



Rating Action: Moody's upgrades EDP to Baa2; stable outlook

11 May 2023

Paris, May 11, 2023 – Moody's Investors Service (Moody's) has today upgraded the long-term issuer and senior unsecured ratings of EDP – Energias de Portugal, S.A. (EDP) to Baa2 from Baa3. Concurrently, Moody's has upgraded EDP's senior unsecured MTN program rating to (P)Baa2 from (P)Baa3, EDP's junior subordinate MTN program rating to (P)Ba1 from (P)Ba2, EDP's junior subordinate debt ratings to Ba1 from Ba2, and EDP's commercial paper rating to Prime-2 from Prime-3.

Moody's has also upgraded the senior unsecured ratings of EDP Finance B.V. to Baa2 from Baa3, the senior unsecured rating of the finance subsidiary's MTN program to (P)Baa2 from (P)Baa3, and the commercial paper rating to Prime-2 from Prime-3.

The outlook on all ratings is changed to stable from positive.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

The upgrade of EDP's ratings reflects the realised progress in strengthening its financial profile, with an increase of the group's funds from operations (FFO) to net debt to 18% in 2022 from 16.1% on average over 2019-21 and anticipates that this strength will be sustained with continued investment in renewables and networks supporting a sound business risk profile.

EDP's leverage has improved over recent years in spite of an ongoing increase in investment spending. The group has successfully executed on asset rotations, including the disposal of renewables assets and benefitted from higher wholesale prices on its unhedged power generation output. Cash flow resilience has been supported by a stronger contribution from thermal generation during very tight hydro conditions in Portugal in 2022.

EDP's Baa2 long-term issuer rating continues to positively reflect (1) its stated commitment to maintain credit quality, (2) its diversified business and geographical mix, which helps moderate earnings volatility; (3) stable earnings from contracted generation and regulated network, which account for more than 75% of group EBITDA; and (4) the low carbon intensity of its power generation fleet, which positions the group well in the context of the energy transition.

These factors are balanced against (1) the earnings volatility stemming from variations in hydro output in Iberia and, to a lesser extent, wind resources globally; (2) the residual exposure to volatile power prices of EDP's merchant generation and supply activities; (3) the execution risks associated with the group's significant investment programme; (4) the exposure to political and regulatory risks in Portugal (Baa2 stable), Spain (Baa1 stable) and Brazil (Ba2 stable); and (5) the minority holdings in the group, which add to complexity.

The Ba1 long-term rating on the junior subordinate hybrid securities, which is two notches below the long-term issuer rating of Baa2 for EDP, reflects their terms and position in the capital structure.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's view that, in the context of its capital investment plan and dividend policy, EDP will maintain financial metrics consistent with guidance for a Baa2 rating, including FFO/net debt at least in the upper teens, and retained cash flow (RCF)/net debt at least in the low teens, in percentage terms.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

EDP's ratings could be upgraded if the company makes progress on its strategy and investments while reducing leverage. A sustainable and solid financial profile, including FFO/net debt above 22%, and retained cash flow (RCF) to net debt at least in the mid-teens (in percentage terms), would support an upgrade to Baa1.

Negative pressure would develop on EDP's ratings if (1) its financial profile were to weaken whether because of a downturn in the company's operating/regulatory environment and performance, or because cashflow generation was not to keep pace with debt-funded investment, such that FFO/net debt and RCF/net debt appeared likely to fall persistently below guidance for the current rating; or (2) credit negative changes occur in EDP's corporate structure, such as a material increase in minority shareholdings, which could prompt a tightening of guidance, or if subordination were to increase and weaken the position of parent company senior unsecured creditors.

LIST OF AFFECTED RATINGS

Upgrades:

..Issuer: EDP - Energias de Portugal, S.A.

....LT Issuer Rating, Upgraded to Baa2 from Baa3

....Junior Subordinated Regular Bond/Debenture, Upgraded to Ba1 from Ba2

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

....BACKED Junior Subordinated Medium-Term Note Program, Upgraded to (P)Ba1 from (P)Ba2

....BACKED Senior Unsecured Medium-Term Note Program, Upgraded to (P)Baa2 from (P)Baa3

....Commercial Paper, Upgraded to P-2 from P-3

..Issuer: EDP Finance B.V.

....BACKED Senior Unsecured Medium-Term Note Program, Upgraded to (P)Baa2 from (P)Baa3

....BACKED Commercial Paper, Upgraded to P-2 from P-3

....BACKED Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

Outlook Actions:

..Issuer: EDP - Energias de Portugal, S.A.

....Outlook, Changed To Stable From Positive

..Issuer: EDP Finance B.V.

....Outlook, Changed To Stable From Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Unregulated Utilities and Unregulated Power Companies published in May 2017 and available at <https://ratings.moodys.com/api/rmc-documents/75129>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

EDP, headquartered in Lisbon, Portugal, is a vertically integrated utility company. It generated EUR4.5 billion of EBITDA in 2022.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Benjamin Leyre
VP - Senior Credit Officer
Infrastructure Finance Group
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Neil Griffiths-Lambeth
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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