Bulletin:

Full Impact Of Fortum's Uniper Divestment Still To Be Determined

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STOCKHOLM (S&P Global Ratings) Sept. 29, 2022--S&P Global Ratings today said that it is too early to determine the full effect that the divestment of Fortum's entire stake in Uniper to the German government (AAA/Stable/--) will have on our rating on Fortum. This is because we lack guidance on Fortum's long-term strategy, including its investment and growth trajectory. The divestment also requires regulatory approvals, including from the EU Commission, which makes timing for finalizing the agreement uncertain. We expect Fortum (BBB/Negative/A-2) to present a new strategic plan by early 2023, at which point we will review our rating construction and our funds from operations (FFO)-to-debt rating trigger, currently set at 40%.

Positively, we note that the transaction will strengthen Fortum's credit ratios and financial profile due to the repayment of a €4 billion shareholder loan and the release of a €4 billion guarantee that Fortum provided to Uniper. However, Uniper has been key to Fortum's strategy since it was acquired in 2018, leading to the disposal of several strong assets, such as Stockholm Exergi. Its disposal will likely result in an in-depth strategic transformation.

Of the approximately €7 billion Fortum paid in total for its stake in Uniper, only €500 million is expected to be recovered, according to the terms in the agreement. In addition, Fortum has disposed of assets to the value of about €4 billion the past two years to protect its balance sheet. Furthermore, we note that Fortum's Russian operations have been severely impaired by the Russia-Ukraine conflict. The group will therefore become much smaller with less diversification in terms of business activity and geography when the transaction closes. It will, however, continue to benefit from its fossil-fuel-free and low-cost hydro and nuclear assets in the Nordics.

We expect our issuer credit rating on Fortum to benefit from strong underlying profitability ratios and cash flows in 2022 and 2023. This follows the elevated electricity prices across Europe and in the Nordics, which this year to date averaged €130 per megawatt hour (/MWh) compared with about €60/MWh in 2021. As Fortum's production is 80% hedged for the remainder of 2022 at €38/MWh and 60% hedged at €37/MWh for 2023, it will not fully benefit from the favorable price environment. We nevertheless expect it to see record high price realization for the full year, and we currently forecast FFO to debt of 35%-45% at year-end. This calculation excludes the repayment of Uniper's shareholder loan. Including that repayment, credit ratios will be boosted, with FFO to debt well above 100%.

We believe that Fortum may still face large collateral requirements if electricity prices increase again. When Nordic 1's year-forward prices peaked at about €280/MWh in the end of August, Fortum's collateral tied to hedges totaled about €5 billion. Since then, prices have deteriorated and the requirements are significantly lower. Fortum has signed a state-financed bank facility of €2.35 billion, of which €350 million has been drawn, as a requirement to keep the facility active.

We expect Fortum's liquidity position to remain adequate, with some buffer to increasing electricity prices leading to additional collateral requirements thanks to the latest state-provided facility. We also expect that the line could be increased if needed as Fortum is majority owned by the Finnish government, which holds a 51% stake.

This report does not constitute a rating action.