

Scope places Uniper's BBB+ rating under review for possible downgrade

The rating action reflects heightened event risk given an escalation in sanctions by the US and EU as well as potential retaliatory measures by Russia amid the conflict in Ukraine.

The latest information on the rating, including rating reports and related methodologies, is available on this [LINK](#).

Rating action

Scope Ratings GmbH (Scope) has today placed Uniper SE's BBB+ issuer rating under review for a possible downgrade. Concurrently, Scope has placed the BBB+ senior unsecured debt rating and the S-2 short term debt rating under review for a possible downgrade.

Rating rationale

Scope continues to rate Uniper on a standalone basis. Despite its majority ownership, Fortum does not have direct control of Uniper. Both companies are strengthening their cooperation.

Scope has placed Uniper's BBB+ issuer rating under review for a possible downgrade due to heightened event risk given tighter sanctions by the US and EU as well as potential retaliatory measures by Russia amid the conflict in Ukraine.

Following the start of the invasion of Ukraine on 24 February 2022, the US, EU and other international partners imposed a wave of economic sanctions on Russia. These sanctions have had a punitive effect on the Russian economy but have not yet slowed the Russian onslaught. The collapse of the rouble and a subsequent doubling of the central bank rate to 20% puts the Russian economy at risk of a recession. Russia has reacted with capital controls on foreign investors and by threatening to seize assets of some foreign companies. Scope expects that Western sanctions are likely to escalate for as long as the conflict intensifies. The US and several other countries further increased the pressure by declaring a ban on Russian energy imports, which prompted Russia to threaten a stop to gas deliveries¹.

Uniper is one of the major gas importers in Europe, and it plays an important role in securing energy supplies in the region. Its gas midstream business comprises a portfolio of around 370 TWh of long-term gas supply contracts, of which about 200 TWh originate in Russia. The escalation of conflict in Ukraine has increased the risk of supply disruptions from damage to infrastructure or Russian retaliation against sanctions. Scope believes Uniper will be able to manage limited and short-term interruptions of gas flows from Russia due to its flexible assets, including gas storage facilities. However, significant interruptions would jeopardise the stability of the German gas system and would most likely lead to a declaration of emergency by the German government. In the corresponding legal framework, the Federal Network Agency (BNetzA) would assume the role of federal load dispatcher, effectively taking control of the system and issuing instructions to market participants on the supply and demand side to balance the system in a timely manner. Uniper expects such measures and events to replace existing contractual arrangements with its customers. The potential business and financial implications cannot be assessed reliably at present².

Scope notes that an interruption to gas flows is likely to result in extreme gas and power price volatility, which in turn may lead to liquidity issues as Uniper is required to make margining payments under commodity sales contracts. Scope acknowledges Uniper's recent measures to shore up liquidity, including credit facility agreements with its major shareholder Fortum and the German state lender KfW as well as further measures to limit margining impact, especially from gas prices. The major remaining price exposure is to Nordic power (short position) and CO₂ allowances (long position), which tend to offset each other, as well as to gas depending on which calendar products are affected by price changes. The company has continuously maintained sufficient liquidity headroom, even during the recent market turmoil and unprecedented price levels. As a precautionary measure, Uniper has asked KfW for a prolongation of its back-up credit facility, which has not yet been drawn and expires at the end of April. However, Scope cannot fully rule out the possibility that even more extreme commodity price levels may absorb liquidity headroom and negatively affect Uniper's operations.

Scope observes an increased risk of expropriation or nationalisation of foreign assets in Russia. Uniper is the majority owner of the Russian company PAO Unipro with an 83.73% stake. The company is listed on the Moscow Stock Exchange and operates independently within the framework of Russian legislation. Russian operations accounted for around 20% of Uniper's EBITDA in 2021. Currently, no dividend payments from Unipro to foreign

investors are expected because of capital controls Russia has imposed. At the end of last year, Uniper started a process to divest Unipro. This process has been halted for now due to the Ukraine situation and will be restarted as soon as it is feasible. Scope notes that a loss of Russian operations without any appropriate compensation would weaken Uniper's business risk profile (primarily loss of well-shielded market position in the regulated Russian power market, weaker geographical diversification, partly offset by reduced exposure to the volatile Russian rouble) and financial risk profile.

Further, Uniper will recognise a EUR 987m impairment loss on its loans to Nord Stream 2 AG. The book value results from the loans originally provided for Nord Stream 2 (EUR 695m) plus the current amount of accrued interest (EUR 292m). This non-operating impairment loss will impact the consolidated IFRS result in the first quarter of the current financial year, but it will not affect cash flow. Going forward, Uniper will stop accruing the related interest income of around EUR 100m per year.

Uniper's issuer rating continues to be supported by its solid business risk profile and strong financial risk profile. The former is driven by Uniper's dominant position in European power and gas supply, strong diversification and accelerated decarbonisation of its European power generation fleet (ESG factor: credit-positive environmental risk factor).

From a financial risk perspective, the company benefits from elevated energy prices as they increase the value of Uniper's underlying gas and power assets. This has allowed Uniper to leave its 2022 financial guidance unchanged despite the negative impact of the stop in accruing interest income from the loan to Nord Stream 2 AG and the devaluation of the Russian rouble. Uniper's financials are further supported by a proposed dividend cut from EUR 501m in 2021 to EUR 26m in 2022.

One or more key drivers for the credit rating action are considered ESG factors.

Under review for a possible downgrade

The issuer credit rating is under review for a possible downgrade. Scope will closely follow developments related to the conflict in Ukraine and their impact on Uniper. A downgrade by one or more notches could result from a materialisation of the risks mentioned above. This could lead to a significant weakening of Uniper's business risk profile, its credit metrics (as indicated by Scope-adjusted debt/EBITDA of above 1.8x on a sustained basis) or liquidity issues. A negative rating action could also be considered if Uniper lost its status as an independent company.

The rating could be confirmed if the conflict in Ukraine de-escalated significantly, leading to a material reduction of the risks mentioned above while Uniper maintains its solid business risk profile and strong financial risk profile.

Scope will resolve the review status once there is more clarity and visibility on the abovementioned risk factors and their impact on Uniper.

Long-term and short-term debt ratings

Driven by the rating action on the issuer rating, Scope has also placed the BBB+ rating for senior unsecured debt and the S-2 short-term debt rating under review for a possible downgrade.

Credit rating driver references

1. [Scope's outlook for global credit conditions](#)
2. [Update on Uniper's Russian activities and way forward](#)

Stress testing & cash flow analysis

No stress testing was performed. Scope Ratings performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for these Credit Ratings and/or Outlook, (Corporate Rating Methodology, 6 July 2021; Rating Methodology: European Utilities, 18 March 2021), are available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

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Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at

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The Outlook indicates the most likely direction of the Credit Rating if the Credit Rating were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

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These Credit Ratings and/or Outlook are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlook are UK-endorsed.

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The Credit Ratings/Outlooks were first released by Scope Ratings on 13 June 2017. The Credit Ratings/Outlooks were last updated on 21 May 2021.

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