SCOPE | Ratings

Sogn og Fjordane Energi AS

Kingdom of Norway, Utilities

Rating composition

Business Risk Profile		
Industry risk profile	BB+	BBB-
Competitive position	BBB	
Financial Risk Profile		
Credit metrics	A-	BBB
Cash flow generation	BB	
Liquidity	+/- 0 notches	
Standalone credit assessment		**BBB-**
Supplementary rating drivers		
Financial policy	+/- 0 notches	**+1 notch**
Governance & structure	+/- 0 notches	
Parent/government support	+1 notch	
Peer context	+/- 0 notches	
Issuer rating		**BBB**

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA interest cover	13.4x	16.9x	20.0x	12.6x
Scope-adjusted debt/EBITDA	2.5x	2.1x	2.0x	2.5x
Scope-adjusted free operating cash flow/debt	13%	1%	21%	-9%
Liquidity	217%	79%	314%	145%

Rating sensitivities

The upside scenario for the rating and Outlook:

- Scope-adjusted debt/EBITDA sustained below 2.5x with cash flow coverage improving towards break-even.

The downside scenarios for the rating and Outlook (individually or collectively):

- Scope-adjusted debt/EBITDA sustained above 4x.
- Loss of the government related entity (GRE) status (remote).

Issuer
BBB

Outlook
Stable

Short-term debt
S-2

Senior unsecured debt
BBB

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Related methodologies

General Corporate Rating Methodology LINK, Feb 2025
European Utilities Rating Methodology LINK, Jun 2024
Government Related Entities Methodology LINK, Dec 2024

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Diversified business model with direct exposure to environmentally friendly power generation, and indirect exposure to electricity distribution, retail as well as fiber infrastructure and services • Strong profitability supported by low-cost, renewable power generation; predominantly from large-scale hydro assets • GRE status: long-term, supportive, and committed municipality owners, justifying an uplift from the standalone rating in accordance with our GRE methodology	• Exposure to volatile power prices for unhedged generation output • Limited geographical diversification with most activities based in a regional service territory – increasing the presence of event risk (e.g. political or regulatory changes or adverse weather) • Some asset concentration risk within the power generation portfolio

2. Rating Outlook

The Outlook is Stable, reflecting our expectation that Sogn og Fjordane Energi's (SFE) leverage (Scope-adjusted debt/EBITDA) will remain at around 2.5x-3.0x for the next few years, despite continued, higher-than-historical investments in line with the company's ambition for further growth.

3. Corporate profile

Sogn og Fjordane Energi is a regional, integrated utility company based in Sandane, Norway. The company operates in the following sectors: hydropower generation, electricity grids (via associated company Linja), telecommunications networks (fibre-optic broadband), and electricity downstream. It operates primarily in the mid-western NO3 region of Norway, with minor exposure to the NO5 area.

The company is owned by 19 municipalities within its service territory and Eviny (A-/Stable, public ownership). The power generation business is operated within SFE, while the grid business is in the associated company Linja (owned 33.3% by SFE, 33.8% Tafjord Kraft, 32.9% Tussa Kraft; both other owners are also publicly owned).

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
04 Mar 2025	New	BBB/Stable

5. Financial overview (financial data in NOK m)

				Scope estimates		
Scope credit ratios	**2021**	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	4.7x	13.4x	16.9x	20.0x	12.6x	10.4x
Scope-adjusted debt/EBITDA	9.8x	2.5x	2.1x	2.0x	2.5x	2.8x
Scope-adjusted free operating cash flow/debt	-18%	13%	1%	21%	-9%	-9%
Liquidity	69%	217%	79%	314%	145%	38%
Scope-adjusted EBITDA						
EBITDA	366	1,264	893	831	785	830
add: Operating lease payments	-	-	-	-	-	-
add: Recurring associate dividends received	-	-	-	41	43	43
less: Capitalised expenses	-	-	-	-	-	-
Other items	-	-	-	-	-	-
Scope-adjusted EBITDA	**366**	**1,264**	**893**	**872**	**828**	**873**
Scope-adjusted funds from operations						
Scope-adjusted EBITDA	366	1,264	893	872	828	873
less: Scope-adjusted interest	(78)	(95)	(53)	(44)	(66)	(84)
less: cash tax paid	(38)	(140)	(452)	(290)	(354)	(319)
Other non-operating charges before FFO	442	(93)	(147)	-	-	-
Scope-adjusted funds from operations (FFO)	**692**	**936**	**242**	**538**	**408**	**470**
Scope-adjusted free operating cash flow						
Scope-adjusted funds from operations	692	936	242	538	408	470
Change in working capital	(248)	(84)	(36)	-	-	-
Non-operating cash flow	(19)	(37)	9	-	-	-
less: capital expenditures (net)	(1,062)	(390)	(187)	(180)	(600)	(680)
less: lease amortisation	-	-	-	-	-	-
Other items	-	-	-	-	-	-
Scope-adjusted free operating cash flow (FOCF)	**(638)**	**425**	**28**	**358**	**(192)**	**(210)**
Scope-adjusted interest						
Net cash interest per cash flow statement	79	95	56	47	69	88
add: interest component, operating leases	-	-	-	-	-	-
add: 50% of interest paid on hybrid debt	-	-	-	-	-	-
Change in other items	(1)	(1)	(3)	(3)	(3)	(3)
Scope-adjusted net cash interest paid	**78**	**95**	**53**	**44**	**66**	**84**
Scope-adjusted debt						
Reported financial (senior) debt	3,864	4,065	2,944	2,502	2,446	2,540
add: subordinated (hybrid) debt (net of equity credit)	-	-	-	-	-	-
add: shareholder loans (net of equity credit)	-	-	-	-	-	-
less: cash and cash equivalents	(284)	(861)	(1,030)	(793)	(387)	(107)
add: non-accessible cash	-	-	-	-	-	-
add: pension adjustment	-	-	-	-	-	-
add: operating lease obligations	-	-	-	-	-	-
add: other debt-like items	-	-	-	-	-	-
Scope-adjusted debt (SaD)	**3,581**	**3,204**	**1,914**	**1,709**	**2,059**	**2,433**

6. Environmental, social and governance (ESG) profile[1]

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)

ESG factors: credit positive credit negative credit neutral

Clean energy generation

We consider SFE's business model to evolve around the generation of clean, low-cost hydroelectric energy. This approach minimises stranded asset risk, ensuring the long-term, continued high utilisation of power plants and a strong position in the merit order. Additionally, the exposure to large-scale hydro (over 10 MW) supports the GRE status, as these assets are required to be at least two-thirds owned by public entities.

Despite recent changes to the taxation of power generating assets in Norway, we still see the framework conditions for utilities in the country as stable. The regulatory framework for power distribution has been adequately stable for a long time and is transparent in terms of future cash flow visibility.

[1] 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.

7. Business risk profile: BBB-

Industry risk profile: BB+

With a dominant exposure to power generation, SFE's financial performance is closely linked to achievable power prices, which are inherently volatile. Its exposure to regulated grid activity via Linja (33% ownership) is more stable with high entry barriers but is comparatively small in terms of contribution to cash flow (>10% of EBITDA expected on a normalised basis).

Mean annual hydropower volume of 2.2 TWh

SFE's annual mean hydropower generation volume in western Norway is approximately 2.2 TWh, derived from directly owned hydroelectric plants. SFE has a reservoir capacity equal to 40% of its mean annual generation, connected to power plants with varying degrees of installed capacity.

Small size balanced by strong merit order position

While the company is a small power generator in Norway by market share, we still assess SFE's market positioning as good, owing to its low-cost and flexible hydropower generation, which holds a strong position in the merit order and can provide peak-load capacity. SFE is aiming to increase its power generation volume to an annual average of 4 TWh by 2040. This will be achieved through further investment in hydro and wind power, and to a smaller degree into hydrogen production and biogas.

Due to their hydro reservoirs, a number of the company's large-scale hydroelectric power plants are poised to assume greater significance as a dispatchable power source in the future. This is particularly relevant in the context of the energy transition, which is characterised by a shift towards a greater share of variable generation (e.g. wind and solar) in both the Nordics and Europe.

In the area of electricity downstream, SFE is active via Wattn AS, a company in which it has a 26.5% ownership stake. It is a leading local provider of electricity in its service territory, with around 100,000 customers in Norway. In addition, SFE provides fibre-optic services via Enivest, in which it holds a 40.29% stake (with the remaining 55.7% owned by Eviny and local municipalities). Enivest owns and operates a fibre-optic network with over 28,000 residential customers and 2,000 commercial customers. The covered area is mostly overlapping with the grid concession area. New regulations may require network owners with significant market shares to allow access to other providers. While we are to a certain degree cautious about the potential negative impact of such regulation, SFE will remain the owner of the fibre network, and the segment should therefore continue as a reliable source of cash flow generation given the quasi-monopoly position of such ownership.

Limited geographical diversification

Our assessment of SFE's geographical diversification is considered to be limited in comparison to that of European utility incumbents, which are active in multiple countries, though comparable to other Norwegian utilities.

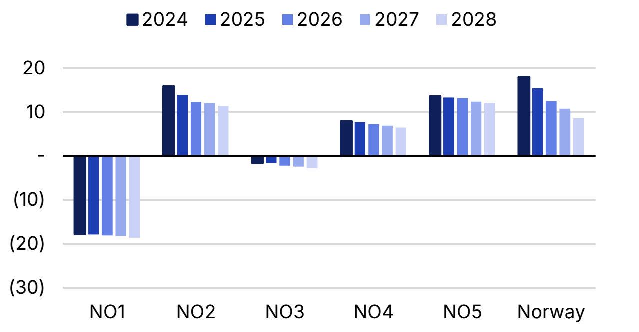
SFE's hydropower generation is primarily located in the west and, to a lesser extent, in the southwest of Norway (NO3 and NO5 bidding zones). In terms of pricing risk, this regional concentration is partly mitigated by exposure to surrounding power markets in the Nordics and Europe through interconnectors.

Adequate customer diversification

SFE's customer base is adequate, as it is one of the largest integrated, regional utilities in Norway. It has an outreach of approximately 100,000 customers/connection-points in power distribution and around 30,000 in fibre-optic services. While the customer base is still smaller than even larger regional, national or cross-border peers, it is still adequate. The presence in several non-correlated business areas is a more significant driver for cash flow stability than a larger customer base.

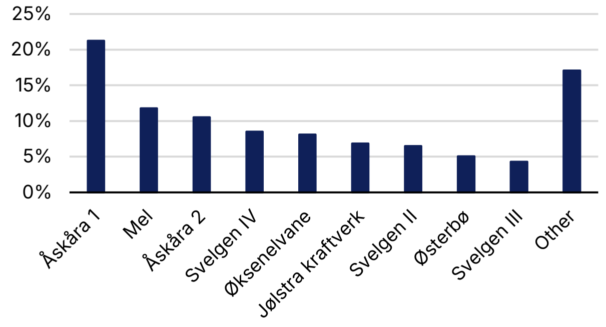
SFE's service territory is considered to have growth prospects similar to most other service territories in west/southern Norway. This is based on the assumption of economic growth, with increasing electricity demand from new industry and electrification, as well as expected population growth (for example, based on the forecast of Statistics Norway/SSB).

Figure 1: NVE's expectations for energy balances by bidding area as of June 2024, TWh



Sources: NVE, Scope

Figure 2: Directly owned hydropower generation by power plant



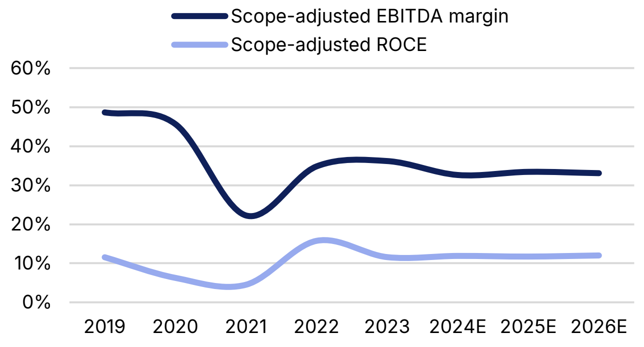
Sources: SFE, Scope estimates

We have assessed the asset concentration risk in SFE's generation portfolio, with the largest plant, Åskåra1, accounting for approximately 21% of total generation capacity and the three largest plants accounting for 44%. While we assess a low likelihood of a prolonged standstill of one or more key power plants, we also cannot rule out such a scenario. SFE's business interruption insurance would mitigate the financial impact of such a shutdown.

Top 3 assets represent 44% of production

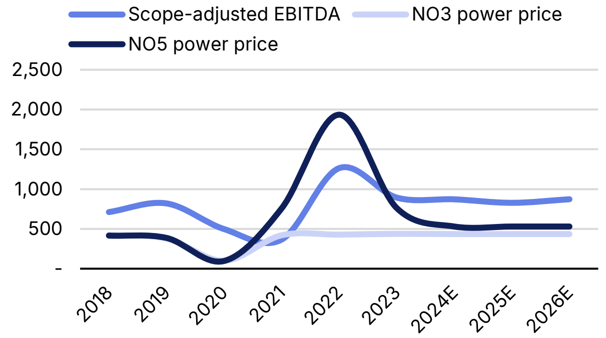
SFE's profitability is supported by its exposure to low-cost power generation, predominantly hydropower. The company's Scope-adjusted EBITDA margin is between 30% and 35%. However, this includes a high amount of energy purchases (NOK 1.3bn in 2024). These are understood to be mainly, although not fully, related to the market activities carried out on behalf of Wattn, and we understand these have a more or less net zero impact on EBITDA. Consequently, the margin excluding these activities would be higher than the reported one, with us estimating a 'Production margin' in excess of 60%.

Figure 3: Profitability



Sources: SFE, Scope estimates

Figure 4: Scope-adjusted EBITDA (NOK m) versus the average power price in NO3 and NO5 (NOK/MWh)



Sources: SFE, Nordpool, Scope estimates

8. Financial risk profile: BBB

The financial risk profile is assessed stronger than the business risk profile, reflecting relatively modest leverage and high interest cover.

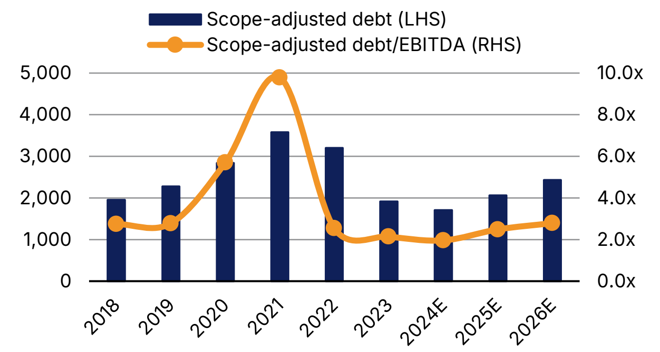
Our financial projections for 2025-2026 are mainly based on:

- An average power price in NO3 of NOK 400-425/MWh and in NO5 of around NOK 530/MWh
- Annual hydropower volumes (consolidated) of around 2.2 TWh
- Total investments of around NOK 600-680m per annum for 2025 and 2026
- The dividend policy will be maintained, with payouts set at 70% of the previous year's net income (at a minimum of NOK 150m), with adjustments made for minorities and associated companies.

Leverage of around 2.5x to 3.0x expected

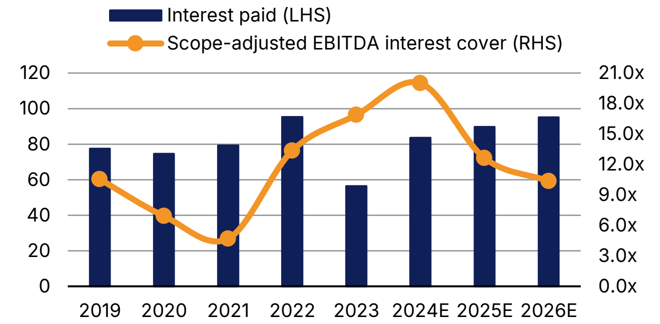
Leverage (Scope-adjusted debt/EBITDA) is currently around 2x, with an expected slight increase due to lower price expectations compared to historical prices and debt-funded capex, but should remain in line with historical levels of around 2.5x-3.0x. The 2020 spike was mainly due to low power prices, while the 2021 spike was mainly due to regional price differences and their impact on financial contracts. The assessment of leverage is primarily focused on non-regulated activities, given the relatively minor contribution of Linja (grid) dividend income to Scope-adjusted EBITDA. We project a leverage of around 2.5x-3.0x for the foreseeable future, while exercising caution in our approach to volatility.

Figure 5: Leverage (RHS) and Scope-adjusted debt (NOK m, LHS)



Sources: SFE, Scope estimates

Figure 6: EBITDA interest coverage (RHS) and Scope-adjusted interest (NOK m, LHS)



Sources: SFE, Scope estimates

Interest cover >10x

SFE's interest cover benefits from a significant exposure to fixed rates agreed before the rise in market rates. The estimated average effective interest rate of 3.28% in 2024 reflects this. Given the low starting point, we expect the average interest rate to rise as new debt is issued to fund growth and replace existing debt.

Interest coverage stood at 16.9x in 2023 and is expected to remain above 10x in 2024-2026, given the relatively flat expected EBITDA development and limited upcoming maturities that could significantly change the expected interest payments.

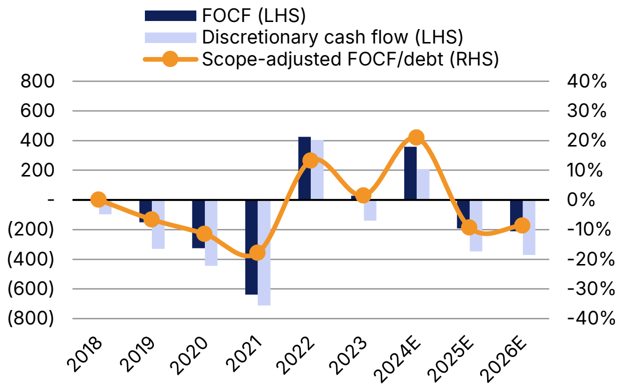
Historically negative cash flow cover due to high investments

The strongly negative FOCF in 2021 was due to high capex (NOK 1.1bn) for the construction of the Lutelandet wind farm in parallel with the construction of a hydro facility. This is an exceptionally high amount for the company and contributes to an average FOCF of a negative NOK 132m in 2019-2023.

Break-even cash flow expected

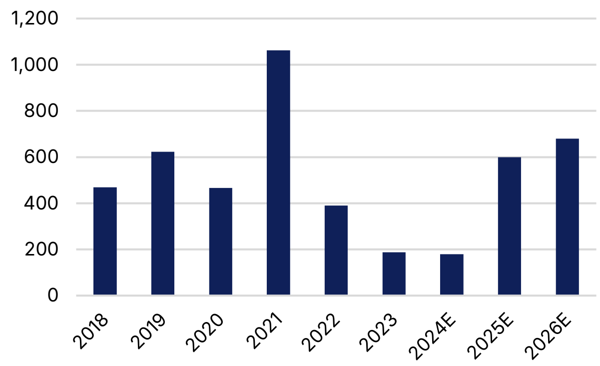
In the 2024-2026 period, we anticipate an FOCF that is, on average, around break-even, despite relatively high capital expenditure. It should be noted that a proportion of the assumed capex is tax deductible under Norway's resource rent tax regime, which eases the initial pressure on cash flow of these investments.

Figure 7: Scope-adjusted cash flows, NOK m



Sources: SFE, Scope estimates

Figure 8: Capex, NOK m



Sources: SFE, Scope estimates

Adequate liquidity

Liquidity is adequate. This refers to the good coverage forecasted for debt maturities in 2025, as well as our assessment that SFE is likely to have good access to external financing. The company has a proven track record of successfully utilising both bank and bond markets to raise new debt. However, the significant number of maturities in 2026 is likely to require external financing beyond the current cash sources available to SFE.

SFE has access to a committed Revolving credit facility (RCF) from Nordea over NOK 500m, facilitating the purchase of power for its associated company Wattn. This facility has not been included in the liquidity assessment below, as it is not intended for general purposes. The company is currently undergoing a strategic review and might in the future establish a RCF for general corporate financing and as a backstop for refinancing.

Table 1. Liquidity sources and uses (in NOK m)

	2023	2024E	2025E
Unrestricted cash (t-1)	861	1,030	793
Open committed credit lines (t-1)	0	0	0
FOCF (t)	28	358	(192)
Short-term debt (t-1)	1,127	442	356
Liquidity	**79%**	**314%**	**145%**

Sources: SFE, Scope estimates

9. Supplementary rating drivers: +1 notch

SFE's financial policy has no credit impact beyond that reflected in our assessment of the financial risk profile. The company's dividend policy stipulates a payout ratio of 70% corrected for minorities and associated company contributions of the preceding year's net profit, with a maximum of 40% of debt maturing within the next 12 months. The goal is to maintain credit metrics that translate into an investment grade credit rating profile.

GRE +1 notch

The issuer rating incorporates a one-notch uplift to the standalone credit assessment of BBB-, considering the company's status as a government-related entity. The bottom-up approach outlined in our Government Related Entities Methodology has been applied. The conclusion of a one-notch uplift reflects the public sponsor's 'high' capacity and 'medium' willingness to provide support. In addition to some importance for the policy objectives of its owners, we note that SFE's large hydropower plants are required to be at least two-thirds owned by the state or municipalities. The rating uplift is consistent with other Norwegian utilities that have been evaluated by us and which are majority or fully owned by the state, but for which no explicit guarantees on their debt or financial support are provided.

10. Debt ratings

We have assigned a BBB senior unsecured debt rating, in line with the issuer rating.

Senior unsecured debt rating: BBB

The assigned S-2 short-term debt rating is based on the underlying BBB/Stable issuer rating and reflects better than adequate short-term debt coverage as well as adequate access to bank and capital markets financing.

Short-term debt rating: S-2

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