FitchRatings

RATING ACTION COMMENTARY

Fitch Revises EDF's Outlook to Negative on Sovereign Action; Affirms IDR at 'BBB+'

Mon 28 Oct, 2024 - 11:19 AM ET

Fitch Ratings - Barcelona - 28 Oct 2024: Fitch Ratings has revised Electricite de France's (EDF) Outlook to Negative from Stable, while affirming its Long-Term Issuer Default Rating (IDR) at 'BBB+'. A full list of rating actions is below.

The Outlook revision is solely driven by the change in the Outlook on France's sovereign rating to Negative from Stable (IDR affirmed at AA-). The two-notch uplift to EDF's IDR from its 'bbb-' Standalone Credit Profile (SCP) would be reduced to one notch if the sovereign rating is downgraded to 'A+' based on our Government-Related Entities (GRE) Criteria, all else being equal.

EDF's SCP reflects our expectations that funds from operations (FFO) net leverage will be 3.5x from 2025, after a very strong 2023-2024, which is below its positive rating sensitivity of 4.0x. However, the SCP also considers the high likelihood of rising capex in 2025-2030 to support the development of new EPR2 reactors and the life extension of existing reactors.

We assume that any final investment decision regarding the new nuclear reactors in France will hinge significant involvement from the French government. This involvement would help EDF maintain a sustainable financial structure. A credit-supportive financing framework for new nuclear could also strengthen EDF's ties with the state.

KEY RATING DRIVERS

Outlook Change Mirrors Sovereign Action: EDF's Negative Outlook mirrors the Outlook revision on the French sovereign rating, as a sovereign rating downgrade to 'A+' from 'AA-') would also lead to a rating downgrade of EDF, all else being equal. This would reduce the notch difference between France's IDR and EDF's SCP to five notches, from six notches currently, and result in a single-notch uplift from EDF's SCP (versus the current two-notch uplift), assuming our GRE assessment remains unchanged.

UK Subsidiaries Ratings Not Affected: The UK subsidiaries EDF Energy Nuclear Generation Limited (BBB-/Stable), EDF Energy Holdings Limited (BBB-/Stable), EDF Energy Limited (BBB-/Stable) and EDF Energy Customers Limited (BBB-/Stable) are not affected by the rating action, as their ratings are aligned with EDF's 'bbb-' SCP.

Moderate Expectations of Support: EDF's IDR benefits from a two-notch uplift under Fitch's GRE Criteria. We assess decision-making and oversight as 'Very Strong', precedents of support as 'Strong', and preservation of government policy role and contagion risk as 'Not Strong Enough'. This results in 'Moderate Expectations' of support and a support score of 15, reflecting the historical support received by EDF but also the constraints on extraordinary support due to EU legislation.

Moderate Leverage in Medium Term: We expect EDF's FFO net leverage to rise towards 3.2x by 2025 from 1.5x in 2023, 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 an improvement of the SCP, given uncertainty around the level of investment and financing of new nuclear plants in France.

French Nuclear Investment Cycle: EDF is likely to start a multi-decade investment cycle focused on renewing the French nuclear fleet, with a target of building six to 14 new reactors. We expect this to be a significant burden for EDF due to the amount of capex involved and in light of the material delays and cost overrun seen at recent nuclear projects across Europe. The impact on EDF's leverage in the medium term would largely depend on the financing and remuneration framework and its construction progress.

New Nuclear Financing Framework Key: Fitch expects some form of state support for EDF in its investments for new nuclear. The terms of the potential support will determine the impact of the final investment decision on EDF's SCP and its relationship with the government based on our GRE Rating Criteria. However, we expect this process to be lengthy and do not anticipate significant progress in the short term.

Aging Nuclear Fleet: A material portion of EDF's existing nuclear reactors will reach their permitted 50-year operational life limit in the next decade. Extending their lifespan to 60 years, subject to approval from the nuclear safety regulator, could help EDF sustain operating cash flows in the long term, but it could also involve increased capex. Fitch expects yearly capex to increase to about EUR25 billion to 2026. This amount does not include investments in new EPR2 reactors.

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 material upside from 2026, versus 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, pending parliamentary discussion), respectively. These proposed thresholds are set above the unitary nuclear costs of EUR57-EUR61/MWh (as estimated by the French energy regulator, including non-cash costs), thus allowing EDF to generate reasonable profits.

Improved Fleet Availability: At the beginning of 2024, 46 out of EDF's 56 reactors were online. Moreover, the 16 reactors most sensitive to stress corrosion issues have undergone preventive replacement of their sensitive sections. EDF's target of nuclear output of 335TWh-365TWh for 2025 and 2026 now looks achievable. For 2024, EDF has revised its generation target to 340-360-TWh from 315-345TWh previously.

HPC Cost Overruns: HPC's total cost is now estimated at GBP31 billion-GBP35 billion (2015 real terms), while the commissioning of the first reactor is further postponed to 2029-2031, from 2027 previously. Cost overruns should be fully equity-funded by EDF, as partner China General Nuclear Power Corporation (A/Stable; holding a 32.3% stake in the project as of December 2023) is not obliged to provide additional funding. HPC will benefit from a contract-for-difference with the UK government, where it is entitled to GBP92.5/MWh (2012 amounts) for 35 years (for the units commissioned in 2029).

DERIVATION SUMMARY

We estimate regulated and contracted EBITDA at around 30% of EDF's total, under normal business conditions, which is well below that of peers Engie S.A. (BBB+/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 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 its 'bbb-' and 'bb+' SCP.

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

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

- Conservative assumptions on French nuclear output at 335TWh over 2024-2026. French hydro output at 44TWh for 2024-2026

- Market prices at EUR143/MWh in 2024, EUR92/MWh in 2025, and EUR65/MWh in 2026, which should not trigger the 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 at EUR7.5 billion in 2026

- UK nuclear output declining to average 33TWh over 2024-2026

- Cash tax rate averaging 26% over 2024-2026

- No regulatory allocations to dedicated assets for 2024-2026

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

- Dividends totalling EUR2 billion in 2025-2026

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

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Due to the Negative Outlook, an upgrade of EDF is unlikely. However, a revision of France's sovereign rating Outlook to Stable would be mirrored in EDF's rating Outlook

- Stronger links with the state, for example, as a result of the implementation of a new nuclear funding framework supported by the government mitigating the negative impact of increased capex

- A clear investment plan covering French new nuclear reactors, including credit-mitigating measures, that would result in an FFO net leverage below 4.0x over the long term may be positive for the SCP

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

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

- Weaker links with the state as a result of unexpected political measures similar to those taken in 2022

- Long-term reduction of available generation capacity from the existing fleet in France and weaker assessment of EDF's asset base; or FFO net leverage above 4.7x on a sustained basis could be negative for the SCP

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: At 30 June 2024 EDF had cash and cash equivalents of EUR9.2 billion, (Fitch-defined) liquid assets of EUR18.3 billion and committed undrawn facilities of EUR13.6 billion, including EUR1.6 billion that is maturing within a year. This results in sufficient liquidity to cover scheduled debt maturities of EUR20billion for July 2024 to December 2025, and expected negative Fitch-defined FCF of about EUR14.6 billion 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.

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

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 Negative	Affirmed	BBB+ Rating Outlook Stable
	ST IDR	F2	Affirmed	F2
senior unsecured	LT	BBB+	Affirmed	BBB+
subordinated	LT	BBB-	Affirmed	BBB-
senior unsecured	LT	BBB+	Publish	

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Manuel Meneses Pereira, CFA
Associate Director
Primary Rating Analyst
+34 93 492 9511
manuel.menesespereira@fitchratings.com
Fitch Ratings Ireland Spanish Branch, Sucursal en España
Av. Diagonal 601 Planta 4 Barcelona 08028

Djivan Torossian
Associate Director
Secondary Rating Analyst
+44 20 3530 2617
djivan.torossian@fitchratings.com

Pilar Auguets
Senior Director
Committee Chairperson
+34 93 467 8747
pilar.auguets@fitchratings.com

MEDIA CONTACTS

Pilar Perez
Barcelona
+34 93 323 8414
pilar.perez@fitchratings.com

Tahmina Pinnington-Mannan
London
+44 20 3530 1128
tahmina.pinnington-mannan@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

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

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

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

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 21 Jun 2024)

Government-Related Entities Rating Criteria (pub. 09 Jul 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (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

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European

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

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

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.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.