MONDAY, 25/09/2023 - Scope Ratings GmbH

Scope affirms Uniper's BBB-/Stable issuer rating

The rating action reflects the improved standalone credit quality largely balanced out by the lowered rating uplift relating to Uniper's status as a government-related entity.

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 affirmed Uniper SE's BBB-/Stable issuer rating. Concurrently, Scope has affirmed the senior unsecured debt rating at BBB- and upgraded the short-term debt rating to S-2 from S-3.

Rating rationale

The rating affirmation reflects Uniper's improved standalone credit quality, supported by normalising gas prices and volatilities and the company's hedging of nearly all its risk from gas supply curtailments, that has been largely balanced out by the one-notch reduction in the rating uplift for government-related entity status as the company is now less likely to fall into financial distress and be in need of extraordinary state support.

In December 2022, the stabilisation package agreed between Uniper, the German government and Fortum was implemented after receiving EU approval, subject to a number of remedies. Implemented measures include two capital increases totalling EUR 13.5bn to cover the incremental costs from gas replacement purchases in 2022. In addition, Uniper successfully restructured its existing credit facility with German development bank KfW in early 2023. The new EUR 16.5bn facility had originally three tranches due in April 2024, December 2024 and September 2026.

Supported by the reduction in both gas prices and volatility levels this year, as of Q2 2023 Uniper has almost effectively hedged, at favourable prices, its gas supply obligations in connection with supply curtailments from Russia for 2023-2024. As a result, the German state no longer needs to provide further capital increases to cover the incremental costs from gas replacement purchases. At the same time, the KfW credit facility was reduced early to EUR 11.5bn as of 30 June 2023 by a voluntary cancellation initiated by Uniper of a EUR 5bn tranche due in December 2024.

In August 2023, Uniper presented its new, ambitious strategy to accelerate its transformation into a greener company with a low-risk business model. A successful execution of the strategy will likely support the company's business risk profile in the medium to long term. Targets include an exit from coal by 2029; zero-carbon for 80% of installed generating capacity and for 5-10% of the gas portfolio by 2030; and carbon-neutrality for Scope 1 to 3 emissions by 2040, 10 years earlier than previously planned. The strategy assumes more than EUR 8bn of transformation and growth investments during 2023-2030, which is triple the company's average annual investments of the past three years. The company is also likely to direct proceeds from the asset disposals required under the EU remedies towards decarbonisation projects. Scope will reassess the strategy as the execution progresses.

Uniper's business risk profile continues to benefit from its position as an important European player in power and gas supply, the solid diversification regarding markets, its technologies, and some integration across the utility's value chain. Challenges include industry-inherent merchant risks in non-regulated power generation and commodity trading, the still significant exposure to power generation from coal-fired power plants (ESG factor: credit-negative environmental risk factor), the vulnerability of group profitability to external and non-controllable effects, and overall margin dilution due to the high share of trading business.

Some normalisation in the energy markets this year and the hedging of the risk from gas supply curtailments strongly supported the company's financial results. Scope now expects Uniper to generate an exceptionally strong Scope-adjusted EBITDA in 2023, in the mid-single-digit billions of euros, and a solid EBITDA in 2024-2025 at around the pre-crisis levels.

Driven by strong operating performance and supported by inflows from working capital and margining, Scope-adjusted debt turned negative, i.e. reached a net cash position, in H1 2023. Credit metrics are likely to stay strong in the next couple of years, but may be affected by the still volatile cash flow, including from margining positions, and the possible repayment of excess compensation received via the stabilisation measures, with the amount still under discussion. While the final amount of compensation can significantly impact credit metrics, it is unlikely to jeopardise financial stability. Given the above uncertainties, Scope has not yet incorporated the full impact of the currently strong credit metrics into Uniper's standalone credit assessment, which has improved to BB. Lastly, Uniper's liquidity remains adequate. Scope's view is primarily based on the availability of the EUR 11.5bn KfW facility (EUR 2bn used as of August 2023) and the EUR 1.7bn revolving credit facility (unused as of August 2023).

With regard to supplementary rating drivers, Scope continues to assess Uniper as a government-related entity applying the bottom-up approach according to its Government Related Entities Rating Methodology. While the German government's (**rated AAA/Stable by Scope**) capacity to provide support remains 'high', Scope has revised its assessment of willingness to provide support to 'medium', thereby reducing the related rating uplift to two from three notches. Uniper is gradually regaining its financial strength, which lowers the likelihood of its financial distress that would necessitate extraordinary state support. This is exemplified by the company no longer needing further capital increases to cover the incremental costs from gas replacement purchases and by the early reduction of the KfW facility by EUR 5bn. Scope also notes that the EU remedies require the German state to reduce its stake in Uniper to a maximum of 25% plus one share by end-2028 and to present an exit plan by end-2023.

One or more key drivers of the credit rating action are considered an ESG factor.

Outlook and rating-change drivers

The Stable Outlook reflects Scope's expectation of Uniper's solid operating performance coupled with gradually improving stability and visibility on cash generation. Scope also expects the German government to keep its controlling stake in the utility in the next couple of years.

A negative rating action could be triggered by severe operational or liquidity issues that cannot be mitigated by existing government support measures. A negative rating action, while remote, could also be considered if the German government gave up control of the company.

A positive rating action could be considered if Uniper's profitability and cash generation stabilised, and indebtedness remained low on a sustained basis, while Scope maintained its perception of the continued government support.

Long-term and short-term debt ratings

Senior unsecured debt has been affirmed at BBB-, the level of the issuer rating.

The short-term debt rating has been upgraded to S-2 from S-3, based on the underlying BBB-/Stable issuer rating and reflecting Uniper's strong short-term debt coverage, which is supported by the available KfW facility and the revolving credit facility.

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, (General Corporate Rating Methodology, 15 July 2022; European Utilities Rating Methodology, 17 March 2023; Government Related Entities Rating Methodology, 13 July 2023), are available on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.

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 https://scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings 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.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting the Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlook and the principal grounds on which the Credit Ratings and/or Outlook are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

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 27 September 2022.

Potential conflicts

See www.scoperatings.com under Governance & Policies/Regulatory for a list of potential conflicts of interest disclosures related to the issuance of Credit Ratings.

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