

Småkraft AS

Rating Action Report

LONG-TERM RATING

NR

OUTLOOK

-

SHORT-TERM RATING

NR

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Småkraft AS long-term issuer rating lowered to 'BB-' and withdrawn

Nordic Credit Rating (NCR) has lowered its long-term issuer rating on Norway-based small-scale hydropower producer [Småkraft AS](#) to 'BB-' from 'BB'. The outlook is negative. The senior secured issue rating has been lowered to 'BB' from 'BBB-' reflecting expectations of a significant decline in asset values and increased uncertainty following the Norwegian government's proposal to introduce a resource rent tax on small-scale hydropower. The 'N4' short-term issuer rating was affirmed. The ratings have been withdrawn at the issuer's request.

Rating rationale

The lower long-term issuer rating reflects our expectation that Småkraft will maintain funds from operations to net debt below 5% and interest coverage below 2x for an extended period. We anticipate that lower electricity prices will weaken cash flows, making deleveraging less likely than previously assumed. The rating also incorporates our expectations of weaker financing conditions due to increased political risk and reduced investor risk appetite. The lower senior secured issue rating reflects the downgrade of the long-term issuer rating and expectations of reduced recovery prospects for senior creditors, as deal flow slows. This is expected to have short- to medium-term negative implications for asset values, with investors potentially assigning higher risk premia to small-scale hydropower.

On 15 Oct. 2025, the Norwegian government proposed lowering the resource rent tax threshold for hydropower from 10,000 kVA to 1,500 kVA as part of the 2026 national budget. If enacted as proposed, the measure would increase the tax rate for small-scale hydropower producers to 67% from the current 22%. Approximately 85% of Småkraft's power plants would become subject to the tax, significantly reducing the company's deleveraging capacity, eroding its previous competitive advantage over hydropower peers, and negatively affecting asset values and senior creditor recovery prospects.

While the proposal is likely to be defeated in parliament after five opposition parties indicated they would vote against it, we believe it has led investors to assign a higher risk premium to operating and financing small-scale Norwegian hydropower, elevating refinancing risk for capital markets financing. Access to bank financing, however, appears to be solid. In our view, operating conditions have become less predictable following the proposal, with deal flow slowing and projects being put on hold. Consequently, we are concerned about the development of the market and the implications for the company's competitive position.

Negative outlook

At the time of withdrawal, the negative outlook reflected our expectation of worsened financing conditions because of reduced investor risk appetite for Norwegian small-scale hydropower. We expect the company will be able to withstand current turbulence and refinance its maturing debt. However, the long-term direction of its financial risk profile and potential additional risks to its business model remain uncertain. We currently believe that the owners will support the company through committed equity capital but are uncertain about their willingness to provide funds outside of those committed to project investments.

Related rating actions

- i) [Småkraft AS outlook revised to negative; 'BB' long-term issuer rating affirmed](#), 7 Mar. 2025.
- i) [Småkraft 'BB' long-term issuer rating affirmed; Outlook stable](#), 16 Aug. 2024.

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

Rating list	Withdrawal	To	From
Short-term issuer credit rating:	NR	N4	N4
Senior secured issue rating:	NR	BB	BBB-

Figure 1. Småkraft rating scorecard

Subfactors	Impact	Withdrawal	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%	-	bbb+	a
Business risk assessment	50.0%	-	bb+	bbb-
Ratio analysis		-	b-	b
Risk appetite		-	bb-	bb
Financial risk assessment	50.0%	-	b	b+
Indicative credit assessment		-	bb-	bb
Liquidity		-	Adequate	Adequate
ESG		-	Adequate	Adequate
Peer calibration		-	Neutral	Neutral
Stand-alone credit assessment		-	bb-	bb
Support analysis		-	Neutral	Neutral
Issuer rating		NR	BB-	BB
Outlook		-	Negative	Negative
Short-term rating		NR	N4	N4

Figure 2. Capital structure ratings

Seniority	Withdrawal	To	From
Senior secured	NR	BB	BBB-

Type of 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, gustav.nilsson@nordiccreditrating.com
Rating committee chairperson responsible for approval of the credit rating:	Elisabeth Adebäck, +46700442775, elisabeth.adeback@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:	<p>NCR's Corporate Rating Methodology published on 8 May 2023 NCR's Rating Principles published on 14 Feb. 2024 NCR's Group and Government Support Rating Methodology published on 14 Feb. 2024</p> <p>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).</p>
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 have been provided in the last 12 months.
Regulations:	This rating was issued and disclosed under Regulation (EC) No 1060/2009.
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