

EDF Unveiled Its Action Plan to Strengthen Its Financial Structure — Support Measures Including Rights Issue Provided by French Government Will Be Positive Factors for the Ratings

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on Electricité de France S.A. (EDF)'s action plan to strengthen its financial structure.

- (1) Electricité de France S.A. (EDF) has announced its annual results for 2021 and an action plan on February 18. JCR had been focusing on EDF's measures to strengthen its financial structure and government support measures as its financial structure was expected to deteriorate. This was mainly because (i) EDF revised its nuclear output projection from 330-360TWh to 300-330TWh for 2022, as the result of the extension of the outage period for five of its French nuclear reactors and (ii) French government announced to postpone a portion of the 2022 tariff increase on January 13.
- (2) EDF posted substantial increase in sales and earnings for 2021 mainly on an increased power generation. EBITDA was EUR 18 billion, the highest level since 2015, and accounting net debt/EBITDA was 2.4 times, an improvement from 2.6 times a year earlier. At the same time, EDF estimated that while EBITDA in 2022 will grow by EUR 6 billion on improvement in price effect, it will fall by EUR 11 billion due to the downward revision of the projected power output to 295-315TWh and by EUR 8 billion due to the postponement of the tariff hikes. Faced with the bleak prospect, EDF unveiled a rights issue worth around EUR 2.5 billion, a scrip dividend for 2020 and 2023, and an additional asset disposals totaling EUR 3 billion over 2022-2024, saying it plans to reduce net debt/EBITDA in 2023 to less than three times. JCR believes that these measures are highly feasible given that the French government, EDF's major shareholder, has already indicated its willingness to underwrite a capital increase and that EDF has track record of asset disposal.
- (3) The rating for EDF incorporates its solid business base in France, commitment to contain its net debt, and strong government support. In the past, the government has undertaken both capital increases and scrip dividends, and now it has come out with a similar government support package. Moreover, the government announced on February 10 plans to build six new nuclear power reactors (EPRs) amid the prospect that nuclear power will be included in the European taxonomy. This adds to EDF's importance in the French energy policy. JCR holds that deterioration of EDF's financial structure will be temporary, and that the impact on the current rating will be limited as those negative EBITDA factors will subside in 2023. We will closely monitor EDF's earnings performance in 2022 and progress on implementing the action plan.

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<Reference>

Issuer: Electricité de France S.A.

Foreign Currency Long-term Issuer Rating: AA Outlook: Stable

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