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Research Update:

Finland-Based Fortum 'BBB+' Rating Affirmed; Outlook Stable

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Rating Action Overview

- We expect Nordic power generator Fortum Oyj will maintain a strong balance sheet, based on our projections of S&P Global Ratings-adjusted EBITDA of 1.0x-1.5x over 2025-2027, despite softer power prices.
- We anticipate Fortum's funds from operations (FFO) to debt to remain between 50%-55% over 2025-2027--well above the rating threshold--supported by disciplined capital expenditure (capex) and expansion that aligns with demand growth, excluding potential acquisitions. Positively, Fortum has already decarbonized most of its generation.
- However, we expect dividends will consume a major part of the group's FFO, resulting in negative discretionary cash flow to debt.
- We affirmed all our ratings on Fortum, including our 'BBB+' long-term issuer credit rating. The stable outlook indicates our assumption Fortum will sustain S&P Global Ratings-adjusted FFO to debt of about 35%.

Rating Action Rationale

The rating affirmation reflects that we expect Fortum will sustain its strong balance sheet over 2025-2027. We view Fortum's balance sheet as strong, with credit ratios well aligned with our 'BBB+' rating. S&P Global Ratings-adjusted net debt to EBITDA stood at 0.4x at year-end 2024. Despite the normal and special dividend payments totaling €1.3 billion made in April 2025, we forecast a ratio of between 1.0x-1.5x over 2025-2026. We do not expect any more special dividend payouts. We expect cash flow to cover annual capital expenditure (capex), which we assume will be €500 million-€650 million annually considering the group recently lowered its 2025-2027 spending to €1.4 billion. The still-high dividends will ultimately increase debt somewhat. Overall, we assume Fortum will continue to operate in the lower range of its financial policy target, which sets a maximum net debt to EBITDA of 2.0-2.5x.

We have revised our minimum FFO to debt expectation for the current 'BBB+' rating to about 35%. This reflects our view that Fortum has established a track record with its strategy, with holds limited construction risk and capex due to its decarbonized mix of hydro and nuclear.

We consider Fortum's current focus on the Nordic market to be significantly less risky than many of its peers. The majority of its investments--€1.4 billion in total over 2025-2027--are directed toward Fortum's core areas, hydro and nuclear, notably the Loviisa life expansion. We understand investment in onshore wind and solar will only occur in response to customer demand. Fortum is by far the largest power generator in Finland. We see this as a key strength, reflecting its generation flexibility--mainly hydro--although we consider this flexibility is lower than that of Statkraft and Verbund, which operate almost exclusively hydro assets. In the current environment, flexible production has become increasingly more credit supportive. Also, for 2025 and 2026, Fortum has hedged 75% and 50% of expected production at €40 per megawatt hour (/MWh) and €41/MWh, respectively. This gives good visibility and support for near-term cash flow and profitability. Furthermore, a smaller part of its production is hedged on a rolling 10-year basis for 2024-2033.

The group's metrics are nevertheless subject to ongoing price volatility. Unlike many of its peers, Fortum as a pure power producer lacks the long-term stability typically provided by regulated operators. In our base case, we assume Nordic power prices now will remain in the €35-€40/MWh range over 2025-2027 and that they will be more volatile than in the past. Fortum has, however, demonstrated good ability to use the inherent flexibility in its asset base, with realized power prices typically exceeding spot prices (€60/MWh versus an average system Nord pool spot price of €45.5/MWh in the first quarter of 2025). For 2025, Fortum has guided its optimization premium at €7-€9/MWh.

Low investment will likely imply less growth than its peers. We continue to note that Fortum's investment levels are lower than those of most peers, while its dividends are high, reflecting its 60%-90% payout policy. Positively, this implies lower dividends in the event of lower earnings, which somewhat stabilizes discretionary free cash flow. In our base case, we assume Fortum will pay out about €500 million-€600 million annually from 2026. This represents about half of EBITDA and exceeds capex, unlike most of its peers, most of whom have a more expansion-driven strategy, albeit typically outside their respective home markets. For Fortum, its weak supplementary ratios, such as discretionary cash flow to debt, continue to weigh on our financial risk assessment.

We view positively, however, that Fortum's investment requirements for the net-zero transition are very low, in strong contrast to most of its European peers. This is primarily because its generation assets of about 9GW consist mainly of hydro and nuclear. In 2024, the group generated about 50% of is power from each source. This implies that Fortum, unlike most other sector participants, has less exposure to replacement risk and also less exposure to construction risk. In 2023 and 2024, this led to substantial write-downs for some of it peers, such as Vattenfall and Orsted.

Current market prices have softened to levels that make investments in renewables unprofitable. The breakeven cost for solar, offshore wind, and nuclear are well above current market prices in Finland and price areas SE2 and SE3 in Sweden where Fortum's main operations are located. This implies that new investments could jeopardize profitability and cash flow, even in solar and offshore wind. Onshore wind is likely around breakeven with today's prices, at best. We therefore assume that management will stick to a disciplined approach to investment, not pursuing further growth in Finland and Sweden where prices are very competitive, but to embark on larger projects only when there are credit-supportive offtake agreements. Growth rate in power demand in the Nordic region, however, is forecast to increase over 2027-2035, suggesting potentially higher power prices. We do not rule out that, over time, as demand starts to pick up--likely due to significant industrial decarbonization projects in the northern regions of Sweden and Finland--Fortum could embark on a larger project. If so, we expect dividend payouts to be lower.

We continue to incorporate one notch of uplift to our stand-alone credit profile assessment for Fortum. The Finnish government, with a 51.26% share, is Fortum's major shareholder. We view Fortum as important for the country because it is the largest electricity producer.

Outlook

The stable outlook reflects our assumption that cash flow from Fortum's electricity generation segment will remain robust, albeit potentially very volatile, through 2027. We anticipate total investment (maintenance and growth) of close to €1.4 billion in aggregate over 2025-2027. Given Fortum's relatively low initial debt, this amount can be comfortably financed while keeping FFO to debt well above the rating threshold of about 35%. We also expect the utility's relationship with the Finnish government to remain stable.

Downside scenario

We could lower the ratings if Fortum's FFO to debt declines to below 35% without signs of recovery. This could follow lower-than-anticipated electricity prices, or debt-funded investments, which we see as unlikely over 2025 or 2027. We also take into account the company's financial policy, which we think could lead net debt to EBITDA to approach at least 2.5x temporarily. We could also lower the rating if our assessment of government support weakens, although we view this as very unlikely.

Upside scenario

A potential upgrade would depend on Fortum’s business growth strategy and financial policy, including dividends, specifically whether it can offset exposure to power prices and the lack of regulated earnings.

Company Description

Fortum engages in the generation and sale of electricity and heat in the Nordic countries. It is the third-largest carbon dioxide-free generator in Europe because almost all of its generation assets are carbon dioxide-free.

Fortum’s main activities consist of three segments: generation, consumer solutions, and other (which includes mainly battery recycling). Electricity generation represents the vast majority of Fortum’s EBITDA and consists mainly of hydro and nuclear generation. In 2024, Fortum reported EBITDA of €1.704 billion.

Fortum’s main shareholder is the Finnish state, with 51.26% of the share capital.

Our Base-Case Scenario

Assumptions

- A Nord Pool system price averaging €35/MWh-€40/MWh in 2025 and 2026.
- Total annual production volume of 44 terawatt hours (TWh)-46 TWh, with about 50% each from hydro and nuclear.
- Approximately 75% of estimated Nordic generation hedged at €40/MWh for 2025 and approximately 50% at €41/MWh for 2026
- Annual capex of €500 million-€600 million, both growth and maintenance capex, which could include smaller acquisitions.
- Dividends based on 60%-90% of comparable earnings per share/net profit.
- The 20% corporate tax.
- Larger acquisitions are not included in our base case.

Key metrics

Fortum Oyj--Forecast summary

Period ending	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2023a	2024a	2025e	2026f	2027f
Revenue	6,711	5,800	5,464	5,388	5,260
EBITDA	1,914	1,585	1,158	1,172	1,097
Less: Cash interest paid	(228)	(235)	(183)	(175)	(174)
Less: Cash taxes paid	(454)	(196)	(156)	(153)	(143)
Funds from operations (FFO)	1,232	1,154	819	844	780
Interest expense	352	274	221	213	212
Capital expenditure (capex)	576	462	635	456	415
Free operating cash flow (FOCF)	1,134	920	403	571	491
Dividends	817	1,032	1,256	561	550
Discretionary cash flow (DCF)	317	(112)	(853)	10	(59)
Debt (reported)	5,792	4,734	4,700	4,404	4,480
Plus: Lease liabilities debt	118	94	94	94	94
Less: Accessible cash and liquid Investments	(4,183)	(4,136)	(3,264)	(2,989)	(3,011)
Debt	1,745	711	1,549	1,528	1,582
Adjusted ratios					
Debt/EBITDA (x)	0.9	0.4	1.3	1.3	1.4
FFO/debt (%)	70.6	162.3	52.9	55.2	49.3
FOCF/debt (%)	65.0	129.4	26.0	37.4	31.0
DCF/debt (%)	18.2	(15.7)	(55.1)	0.7	(3.7)

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Liquidity

We view Fortum's liquidity as strong since the ratio of cash sources to cash needs is very robust and closer to 3.6x for the next 12 months. This is above our 1.5x minimum expectation, and we project the ratio will exceed 1.0x in the second year.

Fortum's liquidity remains supported by strong relationships with its core banks and owner. This was demonstrated in 2022 when Finland, via Solidium Oy, provided a bridge financing arrangement to Fortum of €2.3 billion to help the group meet its marginal requirements. Amid elevated energy prices, several bank lines were renewed and increased, serving as a stress test due to significant market volatility. In our analysis, we take into account Fortum's long-term credit lines, while noting that the company has access to shorter-term credit facilities that mature within one year; however we do not include these in our calculations. To our understanding, Fortum's debt documents do not contain any financial covenants. Fortum relies on three key revolving credit facilities totaling about €3.8 billion, with the first maturing in June 2026 and the other two in January and June 2027, respectively. The debt maturities due over the next two years could be covered by cash in hand (€4.3 billion) if needed. We expect cash in hand will remain at about €3 billion throughout 2025 and 2026, as it is more likely that Fortum will role over some of the debt that comes due.

We estimate Fortum's principal liquidity sources as of end-March 2025 include:

Principal liquidity sources

- Our estimate of cash and cash equivalents of about €4.3 billion;
- Access to €3.8 billion of undrawn facilities maturing after 12 months;
- Positive cash FFO, which we estimate will near €1 billion in the next 12 months; and
- Some working capital inflows.

Principal liquidity uses

- Debt of about €850 million maturing in the next 12 months;
- Capex of about €600 million; and
- Dividends of about €1.256 billion in the next 12 months. This includes both normal and a special dividend that was paid in April 2025.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB+/STABLE/A-2
Local currency issuer credit rating	BBB+/STABLE/A-2
Business risk	3 - Satisfactory
Country risk	1 - Very Low Risk
Industry risk	4 - Moderately High Risk
Competitive position	3 - Satisfactory
Financial risk	3 - Intermediate
Cash flow/leverage	3 - Intermediate
Anchor	bbb
Diversification/portfolio effect	3 - Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb

Related Criteria

- 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: 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

Related Research

- Industry Credit Outlook 2025: EMEA Utilities, Jan. 14, 2025

Ratings List

Ratings list	
Ratings Affirmed	
Fortum Oyj	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.