

Energiselskapet Buskerud AS

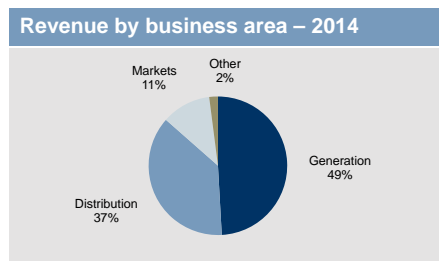
BBB-

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

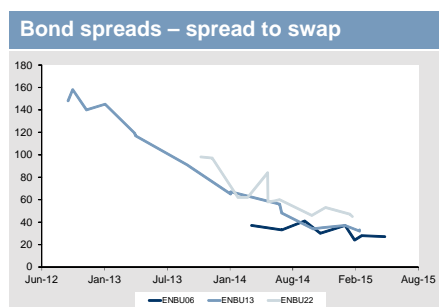
Stable

Key info	
Country	Norway
Bloomberg debt	BUSKEN Corp
Bloomberg equity	50102Z NO
Moody's	NR/---
S&P	NR/---
Market cap. (bn)	n.a.

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Source: Company data and Nordea Markets



Source: OSE and Nordea Markets

Shadow rating downgrade to BBB-

Energiselskapet Buskerud benefited from stronger earnings in 2014, but we nevertheless expect the credit profile to come under pressure owing to lower prices and high capex levels.

Stronger margins in 2014

Energiselskapet Buskerud posted stronger earnings y/y in 2014, helped by increased power production and higher tariff income from the distribution operations. Turnover grew y/y by 1%, while group EBITDA increased by 11% and the overall EBITDA margin strengthened to 48% (2013: 43%).

Modest credit profile strengthening

The group's adjusted net debt declined by NOK 53m in 2014, ending the year at NOK 3,331m (NOK 3,384m in 2013). Net debt/EBITDA strengthened to 5.1x (5.8x in 2013), while total debt/capitalisation weakened to 61% (59% in 2013).

Fairly aggressive dividend policy

Energiselskapet Buskerud's three-year average dividend payout ratio (dividend to previous year's net profit) was 51% as of year-end 2014, which we consider fairly aggressive. The proposed dividend for 2014 equates to a dividend payout ratio of 50%.

Credit view

We downgrade our shadow rating on Energiselskapet Buskerud 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 rating downgrade reflects a more stretched financial profile, with limited potential for deleveraging in the years to come.

Key credit metrics and ratios (adjusted numbers)										
NOKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
EBITDA	673	776	804	844	663	587	653	639	619	600
- margin	50%	51%	41%	45%	49%	43%	48%	47%	46%	45%
EBIT	524	605	625	667	516	438	517	505	487	470
- margin	39%	40%	32%	35%	38%	32%	38%	37%	36%	35%
Shareholders' equity	3,695	2,243	2,085	2,401	2,532	2,727	2,657	3,473	3,597	3,710
Debt	2,149	3,661	3,625	3,246	3,713	4,000	4,204	3,524	3,524	3,524
Debt/(Debt+Equity)	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
FFO/Debt	25.0%	12.6%	10.7%	13.5%	11.3%	9.8%	8.2%	11.5%	11.1%	10.8%
FOCF/Debt	14.5%	9.6%	11.4%	5.1%	-2.0%	-1.1%	3.6%	3.0%	2.6%	2.3%
DCF/Debt	11.8%	5.0%	4.4%	0.9%	-5.3%	-4.0%	-0.9%	0.3%	-0.1%	-0.4%
EBITDA interest coverage	5.6	6.1	5.5	5.7	4.8	3.6	4.2	4.8	4.6	4.5
Debt/EBITDA	3.2	4.7	4.5	3.8	5.6	6.8	6.4	5.5	5.7	5.9
ROC	6.5%	7.4%	7.7%	8.4%	6.2%	4.9%	5.6%	5.4%	5.2%	4.9%

Source: Company data and Nordea Markets

Higher production and tariff income

Energiselskapet Buskerud benefited from stronger earnings in 2014, but we nevertheless expect the credit profile to come under pressure owing to lower prices and high capex levels.

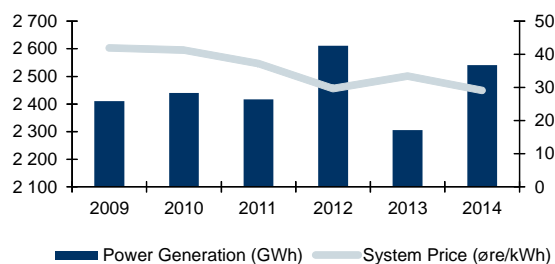
Stronger earnings

Energiselskapet Buskerud posted stronger earnings y/y in 2014, helped by increased power production and higher tariff income from the distribution operations. Turnover grew y/y by 1%, while group EBITDA increased by 11% and the overall EBITDA margin strengthened to 48% (2013: 43%). Net profit dropped by 53% from the year before, but we acknowledge that net profit in 2013 was boosted by extraordinary and non-recurring items.

Higher production, but lower prices

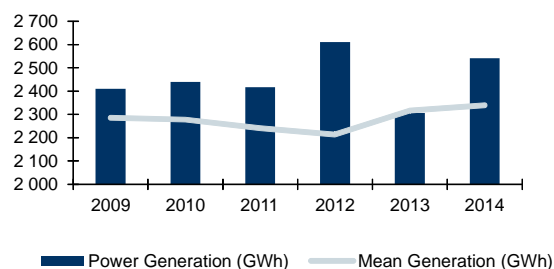
The group's total power generation increased by 10% y/y to 2,541 GWh (2,306 GWh in 2013), while the average system price declined by 13% to 29.1 øre per kWh (33.4 øre per kWh in 2013). Energiselskapet Buskerud was able to increase its output during 2014, despite some unforeseen downtime at two of its hydropower installations.

Power generation and system price



Source: Company data and Nordea Markets

Actual and mean power generation



Source: Company data and Nordea Markets

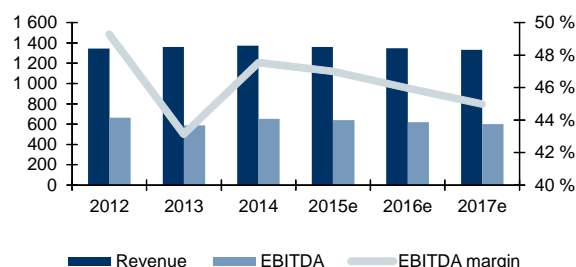
Slightly weaker cash flow

The group's FFO (funds from operations) fell by 12% y/y to NOK 343m (NOK 391m in 2013), while reported operating cash flow declined by 6% to NOK 390m (NOK 416m in 2013). Nevertheless, operating cash flow was more than sufficient to cover net capex of NOK 120m and dividends of NOK 191m.

Satisfactory liquidity reserve

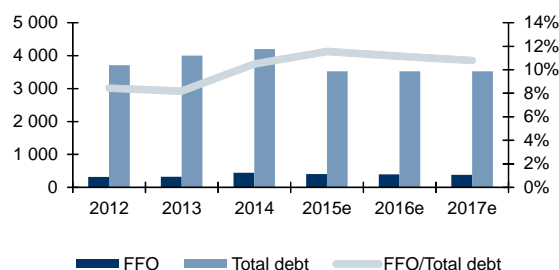
The group's liquidity reserve amounted to NOK 2,040m as of year-end 2014, comprising unrestricted cash in hand of NOK 790m and NOK 1,250m of undrawn committed credit facilities.

Revenue and EBITDA, NOKm



Source: Company data and Nordea Markets

FFO and total debt, NOKm



Source: Company data and Nordea Markets

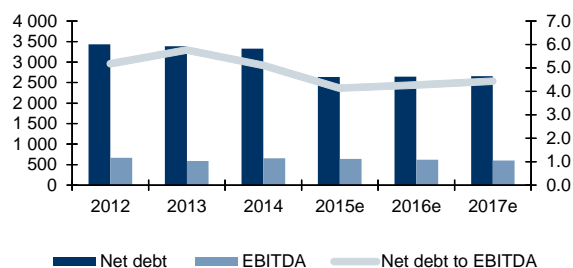
Lower capex

Energiselskapet Buskerud's capex associated with its fixed assets amounted to NOK 228m in 2014, down from NOK 312m in 2013. The group's capex was primarily targeted its production and distribution operations.

Modest credit profile strengthening

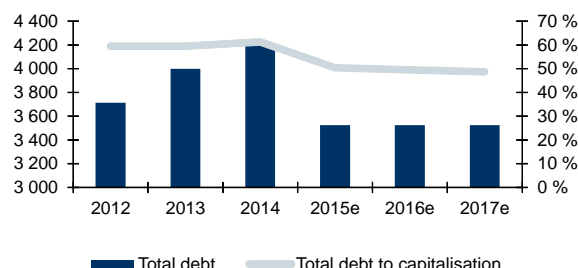
The group's adjusted net debt declined by NOK 53m in 2014, ending the year at NOK 3,331m (NOK 3,384m in 2013). Net debt/EBITDA strengthened to 5.1x (5.8x in 2013), while total debt/capitalisation weakened to 61% (59% in 2013).

Net debt and EBITDA, NOKm



Source: Company data and Nordea Markets

Total debt, NOKm



Source: Company data and Nordea Markets

Fairly aggressive dividend policy

Energiselskapet Buskerud distributed dividends of NOK 191m (NOK 113m in 2013) during the year, corresponding to a dividend payout ratio (dividend to previous year's net profit) of 48% (52% in 2013). We consider the group's dividend policy fairly aggressive, demonstrated by a three-year average dividend payout ratio of 51%. The proposed dividend for 2014 is NOK 95m, corresponding to a dividend payout ratio of 50%.

Adjustments to reported figures

We adjust Energiselskapet Buskerud's reported debt figures to include pension liabilities.

Shareholder loan(s)

As of year-end 2014, the group's shareholder loans amounted to NOK 930m, comprising two equal loan amounts of NOK 465m from the municipality of Drammen and Vardar. Both loans run without instalments up to and including 2018. Thereafter, the loans are repayable at equal annual instalments and have final maturity in 2028. We treat the shareholder loans as debt in our rating model, as the loans are not eligible for equity treatment according to prevailing rating methodology.

Proposal from the board to partly convert shareholder loans to equity

In April 2015, the board of Energiselskapet Buskerud recommended to its owners that NOK 680m of the shareholder loans be converted to equity. Furthermore, the board recommended that the remaining shareholder loans of NOK 250m would have final maturity in 2045. In our estimates for 2015, we assume that the board's proposal is approved by shareholders.

Credit profile considerations

Business operations

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

- Generation (49%)
- Distribution (37%)
- Power sales (11%)
- Other (2%).

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.

Strong business risk profile

We are of the opinion that the overall business risk profile associated with Energiselskapet Buskerud can be considered Strong, according to the "expanded rating matrix" below from Standard & Poor's.

Expanded Rating Matrix							
Business Risk Profile	Minimal	- Financial Risk Profile -			Aggressive	Highly Leveraged	
Excellent	AAA/AA+	Modest	Intermediate	Significant	Aggressive	Highly Leveraged	
Strong	AA/AA-	AA	A+/A	A-	BBB	BBB-/BB+	BB
Satisfactory	A/A-	BBB+	BBB/BBB-	BBB-/BB+	BB	B+	B+
Fair	BBB/BBB-	BBB-	BB+	BB	BB-	B	B
Weak	BB+	BB+	BB	BB-	B+	B/B-	B/B-
Vulnerable	BB-	BB-	BB-/B+	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
- 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 Energiselskapet Buskerud can be considered as Significant to Aggressive. According to the guidelines from S&P, we evaluate credit ratios on a time series basis, and we take into account 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 (the 2019 and 2022 fixed rate bonds have never traded on the OSE).

Last trade levels on the OSE (bond issues sorted by maturity date)											
Ticker	Issuer	Corp	Bond	Maturity	Coupon	Size (m)		Level	Spread	Date	Rank
	Energiselskapet Buskerud AS	BBB-	BBB-	2015-06-22	N3M +135	NOK	55				Senior unsecured
ENBU06	Energiselskapet Buskerud AS	BBB-	BBB-	2016-07-22	5.70 %	NOK	300	104.79	27	13.05.15	Senior unsecured
ENBU13	Energiselskapet Buskerud AS	BBB-	BBB-	2017-06-22	N3M +175	NOK	200	103.27	33	25.02.15	Senior unsecured
ENBU22	Energiselskapet Buskerud AS	BBB-	BBB-	2018-06-25	N3M +100	NOK	360	101.84	45	03.02.15	Senior unsecured
ENBU03	Energiselskapet Buskerud AS	BBB-	BBB-	2019-02-18	6.41 %	NOK	200				Senior unsecured
ENBU08	Energiselskapet Buskerud AS	BBB-	BBB-	2020-08-10	5.50 %	NOK	500	119.15	60	14.01.15	Senior unsecured
ENBU21	Energiselskapet Buskerud AS	BBB-	BBB-	2021-06-24	4.10 %	NOK	100	98.88	112	07.10.13	Senior unsecured
ENBU19	Energiselskapet Buskerud AS	BBB-	BBB-	2022-04-22	N3M +140	NOK	275	104.81	71	25.09.14	Senior unsecured
ENBU20	Energiselskapet Buskerud AS	BBB-	BBB-	2022-04-22	4.35 %	NOK	225				Senior unsecured
ENBU09	Energiselskapet Buskerud AS	BBB-	BBB-	2023-06-21	5.75 %	NOK	250	113.10	94	10.03.14	Senior unsecured

Source: OSE and Nordea Markets

Key bond details

- Senior unsecured
- Negative pledge with minor carve-out (up to 8% of total assets).

Selected bank debt details

- NOK 1,000m back-stop facility maturing in 2019
- NOK 250m short-term overdraft facility
- Minimum adjusted equity (including subordinated loans) ratio of 20%
- Minimum 50% of the capital market debt must have a duration above 2.0x.

Reported numbers and forecasts

Income statement										
NOKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Total revenue	1,357	1,512	1,941	1,883	1,345	1,361	1,374	1,360	1,346	1,333
- growth	25.1%	11.5%	28.3%	-3.0%	-28.6%	1.2%	0.9%	-1.0%	-1.0%	-1.0%
Gross profit	1,044	1,196	1,323	1,328	1,034	1,025	1,069	1,020	1,010	1,000
- margin	76.9%	79.1%	68.1%	70.5%	76.9%	75.3%	77.8%	75.0%	75.0%	75.0%
EBITDA	673	776	804	844	663	587	653	639	619	600
- margin	49.6%	51.3%	41.4%	44.8%	49.3%	43.1%	47.5%	47.0%	46.0%	45.0%
EBITA	673	776	804	844	663	587	653	639	619	600
- margin	49.6%	51.3%	41.4%	44.8%	49.3%	43.1%	47.5%	47.0%	46.0%	45.0%
EBIT	524	605	625	667	516	438	517	505	487	470
- margin	38.6%	40.0%	32.2%	35.4%	38.4%	32.2%	37.7%	37.1%	36.2%	35.2%
Net finance	-69	8	-125	-133	-155	-100	-150	-124	-124	-124
Pre-tax profit	455	613	501	534	361	338	367	381	363	346
Taxes	-52	-255	-226	-279	-175	-171	-160	-133	-127	-121
Net profit, continuing operations	403	358	275	255	186	167	207	248	236	225
Discontinued operations	0	0	0	0	65	223	0	0	0	0
Net profit to equity	275	277	261	236	217	401	190	231	219	208
EBITDA (credit adj)	673	776	804	844	663	587	653	639	619	600
EBIT (credit adj)	524	605	625	667	516	438	517	505	487	470
Interest expense (credit adj)	-120	-127	-147	-148	-138	-161	-156	-134	-134	-134

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	31	37	35	34	13	8	8	8	8	8
Tangible assets	7,398	7,484	7,287	7,385	7,081	7,417	7,515	7,631	7,749	7,869
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	0	0	0	0	0	0	0	0	0	0
Other non-interest bearing non-current assets	531	452	439	494	726	1,293	1,383	1,383	1,383	1,383
Other non-current assets	0	0	0	0	0	0	0	0	0	0
Non-current assets	7,960	7,972	7,761	7,913	7,820	8,717	8,906	9,022	9,140	9,260
Inventory	40	41	26	24	0	0	0	0	0	0
Accounts receivable	165	157	236	183	125	237	91	91	91	91
Other current assets	104	128	237	485	1,064	304	298	298	298	298
Cash and cash equivalents	553	565	595	179	283	615	872	884	882	866
Current assets	861	891	1,094	870	1,472	1,156	1,261	1,273	1,271	1,255
Assets held for sale	0	0	0	0	0	0	0	0	0	0
Total assets	8,821	8,864	8,856	8,782	9,292	9,873	10,168	10,295	10,411	10,515
Shareholders equity	2,575	2,019	1,853	2,163	2,263	2,498	2,412	3,227	3,351	3,464
Minority interest	1,120	224	233	238	269	229	246	246	246	246
Deferred tax	2,317	2,382	2,238	2,340	2,345	2,409	2,348	2,348	2,348	2,348
Convertible debt	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	1,737	3,379	3,041	2,910	3,319	3,484	3,779	3,099	3,099	3,099
Non-current liabilities	0	0	0	0	0	0	0	0	0	0
Pension provisions	39	30	30	32	40	146	172	172	172	172
Other long-term provisions	0	0	0	0	41	160	367	367	367	367
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0
Non-current liabilities	4,094	5,791	5,309	5,282	5,745	6,200	6,666	5,986	5,986	5,986
Short-term provisions	0	0	0	0	0	0	0	0	0	0
Accounts payable	80	79	106	141	127	171	61	393	385	376
Other current liabilities	580	498	802	654	534	406	531	190	190	190
Short term interest bearing debt	373	252	554	304	354	369	253	253	253	253
Current liabilities	1,033	830	1,462	1,099	1,015	946	845	836	828	819
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	8,821	8,864	8,856	8,782	9,292	9,873	10,168	10,295	10,411	10,515
Cash and cash eq (credit adj)	553	565	595	179	283	615	872	884	882	866
Total assets (credit adj)	8,821	8,864	8,856	8,782	9,292	9,873	10,168	10,295	10,411	10,515
Shareholders equity (credit adj)	3,695	2,243	2,085	2,401	2,532	2,727	2,657	3,473	3,597	3,710
Debt (credit adj)	2,149	3,661	3,625	3,246	3,713	4,000	4,204	3,524	3,524	3,524

Source: Company data and Nordea Markets

Cash flow statement

NOKm	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
EBITDA	673	776	804	844	663	587	653	639	619	600
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	-69	8	-125	-133	-155	-100	-150	-124	-124	-124
Dividends received	0	0	0	0	0	0	0	0	0	0
Paid taxes	-86	-243	-99	-332	-283	-235	-62	-133	-127	-121
Other	-15	-68	-66	6	88	75	0	25	25	25
Operating cash flow before NWC	503	472	515	385	313	327	441	407	393	380
Change in NWC	32	138	-65	46	-60	90	-51	-50	-50	-50
Operating cash flow	535	611	450	431	253	416	390	357	343	330
CAPEX	-224	-257	-35	-265	-327	-461	-237	-250	-250	-250
Free operating cash flow	311	353	415	166	-74	-45	153	107	93	80
Dividends paid	-58	-171	-254	-136	-122	-113	-191	-95	-95	-95
Share issues / buybacks	5	-1,623	0	-9	0	-2	-2	680	0	0
Discretionary cash flow	258	-1,441	161	22	-196	-160	-40	692	-2	-15
Other investments / divestments	-13	-28	-4	-144	-199	342	117	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	-328	1,478	-36	-307	459	380	179	-680	0	0
Other	6	0	-33	13	40	-198	1	0	0	0
Change in cash	-78	8	87	-416	104	364	257	12	-2	-15
Adjusted metrics										
Funds from operations (FFO) (adj)	537	461	388	438	420	391	343	407	393	380
Operating cash flow (OCF) (adj)	535	611	450	431	253	416	390	357	343	330
Free operating cash flow (FOCF) (adj)	311	353	415	166	-74	-45	153	107	93	80
Discretionary cash flow (DCF) (adj)	253	182	161	30	-196	-158	-38	12	-2	-15

Source: Company data and Nordea Markets

Key ratios

	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017E
Profitability										
ROC	6.5%	7.4%	7.7%	8.4%	6.2%	4.9%	5.6%	5.4%	5.2%	4.9%
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	11.6%	12.1%	13.5%	11.7%	9.8%	16.9%	7.7%	8.2%	6.7%	6.1%
Debt & Interest coverage										
FFO/Debt	25.0%	12.6%	10.7%	13.5%	11.3%	9.8%	8.2%	11.5%	11.1%	10.8%
FOCF/Debt	14.5%	9.6%	11.4%	5.1%	-2.0%	-1.1%	3.6%	3.0%	2.6%	2.3%
DCF/Debt	11.8%	5.0%	4.4%	0.9%	-5.3%	-4.0%	-0.9%	0.3%	-0.1%	-0.4%
EBITDA interest coverage	5.6	6.1	5.5	5.7	4.8	3.6	4.2	4.8	4.6	4.5
FFO cash interest coverage	-4.5	-3.6	-2.6	-3.0	-3.1	-2.4	-2.2	-3.0	-2.9	-2.8
Leverage										
Debt/EBITDA	3.2	4.7	4.5	3.8	5.6	6.8	6.4	5.5	5.7	5.9
Equity ratio	29.2%	22.8%	20.9%	24.6%	24.4%	25.3%	23.7%	31.3%	32.2%	32.9%
Debt/(Debt+Equity)	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Capital expenditure										
CAPEX/Depreciation and amortisation	1.51	1.51	0.20	1.49	2.23	3.10	1.75	1.87	1.89	1.92
CAPEX/Sales	0.17	0.17	0.02	0.14	0.24	0.34	0.17	0.18	0.19	0.19
Working capital ratios										
Inventory turnover (days)	11	10	5	5	0	0	0	0	0	0
Receivables turnover (days)	44	38	44	35	34	64	24	24	25	25
Days sales outstanding (days)	21	19	20	27	34	46	16	105	104	103
Per share data										
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										
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	21.1%	61.6%	97.2%	57.6%	56.4%	28.2%	100.7%	41.2%	43.4%	45.7%

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

Underperform

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

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Recommendation	Count	% distribution
Outperform	88	17%
Market perform	284	56%
Under perform	140	27%
Total	512	100%

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Issuer Review

This report has not been reviewed by the Issuer prior to publication.

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