EVN AG
Republic of Austria, Utilities

SCOPE A+ STABLE

Key metrics

			Scope estimates		
Scope credit ratios	**2021/22**	**2022/23**	**2023/24E**	**2024/25E**	**2025/26E**
Scope-adjusted EBITDA /interest cover	>20x	>20x	19x	17x	16x
Scope-adjusted debt/ EBITDA	1.5x	1.0x	1.2x	1.5x	1.6x
Scope-adjusted free operating cash flow/debt	-3%	13%	41%	-11%	-6%
Liquidity	>200%	>200%	>200%	>200%	>200%

Rating rationale

EVN's A+ issuer rating reflects a standalone credit assessment of A and a one-notch uplift based on our view of the utility's status as a government-related entity. The standalone credit assessment is largely supported by the company's robust integrated business model, large exposure to regulated and quasi-regulated infrastructure segments and its consistently strong financial profile, which remains one of the best among European integrated utilities. While EVN is likely to exploit to a greater extent the currently strong leverage through more investments and shareholder remuneration, it will likely continue to focus on an unchanged credit profile amid increased investment and working capital swings. The one-notch uplift to the standalone credit assessment is based on our perception about the public sponsor's ability to provide a credit uplift and its willingness to provide financial support, if needed.

Outlook and rating-change drivers

The Stable Outlook reflects our expectation of an unchanged robust financial risk profile, as demonstrated by sustained Scope-adjusted leverage (Scope-adjusted debt/EBITDA) of approximately 1.5x and below over the next few years. This assumes that, on average, EVN will continue to fund its investment plan through operating cash flow. The Outlook also reflects our view that EVN's ownership structure will remain unchanged, as the government of Lower Austria is legally required to retain a majority stake.

A positive rating action could occur if Scope-adjusted leverage moved to 1.0x or below. However, we deem this remote as EVN would likely balance additional deleveraging against higher capex and/or shareholder remuneration.

A negative rating action could be warranted by leverage deteriorating to above 1.75x on a sustained basis. This could be due to higher-than-expected net capex or a lower-than-expected earnings contribution from new investments and/or volatile businesses, such as energy supply and environmental services. Alternatively, the ratings pressure would rise if EVN showed a significant weakening of EVN's ability to cover annual investments by operating cash flow, resulting in a prolonged period of free operating cash standing a breakeven or turning negative. Eventually, a negative rating action could be triggered if Lower Austria reduced its share to a minority stake (deemed remote due to legislation).

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
14 May 2024	Affirmation	A+/Stable
16 May 2023	Affirmation	A+/Stable
16 May 2022	Affirmation	A+/Stable
02 Nov 2021	New	A+/Stable

Ratings & Outlook

Issuer	A+/Stable
Short-term debt	S-1+
Senior unsecured debt	A+

Analyst

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Related Methodologies and Related Research

General Corporate Rating Methodology; October 2023

European Utilities Rating Methodology; March 2023

Rating Methodology – Government Related Entities; July 2023

ESG considerations for the credit ratings of utilities; April 2021

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Vertically integrated business model with regulated power distribution; strong position for unregulated power generation (hydro); leading position in energy supply in Lower Austria • Volatility in power generation, trading and environmental services offset by exposure to less cyclical sectors (regulated and quasi-regulated) such as grids, heat, telecommunications, water and the contracting of remaining reserve capacities • Solid geographical diversification across central and southeastern Europe and different infrastructure segments • Enhancement of cash flow profile through recurring contributions from holdings, especially Verbund AG, RAG, and Burgenland Energie AG • Further stabilisation of cash flows through accelerated investments, primarily in low-risk utility segments, e.g. regulated grids, water supply infrastructure and regulated renewables (ESG factor) • Consistent de-risking of power generation portfolio with full exit from coal-fired power generation following Walsum-10 disposal and further ramp-up of renewables portfolio likely leading to an estimated share of less than 20% of future power generation volumes related to thermal in medium term (ESG factor) • Solid footprint in environmental services • Very solid leverage (Scope-adjusted debt/EBITDA) within a range of 1.0-1.6x, bolstered by largely cash-financed capex • Very strong debt protection (Scope-adjusted EBITDA interest coverage of 15-20x) and strong internal liquidity with limited external (re)financing needs • Positive rating impact from shareholder structure with the province of Lower Austria as controlling shareholder	• Volume risks in power generation in dry hydrological years and/or meagre wind years in addition to industry-inherent volatility of achievable prices for outright unregulated power generation • Higher market risks in southeastern Europe • Potential for group margins to be significantly affected by volatile and low-margin trading business and environmental services (but view on EVN's profitability slightly offset by strong assessment of operating profitability as measured by a Scope-adjusted ROCE) • Working capital swings pertaining to energy procurement could result in temporary pressure on leverage • Increasingly volatile FOCF which could also turn negative in some periods

Positive rating-change drivers	Negative rating-change drivers
• Deleveraging leading to sustained Scope-adjusted debt/EBITDA of around or below 1.0x	• Sustained weakening of financial risk profile as measured by Scope-adjusted debt/EBITDA of above 1.75x • Significant weaking of EVN's ability to cover annual investments by operating cash flow, resulting in a prolonged period of free operating cash standing a breakeven or turning negative • Change in shareholder structure with Lower Austria waiving its majority share following an amendment to the legal requirement to hold at least 51%

Corporate profile

EVN AG is Austria's second-largest utility with a fully integrated business model. Besides its electricity and gas infrastructure, the group is also exposed to other infrastructure services such as water treatment and supply, waste management and cable television. The province of Lower Austria holds 51% of EVN via holding company NÖ Landes-Beteiligungsholding GmbH, fulfilling the minimum ownership required by law.

Financial overview

			Scope estimates		
Scope credit ratios	**2021/22**	**2022/23**	**2023/24E**	**2024/25E**	**2025/26E**
Scope-adjusted EBITDA/interest cover	>20x	>20x	19x	17x	16x
Scope-adjusted debt/EBITDA	1.5x	1.0x	1.2x	1.5x	1.6x
Scope-adjusted free operating cash flow/debt	-3%	13%	41%	-11%	-6%
Scope-adjusted EBITDA in EUR m					
EBITDA	755	869	720	780	877
Adjustments on recurring dividends from shareholdings	204	275	186	92	82
Other adjustments (including gains/losses on asset disposals, one-off items, and foreign exchange gains/losses, changes in provisions)	(167)	99	-	-	-
Scope-adjusted EBITDA	**791**	**1,242**	**906**	**871**	**959**
Free operating cash flow in EUR m					
Scope-adjusted Funds from operations	729	1,154	799	767	840
add/less: other non-operating cash flow	(51)	(428)	-	-	-
Change in working capital	(250)	6	258	(31)	(57)
less: capital expenditure (net)	(467)	(567)	(630)	(880)	(880)
Free operating cash flow (FOCF)	**(39)**	**166**	**427**	**(145)**	**(96)**
Net cash interest paid in EUR m					
Net cash interest per cash flow statement	31	31	38	44	51
add: estimated interests on asset retirement obligations, interest on pensions	5	9	9	9	9
Net cash interest paid	**36**	**39**	**47**	**52**	**59**
Scope-adjusted debt in EUR m					
Reported gross financial debt	1,590	1,527	1,384	1,559	1,794
less: subordinated (hybrid) debt	-	-	-	-	-
less: cash and cash equivalents	(509)	(337)	(420)	(299)	(286)
add: non-accessible cash	-	-	-	-	-
add: pension adjustment (two-thirds of unfunded pension gap)	83	88	80	72	64
add: adjustment for asset retirement obligations	-	-	-	-	-
Scope-adjusted debt (SaD)	**1,165**	**1,278**	**1,044**	**1,332**	**1,571**

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Environmental, social and governance (ESG) profile[1]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

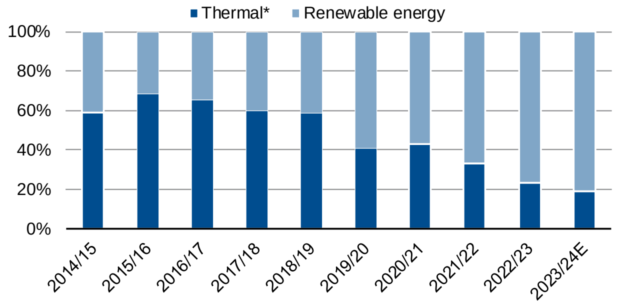
Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

Consistent decarbonisation of power generation

Following the exit from coal-fired power generation a few years ago, EVN's evolving sustainability footprint is strongly signalled by its consistent de-risking of its power generation activities through the continued ramp-up of renewable energy generation capacity, in particular onshore wind, which provides an increasing granularity of power generation assets and a steadily improving carbon footprint of power generation assets through the increase of the share of clean power generation (ESG factor: credit-positive environmental rating driver). Renewable energy power plants (hydro, onshore wind and photovoltaics) have already provided approximately 75% of total generation volumes in BY 2022/23, which demonstrates the company's significant efforts over the past five years. In BY 2018/19, the share of renewables was only 41%. Similarly, EVN's carbon footprint of its power generation fleet has been reduced to below 200 gCO2e/kWh in BY 2022/23, which is significantly below the average of European power generation incumbents. This positive trend is expected to continue over the next few years, given EVN's continued expansion of renewable energy capacities under its "Strategy 2030". EVN is planning to expand onshore wind capacities to more than 750 MW by 2029/30, up from 478 MW at YE 2023, and its solar capacity to about 300 MW from just about 40 MW at YE 2023.

[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

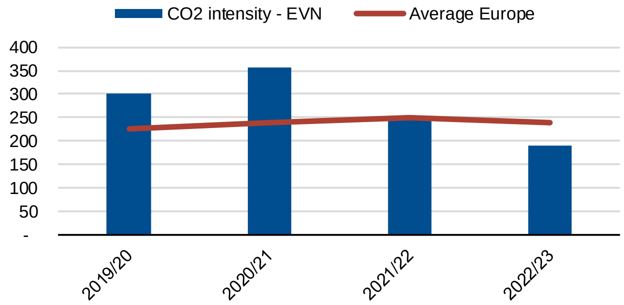
Figure 1: Strong reduction of share of electric generation from thermal capacity bolstered by closure of capacities and ramp-up of renewables …



* Thermal output largely related to generation from reserve capacity

Sources: EVN, Scope estimates

Figure 2: … leading to better than average* carbon intensity (specific carbon emissions in gCO2e/kWh)



* European average for 2022/23 estimated

Sources: EVN, European Environment Agency, Scope estimates

Investment strategy supports ongoing energy transition

The vast majority of net investment over the next few years remains earmarked for grid investment and renewables in EVN's core market of Lower Austria, thereby supporting the energy transition in Austria.

Credit-neutral regulatory risk

Regulatory risks are credit-neutral overall. The operation of regulated grids in Lower Austria provides solid recurring earnings (25%-35% of group EBITDA), bolstered by a reliable and supportive regulatory framework and solid grid efficiency. However, grid activities in Southern European markets such as Bulgaria and North Macedonia expose the utility to higher regulatory and political risk as well as temporary adverse effects on achievable margins due to the electricity grid infrastructure's higher grid losses.

Stakeholder management supports creditor protection

EVN's prudent stakeholder management, which is characterised by a prudent financial policy, is deemed as credit protective – but without any rating adjustment within the Supplementary Rating Drivers – as it is committed to retaining a solid financial risk profile with low leverage and strong debt protection.

Business risk profile: A-

Widely low-risk integrated business model

Despite its small size compared to pan-European utility incumbents, we assess EVN's business risk profile as comparatively low risk and widely diversified, leading to largely resilient operating performance. This is due to:

i) its fully integrated utility business model in electricity supply focused on robust regulated infrastructure;

ii) diversification across different markets in central and south-eastern Europe;

iii) indirect exposure to energy upstream activities through its stakes in Austrian Verbund AG and RAG Austria AG and associated dividend income;

iv) significant exposure to other low-risk and less cyclical infrastructure segments such as television/cable networks, drinking water supply and heat generation;

v) its continued focus on strengthening its regulated business in its core market (Lower Austria) through an ongoing ramp-up of renewable energy capacities and the upgrade of its grid infrastructure, supporting the energy transition in Austria;

vi) strong end-customer outreach in electricity and gas supply in Lower Austria with a low churn-rate as a result of strong branding and one-stop-shop offering; and

vii) limited legacy risks related to the generation portfolio, already rectified through the operation of remaining thermal capacities as reserve capacity.

However, EVN's business risk profile remains constrained by

i) its exposure to volatile energy trading and supply as well as project development activities in environmental services;

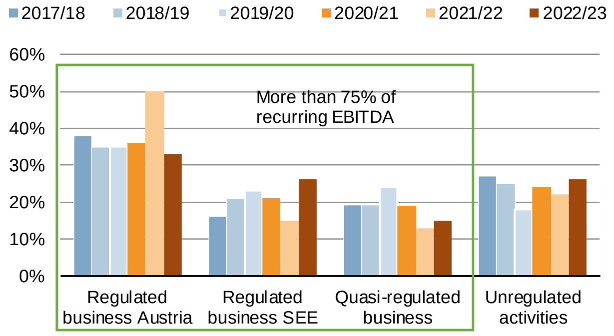
ii) higher market risks for activities in southeastern Europe; and

iii) the group's overall profitability profile which can become volatile primarily due to the energy trade and supply exposure.

Share of robust utility segments expected to grow further

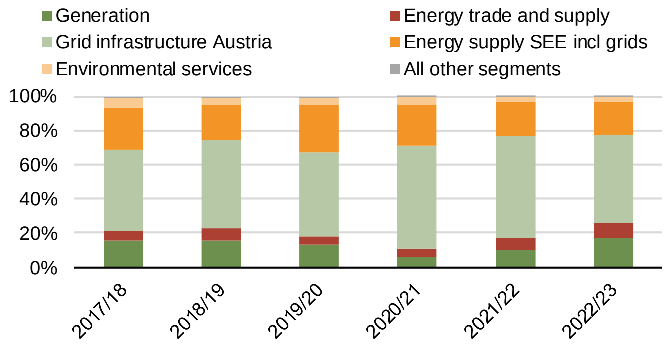
EVN's business model is evolving towards a greater proportion of regulated and quasi-regulated utility activities, which have contributed approximately 75% of recurring EBITDA over recent years. In light of the utility's annual capital allocation, which remains geared towards regulated and quasi-regulated activities such as grid infrastructure, renewables and water supply infrastructure (75-80% of annual capex), we anticipate a further strengthening of EVN's business setup and an increasing robustness of its market position.

Figure 3: Recurring share of regulated vs unregulated business



Sources: EVN, Scope

Figure 4: Capex allocation to lower-risk and high-margin segments such as grid infrastructure

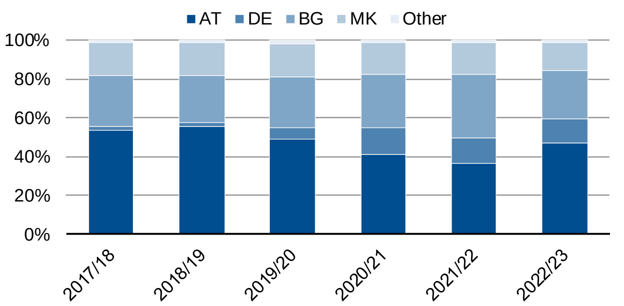


Sources: EVN, Scope

Robust cash flow diversification supported by product and regional diversity

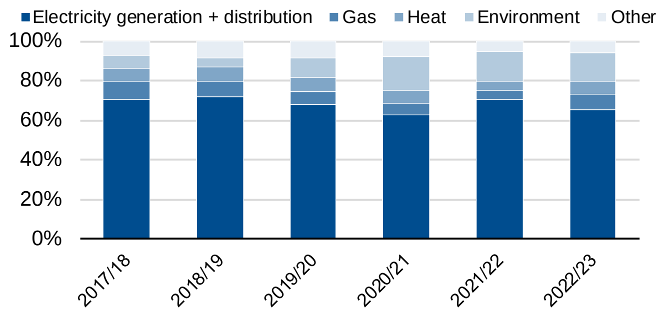
Moreover, EVN's credit quality is supported by its diversified outreach across a wide range of low-correlated utility segments and countries.

Figure 5: Geographical outreach (based on sales)



Sources: EVN, Scope

Figure 6: Diversification by product type (based on sales)



Sources: EVN, Scope

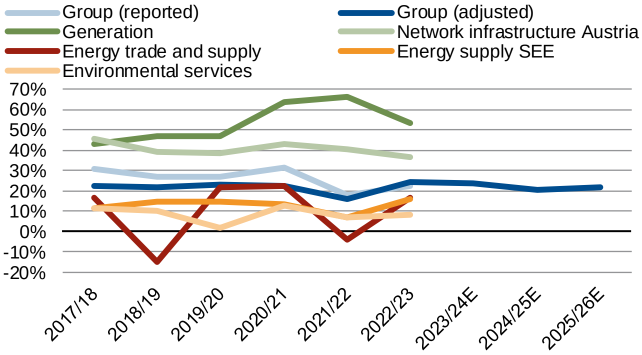
Business risks largely balanced through the integrated business setup

However, EVN's business risk profile remains constrained by: i) its exposure to volatile energy trading and supply as well as project development activities in environmental services; ii) higher market risk for activities in southeastern Europe; and iii) the company's overall margin profile, although this is improving. Credit risk is particularly demonstrated by the volatile cash flow profile of its energy supply business (direct exposure and indirect exposure via EVN KG), where the company still faces operating losses due to adverse energy procurement. EVN has taken multiple measures to mitigate the risk of operating losses through a more flexible tariff setting with customers. However, the possibility of negative effects cannot be rule out, as evidenced by the results of the last two business years. Nevertheless, we acknowledge that EVN's integrated business model and its exposures to power generation and dividend income from Austria's largest power generator Verbund can largely offset the potential pressure in EVN's downstream energy supply business.

EBITDA margin expected to settle above 20%

We see good chances that EVN can solidify its EBITDA margin on the group level to around 25% (Scope-adjusted EBITDA margin at 24.8% in BY 2022/23 after an average of about 21% over the past 5 years) driven by i) reduced losses and a return to positive operating results in the energy supply business; ii) a shrinking share of revenue contributions from energy supply and environmental services; and iii) a steadily growing share of EBITDA contributions from power generation and distribution. The company's solid profitability profile is further evidenced by a solid Scope-adjusted return on capital employed of about 20%, which signals a strong level for a utility that has a high share of asset-intensive energy distribution activities.

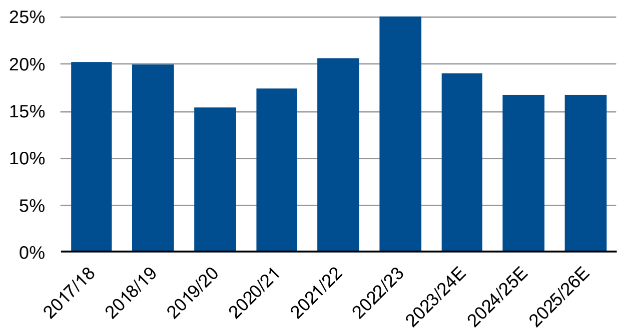
Figure 7: Margin volatility in energy trading and environmental services (EBITDA margin)



Segment margin excluding positive/negative results from equity accounted investees with operational nature

Sources: EVN, Scope estimates

Figure 8: Scope-adjusted return on capital employed



Sources: EVN, Scope estimates

Financial risk profile: A+

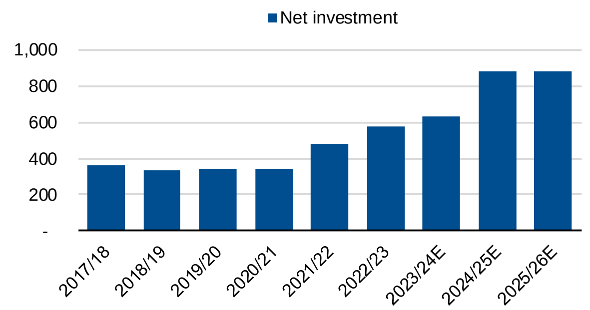
One of the best financial risk profiles among European integrated utilities

EVN's financial risk profile – assessed at A+, one of the strongest among European integrated utilities - continues to support its solid investment grade rating. It is based on the utility's continued low leverage, its robust debt protection and its focus on internal financing of annual net investments.

EVN likely to use the legroom on its very low leverage

EVN is increasingly exploiting its very low leverage (signalled by a Scope-adjusted debt/EBITDA of 1.0x in BY 2022/23) and solid operating results to ramp up its capex allocation. Net capital expenditure has reached an interim peak of approximately EUR 580m in BY 2022/23, which is above the five-year average of approximately EUR 500m. We anticipate that capital expenditure levels will remain significantly above the five-year average over the next three business years, with a projected level of approximately EUR 800m. While operating cash flow is likely to be sufficient to cover this level, discretionary spending such as dividends might not be fully covered by internal funding capacity. Consequently, EVN's indebtedness, as measured by Scope-adjusted debt, is likely to increase gradually to approximately EUR 1.57bn at the end of BY 2025/26 from EUR 1.28bn at the end of BY 2022/23.

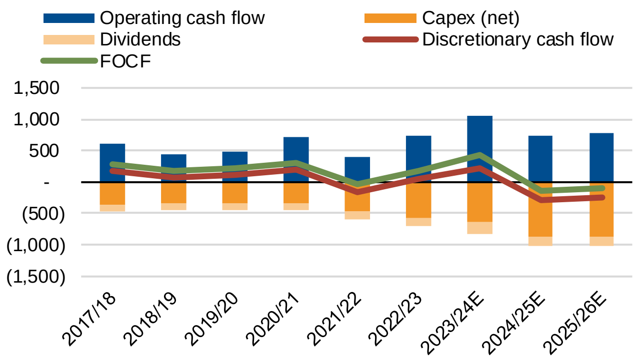
Figure 9: Net capex* significantly higher than historical average (EUR m)



* including investment grants but excluding divestments

Sources: EVN, Scope estimates

Figure 10: Cash flow profile (EUR m)

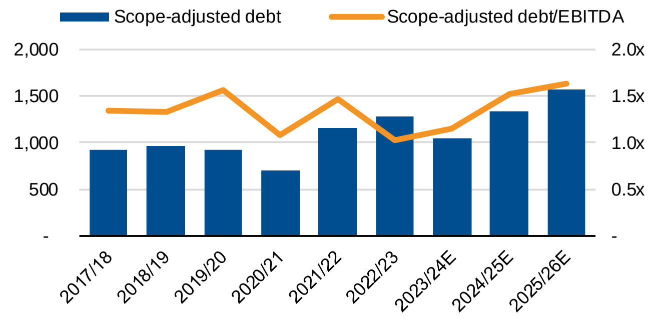


Sources: EVN, Scope estimates

Leverage expected to trend back to 1.2x to 1.6x

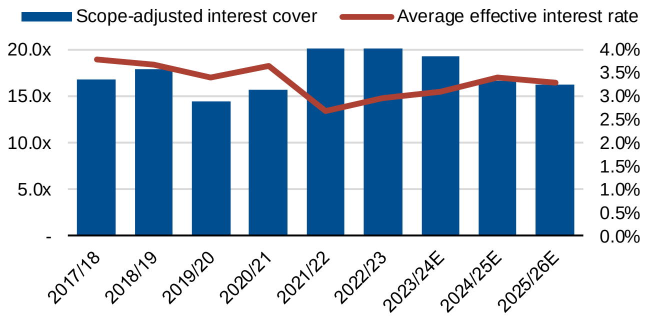
While we project an increase in EVN's net debt and Scope-adjusted debt, this development is accompanied by a growing EBITDA base (expected to be within a range of EUR 870-960m) which maintains leverage within a corridor of 1.2x to 1.6x over the next few years, which remains commensurate with the current rating. We also believe that EVN would adjust its capital expenditure and/or shareholder remuneration in the event that leverage were to deviate from the range that supports current ratings.

Figure 11: Development of Scope-adjusted debt in EUR m (lhs) and Scope-adjusted leverage (rhs)



Sources: EVN, Scope estimates

Figure 12: EBITDA interest coverage (lhs) and average effective interest rate (rhs)



Sources: EVN, Scope estimates

Very strong debt protection metrics despite increased projected debt burden

Despite the projected increase in EVN's net debt exposure and the related rise in net interest payments, interest coverage – as signalled by Scope-adjusted EBITDA/interest cover – is projected to remain at a robust level of between 15x and 20x. This reflects a recurring Scope-adjusted EBITDA within a range of EUR 870-960m over the next few years, and a gradual increase in effective average interest rates (interest rate projected to grow to 3.3-3.4% in BYs 2024/25 and 2025/26 from 2.95% in BY 2022/2023).

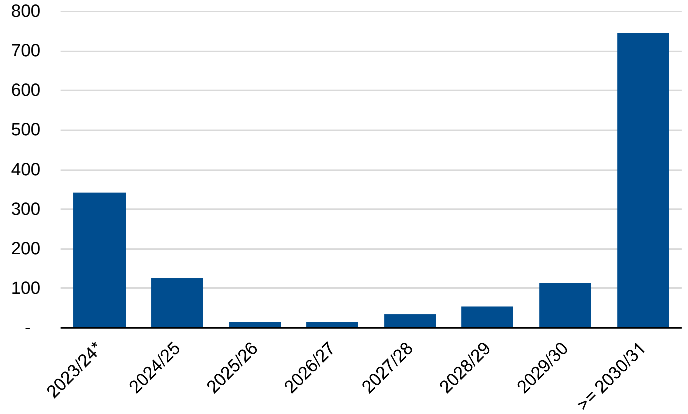
Ample liquidity

EVN's liquidity position is expected to remain robust, as indicated by liquidity ratios that are projected to remain consistently above 200%. The scheduled debt maturities of EUR 343m in BY 2023/24, EUR 125m in BY 2024/25 and EUR 15m in BY 2025/26 can be comfortably covered by a cash buffer of approximately EUR 337m as of September 2023. This is in addition to access to multi-year unused committed credit lines with a volume of more than EUR 650m and an aggregated positive free operating cash flow over the three-year period. Furthermore, EVN benefits from a strategic liquidity reserve from its 12.6% stake in Austria's Verbund AG, which has a current market value of over EUR 3.0bn. This could provide additional liquidity if needed. While we acknowledge that credit lines have an average remaining tenure of just 1.3 years, we are confident that credit lines will be extended in light of the company's robust financial position and its GRE status.

Balance in EUR m	BY 2022/23	BY 2023/24E	BY 2024/25E
Unrestricted cash (t-1)	509	337	420
Open committed credit lines (t-1)	627	686	500
FOCF (t)	166	427	(145)
Short-term debt (t-1)	378	343	125
Coverage	**>200%**	**>200%**	**>200%**

Refinancing is also no major concern, given the utility's strong business and financial risk profiles, its status as a government-related entity and broad access to public and private debt funding channels.

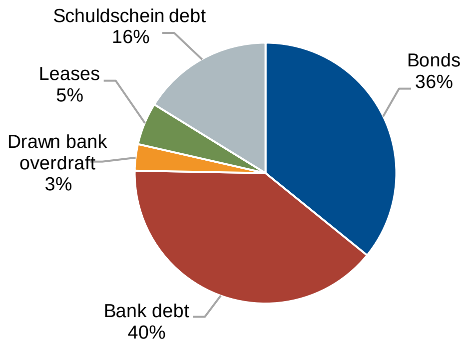
Figure 13: Maturity profile (in EUR m) at the end of BY 2022/23 (Sep 2023)



* thereof EUR 50m from bank overdrafts

Sources: EVN, Scope

Figure 14: Financing structure at the end of BY 2022/23 (Sep 2023)



Sources: EVN, Scope

Supplementary rating drivers: +1 notch

Prudent financial policy aimed at preserving strong credit quality

EVN's risk-averse financial policy is deemed to support a consistently strong financial risk profile. This is reflected by:

i) its focus on organic growth in the utility's core market and limited aspirations for major debt-funded M&A or growth in international projects beyond its current activities;

ii) a focus on low-risk assets, such as regulated energy grids and networks;

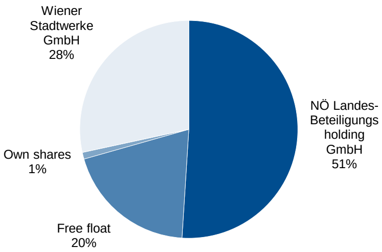
iii) steering of capex against operating cash flow throughout the investment cycle;

iv) a prudent dividend policy; and

v) a clear focus on maintaining ratings in the A category.

Although we acknowledge that the company has become more ambitious on growth and leverage, we perceive a low risk of EVN jeopardising its strong credit profile.

Shareholder structure



The issuer rating incorporates a one-notch uplift on the standalone credit assessment of A, leading to a final issuer rating of A+. This follows the framework set out in our rating methodology on government-related entities with a bottom-up rating approach, reflecting the public sponsor's capacity and willingness to provide support. The federal state of Lower Austria, whose credit quality we deem to be close to that of the Republic of Austria (rated AA+/Stable), holds a 51% majority stake in EVN through its investment vehicle, NÖ Landes-Beteiligungsholding GmbH. It is stipulated by law[2] that the Lower Austrian province's equity stake in EVN must be at least 51%. We deem EVN as essential to the federal state, particularly its gas and electricity distribution infrastructure.

Rating uplift for GRE status limited to one notch

The upnotching on EVN's standalone credit assessment is limited to one notch considering: i) that a large part of EVN's activities are not deemed essential public services; ii) that EVN's large business outreach to southeastern European markets would make it likely that non-core assets in such markets would be disposed of before the company requests funding from its controlling shareholder; and iii) the lack of full ownership by the public sponsor.

Long-term and short-term debt ratings

All public debt is raised at the group level. We note that EVN does not have a commercial paper programme at present and that it uses bank overdrafts for short-term funding purposes instead.

Senior unsecured debt rating: A+

We rate EVN AG's senior unsecured debt rating at A+, the same level as the issuer rating.

Short-term debt rating: S-1+

We expect internally and externally available liquidity to cover upcoming debt maturities by more than 200%. We acknowledges that the company has a strong track record of accessing external funding from banks and investors through private placements and capital market debt. This results in a short-term debt rating at S-1+.

[2] '*NÖ Beteiligungsgesetz*' (7 February 2018) in conjunction with the '*Bundesverfassungsgesetz, mit dem die Eigentumsverhältnisse an den Unternehmen der österreichischen Elektrizitätswirtschaft geregelt werden*' (7 February 2018)

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