

Tear Sheet:

Uniper SE

February 2, 2023

Uniper will benefit from an up to €34.5 billion support package from the German government that the European Commission (EC) recently approved. The package provides significant clarity on the mechanism to cover losses incurred from replacing missing Russian gas volumes at market prices and displays the government’s commitment to sufficient and timely support. Uniper received €13 billion in equity to cover 2022 losses and €20 billion will remain available for 2023-2024 losses; in the interim, German development bank KfW will provide liquidity to Uniper, a key rating support.

Under the package, Germany must demonstrate to the EC the business’ long-term viability by March 2023 or submit a restructuring plan; this could change Uniper’s scope of operations. Uniper is also obligated to dispose assets, but we expect proceeds will be reinvested in Uniper.

Market turmoil has significantly weakened Uniper’s business, and we lack clarity on its strategic direction, which continues to pressure the rating. A significantly overhaul of long-term gas contracts and cleaner asset mix are necessary to enhance long-term business prospects, in our view. We believe announced management changes will yield a new strategy, but implementation will likely take time given the need to focus on supply security.

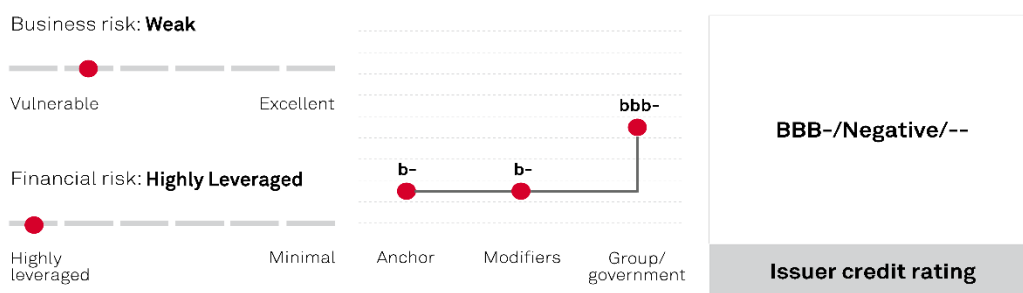
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Ratings Score Snapshot



Recent Research

- EMEA Utilities Outlook 2023: Germany And Austria: A Testing Year For Credit Quality, Jan. 27, 2023
- Industry Top Trends 2023: EMEA Utilities, Jan. 23, 2023

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- Uniper 'BBB-' Rating Affirmed After Announcement Of German Government's Full Takeover; Outlook Remains Negative, Oct. 12, 2022
- Uniper 'BBB-' Ratings Affirmed Following German Government Support Package; Outlook Negative, July 29, 2022
- Uniper And Fortum Ratings Placed On CreditWatch Negative As Earnings And Liquidity Are Hit By Russian Gas Import Cut, July 5, 2022
- Uniper Downgraded To 'BBB-' On Exposure To Russia, Fortum Affirmed At 'BBB'; Outlooks On Both Negative, May 16, 2022
- Fortum And Uniper 'BBB' Ratings Placed On CreditWatch Negative On Exposure To Russia-Ukraine Conflict, March 14, 2022

Company Description

Uniper is an international, diversified energy company that operates in more than 40 countries. Its operations include power generation in Europe, energy trading, and a broad gas portfolio, including long-term gas procurement, sale, and storage. Its core markets are Germany, the U.K., Sweden, the Netherlands, and North America.

As of end-2022, the company owned and operated a well-diversified power generation portfolio in Europe totaling 22.5 gigawatts (GW), including facilities running on fossil fuels such as gas (8.1 GW), coal (6.3 GW), hydroelectric (3.7 GW), Swedish nuclear (1.7 GW), and other (2.8 GW). On Dec. 20, 2022, the EC approved a support package that allowed Germany to nationalize Uniper, after reaching an agreement with Fortum to take over 99% of the shares of Uniper. The approval requires Uniper to divest by 2026 its Russian operations (about 9 GW of power generation capacity at Unipro), European gas pipeline infrastructure, several thermal power plants, and its North American power business, among other assets. We believe this will reduce its scale of operations initially, but that proceeds will ultimately be reinvested in the business.

Outlook

The negative outlook reflects that Uniper's support package remains linked to administrative hurdles and that we currently lack clarity on the company's strategic direction and long-term business prospects. For instance, the support measures approved by the EC entail the disposal of significant assets, such as gas pipelines, and power plants, among other assets, by 2026. While we expect Uniper will reuse proceeds to support growth, we believe that its business has been significantly weakened by market disruptions and that reshaping it will take time as we expect it to prioritize energy security of supply in the short-to-medium term, while overhauling its long-term contract structure. In addition, the approved package includes the obligation of the German government to submit, by March 2023, a report to demonstrate Uniper's long-term business viability. If viability cannot be demonstrated, the government must submit a restructuring plan, raising uncertainty on Uniper's scope of business and credit quality.

Downside scenario

We could downgrade Uniper if we believe that the likelihood of the German government providing timely extraordinary support was to decrease faster than its stand-alone credit quality (SACP) improves; for example, if because of the evolving market reconfiguration, the company lost some of its current relevance and this translated in our opinion of the government having less incentives to support Uniper.

Upside scenario

We could revise our outlook on Uniper to stable after gaining clarity on the evolution of the company's business risk profile, and how strengthening SACP quality balances a potential reduction of government support.

Rating Component Scores

Foreign currency issuer credit rating	BBB-/Negative/--
Local currency issuer credit rating	BBB-/Negative/--
Business risk	Weak
Country risk	Low
Industry risk	Moderately High
Competitive position	Weak
Financial risk	Highly Leveraged
Cash flow/leverage	Highly Leveraged
Anchor	b-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	b-

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

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