Nordic Credit Rating

CORPORATE

Norway
10 Nov. 2023

Fredrikstad Energi AS

Rating Action Report

LONG-TERM RATING

BBB+

OUTLOOK

Stable

SHORT-TERM RATING

N2

PRIMARY ANALYST
Gustav Nilsson
+46735420446
gustav.nilsson@nordiccreditrating.com

SECONDARY CONTACTS
Geir Kristiansen
+4790784593
geir.kristiansen@nordiccreditrating.com

Sean Cotten
+46735600337
sean.cotten@nordiccreditrating.com

Fredrikstad Energi AS assigned 'BBB+' long-term issuer rating; Outlook stable

Nordic Credit Rating (NCR) said today that it had assigned a 'BBB+' long-term issuer rating to Norway-based regulated electricity distribution system owner and operator Fredrikstad Energi AS. The outlook is stable. At the same time NCR assigned an 'N2' short-term issuer rating and a 'BBB+' senior unsecured issue rating.

Rating rationale

The long-term rating reflects a strong and regulatorily stable operating environment and Fredrikstad Energi's distribution monopoly in regions with strong fundamentals. The rating is underpinned by the company's consistent performance and strong cost efficiency in comparison with its regional peers. The company is owned directly by Fredrikstad municipality and indirectly by Oslo municipality, which we regard as a credit strength.

The rating is constrained by Fredrikstad Energi's financial risk profile; the company has notably weak credit metrics in comparison with those of its closest peers. We also view the company's concentrated debt maturity profile as a rating weakness, even though its term loans carry options to extend. However, the regulatory framework offers protection against interest rate increases and cost inflation, albeit with a delay, which we believe offsets some risk.

Stable outlook

The outlook is stable, reflecting our expectations that Fredrikstad Energi's current financial risk profile will remain in line with our forecast and that the company will proactively refinance its upcoming maturities. It further reflects our expectations that the company's distribution grid will remain its core business and that costs will remain stable. We expect the company to continue to invest in its distribution grid and increase efficiency without compromising its financial risk profile.

We could raise the rating to reflect reduced leverage (NCR-adjusted funds from operations [FFO]/net debt above 15% and NCR-adjusted EBITDA/net interest above 5.0x over a protracted period), or an improved debt maturity schedule and compliance with policy targets.

We could lower the rating to reflect sharp cost increases in an individual year, resulting in a covenant breach, or reduced debt servicing capabilities (NCR-adjusted FFO/net debt below 5% and NCR-adjusted EBITDA/net interest below 2.0x over a protracted period). We could also lower the rating to reflect a change in ownership or business risk profile, resulting in a lower proportion of earnings and revenues from the distribution grid.

Rating list	Rating
Long-term issuer credit rating:	BBB+
Outlook:	Stable
Short-term issuer credit rating:	N2
Senior unsecured issue rating:	BBB+

Figure 1. Fredrikstad Energi rating scorecard

Subfactors	Impact	Score
Operating environment	20.0%	aa
Market position	10.0%	aa-
Size and diversification	10.0%	a-
Operating efficiency	10.0%	a
Business risk assessment	50.0%	a+
Ratio analysis		b
Risk appetite		bb-
Financial risk assessment	50.0%	b+
Indicative credit assessment		**bbb**
Liquidity		Adequate
ESG		Adequate
Peer calibration		Neutral
Stand-alone credit assessment		**bbb**
Support analysis		+1 notch
Issuer rating		**BBB+**
Outlook		Stable
Short-term rating		**N2**

Figure 2. Capital structure ratings

Seniority	Rating
Senior unsecured	BBB+

Type of credit rating:	Long-term issuer credit rating Short-term issuer credit rating Issue credit rating
Publication date:	The rating was first published on 10 Nov. 2023.
Office responsible for the credit rating:	Nordic Credit Rating AS (NCR), Oslo, Norway. NCR is a registered credit rating agency under Regulation (EC) No 1060/2009.
Primary analyst:	Gustav Nilsson, +46735420446, gustav.nilsson@nordiccreditrating.com
Rating committee chairperson responsible for approval of the credit rating:	Sean Cotten, +46735600337, sean.cotten@nordiccreditrating.com
Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	NCR's Corporate Rating Methodology published on 8 May 2023 NCR's Rating Principles published on 24 May 2022 NCR's Group and Government Support Rating Methodology published on 18 Feb. 2022 The methodology and principles documents provide analytical guidance to NCR's rating activities including but not limited to, assumptions, parameters, cash flow analysis, and stress-testing. NCR's methodologies and principles can be found on our website nordiccreditrating.com/governance/policies. The historical default rates of entities and securities rated by NCR will be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA).
Materials used when determining the credit rating:	Annual- and quarterly reports of the rated entity, Bond prospectuses, Company presentations, Data provided by external data providers, External market reports, Meetings with management of the rated entity, Non-public information, Press reports/public information, Website of rated entity.
Potential conflicts of interest:	The rating is NCR's independent opinion of the rated entity's relative creditworthiness. The rating is solicited, i.e. it is prepared for a fee paid by the rated entity. At the time of analysis and publication neither NCR nor any of the analysts or persons involved in the rating process held any interest, ownership interest or securities in the rated entity. NCR does not have any direct or indirect shareholder with a holding of more than 5% of NCR's shares and votes. For further information, please refer to NCR's conflict of interest policy which is available on: https://nordiccreditrating.com/governance/policies
Additional information:	Prior to publication, the rating was disclosed to the rated entity. The issuer was given 24 hours (of which 8 business hours) to remark on factual errors and/or the inadvertent inclusion of confidential information, if applicable. The rating was not amended after the review by the issuer. No stress test was performed. Standard cash flow forecasting was performed. NCR's rating is an opinion regarding the relative creditworthiness of an entity or an instrument. It is not a prediction, guarantee or recommendation to buy, hold or sell securities. NCR assigns outlooks to issuer ratings to indicate where they could move in the near term, normally 12–18 months. Further information on the rating process, rating definitions and limitations is available on our website: nordiccreditrating.com/governance/policies.
Ancillary services provided:	No ancillary services were provided.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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