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Research Update:

EDP 'BBB/A-2' Ratings Affirmed Amid New Hybrid Criteria; Outlook Stable

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Rating Action Overview

- The implementation of S&P Global Ratings' recently published revised hybrid criteria resulted in the removal of equity content on five of six hybrids issued by EDP S.A. We expect this to depress 2024's funds from operations (FFO)-to-debt metrics by 200 basis points (bps) to about 16%.
- EDP management's strong commitment to its financial policy leads us to think that it will take action so that almost all its hybrid instruments would regain equity content by year-end 2025.
- We also expect lower net investments over 2025-2026, with fewer assets to develop than in 2024, which should support EDP's FFO to debt improving to above 19% by year-end 2025.
- We therefore affirmed our 'BBB/A-2' long-term and short-term issuer credit ratings on EDP, our 'BBB' issue rating on the company's senior unsecured notes, and our 'BB+' rating on its hybrids.
- The stable outlook indicates we will closely monitor EDP's operating performance and remedy measures to ensure FFO to debt rises above 19% by 2025.

Rating Action Rationale

S&P Global Ratings' updated hybrid criteria removes equity content on most of EDP's hybrid stock, pressuring 2024 metrics. As of year-end 2024, the company's hybrid stock was composed of six hybrid instruments benefiting from intermediate equity content. Following the recent update to our hybrid criteria that removed equity content for instruments with a sliding step-up clause, five of the six instruments do not qualify for intermediate equity content anymore. We therefore increased our expectation of EDP's adjusted net debt by €1.88 billion, negatively affecting our estimate of 2024's FFO to debt by about 200 bps. We now expect the company's FFO to debt to have reached about 16% at year-end 2024, from our previous expectation of 18%. However, we understand that EDP will take action to ensure that almost all its hybrid stock benefits from intermediate equity content by end-2025 while maintaining low refinancing costs to mitigate the impact on ratios. In our base case, we assume that all but one hybrid will benefit from intermediate equity content by the end of 2025 enabling FFO to debt to reach about 19%.

Results for the first nine months of 2024 and our estimate of strong fourth-quarter results should enable EDP to reach FFO to debt at slightly above 18% at year-end 2024 (excluding the updated hybrid criteria). In second-half 2024, supportive prices made the Portuguese market positive for regulatory receivables securitization, leading to our expectation of stronger working capital affecting positively the company's net debt by about €500 million. Combined with significant contributions from tax equity partners in the U.S. to ensure all renewables projects are built and commissioned over 2025-2026, we now expect EDP's net debt to be stable €18.5 billion-€19.0 billion over 2024-2025 (excluding the impact from the updated hybrid criteria).

EDP's financials depend highly on power prices and asset rotations on their non-regulated activities. In fourth-quarter 2024 and January 2025, EDP signed several asset rotations, three of which were publicly announced. Should this continue, we expect proceeds from asset rotations in 2025 to reach more than €2.0 billion from about €1.7 billion estimated for 2024, which should support FFO to debt of 19% by year-end 2025. Overall, we expect lower net investments in 2025 and 2026. Following a record capacity increase in fourth-quarter 2024 and the decision to exit Colombian projects, EDP's capacity under construction decreased to 2.0 GW in December 2024 from 4.1 GW in September 2024, in line with the expected capacity additions of about 2 GW in 2025, about half of which are in the U.S. Although most capacities are already under construction in line with 2025 goals, we think a minor change in capex or asset rotation proceeds could materially affect EDP's metrics, as demonstrated in 2023, when a delay in receiving proceeds from asset rotation led to FFO to debt well below 19%.

EDP's strong commitment to the 'BBB' rating supports our 'bbb' stand-alone credit profile (SACP) on the company. The SACP incorporates our view that the company is committed to maintain the rating and ensuring its FFO to debt rises above 19%. We therefore expect it to implement a refinancing plan regarding the hybrid in a timely manner so that almost all of the hybrid stock has intermediate equity content by year-end 2025. We also expect EDP to continue monitoring asset rotation and tax equity investments to ensure it can reach the 19% threshold by the year's end.

Outlook

The stable outlook reflects our expectations that EDP will remain committed to its financial policy by implementing measures so that FFO to debt reaches above 19% from year end 2025.

Downside scenario

We could lower the rating if we do not expect the company to reach FFO to debt of 19% by year-end 2025 and sustain it above 19% beyond then. This could result from the following:

- EDP experiences a material operational setback, such as lower-than-expected profitability from installed assets or material delays in construction.
- The presence of minorities increases which would result in higher-than-expected cash flow leakage.
- EDP is unable to achieve the asset rotation target over 2025-2026 without any measures to reduce capex.
- Deviation from EDP's commitment to maintaining a capital structure in line with the current rating.

Upside scenario

We view an upgrade as unlikely, despite lower expected net investments over 2025-2026 and the company's focus on balance-sheet management.

Company Description

EDP is a vertically integrated utility company. It is the largest generator, distributor, and supplier of electricity in Portugal, and the third largest electricity generator on the Iberian Peninsula.

EDP is among the largest wind power operators worldwide. Through its subsidiary EDPR, the company develops and operates wind and solar energy generation facilities in four regional hubs, North and Latin America, and, more recently, in the Asia-Pacific region with the Sunseap acquisition. EDP is Brazil's fifth-largest private electricity operator, with two electricity distribution concessions (EDP Sao Paulo and EDP Espirito Santo). Also, the company is the country's fourth-largest private electricity supplier in the liberalized market and is responsible for power transmission there.

EDP operates across two business segments:

- Renewables, including client solutions, and energy management (65% of reported EBITDA in 2024): This segment includes the company's hydro, wind, and solar power assets across all regions. Client solutions and energy management include EDP's supply activities on the Iberian peninsula and Brazil, thermal generation, and energy management businesses. The company has an installed capacity of 31.9 GW plus 2.8 GW equity accounted, and generated 57.5 terawatt-hours of electricity in 2024.
- Networks (35% of reported EBITDA in 2024): This segment includes EDP's electricity distribution activities on the Iberian peninsula and Brazil, transmission lines in Brazil, and electricity last resort supply activity in Portugal, with a total regulated asset base of about €7.6 billion as of Dec. 31, 2023.

Our Base-Case Scenario

Assumptions

- Annual network EBITDA growth with recovery of inflation with a year delay.
- Organic growth in renewables of 2%-3% including gains on asset rotations.
- Reported EBITDA of €4.9 billion in 2024 rising to about €5.1 billion in 2026, including €2.3 billion from EDPR, €1.6 billion from networks, and €1.0 billion from generation and supply. We assume an EBITDA margin of 28%-30%, in line with company guidance.
- Dividend payout (including dividends to minority shareholders) averaging €875 million-€900 million over 2025-2026.
- Asset rotation proceeds of about €4 billion and disposal proceeds of €0.5 billion in 2025 and 2026. We expect higher asset rotation proceeds than 2024 to support the balance sheet.
- Total capex in 2025-2026 of €9 billion-€10 billion, with 80% of capex going to the renewable segments and the remaining 20% to networks. The geographic split is 45% Europe, 33% North

America, 14% Brazil, and 8% elsewhere. We expect lower capex compared with 2024 levels on lower commissioning of new renewables assets.

- Cash taxes of €350 million-€400 million per year, growing in line with net income.
- An average interest rate of 4.3% over the period, which is in line with company expectations and market conditions.
- Tax equity received of about €1 billion in 2024 and €500 million in 2025, net of about €150 million cash payment to tax equity partners.
- In addition, we removed equity content on five out of the six hybrids as per the recently published hybrid criteria.

Key metrics

EDP S.A.--Key metrics

Bil. €	2023	2024	2025	2026
S&P Global Ratings-adjusted EBITDA	4.6	4.5-5.0	4.5-5.0	4.5-5.0
Funds from operations (FFO)	3.2	3.0-3.5	3.0-3.5	3.3-3.8
Operating cash flow	1.4	3.0-3.5	4.0-4.5	4.0-4.5
Capital expenditure	5.3	5.0-5.5	5.0-5.5	4.5-5.0
Dividends	1.0	0.8-0.9	0.9-1.0	0.9-1.0
Net debt	18.9	18.5-19.0*	18.5-19.0	17.2-17.7
Adjusted ratios				
FFO to debt (%)	17.0	~16.0	>19.0	>19.0
Debt to EBITDA (x)	4.1	~4.0	<4.0	<4.0

*Before the change to the hybrid criteria.

Liquidity

We view EDP's liquidity as strong, reflecting the group's proactive financing and healthy cash flow. Projected sources of liquidity, mainly operating cash flow and available bank lines, exceed projected uses, which are mainly necessary capex, debt maturities, and dividends, by more than 1.5x for both the next 12 and 24 months, notwithstanding potential for cash flow volatility over 2025. We also integrate into our assessment EDP's strong bank relationships, prudent financial discipline, and proven access to debt capital markets.

We estimate the following principal liquidity sources for the 12 months from Dec. 31, 2024:

- Unrestricted cash of about €3.8 billion.
- About €7.7 billion available committed lines mostly maturing in 2029.
- Additional undrawn credit line of €0.7 billion from the European Investment Bank, contracted at year-end 2024.
- Forecast cash FFO of about €4.2 billion.

- €750 million of proceeds from a senior bond issued in January 2025.

For the same period, we estimate that principal liquidity uses:

- Short-term debt of €0.8 billion-€1.0 billion, including subsidiaries' short-term debt.
- Estimated working capital outflows of at least €200 million.
- An estimated €5.6 billion of gross capex.
- Dividends of about €880 million, including dividends to subsidiaries' minority shareholders.

Issue Ratings - Subordination Risk Analysis

Capital structure

EDP's policy is to issue most of its debt at the parent company directly, or via its financial subsidiary EDP Finance B.V., and lend the proceeds to its operating companies. We calculate structural subordination at a moderate 24%, well below our 50% threshold for notching. Also, we think EDP's size, diversity of cash flow, and financial ring-fencing of its Brazilian subsidiary and direct ownership of significant operating assets strongly mitigate structural subordination issues.

Analytical conclusions

The issue rating on EDP's senior unsecured debt is 'BBB', in line with the issuer credit rating. We rate the hybrid bonds 'BB+', two notches below EDP's 'bbb' SACP.

Ratings Score Snapshot

Issuer Credit Rating	**BBB/Stable/A-2**
Business risk:	Strong
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Strong
Financial risk:	Significant
Cash flow/leverage	Significant
Anchor	bbb
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

Ratings Affirmed	
EDP, S.A.	
EDP Finance B.V.	
Issuer Credit Rating	BBB/Stable/A-2
EDP, S.A.	
Senior Unsecured	BBB
Junior Subordinated	BB+
Commercial Paper	A-2
EDP Finance B.V.	
Senior Unsecured	BBB
Commercial Paper	A-2
EDP SFE	
Senior Unsecured	BBB