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EDP - Energias de Portugal S.A.

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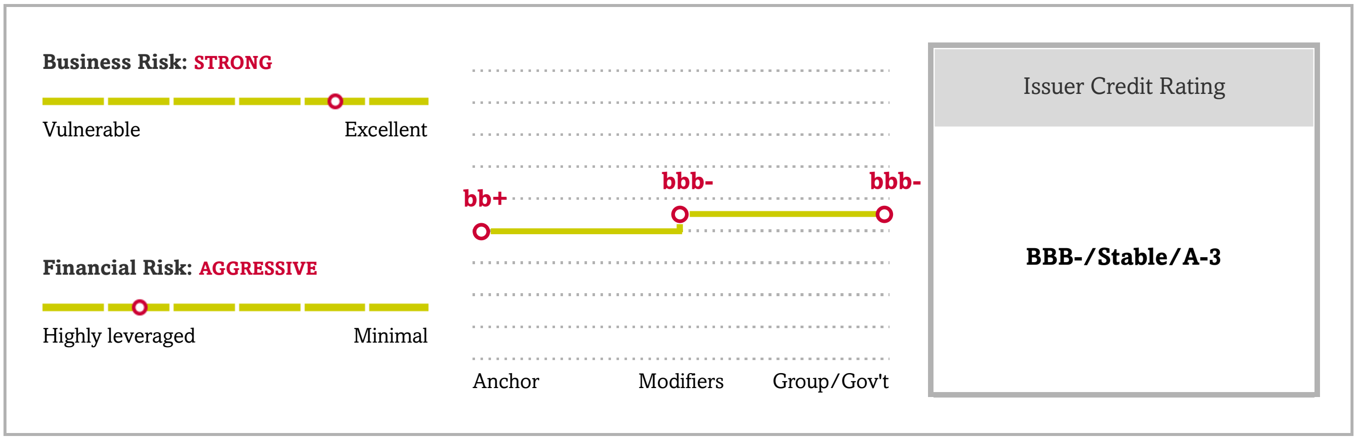
EDP - Energias de Portugal S.A.



Credit Highlights

Overview

Key Strengths	Key Risks
High share of cash flows (about 75% of 2018 EBITDA) stemming from networks, renewable activities, and long-term contracted asset-based operations.	Limited rating headroom with slower-than-expected debt reduction because of challenging hydro conditions in Iberia in 2017 and unfavorable regulatory review for power distribution in Portugal in 2018.
Dominant electric utility in Portugal (39% of 2018 EBITDA) in a still-supportive regulatory environment.	Relatively high leverage, with S&P Global Ratings adjusted debt to EBITDA at 5.7x in 2018.
Significant business and geographic diversification, with about 60% of EBITDA generated mostly in Spain, Brazil, the U.S., and Canada.	Significant exposure to merchant risk (about 25% of EBITDA) following the full liberalization of the power generation market in Iberia at end-2017.
A low-carbon and modern generation fleet, with about 75% of capacity coming from renewable sources (mainly wind and hydro).	Exposure to foreign exchange risk in Brazil and the U.S.
Proactive liability management allowing cost of debt reduction with refinancing needs covered beyond 2021.	

A high share of EDP's cash flows stem from networks, renewable activities, and long-term contracted asset-based operations. These activities should represent about 75% of 2018 EBITDA and provide a stable and predictable source of cash flow generation.

There is limited headroom underneath the rating. EDP sold gas distribution activities in Spain and Portugal worth more than €3.0 billion in 2017. However, challenging hydro conditions in Iberia and unfavorable regulatory review for power distribution in Portugal in January 2018 (impact of €164 million) materially slowed down the expected debt reduction process. For this reason, we now expect EDP to achieve adjusted FFO to debt of about 16% in 2019, rather than in 2018 as originally anticipated (see "Portuguese Power Utility EDP Affirmed At 'BBB-/A-3' With Limited Rating Headroom Through 2020; Outlook Stable" published Aug. 8, 2017).

EDP had relatively high adjusted debt to EBITDA of 5.7x in 2018. We expect EDP will be more leveraged than peers with a 'bbb-' stand-alone credit profile, notably Electricite de France and Fortum Oyj. We note that EDP's adjusted debt to EBITDA has been sustainably well above 5.0x (about 4.0x reported) over the past five years. We understand that EDP will prioritize efforts to reduce financial leverage as part of its strategic plan at least over the next two years, with adjusted debt to EBITDA expected to decline to about 4.5x by 2019 (3.5x reported, according to our calculations).

The company increased its exposure to merchant risk (about 25% of EBITDA) following the full hydro and price exposure liberalization of the power generation market in Iberia at mid-2017. Starting July 2017, EDP's power generation activities--previously not exposed to merchant risk given the Contractual Equilibrium Maintenance Cost (CMEC) annual adjustment mechanism--became exposed to price and volume risks. This creates additional cash flow volatility that can significantly harm results, as seen in 2017 and in 2018.

China Three Gorges' (CTG) €9 billion bid for EDP collapsed on April 24, 2019. CTG's offer was conditional on the scrapping of corporate bylaws limiting the voting rights of any single EDP shareholder to a maximum of 25% (see "A Trio Of "Special Situations" M&A In European Utilities And Their Rating Implications," published on April 18, 2019). However, 57% of shareholders voted at a general shareholders' meeting not to lift the cap, thereby ending CTG's bid for EDP.

Outlook: Stable

The stable outlook on EDP reflects our expectation that its financial risk profile will continue to improve over the next two years on the back of stronger operating performance and the disposal of merchant assets in Iberia in the next 12-18 months. This should lead to FFO to debt of close to 16% in 2019, and adjusted debt to EBITDA declining to about 4.5x over the same time period (3.5x reported, according to our calculations), from 5.7x in 2018.

Management's perceived commitment to maintaining an investment-grade rating, as well as its policy to further reduce debt to EBITDA by 2020, underpins the outlook. Should EDP sell part of its Iberian power distribution activities, we would likely reassess its creditworthiness.

Downside scenario

We could downgrade EDP if FFO to debt does not improve as expected and stays materially below 16% in 2019. We would also downgrade EDP if the company were unable to materially deleverage over 2019-2020, with adjusted debt to EBITDA remaining materially above 4.5x in 2019.

One or more of the following scenarios could prompt a downgrade:

- Continuously challenging conditions in the Iberian power generation market;
- Any deviation from the improvement in the leverage-reduction target presented in the 2019-2022 plan;
- A material heightening of Portuguese and secondarily Brazilian country risk (including adverse regulatory or fiscal effects);
- An inability to effectively securitize tariff deficits or achieve its asset-rotation target in 2022; and
- Debt-financed acquisitions of a significant amount, although this is not part of the company's current strategy.

Upside scenario

We see ratings upside as remote over the next two years, since it would require EDP to achieve FFO to debt above 20% over the next two years, which we consider highly unlikely.

Our Base-Case Scenario

Assumptions

In our base case for EDP over 2019-2021, we assume:

- Real GDP expansion in Portugal of 1.7% in 2019, 1.6% in 2020, and 1.5% in 2021. Real GDP growth for Spain of 2.1% in 2019, 1.9% in 2020, and 1.7% in 2021.
- A gradual recovery in economic expansion and therefore electricity consumption in Iberia, which could minimize affordability issues and moderately increase the electricity system's revenue. This would reduce the outstanding tariff deficit in Portugal, which was €3.8 billion as of Dec. 31, 2018.
- Continued structural oversupply of the liberalized power market in Iberia, although market conditions will improve slightly, with our expectations of forward power prices remaining at about €50 per megawatt hour (MWh) over 2019-2020. EDP's hedging strategy allows it to hedge 70%-80% of its electricity volumes in Iberia over the next 12-18 months.
- Reported EBITDA of about €3.6 billion in 2019-2020 (down from about €3.8 billion in 2016, which included €61 million of capital gain), following the sale of gas distribution assets in Spain and Portugal, and regulatory cuts in Portugal. EBITDA growth will be supported by capacity additions at subsidiary EDP Renovaveis (EDPR), a recovery in the energy markets in Spain, new power transmission investments in Brazil, and resilient operating performance at EDP Brazil and in the Iberian power networks.
- Cash taxes averaging €280 million over 2019-2020 and the partial rollover until 2022 of the €65 million extraordinary levy.
- Annual capital expenditure (capex) of about €2.9 billion over 2019-2020 (includes financial investments) combined with a capital reallocation plan that involves proceeds from asset rotation deals as well as disposals.
- Average dividend payout (including dividends to minority shareholders) of €900 million per year over 2019-2020.

Key Metrics

	2018A	2019E	2020E	2021E
EBITDA (bil. €)	3.2	3.4-3.5	3.5-3.6	3.7-3.8
FFO (bil. €)	2.4	2.5-2.6	2.6-2.7	2.7-2.8
Capex (bil. €)	1.7	2.5-3.0	2.5-3.0	2.5-3.0
Dividends (mil. €)	879	900-930	900-930	940-970
Debt (bil. €)	18.2	15.0-16.0	15.5-16.5	15.5-16.5
FFO to debt (%)	13.5	15.5-16.0	15.5-16.5	16.5-17.5
Debt to EBITDA (x)	5.7	4.5-5.0	4.5-5.0	4.0-4.5

A--Actual. Capex--Capital expenditure. E--Estimate. FFO--Funds from operations. All data S&P Global Ratings-adjusted.

• Investment of Brazilian real 3.1 billion (about €700 million) for power transmission lines in Brazil over 2019-2022.	

Base-case projections

We expect significant debt reduction over 2019-2022. As part of its 2019-2022 strategic update, EDP should significantly reduce reported net debt to EBITDA to below 3.2x (about 4.5x adjusted) in 2020, and below 3.0x (about 4.0x adjusted) in 2022, from 4.2x (5.7x adjusted) in 2018. We see this target as challenging, given that EDP will partly finance its ambitious investment plan with the aforementioned asset rotation strategy, and the company's adjusted debt to EBITDA has been sustainably above 5.0x over the past five years. We note that EDP recently completed an asset rotation disposal for €800 million.

EBITDA expansion will come from increasing capex, notably in renewables and power transmission to Brazil. The 2019-2022 strategic update, which dedicates €8 billion of investment to renewables, highlights EDP's ambition to accelerate expansion in this division. Over 2019-2022, EDP plans to finance part of this investment with €4 billion from asset rotation and €2 billion from disposals.

Relatively high payout ratio. EDP increased the payout ratio to 75%-85% of net income (65%-75% in the previous plan), with a floor of €0.19 per share (dividends paid in 2018). We note EDP's payout ratio is higher than that of Enel (70%) or Iberdrola (65%-75%), and that the company's shareholder remuneration policy somewhat hampers its financial commitment to improve its credit metrics. However, we expect the company to increase dividends only if performance allows for it.

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 in the Iberian Peninsula.

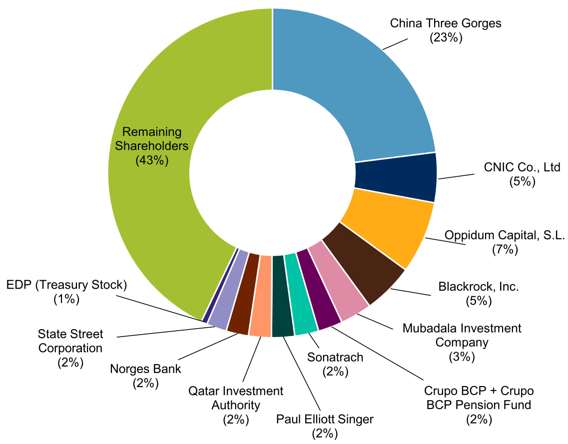
EDP is one of the largest wind power operators worldwide, with wind farms for energy generation in the Iberian Peninsula, the U.S., Canada, Mexico, Brazil, France, Belgium, Italy, Poland, and Romania. Additionally, EDP generates solar photovoltaic energy in Portugal, Romania, and the U.S.

In Brazil, EDP is the fifth largest private operator in electricity generation, with two electricity distribution concessions (EDP São Paulo Distribuição de Energia and EDP Espírito Santo Distribuição de Energia). It is Brazil's fourth largest private supplier in the liberalized market, and recently entered into power transmission in the country.

As of Dec. 31, 2018, EDP had an installed capacity of 27.2 gigawatts (GW) and generated 72.0 terawatt hours of electricity, about 66% of which comes from renewables.

Chart 1

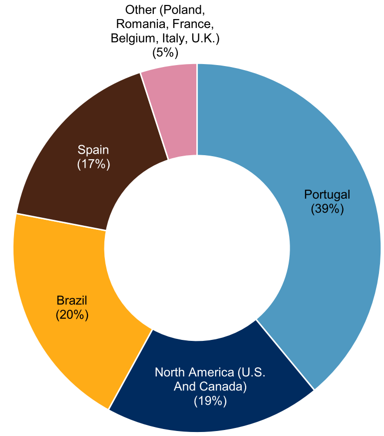
EDP - Energias de Portugal - Shareholding Structure



Source: S&P Global Ratings.

Chart 2

EDP - Energias de Portugal - EBITDA Geographic Split



Source: S&P Global Ratings.

Business Risk: Strong

Strong position in EDP's regulated and renewable segments

The significant earnings' contribution from power network activities in Iberia and Brazil and renewables operations in North America, Europe, and Latin America (about 71% in 2018, according to our estimates) continues to support our assessment of EDP's business risk profile.

We expect regulated activities in Iberia will represent about 20% of the company's EBITDA over 2019-2022, while electricity distribution and transmission in Brazil should represent 10%. The contribution to total EBITDA of EDP's subsidiary EDPR should remain broadly stable at about 41%, with exposure to merchant generation in Iberia declining to 20% of total EBITDA in 2022, from 23% in 2018. We consider EDP's power distribution assets as part of its core business, and should EDP partly exit from these assets, we would likely reassess its creditworthiness. We continue to see EDPR's portfolio as an additional strength to the business, with 90% of EDPR's revenue coming from regulated activities and power purchase agreements (PPA) or hedged versus 10% that are exposed to merchant power. The average remaining life of these PPA contracts is 15 years in the U.S. and 11-12 years in Europe, which provides significant cash flow visibility over a long period of time.

Table 1

EDP - Energias de Portugal - Assessments Of Regulatory Jurisdictions Where EDP Operates

Strong/Adequate	Adequate
Portugal	Brazil
Spain	

Source: S&P Global Ratings.

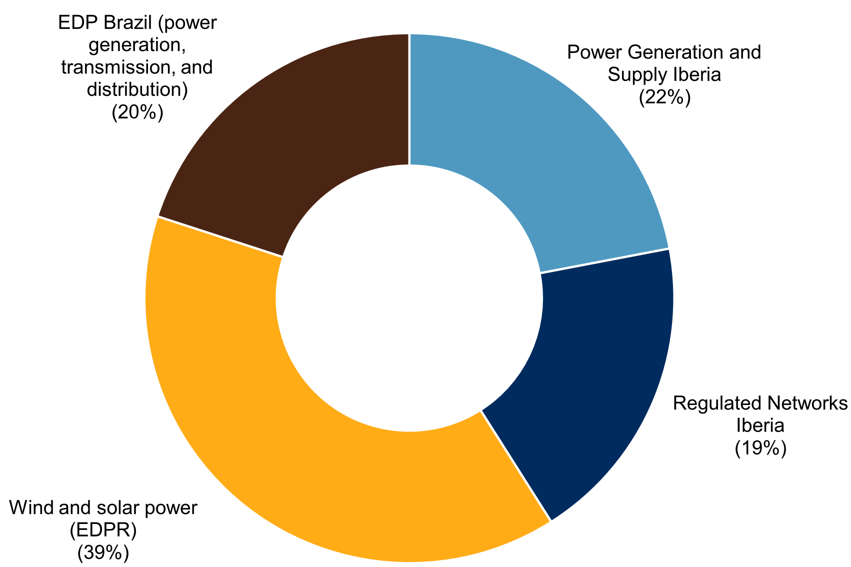
EDP also has a strong position in its key markets, being the largest generator, distributor, and supplier of electricity in

Portugal, and the third largest electricity generation company in the Iberian Peninsula. Our assessment also reflects EDP's cost discipline and solid operating performance, as well as the company's significant global scale and low-cost, low carbon-intensive, and modern generation portfolio (including a leading global position in wind energy). Moreover, EDP benefits from significant diversification, with 60% of its 2018 EBITDA generated outside Portugal, mainly in Spain, Brazil, the U.S., and Canada.

Key relative weaknesses include EDP's exposure to uncertain and volatile power prices in Iberia, as well as its above-average country risk exposure to Brazil. Should the company execute the announced €2 billion disposal--mainly in Iberia and merchant and thermal activities--this weakness will be less pronounced.

Chart 3

EDP - Energias de Portugal - 2018 EBITDA Split By Segment



Source: S&P Global Ratings.

High share of cash flows stemming from networks, renewable activities, and long-term contracted asset-based operations

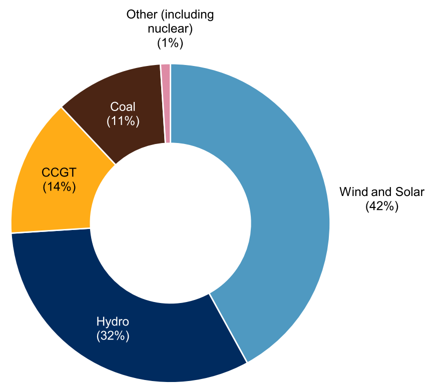
We expect EDP to generate about 75% of 2019 EBITDA from network and renewable activities, as well as long-term contracted asset-based operations. We also expect the remaining useful life on contracts--in excess of 10 years, on average--should lead to above-average visibility on future earnings.

EDP has a strong standing in its key markets, being the largest generator, distributor, and supplier of electricity and the third-largest electricity generator in Iberia. This also underpins EDP's business risk position.

A low-carbon and modern generation fleet, with about 75% of capacity coming from renewable sources

Chart 4

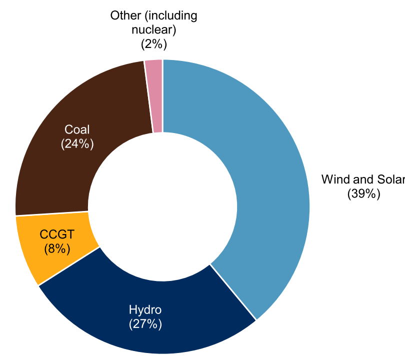
EDP - Energias de Portugal - Installed Capacity Breakdown By Technology (GW)



Source: S&P Global Ratings.

Chart 5

EDP - Energias de Portugal - Electricity Production Breakdown By Technology (TWh)



Source: S&P Global Ratings.

EDP benefits from a low-carbon and modern generation fleet, with about 75% of installed capacity and 66% of power production coming from renewables. We note that EDP, through its subsidiary EDPR, is the fourth largest renewable operator in the world, with a geographical footprint in Europe--notably Iberia--North America, and Brazil. As of March 2019, EDP had 354MW of renewable production under construction.

Higher exposure to merchant risk following the full liberalization of the power generation market in Iberia at mid-2017

Key weaknesses include EDP's rising exposure to uncertain and volatile power prices in Iberia, since Iberian power capacity is fully exposed to market prices given the expiration of the CMEC annual adjustment mechanism in July 2017. This was particularly evident in 2017, when the recurring EBITDA for its Generation and Supply Iberia division declined 44% year-on-year, stemming mainly from lower hydro production and lower margins.

We expect that the liberalized power market in Iberia will remain structurally oversupplied, but we also assume market conditions will improve slightly, with forward power prices remaining at about €50/MWh over 2019-2020.

Peer comparison

Table 2

EDP - Energias de Portugal -- Peer Comparison

Industry sector: Energy

	EDP - Energias de Portugal S.A.	Naturgy Energy Group S.A.	Iberdrola S.A.	Enel SpA
	--Fiscal year ended Dec. 31, 2018--			
(Mil. €)				
Revenues	15,278.1	24,339.0	35,075.9	75,324.0
EBITDA	3,207.0	4,127.5	9,247.5	15,250.5
FFO	2,455.1	3,150.3	7,770.5	10,799.2

Table 2

EDP - Energias de Portugal -- Peer Comparison (cont.)

Industry sector: Energy

	EDP - Energias de Portugal S.A.	Naturgy Energy Group S.A.	Iberdrola S.A.	Enel SpA
Interest Expense	708.6	673.2	1,793.6	2,585.3
Cash Interest Paid	686.9	714.2	1,144.1	2,730.3
Cash flow from operations	2,398.2	2,949.3	6,951.6	11,325.2
Capital expenditures	1,674.9	1,800.0	6,543.8	8,259.0
Free operating cash flow	723.3	1,149.3	407.9	3,066.2
Discretionary cash flow	(156.1)	(1,107.7)	(1,571.4)	(510.3)
Cash and short-term investments	1,720.3	1,696.0	2,808.7	6,417.0
Debt	18,147.4	17,293.1	39,029.8	51,111.2
Equity	13,275.3	13,734.0	42,949.3	49,990.5
Adjusted ratios				
EBITDA margin (%)	21.0	17.0	26.4	20.2
Return on capital (%)	5.5	4.8	7.2	12.5
EBITDA interest coverage (x)	4.5	6.1	5.2	5.9
FFO cash interest coverage (x)	4.6	5.4	7.8	5.0
Debt/EBITDA (x)	5.7	4.2	4.2	3.4
FFO/debt (%)	13.5	18.2	19.9	21.1
Cash flow from operations/debt (%)	13.2	17.1	17.8	22.2
Free operating cash flow/debt (%)	4.0	6.6	1.0	6.0
Discretionary cash flow/debt (%)	(0.9)	(6.4)	(4.0)	(1.0)

FFO--Funds from operations.

We view EDP's business risk profile as weaker than other global integrated utilities with a strong footprint in the Iberian peninsula. EDP is the smallest of these, with an adjusted EBITDA of €3.2 billion as of end-2018. At the same time, EDP has a lower contribution from pure network activities (about 30% of 2018 EBITDA). For Iberdrola, Naturgy, and Enel, this figure is above 50%.

EDP is one of the global leaders in renewable production. The company generates a higher proportion of its energy production from renewables than peers Enel and Naturgy do. EDP will continue to invest in renewables, with onshore and offshore wind representing about 75% of expansion investments until 2022.

Financial Risk: Aggressive

EDP currently has limited headroom under the rating (see "Portuguese Power Utility EDP Affirmed At 'BBB-/A-3' With Limited Rating Headroom Through 2020; Outlook Stable," published April 15, 2019). EDP has amassed large amounts of debt due to major expansion-related capital spending, continued sizable dividends, and a delay to its debt reduction plans. This puts pressure on EDP's credit metrics.

Delay in debt reduction plan despite material disposals in 2017

At this stage, we see EDP's commitment to reduce its financial leverage as a key supporting factor to the rating. We currently consider EDP to be more leveraged than peers with a 'bbb-' stand-alone credit profile, notably Electricite de France and Fortum Oyj. We note that EDP's adjusted debt to EBITDA has been sustainably well above 5.0x (about 4.0x reported) over the past five years. However, we understand that EDP will prioritize efforts to reduce leverage as part of its strategic plan over the next two years, with adjusted debt to EBITDA declining to about 4.5x (3.5x reported) by 2019.

Proactive liability management has reduced debt, with refinancing needs covered beyond 2020

Liability management enabled EDP to proactively reduce its average cost of debt by 30 basis points (bps) to 3.8% in December 2018. Moreover, the recent debt issuances will enable EDP to cover its refinancing needs beyond 2020.

Financial summary

Table 3

EDP - Energias de Portugal - Financial Summary		
Industry Sector: Energy		
	--Fiscal year ended Dec. 31--	
	2018	**2017**
(Mil. €)		
Revenues	15,278.1	15,746.0
EBITDA	3,207.0	3,462.0
FFO	2,455.1	2,001.5
Interest expense	708.6	847.4
Cash interest paid	623.4	789.9
Cash flow from operations	2,398.2	1,574.8
Capital expenditures	1,674.9	1,887.7
Free operating cash flow	723.3	(312.9)
Discretionary cash flow	(156.1)	(1,164.7)
Cash and short-term investments	1,720.3	2,298.6
Gross available cash	1,913.2	2,343.9
Debt	18,147.4	18,454.4
Equity	13,275.3	13,855.3
Adjusted ratios		
EBITDA margin (%)	21.0	22.0
Return on capital (%)	5.5	6.2
EBITDA interest coverage (x)	4.5	4.1
FFO cash interest coverage (x)	4.6	3.4
Debt/EBITDA (x)	5.7	5.3
FFO/debt (%)	13.5	10.8
Cash flow from operations/debt (%)	13.2	8.5
Free operating cash flow/debt (%)	4.0	(1.7)
Discretionary cash flow/debt (%)	(0.9)	(6.3)

FFO--Funds from operations.

Liquidity: Strong

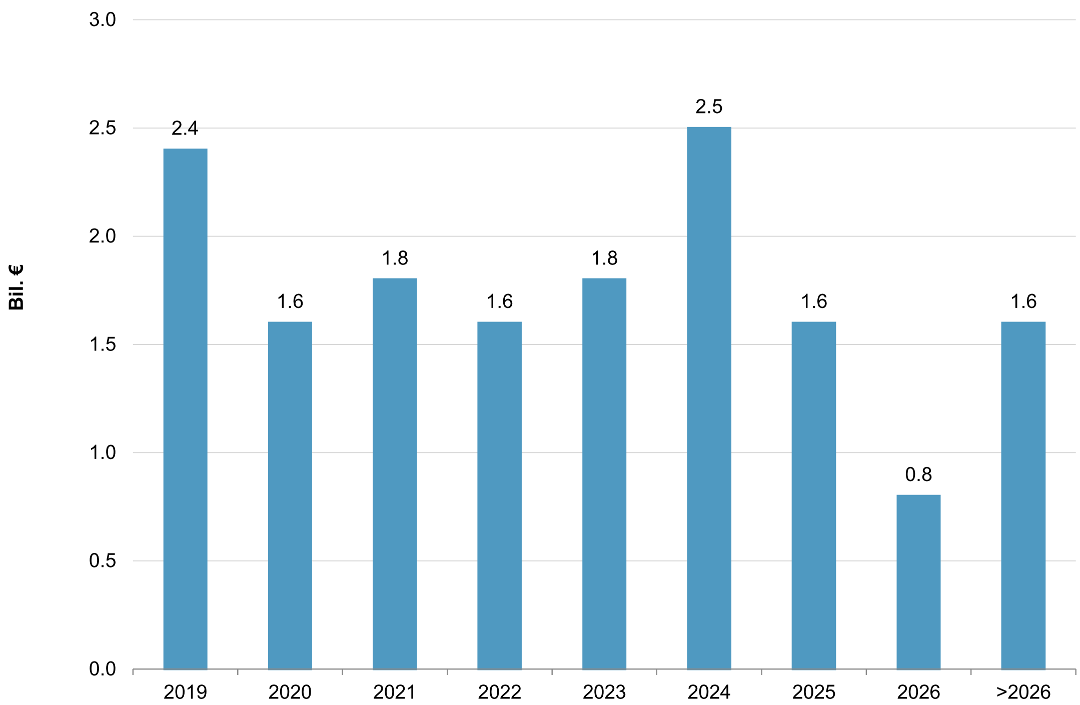
The short-term rating on EDP is 'A-3'. We view EDP's liquidity as strong, reflecting the company's proactive financing and healthy cash flow. In particular, projected sources of liquidity--mainly operating cash flow and available bank lines--exceed projected uses--mainly necessary capex, debt maturities, and dividends--by more than 1.5x for the next 12 months and more than 1.0x in the following 12 months. EDP's strong bank relationships, prudent financial discipline, and proven access to the debt capital markets support our strong assessment of the company's liquidity position.

Principal Liquidity Sources	Principal Liquidity Uses
We estimate that principal liquidity sources for the 12 months from Dec. 31, 2018, include: • Unrestricted cash of about €1.9 billion; • About €5.3 billion in available committed lines maturing beyond 12 months; in particular, EDP has a €3.3 billion revolving credit facility (RCF) maturing in 2023 and a €2.2 billion RCF maturing in 2024; and • Forecast cash FFO of about €2.7 billion.	For the same period, we estimate that principal liquidity uses include: • Short-term debt of about €2.1 billion, including subsidiaries' short-term debt; • Estimated €2.9 billion of capex; and • Dividends of about €900 million, including dividends to subsidiaries' minority shareholders.

Debt maturities

Chart 6

EDP - Energias de Portugal - Debt Maturities



Source: S&P Global Ratings.

Covenant Analysis

We understand that the documentation for EDP's outstanding debt includes no covenants.

Other Credit Considerations

EDP Brazil has its own independent management, a stand-alone funding model, and accounts for less than 20% of EDP's EBITDA. All debt issued in Brazil is completely ring-fenced and nonrecourse to EDP.

Issue Ratings - Subordination Risk Analysis

Capital structure

EDP's policy is to issue most of its debt at the parent company via its financial subsidiary EDP Finance BV, and lend the proceeds to its operating companies. However, we calculate structural subordination to be 23% because of the amount of operating debt at the subsidiaries. We think EDP's size, diversity of cash flow generation, and direct ownership of a fair amount of 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, since no significant elements of subordination risk are present in the capital structure.

Reconciliation

Table 4

Reconciliation Of EDP - Energias de Portugal Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2018--								
EDP - Energias de Portugal S.A. reported amounts									
Mil. €	**Debt**	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Dividends**	**Capital expenditure**
Reported	16,727.8	8,968.2	3,317.1	1,872.3	599.9	3,207.0	2,938.1	858.3	1,708.6
S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	(123.3)	--	--	--
Cash taxes paid - Other	--	--	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	--	(623.4)	--	--	--
Operating leases	716.5	--	83.9	49.8	49.8	(49.8)	34.1	--	--
Intermediate hybrids reported as debt	(375.0)	375.0	--	--	(20.2)	20.2	20.2	20.2	--
Postretirement benefit obligations/deferred compensation	887.7	--	18.3	18.3	39.2	--	--	--	--
Accessible cash & liquid investments	(1,913.2)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	33.8	(33.8)	(33.8)	--	(33.8)
Share-based compensation expense	--	--	1.4	--	--	--	--	--	--
Dividends received from equity investments	--	--	26.9	--	--	--	--	--	--
Asset retirement obligations	329.1	--	--	--	6.1	--	--	--	--
Nonoperating income (expense)	--	--	--	44.8	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(560.4)	--	--
Noncontrolling interest/minority interest	--	3,932.1	--	--	--	--	--	--	--
Debt - Guarantees	308.1	--	--	--	--	--	--	--	--
Debt - Fair value adjustments	(90.1)	--	--	--	--	--	--	--	--

Table 4

Reconciliation Of EDP - Energias de Portugal Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)									
Debt - Put options on minority stakes	2.0	--	--	--	--	--	--	--	--
Debt - Tax liabilities	1,269.5	--	--	--	--	--	--	--	--
Debt - Other	285.0	--	--	--	--	--	--	--	--
EBITDA - Business divestments	--	--	(193.2)	(193.2)	--	--	--	--	--
EBITDA - Other	--	--	(47.3)	(47.3)	--	--	--	--	--
FFO - Other	--	--	--	--	--	58.3	--	--	--
Total adjustments	1,419.6	4,307.1	(110.1)	(127.7)	108.7	(751.9)	(539.9)	20.2	(33.8)
S&P Global Ratings' adjusted amounts									
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	18,147.4	13,275.3	3,207.0	1,744.6	708.6	2,455.1	2,398.2	878.5	1,674.9

FFO--Funds from operations.

Environmental, Social, And Governance

Governance factors are relevant to our credit analysis of EDP; environmental and social factors, less so. From an environmental standpoint, EDP is a pioneer and a world leader in renewable energy generation. About 66% of its 2018 installed capacity comes from renewables (mostly hydro and wind), and it has a significant investment pipeline of further expansion in the coming years at its subsidiary EDPR. Only 18% of EDP's installed capacity is coal, which we expect the company will gradually phase out in Iberia in the coming 20 years. Socially responsible investors (SRI) hold 4.0% of EDP's social capital. Norges Bank Investment Management is EDP's major SRI investor, and combines traditional interests with environmental, social, and governance concerns.

Despite EDP being the incumbent energy player in Portugal, the company has faced many adverse political actions that narrow the visibility of the company's cash flow profile. These include the final definition of the contractual equilibrium maintenance cost, namely the Portuguese government recently requested EDP to pay back alleged overcompensation for the CMEC.

Ratings Score Snapshot

Issuer Credit Rating

BBB-/Stable/A-3

Business risk: Strong

- **Country risk:** Intermediate

- **Industry risk:** Intermediate
- **Competitive position:** Strong

Financial risk: Aggressive

- **Cash flow/Leverage:** Aggressive

Anchor: bb+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : bbb-

- **Group credit profile:** bbb-

Related Criteria

- 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 And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued By Corporate Entities And Other Issuers Not Subject To Prudential Regulation, Jan. 16, 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
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct.

22, 2012

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Insurance | General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- A Trio Of "Special Situations" M&A In European Utilities And Their Rating Implications, April 18, 2019
- Portuguese Power Utility EDP Affirmed At 'BBB-/A-3' With Limited Rating Headroom Through 2020; Outlook Stable, April 15, 2019
- Regulatory Support Is Powering Latin America's Utilities, March 8 ,2019
- EDP's Payback Of Alleged Overcompensation From CMEC Would Reduce Financial Headroom, But Has No Immediate Rating Impact, Oct. 16, 2018
- The China Three Gorges-EDP Deal: What Are The Potential Credit Implications? May 18, 2018
- China Three Gorges Corp.'s Proposed EDP Acquisition Will Stretch Its Financial Metrics But Has No Rating Impact, May 16, 2018
- China Three Gorges Corp., Dec. 14, 2017
- Portuguese Utility EDP Upgraded To 'BBB-/A-3' On Expected Debt Reduction And Financial Discipline; Outlook Stable, Aug. 8, 2017
- Why We See Spain's Electricity And Gas Regulatory Frameworks As Mostly Supportive, May 11, 2017

Business And Financial Risk 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-

Ratings Detail (As Of May 28, 2019)*

EDP - Energias de Portugal S.A.	
Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper	
Local Currency	A-3
Junior Subordinated	BB
Senior Unsecured	BBB-
Short-Term Debt	A-3

Ratings Detail (As Of May 28, 2019)*(cont.)	
Issuer Credit Ratings History	
08-Aug-2017	BBB-/Stable/A-3
30-Jan-2015	BB+/Positive/B
28-Jan-2014	BB+/Stable/B
Related Entities	
EDP Finance B.V.	
Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper	
Local Currency	A-3
Senior Unsecured	BBB-
Short-Term Debt	A-3

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.