewable fleet, while EDF targets 10 GW of new storage by 2035 (already 5GW of pumped storage as of today).

Transition risk could increase with a peak in demand of natural gas forecasted by 2030, and Engie is positioning itself on renewable gas. 4GW of green hydrogen production target by 2030 with €4 billion invested on 2023-2030. This target is ambitious compared with Iberdrola and EDF 3 GW, Enel 2 GW, or EDP 1.5 GW targets of green hydrogen production by 2030. We view these investments as very preliminary as the supply chain needs to build and demand is currently driven by a few industrial decarbonization needs. There is uncertainty on regulation until 2031 and on technology, which has yet to prove its economic viability to be developed at a large scale.

The group plans to invest €6 billion by 2030 in biomethane, 50% in its production and 50% in distribution. Engie targets the production of an annual 10 TWh of biomethane by 2030, we will monitor evolutions of this supply chain notably as the national projections present biomethane as two-thirds of gas demand in France in 2050. However, for biomethane to be credit supportive it needs a supportive regulatory framework to incentivize investments and accelerate its development.

At 230g of emitted carbon dioxide (CO2) equivalent greenhouse emissions per megawatt hour (MWh), Engie's emission intensity is in line with the European average of 255g CO2 per MWh for European electricity producers in 2022. Engie is more exposed than peers need to heavily invest to transform their asset mixes as climate targets increase and social and political scrutiny intensifies.

Following the disposal of the Equans platform, Engie is focusing on the more resilient asset-based Energy Solutions business, with ambitions to expand district heating and cooling capacity. Over 2022-2025, the group also intends to focus on Energy Solutions, which generated €879 million of reported EBITDA in 2022 (without Equans). This segment enjoys a solid market share, with a largely contracted business model (meaning limited exposure to demand risk) and a target to add 8 GW of distributed energy infrastructures by 2025, to reach 32 GW. Investments primarily flow into district heating and cooling (55% of additional capacity) where the group is a large global operator through its 40% equity stake in Tabreed, 100% in Climespace, and 66.5% in Compagnie Parisienne de Chauffage Urbaine. We view positively this focus on infrastructure like heating and cooling businesses, which benefit from very long-term contracts contributing to cash flow predictability.

The remaining investments are dedicated to onsite generation (essentially distributed solar) for cities and industrial clients (35%-40%), notably via long-term corporate power purchase agreements and energy efficiency. The energy performance services and decarbonization advisory are the more volatile part of Energy Solutions. They are asset-light, more point-in-time services, but limited to about 20% of the segment's EBITDA.

Financial Risk

Though we expect Engie's high adjusted debt to creep up further by the end of 2025, FFO to debt should remain well above 18%. Over 2023-2025, we anticipate Engie will generate negative discretionary cash flows of about €2 billion in 2023, €4 billion in 2024, and €3.5 billion in 2025, owing to the narrower business scope and gradual increase in investments and dividend distributions. That said, we expect the large disposals program (€3.8 billion in aggregate over 2023-2025) will help avert the sharp increase in net financial debt. We therefore forecast net adjusted debt for 2025 will be around €59 billion. As a result, we believe Engie will likely post S&P Global Ratings-adjusted FFO to debt well above 18% over 2023-2025 and debt to EBITDA to remain around 3.8x. Given the relatively high share of EBITDA from regulated network activities with framework assessments of "strong" (about 30% over 2023-2025), which add cash flow stability and visibility, we benchmark the group's credit metrics against our medial volatility table in "Key Credit Factors For The Regulated Utilities Industry" published on Nov 19, 2013 on RatingsDirect".

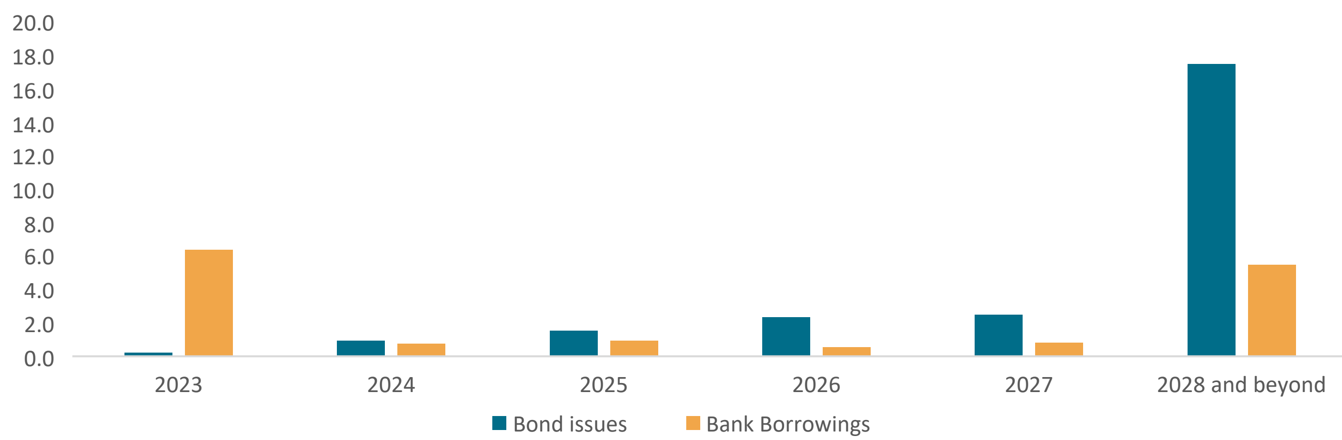
We forecast lower nuclear EBITDA and liabilities, reduced by €8 billion on 2023-2025. We forecast EBITDA from nuclear operations to reduce from 2025, as three reactors will be decommissioned that year (reducing Engie's nuclear installed capacity by 1,371 MW or 26%) and remaining at about €1.5 billion annually in 2023-2025. Engie will effectively transfer the liabilities related to waste management to the Belgian state, eliminating upward valuation risks, while the group will retain on its balance sheet the - in our view more predictable - obligations related to plant dismantling, of about €8 billion. In return, Engie will increase its nuclear waste obligation as required by ONDRAF by €4.5 billion. This is a mildly positive development from our base case, despite the resulting erosion of some of the headroom on Engie's financial metrics. See "Engie's Future Transfer Of Belgian Nuclear Waste Liabilities Will Reduce Its Long-Term Financial Risk," published July 3, 2023, on Ratingsdirect.

Financial policy continues to support a solid investment-grade rating. ENGIE reiterated, in its third-quarter 2023 results presentation, its commitment to a "strong investment grade" rating, with a target to keep its economic net debt to EBITDA at 4.0x or lower. This ratio reached 2.8x on Sept. 30, 2023, equivalent to S&P Global Ratings-adjusted debt to EBITDA of 3.2x. The relatively contained dividend policy of a 65%-75% net profit payout ratio, with a floor at €0.65 per share, was reaffirmed for 2023-2025. We note the group demonstrated its financial flexibility in 2020, when it paid no dividend amid poor operating performance, and then reinstated dividends on a strong financial and operating performance in 2022, with a proposed a payout ratio of 65%. The successful execution of the group's disposals program and overall strategy signals alignment of views between the senior management team and board of directors.

The group's prudent hedging strategy and strong liquidity help to mitigate risks effectively. We understand that Engie's exposure to gas market price increases is limited to short-term deliveries that are fixed one month prior and hedged. Engie buys its gas at variable prices then sells it to its residential and industrial customers, largely at variable prices (a key difference compared with Uniper). The group manages its maximal exposure to market price with a flexible approach depending on market conditions and the environment. Its agile approach should reduce the negative effect of buying extra volumes on a higher gas spot market. The group has been proactive in protecting its liquidity position ahead of the 2022 energy crisis to limit the volatility of cash margining calls.

Debt maturities

Engie's Debt Maturities
As of June 30, 2023



Source: S&P Global Ratings.

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

ENGIE SA--Financial Summary

Free operating cash flow (FOCF)	2,842	1,482	997	1,876	207	1,417
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)

Reconciliation Of ENGIE SA Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	37,716	34,253	93,865	8,638	1,127	1,077	12,967	8,488	2,665	6,379
Cash taxes paid	-	-	-	-	-	-	(1,504)	-	-	-
Cash interest paid	-	-	-	-	-	-	(859)	-	-	-
Lease liabilities	2,875	-	-	-	-	-	-	-	-	-
Intermediate hybrids (equity)	1,697	(1,697)	-	-	-	45	(45)	(45)	(45)	-
Postretirement benefit obligations/ deferred compensation	3,067	-	-	(110)	(110)	93	-	-	-	-
Accessible cash and liquid investments	(16,262)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	109	(109)	(109)	-	(109)
Capitalized development costs	-	-	-	(44)	(44)	-	-	(44)	-	(44)
Share-based compensation expense	-	-	-	92	-	-	-	-	-	-
Dividends from equity investments	-	-	-	713	-	-	-	-	-	-
Asset-retirement obligations	13,041	-	-	-	-	482	-	-	-	-

Reconciliation Of ENGIE SA Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Income (expense) of unconsolid. cos.	-	-	-	(1,059)	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	69	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(647)	-	-
Noncontrolling/ minority interest	-	5,032	-	-	-	-	-	-	-	-
Debt: Derivatives	(547)	-	-	-	-	-	-	-	-	-
Debt: Fair value adjustments	416	-	-	-	-	-	-	-	-	-
Debt: Put options on minority stakes	87	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(91)	(91)	-	-	-	-	-
EBITDA: Derivatives	-	-	-	3,661	3,661	-	-	-	-	-
EBITDA: other	-	-	-	1,167	1,167	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	2,873	-	-	-	-	-
Total adjustments	4,374	3,336	-	4,329	7,525	729	(2,517)	(845)	(45)	(153)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	42,090	37,589	93,865	12,967	8,652	1,806	10,450	7,643	2,620	6,226

Liquidity

We view ENGIE's liquidity as strong. The short-term rating Is 'A-2'. We believe that the group's proactive liquidity management, ample cash, and available committed facilities should provide an adequate buffer against the current high commodity prices and heightened market volatility, with potential sizable margin calls and working capital requirements. As of Sept. 30, 2023, projected sources of funds exceeded projected uses by around 1.9x over the next 12 months and by 1.8x over the subsequent 12 months. Our assessment is further supported by the group's solid relationships with banks, and proven access to the capital markets, even under dire market conditions.

Principal liquidity sources

- About €18.3 billion in available cash and marketable securities at the group level.
- €9.6 billion in available committed credit lines maturing beyond 12 months, of which €4.5 billion and €4 billion relate to two syndicated facilities maturing in September 2028 and December 2028, respectively.
- Our forecast of cash FFO of about €12 billion over the next 12 months.

Principal liquidity uses

- Long- and short-term debt maturities of about €5.4 billion.
- Our estimate of about €11 billion in annual capex.
- Dividend cash payments of about €3.8 billion, including subsidiaries minority shareholders.

Environmental, Social, And Governance

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 represent a lower challenge for the group following the agreement reached with the Belgian State in July 2023. Engie will effectively transfer the liabilities related to waste management of about €15 billion to the Belgian state, eliminating valuation risks, while retaining the more predictable obligations related to plant dismantling of about €8 billion. We now project decreasing liabilities net of dedicated assets to €6.4 billion end of 2025 from €12.5 billion at year-end 2022.

Social risks have diminished In France with lower affordability pressures in 2023 compared to 2022 on very high energy prices.

Government Influence

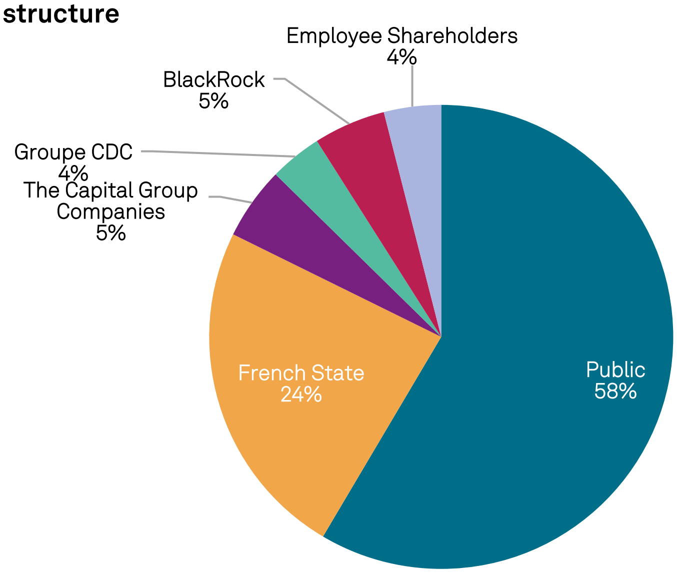
Although the French state is Engie's largest shareholder with a 23.64% direct stake (see chart 12) and 33.71% of exercisable voting rights at year-end 2022, it does not control it. The French law for companies' growth and transformation, the "Loi PACTE" approved in 2019, revised the obligation of the French state to hold minimal voting rights within Engie (previously set at one-third of voting rights by the Energy Law). In addition, Loi PACTE allows Engie, along with Caisse des Dépôts and CNP Assurances (CDC/CNP), to hold a majority stake in regulated transmission gas operator GRTGaz (currently Engie holds 60.8% and CDC/CNP 38.6%, with the remainder held by the personnel).

The government also holds a golden share (a nominal share that can outvote all other shares in certain specified circumstances) in the group to protect the national interest and ensure energy supply security. The share entitles the state to veto any decisions made by the group and its subsidiaries to sell, transfer operations, or assign as collateral its regulated assets in France.

Overall, we view the likelihood of support as low, with no support to the issuer credit rating.

Engie's shareholding structure

As of May 31, 2023



Source: S&P Global Ratings.

Issue Ratings--Subordination Risk Analysis

Capital structure

At year-end 2022, Engie's capital structure comprised about €40.5 billion of senior unsecured debt and about €3.4 billion of hybrid securities issued by ENGIE S.A. and its financing subsidiaries. The group has debt of about €7.2 billion under local subsidiaries.

Analytical conclusions

We do not see any material structural subordination risk for the senior unsecured debt instruments and rate them 'BBB+', in line with the issuer credit rating on Engie.

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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013

- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

Ratings Detail (as of November 23, 2023)*

Engie S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	A-2
Junior Subordinated	BBB-
Senior Unsecured	BBB+
Subordinated	BBB-
Issuer Credit Ratings History	
24-Apr-2020	BBB+/Stable/A-2
25-Mar-2020	A-/Watch Neg/A-1
02-Apr-2019	A-/Stable/A-1
Related Entities	
Engie Energia Chile S.A.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB
GIE ENGIE Alliance	
Issuer Credit Rating	BBB+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.