Eidsiva Energi AS

BBB
Stable

Industry (GICS): Electric Utilities
Sector (Nordea): Energy

Key info	
Country	Norway
Bloomberg debt	EIDSIV Corp
Bloomberg equity	42516Z NO
Moody's	NR/---
S&P	NR/---
Market cap. (bn)	n.a.

Nordea Markets - Analysts

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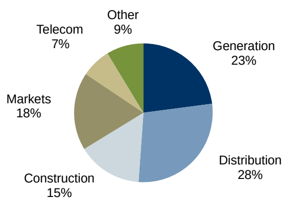
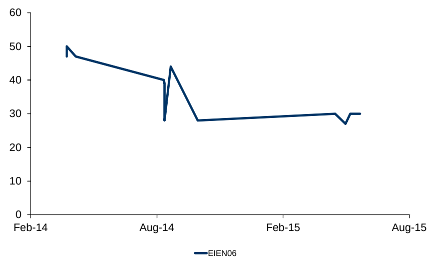
Revenue by business area – 2014



Source: Company data and Nordea Markets

Bond spreads – spread to swap



Source: OSE and Nordea Markets

Shadow rating downgrade to BBB

Eidsiva Energi posted stronger earnings in 2014, as materially higher hydropower production more than offset lower prices. However, we consider the group's dividend level unsustainable as free cash flow is insufficient to cover dividends to shareholders.

Stronger earnings in 2014

Eidsiva Energi posted stronger earnings in 2014, as materially higher hydropower production more than offset lower prices. Turnover was unchanged y/y, while overall EBITDA increased by 8% and the overall EBITDA margin strengthened to 35% (2013: 33%).

Unsustainable dividend level

In our opinion, the dividend level is unsustainable, as Eidsiva Energi's free operating cash flow after capex is negative and insufficient to service dividends to shareholders.

Aggressive dividend policy

Eidsiva Energi's three-year average dividend payout ratio (dividend to previous year's net profit) was 85% as of year-end 2014, which we consider aggressive. The proposed dividend for 2014 is NOK 203m, equivalent to a dividend payout ratio of 87%.

Credit view

We lower our shadow rating on Eidsiva Energi to BBB from BBB+, while maintaining a Stable outlook, reflecting our view of its Strong business risk profile and Significant to Aggressive financial risk profile. The downgrade reflects a more stretched financial profile, with limited potential for de-leveraging in the years to come.

Key credit metrics and ratios (adjusted numbers)

NOKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
EBITDA	1,438	1,324	1,711	1,444	1,202	1,286	1,384	1,325	1,273	1,222
- margin	40%	37%	36%	35%	33%	33%	35%	34%	33%	32%
EBIT	1,090	943	1,260	1,021	751	862	900	836	779	723
- margin	30%	27%	27%	24%	21%	22%	23%	21%	20%	19%
Shareholders' equity	7,176	6,957	7,467	5,197	5,113	5,096	4,950	5,029	5,076	5,092
Debt	4,834	5,714	5,271	7,355	7,196	7,560	7,940	8,140	8,390	8,690
Debt/(Debt+Equity)	0.4	0.5	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
FFO/Debt	19.3%	17.1%	20.3%	12.9%	11.9%	12.2%	9.9%	10.4%	9.8%	9.1%
FOCF/Debt	10.5%	6.5%	-1.8%	1.6%	-0.8%	1.1%	-0.7%	-0.4%	-0.7%	-1.0%
DCF/Debt	4.3%	1.7%	-7.1%	-12.5%	-4.9%	-1.5%	-3.2%	-2.8%	-3.1%	-3.3%
EBITDA interest coverage	4.9	6.9	8.7	6.0	3.4	4.0	4.3	4.0	3.8	3.6
Debt/EBITDA	3.4	4.3	3.1	5.1	6.0	5.9	5.7	6.1	6.6	7.1
ROC	8.7%	7.1%	9.1%	7.3%	5.3%	6.2%	6.4%	5.8%	5.3%	4.8%

Source: Company data and Nordea Markets

Unsustainable dividend level

Eidsiva Energi posted stronger earnings in 2014, as materially higher hydropower production more than offset lower prices. However, we consider the group's dividend level unsustainable as free cash flow after capex is insufficient to service dividends to shareholders.

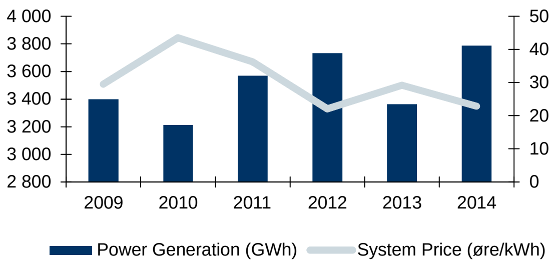
Stronger earnings

Eidsiva Energi posted stronger earnings in 2014, as materially higher hydropower production more than offset lower prices. Turnover was unchanged y/y, while overall EBITDA increased by 8% and the overall EBITDA margin strengthened to 35% (2013: 33%). Net profit, on the other hand, fell y/y by 10%, mainly caused by higher financial expenses.

Higher production, but lower prices

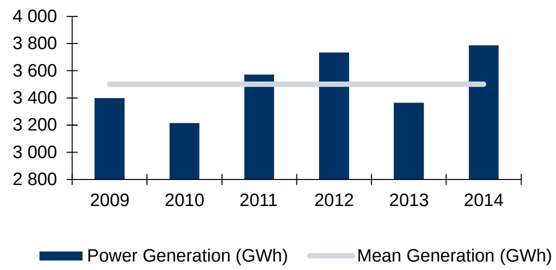
The group's total power generation increased y/y by 13% to 3,787 GWh (3,363 GWh in 2013), while the average system price declined by 22% to 22.9 øre per kWh (29.2 øre per kWh in 2013). The group did not experience any unforeseen downtime related to its hydropower plants last year.

Power generation and system price



Source: Company data and Nordea Markets

Actual and mean power generation



Source: Company data and Nordea Markets

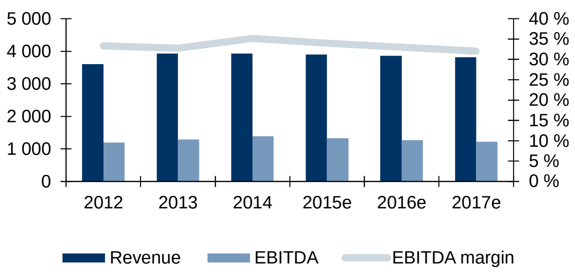
Weaker cash flow

The group's FFO (funds from operations) dropped y/y by 15% to NOK 783m (NOK 925m in 2013). Consequently, the FFO to total debt ratio weakened to 9.9% (12.2% in 2013).

Satisfactory liquidity reserve

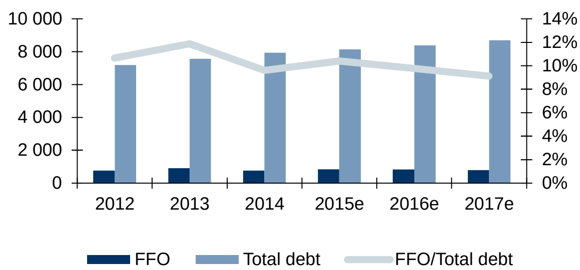
The group's liquidity reserve amounted to NOK 1,460m as of year-end 2014, comprising cash at hand of NOK 251m and NOK 1,209m of undrawn committed credit facilities.

Revenue and EBITDA, NOKm



Source: Company data and Nordea Markets

FFO and total debt, NOKm



Source: Company data and Nordea Markets

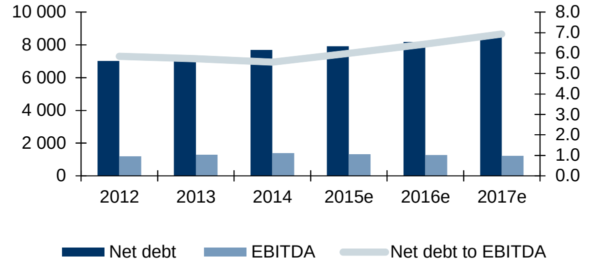
Negative free cash flow after capex

Eidsiva Energi's capex associated with its fixed assets amounted to NOK 928m in 2014, up from NOK 861m in 2013. Given operating cash flow of NOK 869m, the group posted negative free operating cash flow before distribution of dividends.

Higher leverage

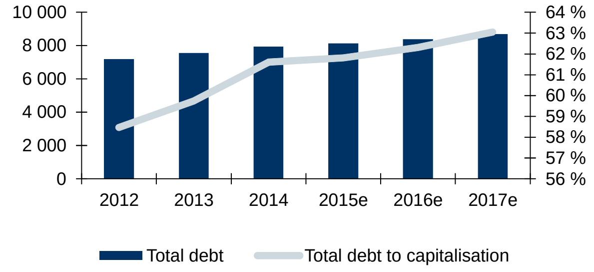
The group's adjusted net debt increased by NOK 338m in 2014, ending the year at NOK 7,689m (NOK 7,351m in 2013). The higher leverage is a consequence of reduced operating cash flow, continued high capex and stable dividend distribution. Net debt/EBITDA and total debt/capitalisation ended the year at 5.6x and 62% (5.7x and 60% in 2013), respectively.

Net debt and EBITDA, NOKm



Source: Company data and Nordea Markets

Total debt, NOKm



Source: Company data and Nordea Markets

Aggressive dividend policy

Eidsiva Energi distributed dividends of NOK 195m (NOK 195m in 2013) during the year, corresponding to a dividend payout ratio (dividend to previous year's net profit) of 75% (97% in 2013). We consider the group's dividend policy aggressive, demonstrated by a three-year average payout ratio of 85%. The proposed dividend for 2014 is NOK 203m, equivalent to a dividend payout ratio of 87%.

Adjustments to reported figures

We adjust Eidsiva Energi's reported debt figures to include pension liabilities.

Shareholder loan(s)

Eidsiva Energi has a shareholder loan with an outstanding balance of NOK 1,500m as of year-end 2014. The shareholder loan is a fixed-rate loan with an annual coupon of 7% and final maturity in 2026. We treat the shareholder loan as debt in our rating model, as the loan is not eligible for equity treatment according to prevailing rating methodology.

Credit profile considerations

Business operations

Eidsiva Energi is an integrated utility with the following business areas (share of 2014 revenue in parentheses):

- Generation (23%)
- Distribution (28%)
- Construction (15%)
- Markets (18%)
- Telecom (7%)
- Other (9%).

Business risk elements

- Competitive, low-cost and flexible hydropower generation portfolio
- Stable cash flow from the group's distribution operations
- Exposure to competitive power markets and volatile electricity wholesale prices
- Moderate exposure to business operations with higher inherent business risk, compared with traditional core utility operations.

Strong business risk profile

In our opinion the overall business risk profile associated with Eidsiva Energi can be considered Strong, according to the expanded rating matrix below from Standard & Poor's.

Expanded rating matrix

		- Financial Risk Profile -				
Business Risk Profile	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A+/A	A-	BBB	BBB-/BB+
Strong	AA/AA-	A+/A	A-/BBB+	BBB	BB+	BB
Satisfactory	A/A-	BBB+	BBB/BBB-	BBB-/BB+	BB	B+
Fair	BBB/BBB-	BBB-	BB+	BB	BB-	B
Weak	BB+	BB+	BB	BB-	B+	B/B-
Vulnerable	BB-	BB-	BB-/B+	B+	B	B-

	Core ratios		Supplementary coverage ratios		Supplementary payback ratios		
	FFO/Debt (%)	Debt/EBITDA (x)	FFO/Interest (x)	EBITDA/Interest (x)	CFO/Debt (%)	FOCF/Debt (%)	DCF/Debt (%)
Minimal	> 60	< 1.5	> 13	> 15	> 50	> 40	> 25
Modest	45-60	1.5-2	9-13	10-15	35-50	25-40	15-25
Intermediate	30-45	2-3	6-9	6-10	25-35	15-25	10-15
Significant	20-30	3-4	4-6	3-6	15-25	10-15	5-10
Aggressive	12-20	4-5	2-4	2-3	10-15	5-10	2-5
Highly Leveraged	< 12	> 5	< 2	< 2	< 10	< 5	< 2

Source: Standard & Poor's

Financial risk elements

- Relatively stable margins and predictable cash flow patterns
- Very weak core ratios
- Satisfactory interest coverage ratios
- Weak payback ratios, in particular a weak discretionary cash flow ratio, owing to an aggressive dividend policy.

Significant to Aggressive financial risk profile

Our view is that the financial risk profile associated with Eidsiva Energi can be considered Significant to Aggressive. According to the guidelines from S&P, we evaluate credit ratios on a time series basis, and we consider the group's credit ratios for the previous two years, as well as the current year's forecast.

Bond details

Last trade level(s)

The table below shows the last reported trades in the group's listed bonds on the OSE (EIEN05 has not traded on the OSE since September 2009, while EIEN10 has never traded on the OSE).

Last trade levels on the OSE, bond issues are sorted by maturity date

Ticker	Issuer	Corp	Bond	Maturity	Coupon	Size (m)		Level	Spread	Date	Rank
EIEN02	Eidsiva Energi AS	BBB	BBB	2015-07-01	4.40 %	NOK	480	100.25	26	22.05.15	Senior unsecured
EIEN05	Eidsiva Energi AS	BBB	BBB	2016-03-17	5.61 %	NOK	500				Senior unsecured
EIEN06	Eidsiva Energi AS	BBB	BBB	2016-08-25	N3M +105	NOK	400	100.94	30	29.05.15	Senior unsecured
EIEN10	Eidsiva Energi AS	BBB	BBB	2019-06-27	4.80 %	NOK	550				Senior unsecured
EIEN03	Eidsiva Energi AS	BBB	BBB	2020-11-17	4.85 %	NOK	700	107.35	92	24.03.14	Senior unsecured
	Eidsiva Energi AS	BBB	BBB	2022-05-27	2.60 %	NOK	200				Senior unsecured
	Eidsiva Energi AS	BBB	BBB	2025-05-27	2.98 %	NOK	150				Senior unsecured
EIEN11	Eidsiva Energi AS	BBB	BBB	2029-02-26	4.52 %	NOK	500	113.45	82	17.11.14	Senior unsecured
	Eidsiva Energi AS	BBB	BBB	2030-06-11	3.15 %	NOK	150				Senior unsecured

Source: OSE and Nordea Markets

Key bond details

- Senior unsecured
- Negative pledge with minor carve-out (up to NOK 300m).

Reported numbers and forecasts

Income statement

NOKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Total revenue	3,623	3,549	4,744	4,185	3,608	3,932	3,936	3,897	3,858	3,819
- growth	28.8%	-2.0%	33.7%	-11.8%	-13.8%	9.0%	0.1%	-1.0%	-1.0%	-1.0%
Gross profit	2,281	2,250	2,736	2,593	2,397	2,400	2,452	2,416	2,392	2,368
- margin	63.0%	63.4%	57.7%	62.0%	66.4%	61.0%	62.3%	62.0%	62.0%	62.0%
EBITDA	1,438	1,324	1,711	1,444	1,202	1,286	1,384	1,325	1,273	1,222
- margin	39.7%	37.3%	36.1%	34.5%	33.3%	32.7%	35.2%	34.0%	33.0%	32.0%
EBITA	1,438	1,324	1,711	1,444	1,202	1,286	1,384	1,325	1,273	1,222
- margin	39.7%	37.3%	36.1%	34.5%	33.3%	32.7%	35.2%	34.0%	33.0%	32.0%
EBIT	1,090	943	1,260	1,021	751	862	900	836	779	723
- margin	30.1%	26.6%	26.6%	24.4%	20.8%	21.9%	22.9%	21.5%	20.2%	18.9%
Net finance	44	-75	-339	-153	-297	-338	-462	-294	-299	-304
Pre-tax profit	1,134	868	921	868	454	524	438	542	480	419
Taxes	-375	-508	-493	-532	-253	-266	-206	-260	-230	-201
Net profit, continuing operations	759	360	428	336	201	258	232	282	249	218
Discontinued operations	4	0	0	0	0	0	0	0	0	0
Net profit to equity	822	387	483	359	201	259	233	282	249	218
EBITDA (credit adj)	1,438	1,324	1,711	1,444	1,202	1,286	1,384	1,325	1,273	1,222
EBIT (credit adj)	1,090	943	1,260	1,021	751	862	900	836	779	723
Interest expense (credit adj)	-291	-193	-197	-242	-352	-323	-324	-329	-334	-339

Source: Company data and Nordea Markets

Balance Sheet

NOKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Goodwill	0	0	0	0	0	0	0	0	0	0
Other intangibles	2,041	2,117	2,298	2,294	2,339	1,200	1,241	1,241	1,241	1,241
Tangible assets	9,209	9,700	10,511	11,085	11,403	8,452	8,902	9,313	9,719	10,120
Shares associates	0	0	0	0	0	0	0	0	0	0
Interest bearing assets	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	70	111	0	0	0	0	0	0	0	0
Other non-interest bearing non-current assets	1,428	1,350	1,336	1,127	1,109	4,896	4,970	4,970	4,970	4,970
Other non-current assets	0	0	0	0	0	0	0	0	0	0
Non-current assets	**12,748**	**13,278**	**14,145**	**14,506**	**14,851**	**14,548**	**15,113**	**15,524**	**15,930**	**16,331**
Inventory	3	3	4	7	8	7	8	8	8	8
Accounts receivable	822	714	934	541	625	519	545	545	545	545
Other current assets	902	408	202	280	60	56	42	42	42	42
Cash and cash equivalents	755	1,558	847	490	181	209	251	219	210	225
Current assets	**2,482**	**2,683**	**1,987**	**1,318**	**874**	**791**	**846**	**814**	**805**	**820**
Assets held for sale	0	0	0	0	0	0	0	0	0	0
Total assets	**15,230**	**15,961**	**16,132**	**15,824**	**15,725**	**15,339**	**15,959**	**16,338**	**16,735**	**17,151**
Shareholders equity	**6,746**	**6,757**	**7,315**	**5,158**	**5,048**	**5,028**	**4,882**	**4,961**	**5,008**	**5,024**
Minority interest	**430**	**200**	**152**	**39**	**65**	**68**	**68**	**68**	**68**	**68**
Deferred tax	954	956	1,289	1,567	1,656	1,279	1,280	1,280	1,280	1,280
Convertible debt	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	4,004	4,679	4,611	6,073	6,440	6,167	5,956	6,156	6,406	6,706
Non-current liabilities	0	0	0	0	0	0	0	0	0	0
Pension provisions	671	699	595	610	622	808	913	913	913	913
Other long-term provisions	1,194	1,262	610	592	644	441	480	480	480	480
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0
Non-current liabilities	**6,823**	**7,596**	**7,105**	**8,842**	**9,362**	**8,695**	**8,629**	**8,829**	**9,079**	**9,379**
Short-term provisions	0	0	0	0	0	0	0	0	0	0
Accounts payable	519	587	759	777	814	718	836	1,295	1,395	1,495
Other current liabilities	553	485	736	336	302	245	473	114	114	114
Short term interest bearing debt	159	336	65	672	134	585	1,071	1,071	1,071	1,071
Current liabilities	**1,231**	**1,408**	**1,560**	**1,785**	**1,250**	**1,548**	**2,380**	**2,480**	**2,580**	**2,680**
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	**15,230**	**15,961**	**16,132**	**15,824**	**15,725**	**15,339**	**15,959**	**16,338**	**16,735**	**17,151**
Cash and cash eq (credit adj)	755	1,558	847	490	181	209	251	219	210	225
Total assets (credit adj)	15,230	15,961	16,132	15,824	15,725	15,339	15,959	16,338	16,735	17,151
Shareholders equity (credit adj)	7,176	6,957	7,467	5,197	5,113	5,096	4,950	5,029	5,076	5,092
Debt (credit adj)	4,834	5,714	5,271	7,355	7,196	7,560	7,940	8,140	8,390	8,690

Source: Company data and Nordea Markets

Cash flow statement

NOKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
EBITDA	1,438	1,324	1,711	1,444	1,202	1,286	1,384	1,325	1,273	1,222
Adj due to change in group structure	0	0	0	0	0	0	0	0	0	0
Change in Provisions	0	0	0	0	0	0	0	0	0	0
Other non-cash adjustments	0	0	0	0	0	0	0	0	0	0
Net financials	44	-75	-339	-153	-297	-338	-462	-294	-299	-304
Dividends received	0	0	0	0	0	0	0	0	0	0
Paid taxes	-195	-397	-436	-772	-345	-293	-227	-260	-230	-201
Other	-176	236	190	192	206	243	67	75	75	75
Operating cash flow before NWC	**1,111**	**1,088**	**1,126**	**711**	**766**	**898**	**762**	**846**	**818**	**792**
Change in NWC	-168	158	-15	370	-61	39	107	25	25	25
Operating cash flow	**943**	**1,246**	**1,111**	**1,081**	**705**	**937**	**869**	**871**	**843**	**817**
CAPEX	-435	-874	-1,208	-964	-759	-852	-925	-900	-900	-900
Free operating cash flow	**508**	**372**	**-97**	**117**	**-54**	**85**	**-56**	**-29**	**-57**	**-83**
Dividends paid	-302	-275	-275	-1,040	-296	-195	-195	-203	-203	-203
Share issues / buybacks	410	40	7	-2,250	0	3	2	0	0	0
Discretionary cash flow	**616**	**137**	**-365**	**-3,173**	**-350**	**-107**	**-249**	**-232**	**-259**	**-286**
Other investments / divestments	-53	-190	158	145	212	47	42	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Proceeds from sale of assets	0	0	0	0	0	0	0	0	0	0
Net change to group borrowing/repayments	-103	691	-339	2,069	-171	178	275	200	250	300
Other	0	0	0	0	0	-90	-26	0	0	0
Change in cash	**460**	**638**	**-546**	**-959**	**-309**	**28**	**42**	**-32**	**-9**	**14**
Adjusted metrics										
Funds from operations (FFO) (adj)	931	977	1,069	951	858	925	783	846	818	792
Operating cash flow (OCF) (adj)	943	1,246	1,111	1,081	705	937	869	871	843	817
Free operating cash flow (FOCF) (adj)	508	372	-97	117	-54	85	-56	-29	-57	-83
Discretionary cash flow (DCF) (adj)	206	97	-372	-923	-350	-110	-251	-232	-259	-286

Source: Company data and Nordea Markets

Key ratios

Profitability	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
ROC	8.7%	7.1%	9.1%	7.3%	5.3%	6.2%	6.4%	5.8%	5.3%	4.8%
ROIC after tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROE after tax	12.7%	5.7%	6.9%	5.8%	3.9%	5.1%	4.7%	5.7%	5.0%	4.3%
Debt & Interest coverage	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
FFO/Debt	19.3%	17.1%	20.3%	12.9%	11.9%	12.2%	9.9%	10.4%	9.8%	9.1%
FOCF/Debt	10.5%	6.5%	-1.8%	1.6%	-0.8%	1.1%	-0.7%	-0.4%	-0.7%	-1.0%
DCF/Debt	4.3%	1.7%	-7.1%	-12.5%	-4.9%	-1.5%	-3.2%	-2.8%	-3.1%	-3.3%
EBITDA interest coverage	4.9	6.9	8.7	6.0	3.4	4.0	4.3	4.0	3.8	3.6
FFO cash interest coverage	-3.2	-5.1	-5.4	-3.9	-2.4	-2.9	-2.4	-2.6	-2.5	-2.3
Leverage	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Debt/EBITDA	3.4	4.3	3.1	5.1	6.0	5.9	5.7	6.1	6.6	7.1
Equity ratio	44.3%	42.3%	45.3%	32.6%	32.1%	32.8%	30.6%	30.4%	29.9%	29.3%
Debt/(Debt+Equity)	0.4	0.5	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Capital expenditure	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
CAPEX/Depreciation and amortisation	1.25	2.29	2.68	2.28	1.68	2.01	1.91	1.84	1.82	1.80
CAPEX/Sales	0.12	0.25	0.25	0.23	0.21	0.22	0.24	0.23	0.23	0.24
Working capital ratios	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Inventory turnover (days)	0	0	0	1	1	1	1	1	1	1
Receivables turnover (days)	83	73	72	47	63	48	51	51	52	52
Days sales outstanding (days)	52	60	58	68	82	67	78	121	132	143
Per share data	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
EPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPS (adj.)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BVPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Equity valuation and yield	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
Market cap.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Enterprise value	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
P/E	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
P/BV	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV/Sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend yield	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Payout ratio	36.7%	71.1%	56.9%	289.7%	147.3%	75.3%	83.7%	71.9%	81.2%	93.0%

Source: Company data and Nordea Markets

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Over the next three months, the fixed income instrument's total return is expected to exceed the total return of the relevant

Market perform
Over the next three months, the fixed income instrument's total return is expected to be in line with the total return of the relevant

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Market perform	284	56%
Under perform	140	27%
Total	512	100%

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