

Industry Top Trends Update

EMEA Utilities

Despite COVID-19, European utilities are set for growth

What's changed post-COVID?

Resilience is showing. European utilities are showing solid credit resilience in the COVID-19 crisis: we have downgraded only 3% of our rated portfolio since March, while in total 20% have a negative outlook or are on CreditWatch negative.

De-risking. Regulated networks and long-term contracted renewables, which represent a growing proportion of utilities' core businesses, continue to offer solid growth prospects.

Weaker power prices and demand. We expect some weakening in earnings for power generators given that power prices are hit by low commodity prices and weak demand.

What is the likely path to recovery?

Sustained investments. We anticipate ongoing strong new investment by utilities over the next two-to-three years, while past investments will yield additional cash flows over 2021-2023 as projects are commissioned.

Supportive policies. We expect Europe's Green Deal will be a key enabler of the European economic recovery. However, we believe support will be spread over the next decade rather than provide short-term help.

Refocusing. For companies with stretched credit metrics, we anticipate ongoing disposals as utilities concentrate on core businesses and improve balance sheets.

What are the key risks around the baseline?

Rising bad debt. Regulators, governments, and some utilities have advocated payment holidays, leading to a spike in working capital. We anticipate default rates will increase and so will bad debt. The extent remains uncertain, though.

Power price recovery. Lower demand and a prolonged economic slowdown could hurt prices beyond our expectations, resulting in weaker recovery prospects.

Role of gas and nuclear. Accelerated de-carbonization policies in Europe and faster-than-anticipated progress on hydrogen may put additional pressure on gas assets, while European taxonomy is yet to decide on the role of nuclear.

Latest Related Research

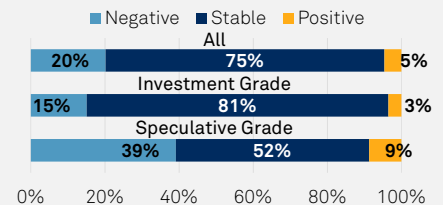
- Despite COVID-19 Disruption, European Utilities Are Set For Growth, June 8, 2020
- The Energy Transition And What It Means For European Power Prices And Producers: Midyear 2020 Update, June 8, 2020
- Credit FAQ: Energy Transition: The Outlook For Power Markets In The Age Of COVID-19, June 8, 2020

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Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	86	23	109
Downgrades	3	4	7
Upgrades	1	1	2

Ratings data as of end-June, 2020

COVID-19 Heat Map

Utilities		
COVID-19, Recession, and O&G Impact		Low
Potential Negative Long-Term Industry Disruption		--
2020 Estimates v. 2019		
Revenue Decline	EBITDA Decline	Incremental Borrowings
0% to 5%	0% to 10%	<5%
2021 Estimates v. 2019		
Revenue Decline	EBITDA Decline	
0 to 10%	0% to 10%	