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INVESTORS SERVICE

CREDIT OPINION
22 May 2019

Update

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RATINGS

Electrabel SA

Domicile	Belgium
Long Term Rating	Baa1
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Electrabel SA

Update following rating affirmation

Summary

Electrabel SA's (Electrabel) credit profile is supported by the scale and breadth of its operations, which include leading positions in power generation and supply in its core markets in Belgium and the Netherlands, as well as a strong international presence. The company's commodity risk is mitigatedb by a substantial portion of contracted activities and a consistent hedging policy. From a financial risk perspective, we expect its parent ENGIE SA (ENGIE, A2 RUR - downgrade) to continue to capitalise Electrabel at the current solid levels. Finally, our assessment factors in the company's relationship with and importance to its parent.

Credit strengths

» Scale and diversification, which mitigate cash flow volatility

» Contracted generation activities, which underpin its business risk profile

» Close financial integration with ENGIE

Credit challenges

» Earnings from merchant generation in Europe are exposed to power price volatility.

» Plant outages cut nuclear production in 2018, although this will recover from 2019.

» The proposed shift in the policy for management of nuclear waste in Belgium could lead to a rise in nuclear provisions.

» Any reduction in ENGIE's ownership would imply a lower probability of the parent providing support to Electrabel, should it become necessary, and could lead to a more highly leveraged capital structure.

Rating outlook

The stable rating outlook is based on our expectation of a recovery in Electrabel's operating performance and its continued strong capitalisation in 2019.

Factors that could lead to an upgrade

A rating upgrade is not considered likely in the context of the review for downgrade of ENGIE (please see ENGIE's credit opinion for its rating drivers).

Factors that could lead to a downgrade

Electrabel's ratings could be downgraded in the event that (1) the company's operating performance or capitalisation were to deteriorate; or (2) it was no longer considered financially and operationally integrated within the ENGIE group as a result of a change in ENGIE's strategy or financial policy.

Key indicators

Exhibit 1

Electrabel SA

Credit metrics weakened in 2018 following planned and unplanned nuclear outages

	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
(CFO Pre-W/C + Interest) / Interest	5.1x	4.7x	4.5x	4.4x	3.3x
(CFO Pre-W/C) / Net Debt	26.5%	25.4%	36.8%	29.3%	23.9%
RCF / Net Debt	24.3%	23.9%	34.2%	25.7%	19.2%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Profile

Electrabel SA (Electrabel) is a leading power utility in the Benelux and globally, with a strong position in its core markets of Belgium and the Netherlands, as well as a broad international presence. It is 100% owned by ENGIE. Electrabel combines most of ENGIE's generation activities allocated across several business units. In 2018, Electrabel reported revenue of €18.7 billion and EBITDA of €3.3 billion, down from €22.2 billion and €4.1 billion, respectively, in 2017.

Detailed credit considerations

Scale and diversification mitigate cash flow volatility

Electrabel's credit profile factors in its scale (total assets of €68.9 billion as of year-end 2018) and diversification by geography and asset type. These characteristics should continue to mitigate earnings volatility in the context of a difficult operating environment in Europe.

Electrabel owns and controls most of the ENGIE group's generation assets based in Europe and international markets (excluding the subsidiary Solairedirect and the assets allocated to ENGIE's energy services business). The group's installed generation capacity of 59.6 gigawatts (GW) (net ownership) as of year-end 2018 was spread across Europe (56%), Latin America (16%), North America (3%), the Middle East, Turkey and Africa (16%), Asia (7%) and Oceania (2%). The company is well diversified within Europe itself, where it is the leading generator in Belgium and the Netherlands.

In addition to geographical reach, the rating takes account of the size and granularity of the generation asset base, which helps absorb adverse operational developments, such as local changes to market frameworks or the impact of unusual weather conditions across the portfolio. The ENGIE group's net installed generation capacity as of year-end 2018 comprised natural gas (49%), hydro (19%), nuclear (11%), coal (8%), wind (5%) and other technologies (8%). The group has since 2015 been pursuing a strategy of reducing the carbon intensity of its fleet. Following the €2.6 billion disposal of the group's 69.1% stake in Glow, which was completed in March 2019, and the sale (announced in April) of its share in 2.3 GW of coal-fired power plants in the Netherlands and Germany, coal will represent 4% of ENGIE's generation capacity, down from 13% as of year-end 2015.

Contracted assets and hedging policy moderate commodity risk...

Our assessment of Electrabel's credit profile takes into account the fact that the company's commodity risk is moderated by the substantial contribution from contracted activities, which we estimate to typically account for around 70% of EBITDA, although the proportion was higher in 2018, reflecting the €0.7 billion loss in nuclear power generation in that year. . Outside Europe, North America and Australia, commodity risk is generally mitigated by contractual arrangements, which secure the generator's future revenue through tailored power purchase agreements. Although each is different, these are generally characterised by lengthy tenors, minimum contractually agreed revenue streams, fuel costs hedged by cost-pass-through mechanisms and protection against inflation.

The company's exposure to commodity risk has reduced in recent years as a result of the implementation of ENGIE's asset rotation programme. This included the disposal of merchant generation capacity such as US hydro and thermal assets sold in 2016 and 2017 with a combined net debt impact of around €4 billion. The contribution of merchant activities should further reduce in 2019 following the group's planned disposal of coal-fired plants in the Netherlands and Germany.

The disposal of Electrabel's 69.1% stake in Glow, the Thailand-based independent power producer (IPP), has reduced the company's global coal-fired generation installed capacity by 14%, and the average carbon intensity of its remaining 56.4 GW generation fleet (net ownership). However, a deconsolidation of Glow's EBITDA, which is mainly generated from long-term power purchase agreements, will reduce the contribution from relatively stable infrastructure and contracted generation.

Our assessment also factors in the fact that commodity risk in merchant markets is reduced by the company's hedging policy. The ENGIE group's strategy is to sell forward a substantial proportion of its outright power generation on a three-year rolling basis. For example, as of year-end 2018, it had sold forward 77% of its planned 2019 nuclear and hydro output, 62% of its 2020 output and 31% of the 2021 output at achieved prices of €38/megawatt-hour (MWh), €42/MWh and €46/MWh, respectively.

The contribution from regulated assets, which is limited and outside Electrabel's core domestic markets, includes natural gas distribution assets in Hungary and Turkey, and gas transportation and distribution businesses in Argentina, Chile and Mexico.

...but nuclear outages in 2018 highlight volume risk

The operation of Electrabel's 6.4 GW nuclear capacity across seven reactors was hurt by planned maintenance and unplanned outages in 2018. These incidents had an especially negative impact on the achieved output in 2018, when nuclear availability was just 52% and output 30.7 terawatt-hour, with a €700 million adverse effect on the EBITDA in 2018 compared with that in 2017. The group's remedial work has been progressing as planned, with Doel 4 brought back online in December 2018 and Doel 2 in February 2019. The group has estimated that availability will recover to 77% in 2019 and output to 33.0 terawatt-hour. However, there is likely to be some variance from this, following the announced planned outages for Doel 1, Doel 2 and Tihange 1 next winter.

Solid capital structure as a result of ENGIE's financial policy

Electrabel's financial policy is determined by ENGIE, its ultimate parent, and currently provides for limited upstreaming of dividend distributions and a solid capital structure. Electrabel's financial risk profile remained sound in 2018, notwithstanding the decline in its EBITDA to €3.3 billion from €4.0 billion in 2017, driven essentially by the losses in nuclear. Funds from operations/net debt and retained cash flow/net debt declined as a result from around 29% and 25% in 2017 to 23.9% and 19.2%, respectively.

Most of Electrabel's adjusted debt as of year-end 2018 was represented by nuclear provisions net of dedicated assets of €9.3 billion. Current proposals by the Belgian National Agency for Radioactive Waste and enriched Fissile Material (Organisme national des déchets radioactifs et des matières fissiles enrichies, (ONDRAF)) provide for a shift from the current mixed scenario for estimating necessary provisioning levels. If approved by the Belgian government, this could lead to an increase in provisions in future, although ENGIE believes, based on information available to date, that the impact of the new technical scenario on the provisions for the back-end cycle should not significantly alter the net present value of its commitments as estimated today.

The Baa1 rating incorporates our expectation that should provisioning levels nevertheless increase, ENGIE will maintain its conservative stance towards Electrabel and ensure that it remains solidly capitalised.

Currently a strategic important entity within ENGIE, although the future ownership structure of Electrabel is in question

Our assessment of Electrabel's credit standing reflects the company's standalone credit strength and also factors in its position as a strategically important entity within ENGIE, given its significant contribution to the group's EBITDA, at 44% in 2017. We assume that (1) Electrabel's capital structure and credit ratios will continue to be determined by the overall financing strategy of ENGIE and that this will ensure that the company remains solidly capitalised; and (2) borrowings required for future investments of ENGIE including Electrabel will be centralised at the parent company level, except for where local circumstances and company policy favour the use of financing at the subsidiary or project level.

Moderate risk from the decarbonisation of the power sector

The European Union (EU) has committed to reduce greenhouse gas emissions by 40% from 1990 levels and increase the contribution of renewables to energy demand to 27% by 2030. These targets, agreed in 2014, formed the basis of the EU's commitments under the Paris Agreement, and are designed to significantly decarbonise the region's economies. We believe that unregulated utilities, which account for around 40% of carbon emissions across the EU, will need to deliver a significant share of the reductions, and that this will create a variety of risks and opportunities for utilities.

We believe that Electrabel is moderately well positioned compared with its peers, given its material exposure to gas-fired generation, which accounts for around half its installed capacity. This is mitigated by its strategy to focus on low-carbon power generation as well as energy services, which we expect to provide resilience to both policy direction and the development of potential disruptive technologies.

Liquidity analysis

Electrabel's liquidity is based primarily on its strong cash generation capacity and its substantial holdings of cash and marketable securities. As of 31 December 2018, Electrabel had €6.8 billion of cash and cash equivalents and marketable securities (excluding restricted cash).

Electrabel's liquidity profile is also underpinned by its position within the broader ENGIE group, whose financial policy is founded on the centralisation of financing needs and cash flow surpluses through cash pooling. We expect ENGIE to manage intragroup cash flow so as to ensure that Electrabel comfortably meets its funding needs.

Rating methodology and scorecard factors

Electrabel is rated in accordance with our Unregulated Utilities and Unregulated Power Companies rating methodology, published in May 2017. The actual rating of Baa1 is lower than the forward-looking scorecard-indicated outcome of A3, reflecting the potential for loosening of the current ownership structure of Electrabel.

Exhibit 2

Rating factors

Electrabel SA

Unregulated Utilities and Unregulated Power Companies Industry Grid [1][2]	Current FY 12/31/2018		Moody's 12-18 Month Forward View As of May 2019 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (USD Billion)	Aa	Aa	Aa	Aa
Factor 2 : Business Profile (40%)				
a) Market Diversification	Aaa	Aaa	Aaa	Aaa
b) Hedging and Integration Impact on Cash Flow Predictability	A	A	A	A
c) Market Framework & Positioning	A	A	A	A
d) Capital Requirements and Operational Performance	Baa	Baa	Baa	Baa
e) Business Mix Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	4.4x	Baa	4.2x - 4.5x	Baa
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	30.0%	Baa	26% - 34%	Baa
c) RCF / Net Debt (3 Year Avg)	26.4%	A	22% -30%	Baa
Rating:				
a) Scorecard-Indicated Outcome		A3		A3
b) Actual Rating Assigned				Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2018. [3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investor Service

Ratings

Exhibit 3

Category	Moody's Rating
ELECTRABEL SA	
Outlook	Stable
Issuer Rating -Dom Curr	Baa1
Other Short Term -Dom Curr	(P)P-2
PARENT: ENGIE SA	
Outlook	Rating(s) Under Review
Issuer Rating	A2[1]
Senior Unsecured	A2[1]
Subordinate MTN -Dom Curr	(P)A3[1]
Commercial Paper	P-1[1]
Other Short Term -Dom Curr	(P)P-1[1]
ENGIE CC	
Outlook	Stable
Issuer Rating	Baa1
ENGIE INVEST INTERNATIONAL S.A.	
Outlook	Rating(s) Under Review
Issuer Rating -Dom Curr	A3[1]

[1] Placed under review for possible downgrade on 2 May 2019.
Source: Moody's Investors Service

Moody's related publications

Credit Opinion

» ENGIE - Update to Credit Analysis, 22 May 2019

Issuer Comment

» ENGIE SA: Acquisition of TAG stake aligned with ENGIE's strategy; moderately negative leverage impact, 12 April 2019

» ENGIE SA: Updated strategy and 2018 results are credit supportive; Loi PACTE signals changing relationship with French government, 7 March 2019

Sector In-Depth

» Non-financial Corporates - France: Broadly stable bond, loan issuance supported by stable environment, steady credit quality, 30 October 2018

» Corporate government-related issuers - France: Government ownership and support for some GRIs will likely decline over time, 19 October 2018

» Europe's electricity markets: In France, decarbonisation targets are overshadowed by the future of nuclear, 31 July 2018

» Europe's electricity markets: In Europe, higher carbon price would benefit generators, 31 July 2018

Outlook

» Unregulated electric and gas utilities - EMEA: 2019 outlook changed on improved earnings momentum, 21 November 2018

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