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Research Update:

Electricite de France Placed On CreditWatch Negative On Further Nuclear Issues And Increase In Debt

May 24, 2022

Rating Action Overview

- Prompted by ongoing issues with stress corrosion identified or suspected at 12 of its 56 nuclear reactors, French integrated power utility Electricité de France S.A. (EDF) has revised down by 15TWh its anticipated domestic nuclear output for 2022 to 280TWh-300TWh, and it reported additional commissioning delays at its Hinkley Point C new nuclear build in the U.K. and additional capital expenditure (capex) of about £3 billion (in 2015 pounds).
- Additional domestic and U.K. capex will add to the group's inflexible investment program of about €17 billion expected annually from 2022, leading us to anticipate for 2022 a mid-to-single digit billion-euro EBITDA loss and an increase in S&P Global Ratings-adjusted debt to more than €96 billion, reflecting the substantial additional electricity volumes EDF has to purchase in 2022, in the market at very high prices.
- In our view, these developments, alongside the uncertainty on the company's remedy measures and the type, timing, and amount of any new government support, this creates significant downside risk to EDF's credit metric recovery. Also, the risk on nuclear availability for 2023, as the company continues its inspection, weighs on the business risk profile.
- Consequently, we placed on CreditWatch with negative implications our 'BBB/A-2' ratings on EDF and 'BB' ratings on EDF Energy PLC and EDF Energy Customers PLC. We also placed on CreditWatch negative our 'BBB' long-term ratings on Edison SpA, since the entity's creditworthiness is capped at the level of EDF's.
- The CreditWatch indicates the possibility of a one-notch downgrade, and we will monitor developments over the next six months.

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Rating Action Rationale

The CreditWatch placement follows EDF's announcements on further outages of its domestic fleet and of issues at its U.K. new-build project. On May 19, 2022, EDF revised down its French nuclear output for 2022 by 15 terawatt hours (TWh) to 280TWh-300TWh. The revision was prompted by the discovery, during maintenance checks, of further corrosion defects and ensuing repair needs, prolonging outages at 12 of EDF's 56 reactors in France. This compares to a production of 361TWh in 2021. The following day, EDF reported additional delays for the commissioning of its two-tranche, 3.2-gigawatt Hinkley Point C new nuclear build in the U.K. The first unit is now planned for commissioning in June 2027, a year later than slated during the last update, making this the third delay since the original proposal. Furthermore, EDF announced additional capital spending of about £3 billion, as fixed per the value in 2015, bringing the total investment to £25 billion-£26 billion (at 100%; EDF owns 66.5% of the project). This comes after EDF's March announcement that the additional 20TWh ARENH volumes the company has to deliver to other suppliers in 2022 will be sold at a fixed price of €46.2/MWh, way below their cost to EDF. Meanwhile, the cost of the additional 20TWh volumes EDF must deliver to alternative suppliers over April-December 2022 was set at €257/MWh (see "Electricite de France S.A.'s 2022 Financials Are Set To Further Deteriorate," published March 15, 2022, on RatingsDirect). Because EDF continues to conduct a thorough review of its nuclear fleet, we cannot exclude further output downside for 2022 or 2023.

These developments are likely to translate to a mid to-single-digit billion-euro EBITDA loss, as well as a substantial increase in S&P Global Ratings-adjusted debt in 2022-2023. The significant drop in profits leads us to anticipate a deterioration in EDF's 2023 credit metrics to ranges below the thresholds for the current ratings. Specifically, adjusted leverage could exceed 5.5x and adjusted debt could reach as high as €100 billion. This is despite the recent €3.1 billion equity increase and reflects our expectations of markedly negative free cash flow in 2022 and somewhat negative in 2023.

Industrial challenges at EDF's French nuclear fleet raise concerns on the resilience of the group's domestic nuclear generation. The stress corrosion is proving to be a major quality deviation issue hurting a large part of EDF's French nuclear fleet. In its public hearing to the Senate last week, the French nuclear safety authority (ASN) declared that fixing corrosion problems found on some of EDF's reactors would require a large-scale plan and could take several years. According to ASN, EDF's 900MW reactors (32 in total) tend to be less affected, or not at all, by these corrosion issues. Uncertainty remains on the nuclear availability from 2023 on for two reasons. First, EDF is expected to check more than 100 weldings by end-June, exposing the group to unplanned outages, depending on the outcomes of these checks. Second, the 1,300MW reactors will be inspected during their maintenance schedule, potentially causing outages in 2023. Furthermore, as the scope and perimeter are still not fully defined, the extent of capital expenditure needed for the repairs remains unknown.

Timely solutions will be critical to maintaining the current ratings. We will assess potential remedy measures, implemented by EDF or the government, that could mitigate the impact of the outages on profitability and credit metrics, pending any clarifications of the next government's intentions. We also acknowledge the existing downside risks to production and credit metrics in 2023.

CreditWatch

The CreditWatch captures the risks that reduced nuclear availability in France could prevent EDF's credit metrics from recovering to levels consistent with current ratings. For 2023, we see prospects for adjusted leverage to exceed 5.5x and adjusted debt to exceed €100 billion. Such metrics would not be commensurate with our current 5.0x leverage expectation for our 'bb' assessment of EDF's stand-alone credit profile (SACP). Barring a change in our views on extraordinary government supports, a one-notch downward revision of EDF's SACP would lead to the same action on the long-term rating.

We expect to resolve the CreditWatch once we have more clarity on the updated financial impact and expectations for 2023. We will also weigh in any announcement of potential remedy measures, from the company or from the newly formed government in France.

We will also assess the visibility on industrial performance over the short to medium term, notably:

- The extent, timing, and length of nuclear outages; and
- How much electricity will be bought on power markets in potentially adverse conditions.

At this point in time, we see rating downside potential limited to one notch. We will monitor developments over the coming six months.

Company Description

EDF is an integrated energy company operating in a wide range of electricity-related businesses: generation, distribution, supply, and energy trading. With a market capitalization of approx. €30 billion in May 2022, it is 84% owned by the French government. 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 largest electricity player with net installed capacity of 123 gigawatts (GW), and global energy generation of 524TWh, 78% of which nuclear and one-tenth hydro. Absent significant outages, France contributes almost nine-tenths of generation and supply EBITDA.

EDF Renewables, with global net installed capacity of 8.6 GW (mostly wind) typically contributes approx. 5% to group EBITDA, slightly less than EDF's other activities, which include Dalkia (energy services and heating and cooling networks) and EDF Trading, which provides market, optimization, and risk management services via wholesale energy market operations.

EDF manages France's low- and medium-voltage public distribution network through Enedis, with a regulated asset base of €53.7 billion. French regulated activities account for approximately one-third of EBITDA.

Liquidity

We regard EDF's liquidity as adequate. Our assessment balances the group's strong cash position, bolstered by very active recent refinancings, solid relationships with banks, and a track record of ample access to capital, including as a strategic GRE for the French government, with considerable negative free cash flow and significant debt maturities in 2022.

ESG credit indicators: E-3, S-3, G-4

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, 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
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Electricite de France S.A.'s 2022 Financials Are Set To Further Deteriorate, March 15, 2022
- Electricite de France Downgraded To 'BBB' From 'BBB+' On Strong Debt Increase In 2022-2023; Outlook Negative, Feb. 21, 2022

Ratings List

Ratings Affirmed; CreditWatch Action

	To	From
Edison SpA		
Electricite de France S.A.		
Issuer Credit Rating	BBB/Watch Neg/A-2	BBB/Negative/A-2

Ratings Affirmed; CreditWatch Action

	To	From
EDF Energy Customers Ltd.		
Issuer Credit Rating	BB/Watch Neg/--	BB/Negative/--
EDF Energy Ltd.		
Issuer Credit Rating	BB/Watch Neg/B	BB/Negative/B
Electricite de France S.A.		
Senior Unsecured	BBB/Watch Neg	BBB
Junior Subordinated	B+/Watch Neg	B+
Commercial Paper	A-2/Watch Neg	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; or Stockholm (46) 8-440-5914