FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Barcelona - 28 Mar 2024: Fitch Ratings has affirmed Electricite de France's (EDF) Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook. Fitch has also affirmed the Short-Term IDR at 'F2'. A full list of rating actions is below.

The affirmation of the IDR mainly reflects the strong operating performance in 2023 and the moderate funds from operations (FFO) net leverage metrics, which we expect will remain below 4.0x until 2026. The rating action also considers the possibility of rising capex in 2025-2030, if the investment plan related to the new nuclear reactors in France is implemented. We assume that any final investment decision about the new nuclear reactors in France will be dependent on the material involvement of the French state, allowing EDF to preserve a sustainable financial structure.

The rating continues to factor in a two-notch uplift to EDF's Standalone Credit Profile (SCP) of 'bbb-', reflecting the links with the stronger French sovereign (AA-/Stable).

KEY RATING DRIVERS

Moderate Leverage Over the Medium Term: The strong 2023 results led to FFO net leverage falling to 1.5x. We expect it to increase and remain in the 3.0x-3.5x range until 2026, significantly below recent levels, and broadly in line with EDF's guidance of net financial debt/EBITDA of below 2.5x. While this is credit-positive, it is not sufficient for a positive rating action, given the ongoing problems at Hinkley Point C (HPC), the uncertainty around the financing of new nuclear plants in France, and the low visibility for after the three-year forecasting horizon.

Improved Fleet Availability: At the beginning of 2024, 46 out of 56 reactors were online. Moreover, only one of the 16 reactors most sensitive to the stress corrosion issues is still undergoing preventive replacement of the sensitive sections. The remaining less-sensitive reactors will be assessed during the scheduled outages, ongoing up to 2026. The programme related to checking the welds repaired at construction has largely been completed, with 90% of the most sensitive welds already checked. EDF will have a fairly light outage schedule over the coming years, supporting its aim for nuclear output of 335TWh-365TWh for 2025 and 2026.

French Nuclear Investment Cycle: EDF is likely to start a multi-decade investment cycle focused on renewing the French nuclear fleet, with the target of building six to 14 new reactors. We expect this to be a significant burden for the company given the amount of capex that will need to be deployed, and the huge delays and cost overrun experienced by recent nuclear projects across Europe. We believe that EDF's leverage could be materially affected by this project for a very long period. Fitch expects yearly capex levels to increase to about EUR25 billion up to 2026.

New Nuclear Financing: Fitch expects some form of state support for EDF in its investment efforts for new nuclear, as highlighted by the French president in the Belfort speech in early 2022. The terms of support will determine the impact of the final investment decision - both on the SCP of the company and on the uplift for state support, based on our Government-Related Entities (GRE) Rating Criteria.

Favourable Post-ARENH Framework: Fitch views the proposed French energy market reforms as credit-positive. The new market design, which envisages sales of nuclear production at market terms, should provide a material upside from 2026, compared to the current ARENH framework. The potential benefit is limited by progressive windfall taxes of 50% and 90% on nuclear generation sold above EUR78/MWh and EUR110/MWh (2022 real prices), respectively. These proposed thresholds are set above the unitary nuclear costs of EUR57-61/MWh (as estimated by the French energy regulator, including non-cash costs), thus allowing EDF to generate reasonable profits.

Contractually Driven Energy Market: Under the new market design agreement reached with the French government, EDF will be allowed to develop its commercial policy, whereby most of the nuclear volumes should be sold three to five years in advance to all market players, including alternative suppliers. A smaller portion of the generation should continue to be sold under nuclear partnerships while the remaining volumes should be sold spot, and hedged in line with EDF's policy. The new structure should support revenue visibility and protect EDF's earnings in a scenario of volatile energy prices.

HPC Cost Overruns Funded by EDF: The HPC project underwent another schedule and cost review in January 2024, resulting in construction costs rising by GBP6 billion-GBP9 billion (2015 real terms, including an additional GBP1 billion, in the unfavourable scenario), compared with the 2022 estimates. The total cost is now estimated at GBP31 billion-GBP35 billion (2015 real terms), while the commissioning of the first reactor was further postponed to 2029-2031, from 2027 previously.

Cost overruns will be fully equity funded by EDF, with China General Nuclear Power Corporation (A/Stable; holding a 32.3% stake in the project as of December 2023) not obliged to provide additional funding from now on, having already fulfilled its commitments. HPC will benefit from a contract for the difference with the UK government, where it is entitled to GBP92.5/MWh (2012 amounts) for 35 years (for the units commissioned in 2029).

Strong Performance in 2023: EDF registered a Fitch-adjusted EBITDA of EUR43 billion in 2023, due mostly to a 15% increase of the nuclear generation in France and the strong price level achieved, supported by the tariff shield in France and carried-over losses from 2022. To a lesser extent, the positive results were also supported by strong results in the UK - in turn due to a supportive price environment - and beneficial commercial dynamics in the customer segment. We view the performance of the last year as a one-off as it benefitted from very specific factors, as well as from a price environment that seems to be deteriorating compared to the exceptional 2022-2023 energy prices.

Updated GRE Criteria: The update to our GRE Criteria brought no changes to EDF's rating. We assess R1 - Decision-Making and Oversight at 'Very Strong', R2 - Precedents of Support at 'Strong', and both I1 - Preservation of Government Policy Role and I2 - Contagion Risk at 'Not Strong Enough', resulting in 'Moderate Expectations' of support and a score of 15, and a two-notch uplift to the IDR from the 'bbb-' SCP.

DERIVATION SUMMARY

We estimate regulated and contracted EBITDA at around 30% 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 in its investment plan and asset base), and the large negative free cash flow (FCF) expected across its business plan, drive its lower debt capacity versus peers. The FFO net leverage threshold between 'BBB+' and 'BBB' is 4.7x for Enel and Engie (nuclear-adjusted), and 5.1x for Iberdrola, 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 has a two-notch uplift, due to the application of Fitch's GRE Criteria.

KEY ASSUMPTIONS

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

- Absence of state intervention on ARENH; no impact on supply margins from the regulated tariff cap in 2024, reflecting declining power prices;

- French nuclear output conservatively below the public guidance range, 315TWh for 2024; 335TWh in 2025 and 335TWh in 2026. French hydro output at 38TWh for 2024-2026;

- Market prices at EUR143/MWh in 2024, EUR92/MWh in 2025, and EUR65/MWh in 2026, which should not trigger the potential post-ARENH levy in nuclear generation in 2026, reflecting our conservative price assumptions;

- Prices subject to the electricity generation levy of 50%, above the benchmark price of EUR94/MWh in 2024;

- French regulated activities' EBITDA reaching about EUR7.5 billion in 2026;

- UK nuclear output declining, with an average of 33TWh over 2024 to 2026;

- Cash tax rate as per EDF's guidance;

- No regulatory allocations to dedicated assets for 2024-2026;

- Annual capex of about EUR25.5 billion for 2024-2026;

- No dividends in 2024-2026; and

- EUR1.6 billion know-how payments from Sizewell C to HPC in 2024.

RATING SENSITIVITIES

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

- Clear investment plan covering the French new nuclear reactors, including credit-mitigating measures such as a financing framework that would protect EDF's financial profile during the construction and ramp-up phases, resulting in an FFO net leverage below 4.0x, over the long term; and

- Stronger links with the state.

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;

- Unexpected political measures similar to those taken in 2022 would be negative for the rating;

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

- Downgrade of the French sovereign rating, with no changes to the GRE assessment.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: At 31 December 2023, EDF had readily available cash comprising cash and cash equivalents of EUR10.4 billion, (Fitch-defined) liquid assets of EUR17 billion and committed undrawn facilities of EUR15.8 billion, including EUR4.8 billion that is maturing within a year. This means that EDF liquidity is insufficient to cover scheduled debt maturities of EUR16.3 billion in 2024 without resorting to additional debt issuance.

ISSUER PROFILE

EDF is a leading electricity company and low-carbon energy producer. It is particularly well-established in Europe, especially in France, the UK, Italy and Belgium, as well as North and South America. It covers all businesses spanning the electricity value chain, including energy-trading activities. It has over 40 million customer accounts and generates electricity mostly from nuclear sources.

Criteria Variation

N.A.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

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

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

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

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 13 Oct 2023) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 03 Nov 2023)

Government-Related Entities Rating Criteria (pub. 12 Jan 2024)

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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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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