

## Småkraft AS

## Rating Action Report

## LONG-TERM RATING

BB

## OUTLOOK

Negative

## SHORT-TERM RATING

N4

## PRIMARY ANALYST

Gustav Nilsson  
+46735420446  
gustav.nilsson@nordiccreditrating.com

## SECONDARY CONTACTS

Geir Kristiansen  
+4790784593  
geir.kristiansen@nordiccreditrating.com

Elisabeth Adebäck  
+46700442775  
elisabeth.adeback@nordiccreditrating.com

## Småkraft AS outlook revised to negative; 'BB' long-term issuer rating affirmed

Nordic Credit Rating (NCR) has revised the outlook on its 'BB' long-term issuer rating on Norway-based small-scale hydropower producer [Småkraft AS](#) to negative from stable. At the same time, the 'N4' short-term issuer rating and 'BBB-' senior secured issue ratings were affirmed.

### Rating rationale

The outlook revision reflects lower electricity prices and price achievement than we previously expected. This has led to reduced cash flow from operations and higher financial leverage relative to earnings. In our previous base-case forecast, we expected electricity prices to rebound, with Småkraft's NCR-adjusted interest coverage remaining above 2x and funds from operations to net debt above 5% for full-year 2024. These figures were approximately 1x and 0.8%, respectively. We expect ongoing pressure on cash flows due to the company's planned investments in new hydropower plants. In addition, we see elevated risk that Småkraft's credit metrics could remain below the minimum levels we require for the current rating for quite some time. Despite relatively high margins, the company is dependent on higher electricity prices to service debt through cash flows.

Hydropower is the main form of energy in Norway, where it generates over 89% of electricity output. It benefits from low marginal production costs, which positions the country's power plants well in the merit order system. As a result, electricity prices are closely linked to available hydro capacity and storage. Currently, Norway's hydropower stocks are close to their highest level in over 20 years, which we believe points to lower electricity prices. In the first two months of 2025, the average spot price was lower than in recent years. Småkraft, which mainly operates run-of-river plants, cannot adjust production as flexibly as many of its domestic peers to achieve better prices. Although the company's costs vary with prices, we expect lower electricity prices to reduce cash available for debt servicing. We consider a significant rise in electricity consumption and demand unlikely in the short term. However, we acknowledge the volatility of Nordic electricity prices.

### Negative outlook

The negative outlook reflects elevated risk that Småkraft's credit metrics could remain below the minimum levels we require for the current rating. This is due to lower electricity prices reducing cash flows for debt servicing. We think that the company's investment plan will pressure cash flows over the next two years, even though the owners have committed equity capital to offset some debt uptake.

We could lower the rating if Småkraft continues to operate with interest coverage below 2x or funds from operations to net debt below 5% over a protracted period. We could also lower the rating to reflect worsening operating conditions, such as lower energy prices or reduced power generation. Ownership changes that negatively affect risk appetite could also trigger a lower rating. However, the owners have a long-term commitment to the company.

We could assign a stable outlook if the company's key credit metrics are restored such that interest coverage remains above 2x and funds from operations above 5% over a protracted period, either through a reduction in debt or sustained improvement in cash flow generation.

### Related rating actions

i) [Småkraft 'BB' long-term issuer rating affirmed; Outlook stable](#), 16 Aug. 2024.

Rating list	To	From
Long-term issuer credit rating:	BB	BB
Outlook:	Negative	Stable

**Rating list**

Short-term issuer credit rating:

Senior secured issue rating:

**To**

N4

BBB-

**From**

N4

BBB-

**Figure 1. Småkraft rating scorecard**

Subfactors	Impact	To	From
Operating environment	20.0%	bb	bb
Market position	10.0%	bb+	bb+
Size and diversification	10.0%	bb+	bb+
Operating efficiency	10.0%	a	a
Business risk assessment	50.0%	bbb-	bbb-
Ratio analysis		b	b
Risk appetite		bb	bb
Financial risk assessment	50.0%	b+	b+
<b>Indicative credit assessment</b>		<b>bb</b>	<b>bb</b>
Liquidity		Adequate	Adequate
ESG		Adequate	Adequate
Peer calibration		Neutral	Neutral
<b>Stand-alone credit assessment</b>		<b>bb</b>	<b>bb</b>
Support analysis		Neutral	Neutral
<b>Issuer rating</b>		<b>BB</b>	<b>BB</b>
Outlook		Negative	Stable
<b>Short-term rating</b>		<b>N4</b>	<b>N4</b>

**Figure 2. Capital structure ratings**

Seniority	To	From
Senior secured	BBB-	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 31 Aug. 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, <a href="mailto:gustav.nilsson@nordiccreditrating.com">gustav.nilsson@nordiccreditrating.com</a>
Rating committee chairperson responsible for approval of the credit rating:	Elisabeth Adebäck, +46700442775, <a href="mailto:elisabeth.adeback@nordiccreditrating.com">elisabeth.adeback@nordiccreditrating.com</a>
Were ESG factors a key driver behind the change to the credit rating or rating outlook?	No.
Methodology used when determining the credit rating:	<a href="#">NCR's Corporate Rating Methodology published on 8 May 2023</a> <a href="#">NCR's Rating Principles published on 14 Feb. 2024</a> <a href="#">NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024</a> 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 <a href="https://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> . The historical default rates of entities and securities rated by NCR will be viewed on <a href="#">the central platform (CEREP) of the European Securities and Markets Authority (ESMA)</a> .
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: <a href="https://nordiccreditrating.com/governance/policies">https://nordiccreditrating.com/governance/policies</a>
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: <a href="https://nordiccreditrating.com/governance/policies">nordiccreditrating.com/governance/policies</a> .
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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