Industry Top Trends Update

EMEA Utilities

Risks rise even if the lights stay on

Emmanuel Dubois-Pelerin
Paris
emmanuel.dubois-pelerin@
spglobal.com
+33 1 4420 6673

What's changed?

Increased sector volatility. The Russia-Ukraine conflict has aggravated heavy, preexisting imbalances in European gas markets. The additional physical supply risks have intensified storage concerns and prompted government actions to support affordability.

This makes the sector riskier. Increasingly divergent credit paths are emerging. Low-cost generators with high availability and regulated operations should prove resilient and regulated networks in the U.K. may benefit in the long term from rising inflation (unless their debt is inflation-linked). Gas importers, however, may face greater liquidity pressure, possibly partly offset by political or regulatory support.

That said, ratings on utilities across EMEA have held steady. So far in 2022, none of the upgrades or downgrades have exceeded one notch, confirming a ratings distribution concentrated in the 'BBB' to low 'A' range. However, the negative outlook bias has slightly increased since the Russia-Ukraine conflict tipped the balance of risks and government and industry responses.

What to look out for?

Record high and volatile prices. Dwindling Russian supplies while Europe plans how to accelerate the buildup of renewable energy mean a gas bridge is needed to make the energy transition. Because renewable capacity growth is very gradual and additional LNG supplies before 2025 are limited, power prices will stay high and volatile at least through next winter and into 2025.

Increased investments. The gas bridge and the shift to renewables require capital expenditure to increase at least 20% from the levels spent over the past three years. Although balance sheets will somewhat erode as a result, they are still generally solid, with de-risked portfolios, and typically good access to senior debt.

Green light for previously stalled projects. Nuclear and, temporarily, coal and gas may now be key to meeting the EU's decarbonization targets by providing short-term balance to the power system. But doubling the renewables capacity by 2030 entails high execution risks linked to supply bottlenecks and cost inflation.

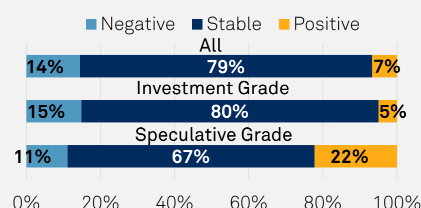
Reduced ratings headroom. Higher debt costs, government measures to support affordability, and (notably outside regulated networks) inflation may constrain utilities' credit quality.

What if there's a recession?

A mild recession could ease pressure. Weakening economies consume less gas, tempering the upward pull on prices, and the sting of rising interest rates on utilities' balance sheets may be lighter. A severe recession, however, would put earnings and refinancing more at risk.

Additional factors to consider. Alongside economic growth, domestic, political, and regulatory risks around energy affordability drive utilities' credit quality. Geopolitical risks, notably from Russia, remain important considerations.

Outlook Distribution

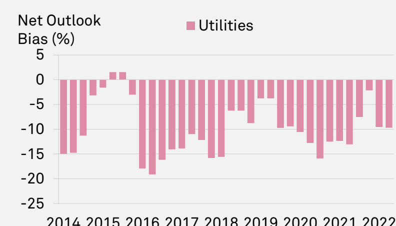


Ratings Statistics (YTD)*

	IG	SG	All
Ratings	81	10	91
Downgrades	4	1	5
Upgrades	1	3	4

Ratings data as of end-June 2022. * Year-to-date

Ratings Outlook Net Bias



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