Credit Rating Announcement

04 March 2025

Scope assigns first-time issuer rating of BBB/Stable to Norway's utility SFE

The rating is underpinned by Sogn og Fjordane Energi AS' low-cost and environmentally friendly hydropower generation and strong credit metrics. The high volatility of achievable power prices and low diversification are constraints.

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 assigned a first-time issuer rating of BBB/Stable, a short-term debt rating of S-2 and a long-term senior unsecured debt rating of BBB to Sogn og Fjordane Energi AS (SFE).

The full list of rating actions and rated entities is at the end of this rating action release.

Key rating drivers

Business risk profile: BBB- (New). The company's business risk profile reflects its main exposure to low-cost and environmentally friendly hydroelectric power generation (ESG factor: credit positive), which provides high profitability margins and strong Scope-adjusted ROCE*. Sogn og Fjordane Energi has a reservoir capacity equivalent to 40% of its average annual generation of 2.2TWh across all power plants with varying installed capacity, giving it the ability to adjust its production, increasing the likelihood of volumes being sold at supportive prices compared to peers without such capabilities. This gives its production flexibility, which is an advantage when operating in a market with short-term price volatility. Flexible power generation capacity is likely to become even more valuable in the future as the share of intermittent generation in the Nordic and European energy mix increases.

The company's market position is strengthened by its 33% equity interest in Linja, a grid operator in its production territory. Linja in its current form was created in 2023 by merging the grids of Tussa Kraft, Tafjord Kraft and SFE (Mørenett, Tindra og Linja) and owns and operates the electricity distribution system in a service area located on the mid-western coast of Norway, supplying electricity to approximately 100,000 connections and a population of approximately 170,000.

The business risk profile is constrained by lower diversification in terms of utility segments and power generation assets compared to larger and more integrated peers. It is also largely constrained by the cyclical operating environment with exposure to volatile electricity prices, which can vary significantly from year to year.

Financial risk profile: BBB (New). The stand-alone credit assessment is supported by the financial risk profile of SFE, which reflects relatively low leverage and high interest cover. Leverage (debt/EBITDA) is currently around 2x and is expected to increase moderately due to Scope's lower electricity price expectations and debt-financed capex, but to remain in line with historical levels at around 2.5x-3.0x. SFE's interest cover benefits from a fairly large exposure to fixed rates entered into before the rise in market rates, as illustrated by the estimated average effective interest rate of 3.28% for 2024. Interest cover was 16.9x in 2023 and is expected to remain above 10x in 2024-2026.

Cash flow coverage is negative on average in 2019-2023, driven by the construction of the Lutelandet wind farm in parallel with the construction of a hydropower plant. In 2024-2026, Scope expects free operating cash flow to be around break-even on average, despite relatively high capex in 2025 and 2026. Some of the capex is likely to qualify for tax deductions under Norway's resource rent tax regime, which may ease the pressure on free operating cash flow compared to Scope's forecast.

Liquidity: adequate (New). Liquidity is adequate. This refers to the projected coverage of more than 200% of debt maturities in 2025, as well as Scope's assessment that SFE is likely to have good access to external financing. The company has a track record of using both bank and bond markets to raise new debt. Given the large number of maturities in 2026, these maturities are likely to require external financing beyond SFE's available cash sources.

Supplementary rating drivers: +1 notch (New). Scope has made no adjustment for financial policy as this is already reflected in the financial risk profile but highlights the dividend policy of paying out 70% of majority profits (after adjustments) and the target of achieving and maintaining an investment grade credit rating.

The rating incorporates a one-notch uplift to the standalone credit assessment of BBB-, resulting in a final issuer rating of BBB. Scope applies a bottom-up approach under the framework outlined in its Government Related Entities Methodology, reflecting an assessment of the municipal owners' high capacity and medium willingness to provide financial support if needed. The one-notch uplift is in line with all other Norwegian, regional utilities rated by Scope that are majority-owned by one or more municipalities.

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

Outlook and rating sensitivities

The **Outlook** is **Stable**, reflecting Scope's expectation that SFE's leverage (debt/EBITDA) will remain at around 2.5x-3.0x over the next few years, despite continued higher than historical investment in line with the company's ambitions for further growth.

The **upside scenario** for the ratings and Outlooks is:

1. Debt/EBITDA sustained below 2.5x with cash flow coverage improving towards break-even.

The **downside scenarios** for the ratings and Outlooks are (individually):

1. Debt/EBITDA sustained above 4x.

2. Loss of the Government related entity status (remote).

Debt ratings

The senior unsecured debt has been rated BBB, which is in line with the issuer rating.

The S-2 short-term debt rating is based on the underlying BBB/Stable issuer rating, which is supported by the group's adequate liquidity cover and adequate banking relationships and standing in the capital markets.

Environmental, social and governance (ESG) factors

SFE's core business is the generation of clean, low-cost electricity, mainly from hydropower plants. This largely eliminates transition or stranded risks and supports the company's future cash flow generation by ensuring high utilisation of power plants and the continued strong position in the merit order of the power generation portfolio.

In addition, SFE's portfolio of large-scale hydropower plants protects its government-related status, as these assets must be at least two-thirds publicly owned.

All rating actions and rated entities

Sogn og Fjordane Energi AS

Issuer rating: BBB/Stable, new

Short-term debt rating: S-2, new

Senior unsecured debt rating: BBB, new

**All credit metrics refer to Scope-adjusted figures.*

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 Outlooks, (European Utilities Rating Methodology, 17 June 2024; General Corporate Rating Methodology, 14 February 2025; Government Related Entities Rating Methodology, 10 December 2024), 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 Outlooks and the principal grounds on which the Credit Ratings and/or Outlooks are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

These Credit Ratings and/or Outlooks are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlooks are UK-endorsed.
Lead analyst: Thomas Faeh, Executive Director
Person responsible for approval of the Credit Ratings: Philipp Wass, Managing Director
The Credit Ratings/Outlooks were first released by Scope Ratings on 4 March 2025.

Potential conflicts

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With more than 300 employees operating from offices in Berlin, Frankfurt, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG analysis and fund research. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. Scope Ratings is registered in accordance with the EU rating regulation and operating in the European Union with ECAI status. Scope Ratings is the only European rating agency accepted by the ECB for the Eurosystem Credit Assessment Framework (ECAF). The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several European countries. More on www.scopegroup.com

Contact

Analyst	Thomas Faeh	t.faeh@scoperatings.com
Team leader	Sebastian Zank	s.zank@scoperatings.com

Scope Ratings GmbH • Lennéstraße 5 • D-10785 Berlin • Phone: +49 30 27891-0 • Fax: +49 30 27891-0
www.scoperatings.com