

ISSUER COMMENT

7 July 2022



RATINGS

Electricite de France

Domicile	Paris, France
Long Term Rating	Baa1
Type	LT Issuer Rating
Outlook	Negative

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Electricite de France

Renationalisation would be credit positive, subject to the scale of additional financial support

On 6 July 2022, French Prime Minister Elisabeth Borne announced in her policy speech in parliament that the [Government of France](#) (Aa2 stable) intends to hold 100% of the share capital of [Electricite de France](#) (EDF, Baa1 negative), up from 83.88% currently. The purpose of this renationalisation is to fully control EDF, drive its operational performance, and provide it with the financial means to develop new power capacities in France, including nuclear power generation. We do not expect EDF's governance to be materially affected because the group is already controlled by the French government whilst its strategy is also driven by the French government. If successful, a renationalisation would be credit positive because it would further evidence the French government's strong support for EDF. Such support was demonstrated recently with the state participating in EDF's share capital increase in April 2022; and Prime Minister Borne confirmed that EDF will receive additional financial support from the government following the planned renationalisation.

Prime Minister Borne is in favour of "strong and radical decisions with regards to energy and electricity production" and highlighted the need for "ambitious" projects in the electricity sector in France. This echoes the contemplated changes in the multi-year energy plan that President Macron has been pushing for, including the construction of six (and potentially up to 14) new European Pressurised Reactors (EPRs) in France. At the same time, Prime Minister Borne has not unveiled yet the chosen route to renationalise EDF, which can be completed through either (1) the purchase on the market of minority interests. This option could be faster, subject to the offered price; or (2) the promulgation of a law, which would convey a strong political message. However, given that the current government has no parliamentary majority, the ability to pass a law at the National Assembly is at this stage uncertain.

The timetable of the proposed renationalisation and its implications on EDF's strategic update and potential corporate restructuring are still unclear. The priority of the current government will likely be to build new nuclear and renewable capacities in France, while preserving affordability through measures to protect end-customers against the skyrocketing power prices, which have been exacerbated in France by the uncertainties surrounding nuclear output in the forthcoming months. One-year forward wholesale power prices in France currently exceed €400/MWh, compared with €46.2/MWh offtake price for the 20 TWh ARENH supplement decided by the French government in January 2022.

Finally, the renationalisation is unlikely to significantly impact the negotiations about the nuclear reform that the French government intends to resume with the European Commission. This is because the negotiations will likely continue to focus on (1) a fair

assessment of the price of the power generated by EDF's existing nuclear fleet on the one hand and by EDF's future nuclear reactors on the other; and (2) the future corporate structure of EDF, whose vertical integration is strongly backed by the government, management and unions.

The announcement of the proposed renationalisation occurs in a context of an ongoing deterioration of the group's credit profile resulting from reduced and unpredictable nuclear output combined with large spending to maintain and develop nuclear capacities among other. We expect that EDF's 2022 credit metrics will fall significantly short of levels consistent with the baa3 Baseline Credit Assessment (BCA), with funds from operations (FFO)/net debt potentially negative; which compares with our ratio guidance of mid-to-high teens in percentage terms. This is despite planned mitigation measures including the €3.15 billion completed capital increase, the prolonged scrip dividend policy over 2022-23 and a €3 billion disposal programme to be implemented over 2022-24.

Moody's related publication

Credit Opinion:

» [Electricite de France: Update following downgrade to Baa1 with negative outlook](#), 25 February 2022

Issuer Comment:

» [Electricite de France: Further cut in anticipated nuclear output is credit negative](#), 20 May 2022

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