CREDIT OPINION
10 July 2024

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 strong international presence, especially in Latin America and the Middle East; the sizeable portion of its contracted activities and a consistent hedging policy mitigating commodity price risk; the company's relationship with, and importance to, its parent ENGIE SA (ENGIE, Baa1 stable); and our expectation that Electrabel will maintain its capitalization at the current solid level over the next 18-24 months.

These factors are balanced against the earnings volatility stemming from Electrabel's exposure to merchant power generation in Europe; and the imposition of regular increases in nuclear provisions by the Belgian authorities, although the risk is reduced by the final agreement signed with the government of Belgium in December 2023.

Credit strengths

» Scale and diversification, which mitigate cash flow volatility

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

» Close financial integration with its parent ENGIE

Credit challenges

» Earnings volatility stemming from its exposure to merchant power generation in Europe

» Regular increases in nuclear provisions by the Belgian authorities, although the risk is reduced by the final agreement signed with the Belgian government in December 2023

Rating outlook

The stable outlook reflects our expectation that Electrabel will maintain solid financial metrics over 2024-26, with funds from operations (FFO)/net debt exceeding the 2019-23 average, supported by ENGIE's financial support to cover Electrabel's commitment to fully fund nuclear waste liabilities by 2025.

Factors that could lead to an upgrade

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-19	Dec-20	Dec-21	Dec-22	Dec-23	Moody's 12-18 Months Forward View
(CFO Pre-W/C + Interest) / Interest	3.7x	4.0x	4.7x	2.9x	3.4x	3x - 4x
(CFO Pre-W/C) / Net Debt	23.6%	27.6%	42.3%	25.2%	33.6%	35% - 45%
RCF / Net Debt	21.6%	19.6%	39.3%	15.6%	31.6%	25% - 35%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are financial year end unless indicated.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Profile

Electrabel 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), and 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, and renewable and gas-fired power plants in France (Aa2 stable), allocated across several business units. In 2023, Electrabel reported revenue of €32.8 billion and EBITDA of €6.2 billion, compared with €43.6 billion and €5.6 billion, respectively, in 2022.

Detailed credit considerations

Scale and diversification mitigate cash flow volatility

Electrabel's credit quality benefits from its scale (total assets of €85.3 billion as of year-end 2023), and diversification by geography and asset type. In 2023, Electrabel's EBITDA was mainly generated in Europe (around 55%) and Latin America (around 35%). The broad geographical 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's power generation assets globally, excluding essentially renewable assets in the US, gas-fired and renewable power plants in France, and the assets allocated to ENGIE's energy services business. As of year-end 2023, we estimate that Electabel's installed generation capacity of 49.5 gigawatts (GW) (in consolidated terms) was spread across Europe (42%), Latin America (32%), the Middle East, Africa and Asia (24%), and North America (2%). 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

Contracted or regulated activities contribute substantial earnings, which we estimate to typically account for around 45% of 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 31 March 2024, the group sold in advance 81% of its 2024 nuclear and hydro output, 33% of its 2025 output and 25% of its 2026 output at average hedged prices of €118/megawatt-hour (MWh), €139/MWh and €103/MWh, respectively.

The contribution from regulated assets, which is limited and outside Electrabel's core domestic markets, includes the 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 positive), 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 six years.

Belgian nuclear will be partially phased out by 2025

Over 2018-22, Electrabel's nuclear output was volatile because of unplanned outages and maintenance deferrals. In 2023, the nuclear fleet availability was close to the historical standards of 90%, at around 88.8% (compared with 82.6% in 2022, or 63% in 2020).

Nuclear EBIT decreased by 41% to €0.6 billion in 2023, in spite of higher achieved power prices, because it was affected by the phaseout of the reactors Doel 3 and Tihange 2, Belgium's nuclear tax, and higher D&A following the increase in the dismantling of assets resulting from the 2022 CPN triennial provision review (see Higher Begium nuclear provisions and inframarginal rent cap are credit negative, 22 December 2022).

In December 2023, the Belgian government signed the final agreement with ENGIE to extend the lifetime of ENGIE's two youngest nuclear reactors (Tihange 3 and Doel 4) by 10 years (see Agreement with Belgian government would de-risk ENGIE's nuclear waste exposure at the expense of credit headroom, 30 June 2023). In parallel to the €4.4 billion nuclear provision increase in 2023 following the agreement with the Belgian government, the group will be required to make two payments totaling €15 billion for the transfer of waste liabilities to the Belgian State, in two installments, due in 2024 and 2025, respectively. The agreement is pending validation by the EU Commission, with closing expected by the company as of year-end 2024. The agreement does not affect the scheduled phaseout of Electrabel's other three reactors in the country in 2025, which will significantly reduce the company's operations and earnings contribution from Belgium.

In parallel, in Belgium, Electrabel is constructing an 875 MW combined cycle gas turbine, which is 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 2023, supported by EBITDA of €6.2 billion, up 10% from that in 2022. This was primarily driven by the strong performance of renewables, which benefited from high power prices and additional capacities, as well as sound performance in international network activities. Its FFO/net debt and retained cash flow/net debt rose to 33.6% and 31.6%, respectively, in 2023, up from 26.6% and 17% in 2022. This reflects the strong operational performance during the year and the absence of any dividend paid to ENGIE.

We expect Electrabel to reinforce its financial risk profile over 2024-25. 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 2024-25. The Belgian Minister of Energy requires Electrabel to fully fund its nuclear dismantling provisions until 2030. 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 €13.2 billion as of December 2023.

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 payments) by Electrabel exceeding €1.5 billion per year.

Under the final agreement signed by ENGIE in December 2023, certain restrictions on international assets currently held by Electrabel would be lifted. This would allow Engie to increase control and organisational 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

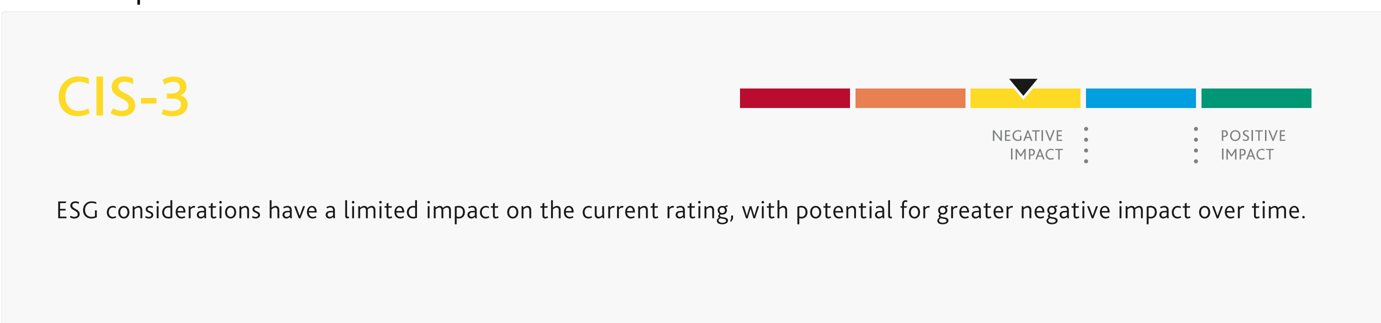
Our assessment of Electrabel's credit quality reflects the company's standalone credit strength and its position as a strategically important entity within ENGIE, given its significant contribution to the group's EBITDA — 41% in 2023. Although the future ownership of Electrabel was uncertain in the past, 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 level.

ESG considerations

Electrabel SA's ESG credit impact score is CIS-3

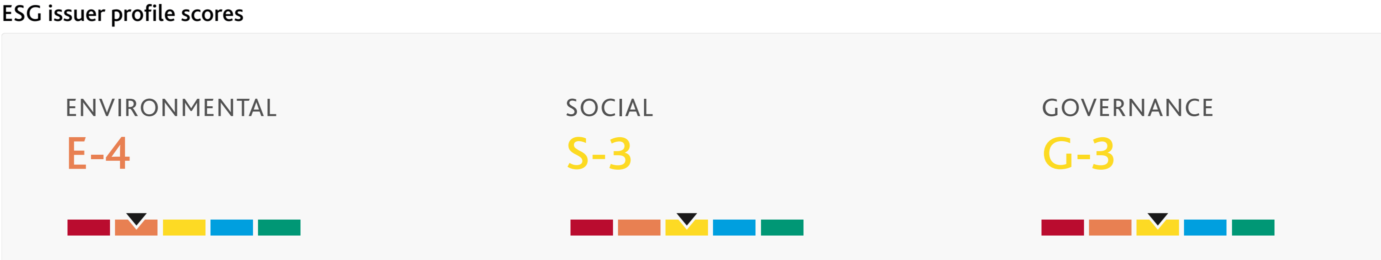
Exhibit 2
ESG credit impact score



Source: Moody's Ratings

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. The 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



Source: Moody's Ratings

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 (€23.89 billion as of December 2023) which still materially exceed the dedicated asset portfolio (€9.98 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 final agreement signed with the Belgian government in December 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% in 2022), albeit mainly located in Middle East. Exposure to physical climate risks is also moderate, reflecting 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. The score also reflects moderate responsible production risks given nuclear 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 2023, Electrabel had €10.3 billion of cash and cash equivalents, and marketable securities.

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 to ensure that Electrabel comfortably meets its funding needs. Electrabel held a €12.2 billion pool of long-term receivables from ENGIE as of year-end 2023.

Methodology and scorecard

Electrabel is rated in accordance with our Unregulated Utilities and Unregulated Power Companies rating methodology. 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 12/31/2023		Moody's 12-18 Month Forward View As of July 2024 [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)	3.5x	Ba	3x - 4x	Ba
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	32.4%	Baa	35% - 45%	A
c) RCF / Net Debt (3 Year Avg)	27.2%	A	25% - 35%	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 12/31/2023. [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.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

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
Jr Subordinate -Dom Curr	Baa3
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 Ratings

Moody's related publications

Credit Opinion

» ENGIE SA, 3 July 2024

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

» Unregulated Utilities and Power Companies – Europe: Lower power prices may require tough choices, if sustained, 10 April 2024

» Electricity Markets – Europe: Supply-demand imbalance to ease, but prices to remain above historical levels, 5 December 2023

Industry Outlook

» Unregulated Electric & Gas Utilities – Europe: 2024 Outlook - Stable amid manageable market challenges

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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