

# Eidsiva Energi AS

## Norway, Utilities



### Key metrics

Scope credit ratios	2020	2021	Scope estimates	
			2022E	2023E
Scope-adjusted EBITDA/interest cover	6.9x	6.1x	5.9x	6.7x
Scope-adjusted debt/EBITDA	4.6x	9.3x	6.1x	4.4x
Scope-adjusted funds from operations (FFO)/debt	21%	10%	18%	24%
Scope-adjusted free operating cash flow (FOCF)/debt	1%	-5%	2%	7%

### Rating rationale

The issuer rating reflects a standalone credit rating of BBB and a one-notch uplift based on our assessment of parent support from Eidsiva's municipal majority owners. The uplift is driven by the anticipated medium capacity and medium willingness of the owners to provide support if needed. The company also has a 43.5% ownership in Norway's second largest hydro power producer, Hafslund Eco Vannkraft AS (HEV) (positive ESG factor).

Eidsiva's business risk profile (assessed at A) continues to be driven by its monopolistic position within a regulated distribution network. The company is Norway's largest power distributor and operates in a favourable territory that includes the capital city of Oslo, with a growing population and predominately private end-customers.

Eidsiva's financial risk profile (BB) is primarily driven by substantial investments in its regulated distribution that has (and is expected to remain) partly debt financed, leading to a higher leverage than the industry average. Liquidity is adequate and supported by good access to banks and the domestic bond market.

### Outlook and rating-change drivers

The Stable Outlook continues to reflect our expectation that i) monopolistic, regulated grid operations will continue to contribute the most to EBITDA; ii) leverage to develop within a range of 4.0-5.5x on a sustained basis; iii) capital expenditure will remain high in the medium term; iv) free operating cash flow will turn positive in the medium term; and v) Eidsiva will remain municipality-owned.

A positive rating action could be triggered by an improving financial risk profile, exemplified by Scope-adjusted debt/EBITDA sustained at around 4x thanks to improved free operating cash flow or asset disposals.

A negative rating action could be triggered by a weaker financial risk profile, exemplified by Scope-adjusted debt/EBITDA sustained at above 5.5x and an interest coverage below 5x, which could be due to higher-than-expected capex and/or dividends. The loss of its government-related entity status could also trigger a negative rating action.

### Rating history

Date	Rating action	Issuer rating & Outlook
25 Jan 2023	Affirmation	BBB+/Stable
24 Feb 2022	Affirmation	BBB+/Stable
23 Mar 2021	Affirmation	BBB+/Stable

### Ratings & Outlook

Issuer	BBB+/Stable
Short-term debt	S-2
Senior unsecured debt	BBB+

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### Related Methodologies

General Corporate Rating Methodology; July 2022

European Utilities Rating Methodology; March 2022

Government Related Entities Rating Methodology; May 2022

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## Rating and rating-change drivers

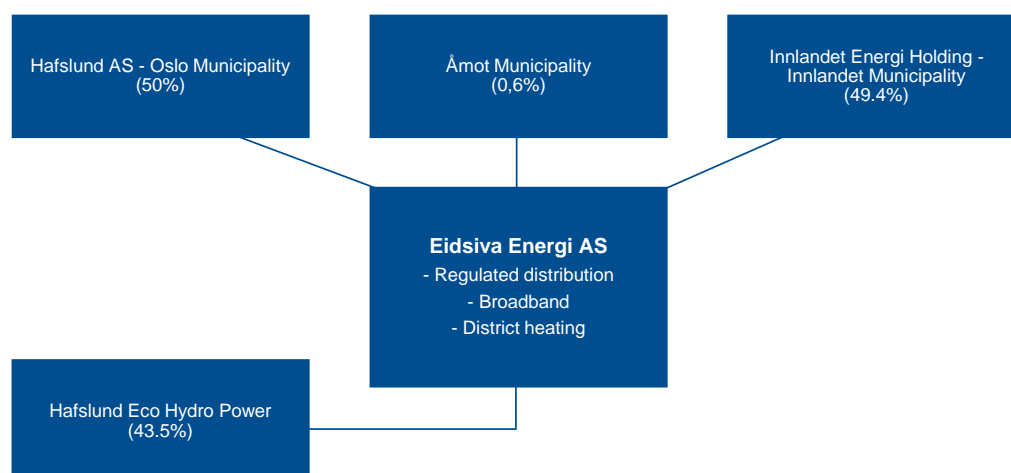
Positive rating drivers	Negative rating drivers
<ul style="list-style-type: none"> <li>Norway's largest regulated distribution operator, with significant EBITDA from monopolistic power distribution</li> <li>Long-term committed municipal ownership resulting in a one-notch uplift using our Government Related Entities Rating Methodology</li> <li>Significant dividends from Eidsiva's 43.5% ownership in Norway's second largest hydro power producer HEV (positive ESG factor)</li> <li>Profitable and growing broadband and bioenergy operations</li> </ul>	<ul style="list-style-type: none"> <li>Sizeable investments, resulting in negative FOCF across the investment cycle, and external funding requirements</li> <li>Sizeable dividend payouts to municipal owners, despite higher-than-historical investments and higher grid losses in 2021 and 2022E</li> </ul>
Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> <li>Improving FOCF, or asset disposals, reducing Scope-adjusted debt/EBITDA to around 4x on a sustained basis</li> </ul>	<ul style="list-style-type: none"> <li>Weaker financial risk profile for a prolonged period, with Scope-adjusted debt/EBITDA of well above 5.5x and interest coverage below 5x</li> <li>Loss of municipal ownership and government-related entity status</li> </ul>

## Corporate profile

Eidsiva Energi AS is Norway's largest regulated power distribution operator. Eidsiva has more than 970,000 connection points, serving almost 2m individuals through a distribution network of over 65,000km. In addition, the company also has a growing district heating operation with an annual volume of 474GWh in 2021 and provides broadband services to over 86,000 customers through its collaboration with Norwegian broadband provider Altibox.

Further, Eidsiva holds a 43.5% ownership in Norway's second largest hydro power producer HEV as an associated company. Eidsiva is fully owned by Norwegian municipalities, through Innlandet Energi Holding (49.4%), Åmot municipality (0.6%) and the City of Oslo (50% through Hafslund).

**Figure 1: Eidsiva company overview**



Sources: Eidsiva, public



## Financial overview







	Scope estimates				
Scope credit ratios	2020	2021	2022E	2023E	2024E
EBITDA/interest cover	6.9x	6.1x	5.9x	6.7x	6.2x
Scope-adjusted debt/EBITDA	4.6x	9.3x	6.1x	4.4x	4.8x
Scope-adjusted debt/EBITDA (including HEV dividends)	4.1x	7.7x	4.8x	3.6x	3.8x
Scope-adjusted FFO/debt	21%	10%	18%	24%	18%
Scope-adjusted FOCF/debt	1%	-5%	2%	7%	1%
<b>Scope-adjusted EBITDA in NOK m</b>					
EBITDA	3,095	1,811	2,874	3,977	3,805
Dividends received (mainly HEV)	369	380	800	800	1,000
<b>Scope-adjusted EBITDA</b>	<b>3,464</b>	<b>2,191</b>	<b>3,674</b>	<b>4,777</b>	<b>4,805</b>
<b>FFO in NOK m</b>					
Scope-adjusted EBITDA	3,464	2,191	3,674	4,777	4,805
less: (net) cash interest paid	-450	-296	-484	-596	-617
less: cash tax paid per cash flow statement	-3	-289	13	-32	-895
Other cash flow changes (including from associates)	-10	105	0	0	0
<b>FFO</b>	<b>3,001</b>	<b>1,711</b>	<b>3,203</b>	<b>4,149</b>	<b>3,293</b>
<b>FOCF in NOK m</b>					
FFO	3,001	1,711	3,203	4,148	3,293
Change in working capital	-62	-94	172	3	-35
less: capital expenditure (net)	-2,839	-2,533	-3,000	-3,000	-3,000
<b>FOCF</b>	<b>100</b>	<b>-916</b>	<b>375</b>	<b>1,151</b>	<b>258</b>
<b>Net cash interest paid in NOK m</b>					
Net cash interest per cash flow statement	450	296	484	596	617
Change in other items	0	0	0	0	0
<b>Net cash interest paid</b>	<b>450</b>	<b>296</b>	<b>484</b>	<b>596</b>	<b>617</b>
<b>Scope-adjusted debt in NOK m</b>					
Reported gross financial debt	16,700	17,405	18,392	18,674	19,526
less: cash and cash equivalents	-2,454	-555	-918	-1,352	-1,462
add: non-accessible cash <sup>1</sup>	50	57	0	0	0
add: pension adjustment	43	0	0	0	0
Other items	0	0	0	0	0
<b>Scope-adjusted debt</b>	<b>14,339</b>	<b>16,907</b>	<b>17,474</b>	<b>17,322</b>	<b>18,064</b>

<sup>1</sup> Restricted cash includes collateral provided for future tax payments

## Environmental, social and governance (ESG) profile<sup>2</sup>

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Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

### Legend

Green leaf (ESG factor: credit positive)

Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

### ESG profile supportive of market position, profitability, cash flow and access to liquidity

Although the majority of Eidsiva's operation revolves around regulated power distribution, the company's ownership in Norway's second largest hydro power producer is a credit positive ESG factor. The ownership strengthens the company's ESG profile, supporting both current and future profitability, cash flow and access to liquidity.

The Norwegian utilities sector is subject to regulatory and reputational risks. This became evident when in September 2022, the government announced its intention to impose a temporary windfall tax on hydro power producers. Eidsiva is only indirectly impacted by these windfall taxes through its ownership in HEV.

Considering the extraordinary circumstances and the temporary nature of these windfall taxes, this is not a shift in the regulatory environment. Historically, the regulatory environment has been very stable, something we do not expect to change.

<sup>2</sup> These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e., those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

**Business risk profile: A**

Blended industry risk profile: AA-

Eidsiva is vertically integrated and horizontally diversified (Figure 2). Each of these segments have their own distinct industry risk fundamentals, and we therefore apply a blended industry risk profile. Using average EBITDA contribution over the three last years and expected average EBITDA contribution over the next three years, regulated distribution contributes to over 75% of EBITDA. This high share continues to drive the company’s strong industry risk profile rating of AA-.

Norway’s largest power distribution network operator

With a 65,000km distribution network, over 970,000 connection points and approximately 2m customers in its service territory, Eidsiva is Norway’s largest distribution network operator (Figure 3). In addition, the structural aspects of Eidsiva’s service territory are strong, as it is economically growing and includes the Norwegian capital city of Oslo.

Good positions in district heating and broadband services

The profitability of Eidsiva’s district heating operations has increased thanks to surging energy prices and the company is currently Norway’s third largest provider of district heating. In addition, through a collaboration with Norwegian broadband provider Altibox, Eidsiva is also Norway’s third largest provider of broadband services. As of end-2021, it had over 86,000 broadband customers and has exhibited steady customer growth the last five years. We note this increased diversification, but do not place great weight on it for the time being. As these business areas only constitute a small part of Eidsiva’s operations, its strong market position continues to be driven by its monopolistic-like regulated distribution.

Figure 2: normalised EBITDA contribution by business segment

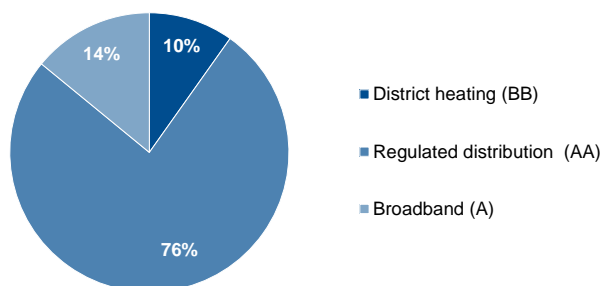
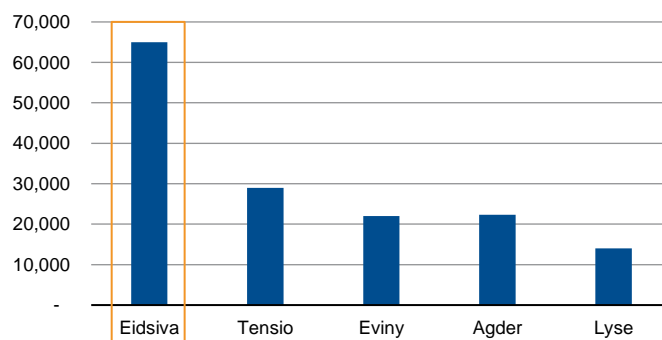


Figure 3: Norwegian distribution network operators, grid size comparison (km)



Sources: Eidsiva, Scope

Sources: Eidsiva, Scope

Regulated distribution, a stabilising force for the overall business

We note that Eidsiva’s grid operation is limited to its regulated concession area. As Eidsiva enjoys a state-regulated monopolistic market position for its distribution, geographical outreach is not as crucial as for other corporates.

The regulatory framework for power distribution in Norway allows for timely cost coverage. This means that underlying profitability and cash flow are dictated by state-set tariffs rather than short-term market fluctuations. Eidsiva’s distribution is therefore a stabilising force and a robust source of cash flow for the overall business.

However, as excess grid losses can only be passed on to end-customers through increased tariffs in following years, this system also negatively impacts short-term profitability when prices surge.

### Surging Nordic energy prices leading to higher grid loss

Indeed, Eidsiva's short-term profitability was hindered in 2021, on top of the continued rise in Nordic energy prices in 2022, leading to increasing grid losses. Consequently, Eidsiva reported a record low EBITDA margin (ex. HEV) of 7% in H1 2022. Higher energy prices generally lead to grid losses and lower profit for Eidsiva. On the other hand, it increases the profit of hydro power producer HEV, Eidsiva's minority holding. Eidsiva therefore received over NOK 500m in dividends from HEV in H1 2022.

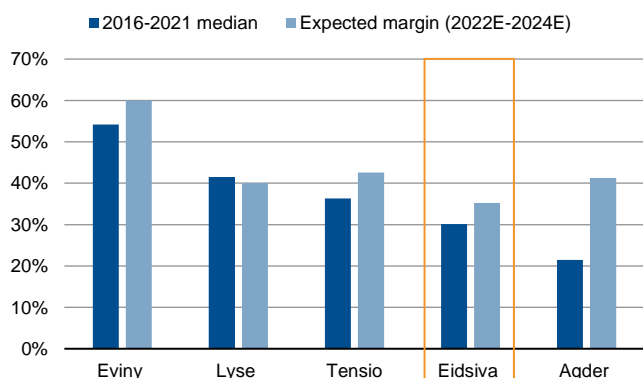
### Margins improving as Norwegian distribution operators are compensated for higher grid losses

In H2 2022, the Norwegian government and the transmission service operator (Statnett SF), implemented a temporary scheme to compensate for such exceptional grid losses and prevent further tariff increases towards already pressed households<sup>3</sup>. As Norway's largest distribution operator, Eidsiva benefits from this scheme and will be substantially compensated for the duration of the programme (until YE 2023). This will directly translate to higher profitability for Eidsiva; the effect was already visible in Q3 2022, showing a YTD EBITDA margin of 30% (ex. HEV).

### Expected EBITDA margin of 35% over 2022-2024

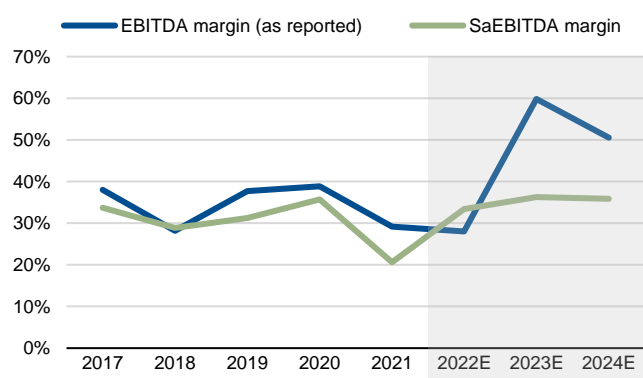
Our updated forecast incorporates these transfers and our expectation that Eidsiva's income cap will increase in the medium term. This expectation is justified by rising interest rates, as well as 2021 and 2022E's costs, which will roll into the income cap calculation from 2023 onwards. Inflationary pressure on wages and other operational expenses and continued high energy prices will likely drive down EBITDA and lead to higher-than-historical grid losses and service costs. In sum, we believe that Eidsiva's profitability will be slightly higher than historical averages, as exemplified by an expected average EBITDA margin of 33% for 2022-2024.

Figure 4: EBITDA margin peer comparison, FY 2021



Sources: Eidsiva, Scope estimates

Figure 5: Historical and projected EBITDA margins<sup>4</sup>



Sa = Scope-adjusted  
Sources: Eidsiva, Scope

### Eidsiva's profitability is good, albeit lower than certain peers

Eidsiva is an integrated utility but has a higher contribution from regulated distribution than most peers. Its profitability margins are therefore lower than the likes of Eviny and Lyse, both of which benefit from high Nordic energy prices through substantial generation capabilities (Figure 4). Compared to pure distribution operators such as Tensio, Eidsiva's margins are still lower. This is in part due Eidsiva's historical averages being negatively impacted by a merger in 2019<sup>5</sup>. Still, Eidsiva's profitability is good, and we positively note the stability afforded to distribution operations by the Norwegian regulatory environment (Figure 5).

<sup>3</sup> <https://www.regjeringen.no/no/aktuelt/pressemelding-flaskehalsinntekter/id2942438/>

<sup>4</sup> SaEBITDA margin = as reported excluding income from associated companies (mainly HEV)

<sup>5</sup> With Hafslund Nett AS

**Financial risk profile: BB**

**Assumptions & adjustments**

To assess Eidsiva’s creditworthiness, we look at key credit metrics such as leverage, debt protection and liquidity.

We have made the following adjustments and assumptions in our base case:

- Updated price scenario;
- Higher assumed contribution from HEV;
- Higher assumed paid interest costs;
- Higher assumed dividends paid.

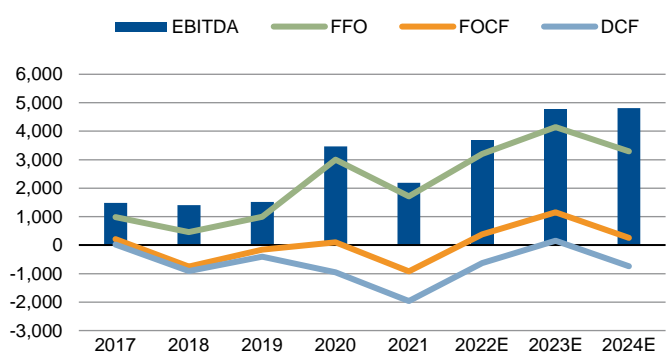
**Expectations of a more conservative financial risk profile in the medium term**

Eidsiva’s financial risk profile reflects our expectation that profitability will recover, and gross debt will slightly increase as capital expenditures are partly debt-financed. We expect Eidsiva’s leverage to decrease from 6.1x in 2022 to 4.8x in 2024. However, we note uncertainties regarding the tail end of our forecast, as deleveraging is partly driven by assumptions of higher-than-historical contributions from HEV. These contributions will vary with Nordic energy prices, which are volatile. This uncertainty is in part mitigated by Eidsiva’s prudent financial policy and controllable capital expenditure programme in the medium term.

**Cash flow positively impacted by contributions from HEV, but expected external financing across the investment cycle**

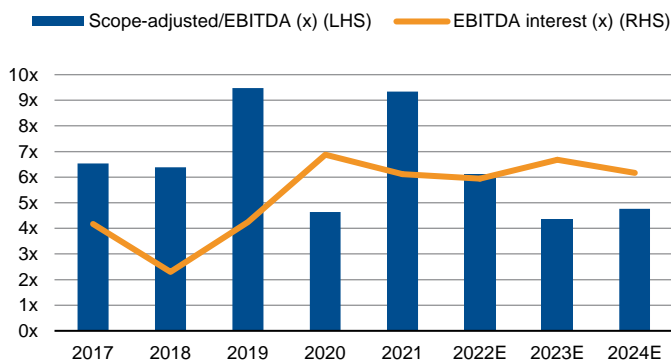
Our updated forecast sees Eidsiva’s FFO and FOCF benefiting from increased contributions from HEV and from the government support scheme (Figure 6). Resulting in increased cash flows for 2023E, followed by a decrease in 2024E when higher-than-historical tax payments are due (based on 2023E’s earnings). Lastly, we forecast negative discretionary cash flow for 2022-2024, due the timing of taxes and our expectations that Eidsiva will pay dividends to its municipal owners whilst upholding its capital expenditure programme.

**Figure 6: Scope-adjusted cash flows (NOK m)**



DCF = discretionary cash flow  
Sources: Eidsiva, Scope estimates

**Figure 7: Scope-adjusted leverage and interest coverage**



Sources: Eidsiva, Scope estimates

**Eidsiva to uphold a good interest coverage in the medium term**

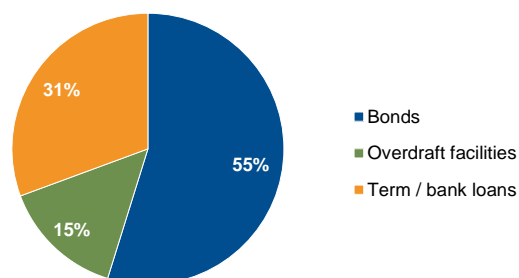
Eidsiva has upheld a good interest coverage since its merger in 2019, as exemplified by an EBITDA interest coverage of above 4.0x (Figure 7). This has been driven by favourable interest rates, a moderate debt burden and stable operating performance. We forecast slightly stronger coverage short term, with a normalisation in 2023/2024 as interest rates are expected to increase. We positively note that only five of Eidsiva’s 18 bonds have floating rates, which limits its exposure interest rate rises.

**Diverse funding sources**

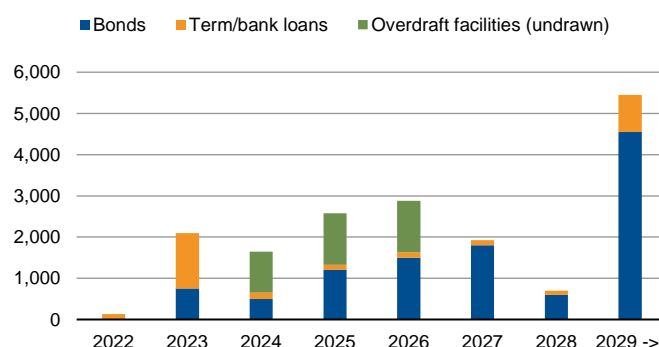
Eidsiva benefits from an access to a diverse range of funding sources (including bonds, overdraft facilities and bank loans), facilitated by its investment-grade credit rating, municipal ownership, and a balanced debt maturity profile (Figures 8 and 9).



**Figure 8: Funding mix, Q3 2022**



**Figure 9: Debt maturity profile (NOK m), Q3 2022**



Sources: Eidsiva, Scope

Sources: Eidsiva, Scope

### Adequate liquidity

To accommodate higher net working capital requirements (due to higher grid losses), Eidsiva refinanced and increased its committed facilities, from NOK 2.5bn in 2021 to NOK 3.5bn in H1 2022. Eidsiva's liquidity remains adequate, with a liquidity (internal and external) cover of over 150% for 2022E and 2023E.

Balance in NOK m	2021	2022E	2023E
Unrestricted cash (t-1)	2,404	498	918
Open committed credit lines (t-1)	2,000	2,500	3,500
FOCF	-916	375	1,151
Short-term debt (t-1)	2,081	2,221	1,426
<b>Coverage</b>	<b>170%</b>	<b>150%</b>	<b>&gt;200%</b>

### Government-related entity status warrants a one-notch uplift from the BBB standalone rating

### Supplementary rating drivers: +1 notch

Eidsiva is fully municipally owned. Using our Government Related Entity Rating Methodology, we apply a bottom-up approach to assess Eidsiva's parental support.

### No adjustment for financial policy

We anticipate a medium capacity and medium willingness of the owners to provide support if needed. We therefore grant a one-notch rating uplift to Eidsiva's standalone credit rating.

### Senior unsecured debt rating: BBB+

We make no adjustment for financial policy and highlight management's dedication to maintaining its financial strength and its desire to protect an investment grade rating. Still, we acknowledge the company's history of consolidating the Norwegian utility sector and the continued dividend payments to its municipal owners.

### Short-term debt rating: S-2

### Long-term and short-term debt ratings

The BBB+ senior unsecured debt rating is in line with the issuer rating.

The S-2 short-term debt rating reflects good short-term debt coverage and good access to both bank loans and debt capital markets.





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