

Research Update:

Austrian Utility EVN Outlook Revised To Negative On Revision Of Lower Austria Outlook; Affirmed At 'A'

May 15, 2020

Rating Action Overview

- On May 6, 2020, we revised our outlook on the State of Lower Austria to negative from stable, and affirmed our 'AA' rating on the state.
- We still consider EVN AG to be a government-related entity and believe there is a moderate likelihood that it would receive extraordinary financial support from the state if needed.
- Therefore, we are revising to negative from stable our outlook on EVN and affirming our 'A' rating on the company.
- The negative outlook indicates that if we lower the long-term rating on Lower Austria, we would take a corresponding rating action on EVN.

Rating Action Rationale

Our outlook revision stems from that on EVN's majority shareholder, Lower Austria. We revised our outlook on EVN to negative because of similar action on Lower Austria (AA/Negative/A-1+) on May 6, 2020. Our assessment of EVN's stand-alone credit profile (SACP) is unchanged. Lower Austria has majority ownership of EVN AG (51%) and we therefore see the company as a government-related entity (GRE). We see a moderate likelihood that the government will support EVN in the event of financial distress, resulting in a one-notch uplift from EVN's SACP. We consider the state unlikely to reduce its ownership stake in EVN over the next few years and therefore continue to view the utility's link with the state as strong. Because a private company or another GRE could provide many of EVN's services, and the group operates in liberalized energy markets, we continue to view its role for the state as limited, notwithstanding EVN's provision of essential services in Lower Austria.

Outlook

The negative outlook reflects that on Lower Austria.

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Downside scenario

If we lowered the long-term rating on Lower Austria, we would likely lower the rating on EVN, reflecting Lower Austria's weakened ability to provide extraordinary support to EVN if needed.

We would also consider a negative rating action if EVN's adjusted funds from operations (FFO) to debt deteriorates below 40%. We think this could occur because of materially unfavorable regulatory or political decisions in Bulgaria and North Macedonia, or due to mounting bad debt at EVN, increased losses due to unwinding of hedge positions, inability to pass-through rising power prices, larger-than-anticipated investments, higher dividend distributions, or a combination of these.

Furthermore, a weakening of EVN's business risk profile--via investments outside its current focus, or any weakening of the company's commitment to the currently strong metrics and neutral discretionary cash flow, for example--could lead to a downgrade.

Upside scenario

We could revise our outlook on EVN to stable if we revise the outlook on Lower Austria to stable.

Beyond this, we see rating upside as remote, given EVN's size and exposure to thermal generation and competition for electricity and gas supply. Rating upside would therefore likely depend on EVN attaining an increased share of Austrian regulated income.

Company Description

EVN is the predominant integrated utility company in Lower Austria. The company has a relatively high market share in the retail supply of power and gas, 71% and 33% respectively in fiscal year 2019, compared with 66% and 33% in fiscal year 2018. EVN's geographic footprint in terms of EBITDA generation is mainly in Austria (about 75%) and South Eastern Europe (about 20%). The company generates a high share of its earnings from low-risk regulated gas and electricity distribution (about 29%) and district heating (about 6%) in Lower Austria. EVN also receives significant EBITDA contributions (about 18%) from other low risk multi-utility activities in Lower Austria such as subsidized wind power, waste incineration, water supply, and TV and telecommunication services.

Ratings Score Snapshot

Issuer Credit Rating: A/Negative/--

Business risk: Satisfactory

- Country risk: Intermediate
- Industry risk: Low
- Competitive position: Satisfactory

Financial risk: Modest

- Cash flow/leverage: Modest (Medial Volatility Table)

Anchor: bbb+

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile : a-

- Related government rating: AA

Likelihood of government support: Moderate (+1 notch from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- State of Lower Austria Outlook Revised To Negative; 'AA/A-1+' Ratings Affirmed, May 6, 2020
- The EU's Drive For Carbon Neutrality By 2050 Is Undeterred By COVID-19, April 29, 2020
- Credit Conditions In Europe Darken As Costs Of Lockdowns Add Up, April 27, 2020
- Recent Rating Reviews On EMEA Utilities Reflect The Sector's Strength Against COVID-19 Shock, April 7, 2020
- Worsening Credit Conditions In Locked-Down Europe Test Business, Governments, And The Eurozone, Report Says, April 1, 2020
- Shareholder Activism Does Companies' Credit Quality More Harm Than Good, March 25, 2020
- EMEA Utilities Should Withstand COVID-19 Better Than Most Sectors, March 24, 2020
- COVID-19 Macroeconomic Update: The Global Recession Is Here And Now, March 17, 2020
- COVID-19 Credit Update: The Sudden Economic Stop Will Bring Intense Credit Pressure, March 17, 2020
- ESG Industry Report Card: Regulated Utilities Networks, Feb. 11, 2020
- ESG Industry Report Card: Power Generation, Feb. 11, 2020
- EMEA Utilities: Slides From The 2019 Infrastructure Roadshow, Dec. 5, 2019
- Five Issues To Keep An Eye On For European Utilities' Credit Quality, Dec. 5, 2019
- Industry Top Trends 2020: EMEA Regulated Utilities, Nov. 13, 2019
- Industry Top Trends 2020: EMEA Unregulated Utilities, Nov. 13, 2019
- Austrian Utility Company EVN Upgraded To 'A' On Sustained Debt Reduction And Supportive Financial Policy; Outlook Stable, April 26, 2019

Ratings List

Ratings Affirmed; Outlook Action

	To	From
EVN AG		
Issuer Credit Rating	A/Negative/--	A/Stable/--
Senior Unsecured	A	A

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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