FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms EDF's IDR at 'BBB+'; Outlook Stable

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Fitch Ratings - Barcelona - 03 Apr 2023: Fitch Ratings has affirmed Electricite de France's (EDF) Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook. Fitch has also upgraded the Short-Term IDR to 'F2' from 'F3'.

The upgrade of the Short-Term IDR reflects Fitch's expectations that the state support will also flow to the short-term debtholders, therefore, we now derive EDF's short-term rating from its Long-Term IDR, rather than the Standalone Credit Profile (SCP; bbb-).

The affirmation of the IDR mainly reflects the favourable pricing environment, which mitigates the risk of lower than expected production, due to the new corrosion problems. Fitch has taken cautious assumptions for 2023, which would accommodate further outages, in combination with conservative realised price assumptions. This translates into a funds from operations (FFO) net leverage of around 5.0x in 2023. Fitch expects FFO net leverage to trend towards 4.0x thereafter, against the negative sensitivity of 4.7x, driving the Stable Outlook.

The rating continues to factor in two-notch uplift to EDF's SCP, reflecting the links with the stronger sovereign. This assessment already assumes the full nationalisation of the company.

KEY RATING DRIVERS

Operational Risk Is Key Threat: The state of the fleet continues to remain the key risk for EDF, in Fitch's view. The newly detected cracks at Penly 1 due to stress corrosion will trigger checks on 320 welds across the entire fleet, further reducing the visibility of nuclear output. EDF envisages to conclude the control of most of the 69 highly sensitives welds in 2023. This comes on top of the previous stress corrosion episodes at the beginning of 2022, which was the main cause of a production drop to 279TWh in 2022 (versus average 2017-2021 of 370TWh).

Low Production Visibility for 2023: At present, EDF has reaffirmed the French nuclear production target at 300-330TWh for 2023. However, a material downside risk remains in our view, due to more numerous and/or longer than expected outages. Fitch expects the French Nuclear Safety Authority (ASN) to provide more visibility on the control program of the fleet during 2Q23. Until then, we are taking a more conservative approach for 2023 and assume nuclear output below the public guidance, to ensure that our rating would accommodate reasonable additional outages.

Price Environment Mitigate Downside Risk: A reasonably conservative assumption on production (not far from 2022 level) would still result in a Fitch-defined EBITDA of about EUR20 billion and an FFO-net leverage of around 5.0x for 2023. This mainly reflects the regulated tariff increase of 15% yoy in France (with the energy price component cashed-in by EDF to increase much more yoy), high forward prices, a more profitable hedging position and materially lower risks deriving from over-hedging compared to 2022. Our assumptions also take into account risks associated with windfall taxes. Conversely, we see significant cash flow upside if the controls are performed as planned by the company and the current production guidance is met.

Favourable Mid-Term Perspectives: Fitch assumes healthy but socially sustainable prices to persist in the mid-term, and support EDF's cash flow generation. We forecast a Fitch-defined EBITDA of around EUR24 billion in 2024 and EUR27 billion in 2025, due to production assumption of about 315TWh (low range of company's expectations) and 339TWh in 2024 and 2025, respectively, while assuming prices of around EUR90/MWh for the merchant sales and ARENH to continue normally. This would lead to an FFO-net leverage of around 4.0x, against the negative sensitivity of 4.7x.

Post-ARENH, New Nuclear: The ARENH framework will be concluded at the end of 2025. Although there is low visibility on the future framework, we see a material upside for the company from 2026, in light of the expected price trend, the increasing importance of EDF for European security of supply and the acknowledgement that price visibility is fundamental to enhance France's nuclear ambitions. On the investments side, the key unknown is related to the funding structure and the remuneration scheme of the new nuclear plants which France targets to commission in the next decade.

GRE Rating Uplift Unchanged: The rating continues to incorporate a two-notch uplift for state support under Fitch's Government-Related Entities (GRE) Rating Criteria. This reflects the assessment of status, ownership and control as 'Very Strong', with 'Moderate' support record and expectations and socio-political impact of default and 'Weak' financial implications of a default for the French state. The full nationalisation is factored in the IDR. The current delays to finalize the transaction do not affect our assessment of the GRE links.

New Plants Burden Balance Sheet: Based on our estimate, more than half of EDF's reported net debt in 2022 was related to the new nuclear plants of Flamanville and Hinkley Point C (HPC), both burdened by massive delays and extra costs.

Following another cost review in December 2022, Flamanville saw an estimated construction cost increase of EUR0.5 billion (2015 real terms) compared with previous estimates, with the fuel-loading further postponed to 1Q24 and full-year contribution from 2026 (about 12TWh). At HPC, EDF will be required provide additional equity to cover cost overruns. The commissioning of these assets would give a better picture of the company's financial structure.

Short-Term Rating Upgraded: EDF's Short-Term IDR is now derived from its Long-Term IDR, rather than the SCP, resulting in an upgrade to 'F2' from 'F3'. This reflects our expectations that the state support will also flow to the short-term debtholders, if needed. The 'F2' rating also reflects our assessment of both Financial Flexibility and Financial Structure factors in our Rating Navigator at 'bbb+'.

DERIVATION SUMMARY

Fitch estimate regulated and contracted EBITDA at 30%-40% of EDF's total under normal business conditions, well below that of peers Engie S.A. (A-/Stable), Enel S.p.A. (BBB+/Stable) and Iberdrola, S.A. (BBB+/Stable). EDF's weaker business profile (also due to higher operational risk entailed in its investment plan and asset base) and the large negative FCF expected across its business plan in the rating case drive its lower debt capacity versus peers. The FFO net leverage threshold between 'BBB+' and 'BBB' is 4.9x for Enel, Iberdrola and Engie (nuclear-adjusted), while EDF has a threshold of 4.7x between 'bbb-' and 'bb+' (on a SCP basis).

Consequently, EDF's SCP is weaker than the ratings of Engie, Enel and Iberdrola. EDF's IDR benefits from a two-notch uplift, due to the application of Fitch's GRE Rating Criteria (not a relevant feature for the peers).

KEY ASSUMPTIONS

A Fitch's Key Assumptions Within Our Rating Case for the Issuer:

--Absence of further state intervention on ARENH; 15% cap in regulated tariff in 2023 founded through tax offsets, 4% cap in 2024, no tariffs cap thereafter;

--French nuclear output conservatively below the public guidance range in 2023, 315TWh for 2024; and 339TWh in 2025. French hydro output at 40TWh for 2023-2025;

--Market prices at EUR90/TWh from 2024, which should not trigger any windfall tax on nuclear (assuming it would be extended over 2024-2025, which is unknown at the moment);

--French regulated activities' EBITDA CAGR of about 1% to 2025;

--UK nuclear output declining, with an average of 34TWh in 2023-2025;

--Cash tax rate as per management guidance;

--No regulatory allocations to dedicated assets for 2023-2025;

--Annual net capex of about EUR22 billion for 2023-2025;

--Scrip dividends for 2023, EUR6.7 billion of cumulative cash dividends in 2024-2025;

--Disposals of about EUR3 billion per year in 2023-2025.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Sustained record of stabilised nuclear production in France;

--Stronger links with the state;

--FFO net leverage below 4.0x on a sustained basis.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Long-term reduction of available generation capacity from the existing fleet in France and weaker assessment of EDF's asset base;

--FFO net leverage above 4.7x on a sustained basis;

--Unexpected political measures similar to those taken in 2022;

--Failure to implement the nationalisation.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Liquidity Reliant on New External Debt: At 31 December 2022, EDF had readily available cash comprising cash and cash equivalents of EUR10.4 billion, (Fitch-defined) liquid assets of EUR15.3 billion and committed undrawn facilities of EUR14 billion, including EUR2.6 billion that is maturing within a year.

This means that additional external debt would be required in order to cover scheduled debt maturities of EUR27 billion for 2023, and expected negative Fitch-defined FCF of about EUR19.5 billion for the same year.

ISSUER PROFILE

EDF is a global leader in low-carbon electricity production and supply. It is particularly well established in Europe, especially in France, the UK, Italy and Belgium, as well as North and South America.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Electricite de France (EDF)	LT IDR	BBB+ Rating Outlook Stable	Affirmed	BBB+ Rating Outlook Stable
	ST IDR	F2	Upgrade	F3
senior unsecured	LT	BBB+	Affirmed	BBB+
subordinated	LT	BBB-	Affirmed	BBB-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

Corporate Hybrids Treatment and Notching Criteria (pub. 12 Nov 2020)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 01 Dec 2021)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub. 28 Oct 2022)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Electricite de France (EDF)	EU Issued, UK Endorsed

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European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

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