

Utilities

Possibility for political risk to add to price risk

This report does not constitute a rating action.

What's changed?

A steady state could be reached on gas and power prices after last winter's fall.

Europe's low gas supply buffer will keep prices somewhat elevated and volatile.

The economics of power supply decarbonization are challenging for offshore wind and power grids. This makes the transition less affordable and slower but is relatively credit neutral as long as capital expenditure (capex) discipline offsets lower EBITDA growth.

Higher-for-longer interest rates, high inflation on renewables, and grid capex test energy transition economics, including for nuclear. Most Western European grids benefit from supportive regulatory updates.

What to look out for?

Political risk may have several angles. Several national elections in Europe and in the U.S. may affect energy and trade policies and test energy affordability amid tepid GDP growth.

Exposed generation and grid investments. We expect prudent financing with higher capex.

Thin ratings headroom. Balance sheets, while typically solid, are eroded by high and growing capex, interest rates, and dividends.

What are the key risks around the baseline?

Supply chain issues, interest rates, inflation, and regulatory and fiscal setbacks aggravate energy transition economics. Changes in assumptions or weak contracting could impair the economics of large projects and a utility's business risk or financial risk profile.

Financing a speedier energy transition. Pressures to accelerate the energy transition and measures to make energy more affordable could weigh on ratings via higher debt and lower earnings.

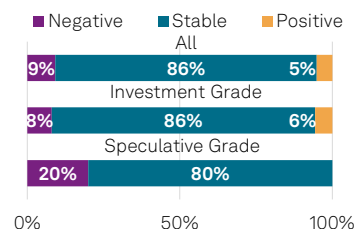
Cyber risk, physical sabotage, or the weather could weigh on issuers with thin liquidity.

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



Rating Trends

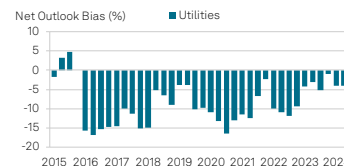
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	88	10	98
Downgrades	2	0	2
Upgrades	4	2	6

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	0.9	1.5
EBITDA growth (Y/Y%)	-0.6	3.0
EBITDA margin (%)	28.2	15.6
Capex growth (Y/Y%)	18.6	15.0
Debt/EBITDA (x)	3.7	4.1
FFO/Debt (%)	19.2	16.8
FOCF/Debt (%)	-0.5	5.3

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

- [Europe's Power Producers Continue Their Balancing Act As Electricity Prices Stay Low](#), July 10, 2024
- [European Electricity Producers' Credit Quality And Revenue-Support Contracts: It's Complicated](#), July 10, 2024
- [European Utilities' Net-Zero Ambitions Face Myriad Hurdles](#), May 2, 2024
- [European Utilities: The Rating Relevance Of Net-Zero Commitments](#), May 2, 2024