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Research Update:

Electricité de France Placed On CreditWatch Negative On Nuclear Outages And Adverse Political Decisions

January 17, 2022

Rating Action Overview

- On Jan. 13, 2022, French integrated power utility Electricité de France S.A. (EDF) revised down its French nuclear output for 2022 to 300-330 TWh from 330-360 TWh mainly because of defaults that prolonged outages for five of EDF's 56 French nuclear reactors. Significant downside risk remains on nuclear availability on 2022-2023 because EDF is checking other reactors for similar defaults and has yet to communicate the final date of these reviews.
- On the same day, the French government announced that the volumes of regulated access to historic nuclear energy (ARENH) EDF must deliver to alternative suppliers from April to December 2022 will be increased by 20 TWh to 120 TWh, and that the regulated customer yearly tariff increase for February 2022 will be capped at 4%, with a postponement to February 2023 of any new increase in regulated prices.
- Based on our preliminary estimations, the combined impact of these recent developments could cut EDF's 2022 EBITDA, as adjusted by S&P Global Ratings, by €10 billion-€13 billion from our previous assumption of €17.9 billion because EDF will have to purchase significant additional electricity volumes in the market at elevated prices. The profit warning arrives during the group's inflexible capital expenditure program of about €17 billion expected for 2022.
- As a result, we put on CreditWatch with negative implications our 'BBB+' long-term rating on EDF, 'BB+' long-term rating on EDF Energy PLC and EDF Energy Customers PLC, as well as our 'BBB+' issue rating on the group's senior unsecured bond and 'BB-' issue rating on its junior subordinated debt.
- The CreditWatch reflects the significant burden on EDF's earnings in 2022 and that there is a high degree of uncertainty on the company's remedy measures and the type, timing, and amount of potential government support. At this stage, we see rating downside potential limited to one notch.

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Rating Action Rationale

The CreditWatch placement follows EDF's announcement on the outages of its fleet and news of negative government intervention. On Jan. 13, 2022, EDF revised down its French nuclear output for 2022 to 300-330 terawatt hours (TWh) from 330-360 TWh. This stems from the discovery of corrosion defects during maintenance checks on one additional reactor (Penly), prolonging the outage periods at five of EDF's 56 French nuclear reactors. We note EDF is undergoing a thorough review of its nuclear fleet that could lead to even lower output for 2022, from our current assumptions. On the same day, the French government announced its plans to increase the ARENH volumes EDF delivers to other suppliers in 2022 by 20 TWh to 120 TWh. The extra volume is set at a fixed price of €46.2/MWh (compared with €42/MWh on the existing 100TWh). These extra volumes are set to be delivered over April-December 2022, and we understand that the increased volume is a one-off, unlikely to be rolled over in 2023. We understand EDF will have to purchase significant additional volumes of electricity on the market, in a very volatile and materially high power price environment, while selling at much lower contracted price. The government also announced that the regulated customer yearly tariff increase for February 2022 will be capped at 4%, with a postponement to February 2023 of any additional increase. This may imply a €2 billion of additional costs for EDF in 2022, to be recovered in 2023.

These developments could have a combined impact of €10 billion-€13 billion on EDF's reported EBITDA in 2022, compared with the expectation of about €18 billion for the year. As a result of the significant drop in profits, EDF announced the suspension for 2022 of its financial policy target of net debt to EBITDA below 3.0x and that it would present remedy measures alongside its 2021 results on Feb. 18, 2022. Following this profit warning, we expect EDF's 2022 credit metrics will deteriorate markedly below the ranges we consider commensurate with the current ratings. We also anticipate a significant increase in S&P Global Ratings-adjusted debt since free cash flows will be materially negative this year. The latter is due to an inflexible investment program, with estimated capital expenditure of about €17 billion for 2022.

Timely remedy measures will be critical to maintaining the current rating. We note EDF has publicly stated that it will announce remedy measures to mitigate the impact of the nuclear outages on the company's profitability and credit metrics. In our view, the magnitude of the announced profit warning warrants extraordinary measures. Furthermore, there's a possibility that downside risks will persist in 2023 since operational woes from the nuclear fleet could extend into next year. Moreover, we note that the delayed start of production at Flamanville 3 will reduce 2023 output. This suggests that, even if remedy measures are effective, EDF is likely to face limited to no rating headroom in 2023, ultimately resulting in a downgrade. Because we view the current profit warning related to the negative state intervention as a one-off, we see rating downside potential limited to one notch.

CreditWatch

The CreditWatch placement captures the risks related to prolonged lower nuclear availability, a sharp EBITDA decline for 2022, and the uncertainty on measures to restore EDF's credit metrics. We expect to resolve the CreditWatch when we have more clarity on the updated financial impacts, to be shared by the company during its full year presentation on February 18. We will also weigh in any announcement of potential remedy measures, from the company or from the government, as well as any possible government support.

We will also need greater visibility on EDF's industrial performance over the short and medium term, notably:

- The extent, timing, and length of nuclear outages.
- How much electricity will be bought in the power markets considering volatile market conditions and continuously upward trending prices.

We will reassess our base case if EDF announces additional outages as part of its annual review of the nuclear fleet. At this point in time, we see rating downside potential limited to one notch.

Company Description

EDF is an integrated energy company operating in a wide range of electricity-related businesses: Generation, distribution, supply, and energy trading. It is France's dominant electricity operator and has strong positions in the U.K. through EDF Energy, and in Italy through fully owned Edison, making it the world's leading electricity player. The group also manages the low- and medium-voltage public distribution network in France through its subsidiary Enedis, with a regulated asset base (RAB) of about €53.7 billion at year-end 2020. French regulated activities accounted for 32% of 2020 EBITDA versus 31% in 2019.

With worldwide net installed capacity of 128 gigawatts (GW) as of Dec. 31, 2020, and global energy generation of 502TWh, EDF has the largest generating capacity of all the major European utilities. The EDF group supplies electricity, gas, and associated services to about 40 million customer accounts worldwide, of which more than two-thirds are in France. It has a significant proportion of nuclear and hydroelectric power in its generation mix (respectively, 76% and 10% of electricity output, in 2020). Notably, EDF operates 56 nuclear reactors in France and eight in the U.K., with a total capacity of 69GW. French generation and supply activities accounted for 46% of 2020 EBITDA--the same as in 2019--while the U.K. and Italy accounted for 5% and 4%, respectively.

EDF Renewables, which develops French and international new renewables activities--total net installed capacity of 8.6 GW, mostly wind--represents 5% of 2020 EBITDA. The other activities segment represents 7% of EDITDA. This includes Dalkia, which focuses on energy services as well as heating and cooling networks (2% of 2020 EBITDA); and EDF Trading, which provides market, optimization, and risk management services via wholesale energy market operations.

At end-2020, EDF reported revenue of €69 billion, EBITDA of €16.2 billion, and net financial debt of €43 billion. The group is listed on Euronext, with a market capitalization of €37 billion as of June 2021. The French government is the main shareholder, with 83.68% of EDF shares as of Dec. 31, 2020.

Liquidity

We continue to assess EDF's liquidity as strong given the group's ample and diversified liquidity sources. We forecast that liquidity sources will exceed uses by more than 1.5x over the 12-24 months from Jan. 1, 2022. Our assessment is further supported by EDF's consistently substantial cash balances, solid relationships with banks, and ample and proven access to capital markets, even under dire conditions.

We expect the following principal liquidity sources for the 12 months from Jan. 1, 2022:

- Cash and cash equivalents of 24.4 billion;
- €10 billion in available (or soon to be renewed) committed credit lines maturing beyond March 31, 2022; and
- Estimated cash funds from operations of €1 billion-€3 billion.

For the same period, we expect the principal liquidity uses will include:

- Debt maturities of about €3.1 billion.
- Estimated capex of about €17.0 billion-€17.5 billion; and
- Cash dividends of about €1.7 billion, including dividends on hybrids and dividends to minorities.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- ESG Credit Indicator Report Card: Power Generators, Nov. 18, 2021
- Electricite de France S.A., June 30, 2021
- The Energy Price Crisis: Examining The Impact On U.K. Suppliers, Sept 30, 2021

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Electricite de France S.A.		
Issuer Credit Rating	BBB+/Watch Neg/A-2	BBB+/Stable/A-2
EDF Energy Customers Ltd.		
Issuer Credit Rating	BB+/Watch Neg/NR	BB+/Stable/NR
EDF Energy Ltd.		
Issuer Credit Rating	BB+/Watch Neg/B	BB+/Stable/B
Electricite de France S.A.		
Senior Unsecured	BBB+/Watch Neg	BBB+
Junior Subordinated	BB-/Watch Neg	BB-
Commercial Paper	A-2	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.