MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook on EDF to negative, affirms ratings

24 Apr 2020

Paris, April 24, 2020 -- Moody's Investors Service, (Moody's) has today changed the outlook for Electricite de France (EDF) to negative from stable and affirmed the A3 long-term issuer and senior unsecured ratings, the Baa3 perpetual junior subordinate debt ratings and Prime-2 short-term ratings.

The rating action follows EDF's announcement[1], on 16 April 2020, significantly reducing its guidance for nuclear output to 300 Terrawatt hours (TWh) in 2020 and 330-360 TWh in 2021-2022 from 375-390 TWh, as a result of confinement and staff protection measures which will disrupt the planned maintenance of the nuclear fleet and 10-year inspection outages.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

RATIONALE FOR THE NEGATIVE OUTLOOK

The rapid and widening spread of the coronavirus outbreak, a deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. Although the sector as a whole has reduced its exposure to commodity-driven activities, electricity utilities are facing depressed demand, lower wholesale power prices and operational challenges with elevated political risk as governments seek to shield consumers from the economic fallout. Moody´s regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety.

Today's change in outlook reflects that the material drop in nuclear output, as a result of coronavirus, and lower wholesale power prices will weigh on EDF's financial flexibility and increases the risk of key credit metrics falling below levels commensurate with current ratings. The action also takes into account that the pandemic may delay changes to the economic regulation of nuclear generation assets in France. If implemented, proposals published by the French government could support earnings visibility for nuclear generation, a key driver of EDF's EBITDA, and provide a solution for the company's persistently negative free cash flow generation.

Generation volumes 20% lower than previously anticipated, supplemented with a c. 12% fall of European forward power prices since beginning of 2020, will significantly reduce EDF profitability given the essentially fixed cost structure of the group.

This happens in a context of a reconsideration of the functioning of the French electricity market. The French government has initiated a review of the economic regulation of nuclear generation with a view to providing financial relief to EDF and boosting its cash flow generation to support its large capital expenditure programme. It is anticipated that new regulation will be combined with a restructuring of the EDF group into two distinct entities: (1) EDF Blue, potentially 100% held by the government, holding the French and international nuclear, hydroelectric activities, Framatome and RTE; and (2) EDF Green holding renewables (excluding hydroelectric activities), customers and services activities, Enedis and international activities. The latter would be a 65%-70% subsidiary of the former, with the remaining capital being free float.

The initial timetable assumed implementation by beginning of 2022. The deterioration in the outlook for the French economy and the need for government to deal with other consequences of the coronavirus outbreak could result in delays to the planned reforms. In the meantime, and absent other measures, Moody's anticipates that EDF will continue to have negative free cash flow (FCF) and increasing debt.

RATIONALE FOR AFFIRMATION OF RATINGS

EDF's A3/P-2 ratings continue to reflect a standalone credit quality or baseline credit assessment (BCA) of baa2 and Moody's expectation that the Government of France (Aa2 stable), EDF's majority shareholder, would continue to provide support if needed.

The baa2 BCA is constrained by (1) EDF's fixed-cost merchant power generation in France and the UK, which exposes it to power price volatility; (2) increasing competition in the French supply market; (3) a significant capital spending programme which results in negative FCF; and (4) the construction risk associated with the Flamanville new nuclear reactor in France and the Hinkley Point C (HPC) new nuclear project in the UK.

These challenges are balanced by (1) the scale and breadth of EDF's businesses in France, which account for more than two-thirds of its EBITDA; (2) the stabilising contribution to earnings from its domestic regulated activities and renewables business, which together account for around 40% of the group's EBITDA; and (3) its geographical diversification because of its sizeable positions in other European countries.

LIQUIDITY

EDF's liquidity is underpinned by its material cash flow, large holdings of cash and cash equivalents, and committed bank facilities. As of 31 Dec. 2019, the group had €22.8bn of cash and cash equivalents and liquid financial assets. In addition, unused committed credit facilities amounted to €10.5bn, of which €1.4bn mature within one year. In July, the group added two €300m sustainable revolving credit facilities to its liquidity availability. We believe that these sources of liquidity are sufficient for the group to meet short-term debt maturities of €11 bn, as well as capital spending and any dividend payment for 2020 over the next 18 months. In addition, EDF's debt maturities are well spread, avoiding any significant concentration of refinancing risk.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward rating pressure is unlikely in the medium term, given the group's negative outlook. Nevertheless, the oulook could stabilise if as planned, reforms or other measures will support EDF's business model and financial profile and it appears that EDF will be able to maintain metrics in line with guidance for the current rating, based on a FFO/net debt ratio to remain at least in the mid-to-high teens in percentage terms.

The ratings could be downgraded if (1) EDF's credit metrics appear likely to fall persistently below guidance for an A3 rating, (2) a change in the group's relationship with the French government were to cause us to remove the uplift for government support, or (3) there were to be a significant downgrade of France's government rating.

With a reported EBITDA of EUR16.7 billion as of 31 Dec. 2019 and net installed generation capacity of 131 gigawatts (GW) as of year-end 2019, Electricite de France (EDF) is one of Europe's largest integrated utilities, providing electricity generation, distribution and supply services. The group is organised along the following business lines: (1) France - generation and supply, where it is the dominant power generator and supplier; (2) France - regulated, which primarily includes electricity distribution through its subsidiary Enedis; (3) UK, through EDF Energy, the country's largest generator following the acquisition of British Energy; (4) Italy, where it is the third-largest generator through Edison S.p.A. (Baa3 positive); (5) other international, which mainly consists of operations in Northern Europe, in particular in Belgium where EDF Luminus is the second largest electricity supplier in the Belgium market; (6) EDF Renouvelables (EDFR), the group's wholly owned investment vehicle for renewables, excluding hydro; and (7) other activities, which include Framatome, EDF Trading Limited (Baa2 stable) and energy services through Dalkia.

LIST OF AFFECTED RATINGS

..Issuer: Electricite de France

Affirmations:

.... LT Issuer Rating, Affirmed A3

....Senior Unsecured Regular Bond/Debenture , Affirmed A3

....Senior Unsecured Shelf, Affirmed (P)A3

....BACKED Senior Unsecured Shelf, Affirmed (P)A3

....Senior Unsecured Medium-Term Note Program, Affirmed (P)A3

....BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)A3

....Junior Subordinated Regular Bond/Debenture, Affirmed Baa3

.....Commercial Paper, Affirmed P-2

....BACKED Commercial Paper, Affirmed P-2

Outlook Actions:

..Issuer: Electricite de France

....Outlook, Changed To Negative From Stable

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1066389, and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

REFERENCES/CITATIONS

[1] PR EDF_Update on the consequences of the Covid-19 sanitary crisis 16-Apr-2020

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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