Tear Sheet:

ENGIE S.A.

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Primary contact

Pauline Pasquier
Paris
33-14-420-6771
pauline.pasquier@spglobal.com

Secondary contacts

Claire Mauduit-Le Clercq
Paris
33-14-420-7201
claire.mauduit@spglobal.com

Emmanuel Dubois-Pelerin
Paris
33-14-420-6673
emmanuel.dubois-pelerin@spglobal.com

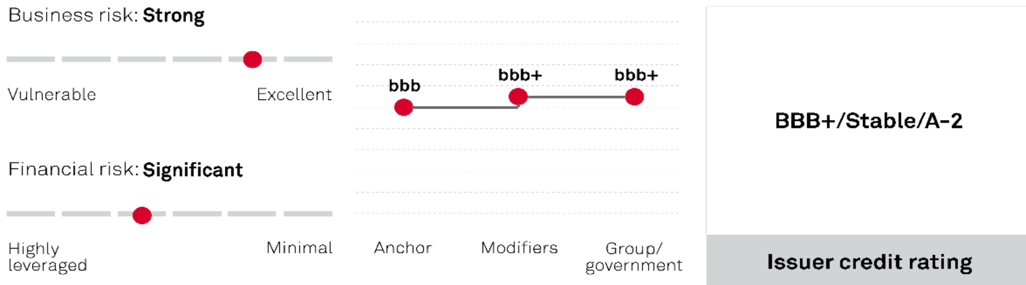
S&P Global Ratings expects Engie's EBITDA to stabilize at about €14 billion in 2024-2026 after exceptional 20% average annual growth in 2022 and 2023 due to high energy market prices. Lower energy prices, reduced profitability of gas-fired generation, and more stable prices should normalize the performance of global energy management and sales (GEMS) and conventional generation over 2024-2026. Nuclear installed capacity will decrease to 2.0 gigawatts (GW) in 2026 from 4.3GW in 2023 (net ownership) with only Doel 4 and Tihange 3 operating from November 2025 under a 50% equity-accounted joint venture with a contract-for-difference mechanism. We forecast Engie's EBITDA to be sustained by accelerated commissioning of renewable plants and growth of networks, as the 2024-2028 regulatory remunerations catch up with inflation and higher interest rates. We expect renewables capacity to rise to 4GW on average annually over 2024-2025 and to 6GW in 2026 (at 100% ownership), resulting in an estimated €1 billion of additional EBITDA. We expect GEMS' annual EBITDA to normalize to €1.5 billion-€1.7 billion over that period after an exceptional €2.8 billion in 2022 and €3.4 billion in 2023, staying above the historical average of about €500 million. This is linked to structural changes in the energy environment with higher price volatility resulting from rising use of renewable energy and flexible generation.

We anticipate rating headroom over 2024-2026 despite higher capital expenditure (capex). S&P Global Ratings-adjusted debt is expected to increase to about €59 billion by 2026 from €49 billion at end-2023. This is due to about €3 billion of nuclear phase-out costs (excluding waste liabilities payment to the Belgian State), and anticipated negative free cash flows (after dividends, acquisitions, and disposals) of about €2 billion annually. Positive working capital trends in 2025 and 2026, with a decrease of margin calls totaling €1 billion in 2024-2026, and planned disposals of about €4 billion, will help fund the €11 billion annual capex plan (excluding nuclear phase-out). Continued rampup of renewables will account for about 55% of the €8 billion of growth capex yearly. Therefore, we estimate funds from operations (FFO) to debt at about 20% through 2026, down from 24.3% in 2023 but in our 18%-21% range for the 'BBB+' rating.

We will monitor potential erosion of cash flow from strongly regulated network activities. Engie's networks in France (about 80% of €5 billion of expected 2026 network EBITDA) benefit from remuneration ensuring robust, predictable cash flows. Outside France, we consider Engie's Chilean and Brazilian power transmission, and German network assets, to be remunerated under supportive frameworks. We forecast the combined share of consolidated EBITDA from these activities at 30%-35% by 2026, including 100% of 60%-owned GRTgaz, compared to 35%-40% in 2018-2020. Also, we understand the majority of renewable capacity additions are on power purchase agreements with credit-supportive features, and district heating and cooling has long-term contracts.

We expect Engie to maintain a conservative financial policy and strong liquidity and risk management, with the dividend policy at 65%-75% and a leverage target of economic net debt to EBITDA of 4.0x or lower. We don't expect large debt-funded acquisitions over 2024-2026, with annual discretionary cash flow improving to €0 billion-€2 billion. Liquidity is supported by about €4 billion in proceeds from issuances in second-quarter 2024, reversal of margin requirements, and €10 billion of undrawn credit lines.

Ratings Score Snapshot



Recent Research

- S&P Global Ratings Makes Modest Change To AECO Natural Gas Price Assumption; Other Prices Unchanged, June 11, 2024
- France-Based Engie S.A.'s Proposed Green Hybrid Instrument Rated 'BBB-'; Equity Content Intermediate, June 6, 2024
- Lower Sovereign Rating On France Has No Immediate Credit Impact For French Utilities, June 3, 2024
- Research Update: Engie Energia Chile's Proposed Senior Unsecured Notes Rated 'BBB'; Issuer Credit Rating Affirmed, Outlook Remains Stable, April 8, 2024
- European Utilities: The Rating Relevance Of Net-Zero Commitments, May 2, 2024
- European Utilities' Net-Zero Ambitions Face Myriad Hurdles, May 2, 2024
- S&P Global Ratings Has Lowered Its North American And European Gas Price Assumptions For 2024 And 2025, Feb. 20, 2024
- Industry Credit Outlook 2024: EMEA Utilities, Jan. 9, 2024
- Engie , Nov. 23, 2023

Company Description

With the disposal of its upstream activities in oil and gas exploration and production, and liquefied natural gas, Engie is now focusing on renewable power generation, gas and power infrastructure, and asset-backed energy services following the 2022 disposal of Equans' asset-light client solutions activities. 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 infrastructure. Overall, the group's regulated asset base (RAB), in France and internationally, is expected to reach €39 billion in 2025, compared with €36.5 billion in 2023.

In addition, at end-2023, Engie had installed generation capacity of over 104.7 GW at 100%, or 67.1 GW in percentage of consolidation, of which 47% was in Europe, 24% in Latin America, 13% in the Middle East, Asia, and Africa, and 10% in North America. The generation portfolio is skewed toward natural gas, the share of which (36% in percentage of consolidation) is gradually diluted by renewables. The remainder of the fleet includes low-CO2 emitting hydro (24%), wind (16%), solar (8%) and nuclear (6%).

Engie also benefits from a large and broad customer base, including 5.7 million residential gas contracts (60% market share) and 5.3 million electricity contracts in France (roughly 15% market share) at end-2023. The group is a world leader in energy services. It generated almost €868 million of EBITDA in energy solutions in 2023 and €821 million in supply.

Engie reported revenue of €82.6 billion and EBITDA of €15.0 billion in 2023. 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 €37.5 billion as of Jun. 1, 2023. The French government owns 23.64% of the company and holds 33.56% of the voting rights.

Engie has four global business units that represent the group's key activities: Renewables (18% of EBITDA in 2023), Networks (28%), Energy Solutions (6%), FlexGen (13%) and Retail (5%), in addition to Nuclear (9%) and others including GEMS (22%).

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 linked to growth of renewable capacity to be mitigated by Engie's large pipeline of projects and we will monitor closely the long-term transition risk to its gas operations.

Downside scenario

We could lower the rating if FFO to debt falls and remains 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 sufficiently profitable levels or faced a 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 greater visibility on Engie's future business mix and profitability in 2026, and the continued role of gas in France. This, combined with stronger credit metrics, specifically FFO to net debt comfortably above 21%, could lead us to raise the ratings on Engie.

Key Metrics

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2022a	2023a	2024e	2025f	2026f
EBITDA	12,967	14,964	14,250-14,750	13,750-14,250	14,500-15,000
Funds from operations (FFO)	10,450	11,911	11,500-12,000	10,750-11,250	11,000-11,500
Capital expenditure (capex)	6,226	7,039	10,500-11,500	10,500-11,500	10,000-11,000
Dividends and share repurchases	2,994	4,084	3,500-4,500	3,000-4,000	3,000-4,000
Discretionary cash flow (DCF)*	(1,577)	1,303	(4,500)-(3,500)	(3,000)-(2,000)	(2,500)-(1,500)
Debt	42,090	48,974	51,000-53,000	56,000-58,000	58,000-60,000
Adjusted ratios					
Debt/EBITDA (x)	3.2	3.3	3.5-3.7	4.0-4.2	3.0-4.1
FFO/debt (%)	24.8	24.3	22.0-23.0	18.0-20.0	18.0-20.0

*DCF before nuclear funding, acquisitions and disposals

Financial Summary

ENGIE SA--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	60,596	60,058	55,751	57,866	93,865	82,565
EBITDA	9,590	10,299	8,903	10,203	12,967	14,964
Funds from operations (FFO)	7,948	8,844	7,503	8,795	10,450	11,911
Interest expense	1,414	1,499	1,477	1,545	1,806	2,580
Cash interest paid	967	940	832	840	1,013	1,366
Operating cash flow (OCF)	7,550	7,415	6,888	6,102	7,643	12,426

ENGIE SA--Financial Summary

Capital expenditure	6,068	6,418	5,012	5,895	6,226	7,039
Free operating cash flow (FOCF)	1,482	997	1,876	207	1,417	5,387
Discretionary cash flow (DCF)	(1,105)	(2,801)	1,318	(1,601)	(1,577)	1,303
Cash and short-term investments	8,579	10,433	12,912	13,718	15,558	16,578
Gross available cash	9,732	10,887	13,488	14,268	16,262	17,426
Debt	40,434	46,866	42,791	43,051	42,090	48,974
Common equity	39,067	36,081	31,817	40,096	37,589	34,028
Adjusted ratios						
EBITDA margin (%)	15.8	17.1	16.0	17.6	13.8	18.1
Return on capital (%)	6.5	7.3	5.5	6.4	10.6	12.5
EBITDA interest coverage (x)	6.8	6.9	6.0	6.6	7.2	5.8
FFO cash interest coverage (x)	9.2	10.4	10.0	11.5	11.3	9.7
Debt/EBITDA (x)	4.2	4.6	4.8	4.2	3.2	3.3
FFO/debt (%)	19.7	18.9	17.5	20.4	24.8	24.3
OCF/debt (%)	18.7	15.8	16.1	14.2	18.2	25.4
FOCF/debt (%)	3.7	2.1	4.4	0.5	3.4	11.0
DCF/debt (%)	(2.7)	(6.0)	3.1	(3.7)	(3.7)	2.7

Peer Comparison

ENGIE SA--Peer Comparisons

	Engie S.A.	Electricite de France S.A.	Enel SpA	Iberdrola S.A.	SSE PLC
Foreign currency issuer credit rating	BBB+/Stable/A-2	BBB/Positive/A-2	BBB/Stable/A-2	BBB+/Stable/A-2	BBB+/Positive/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	BBB/Positive/A-2	BBB/Stable/A-2	BBB+/Stable/A-2	BBB+/Positive/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-03-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	82,565	139,715	95,008	49,335	14,223
EBITDA	14,964	38,211	18,956	13,505	3,436
Funds from operations (FFO)	11,911	30,845	12,043	9,463	2,800
Interest	2,580	6,963	4,056	3,059	524
Cash interest paid	1,366	3,671	3,956	2,551	300
Operating cash flow (OCF)	12,426	29,377	14,430	9,958	1,629
Capital expenditure	7,039	20,199	12,352	8,731	2,002
Free operating cash flow (FOCF)	5,387	9,178	2,078	1,227	(373)
Discretionary cash flow (DCF)	1,303	8,381	(3,204)	(3,535)	(1,084)
Cash and short-term investments	16,578	30,267	6,641	3,127	1,015
Gross available cash	17,426	30,267	6,641	3,228	1,015

ENGIE SA--Peer Comparisons

Debt	48,974	85,820	75,523	52,851	10,513
Equity	34,028	58,115	41,950	56,167	11,585
EBITDA margin (%)	18.1	27.3	20.0	27.4	24.2
Return on capital (%)	12.5	20.4	9.4	9.2	13.7
EBITDA interest coverage (x)	5.8	5.5	4.7	4.4	6.6
FFO cash interest coverage (x)	9.7	9.4	4.0	4.7	10.3
Debt/EBITDA (x)	3.3	2.2	4.0	3.9	3.1
FFO/debt (%)	24.3	35.9	15.9	17.9	26.6
OCF/debt (%)	25.4	34.2	19.1	18.8	15.5
FOCF/debt (%)	11.0	10.7	2.8	2.3	(3.5)
DCF/debt (%)	2.7	9.8	(4.2)	(6.7)	(10.3)

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 203g/kWh in 2023 and reduce its greenhouse gas emissions from energy production to 43 million tons of carbon dioxide equivalent (MtCO2e) in 2030 from 52 MtCO2e in 2023. These targets should be facilitated by the group's coal exit plan and larger share of renewables in the generation 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 government in July 2023. Engie will effectively transfer the liabilities related to waste management of about €15 billion to the government, eliminating valuation risks, while retaining the more predictable obligations related to plant dismantling of about €8 billion. We now project liabilities net of dedicated assets decreasing to €4.4 billion by end-2026 from €14 billion at end-2023.

Social risks have diminished in France compared to 2022 on very high energy prices. But we see rising risk on affordability that could prompt some additional government intervention as per recent discussions on strengthening France's electricity windfall tax.

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	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	bbb+

Related Criteria

- Sector-Specific Corporate Methodology, April 4, 2024, April 4, 2024
- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010