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Ratings

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N.V. Eneco

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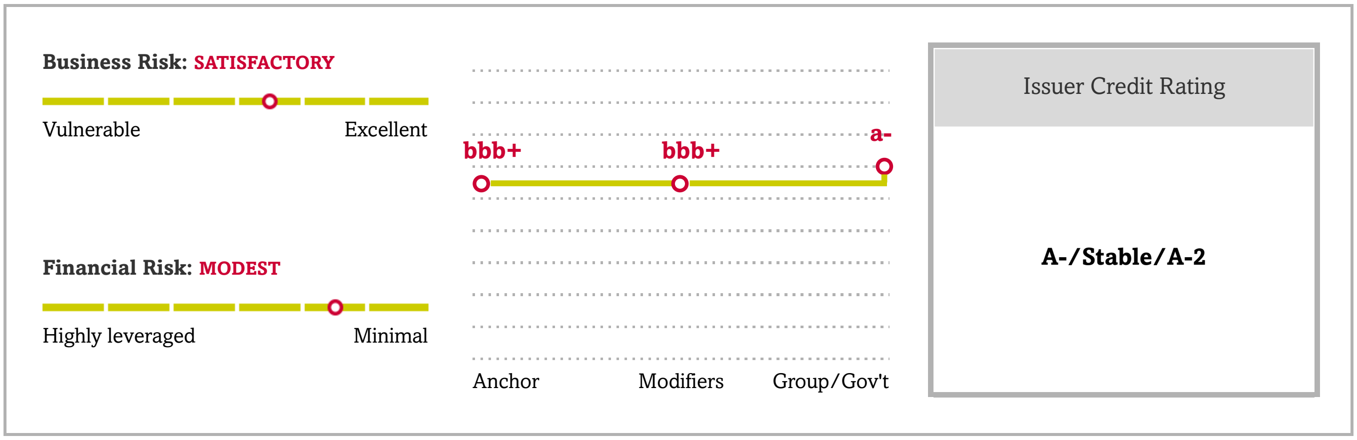
N.V. Eneco



Credit Highlights

Overview

Key strengths	Key risks
About 50% of EBITDA comes from low-risk subsidized renewable generation and district heating, providing a stable stream of cash flows.	As subsidies decline and merchant capacity increases, Eneco will need to prudently manage its price exposure.
Our assumption that Mitsubishi has the ability and willingness to provide extraordinary financial support to Eneco.	Pressures continue in the supply business due to increasing competition.
Prudent financial policy resulting in stable and robust credit metrics.	We expect Eneco will remain a relatively small player compared with other integrated European utilities.

Eneco's updated strategy focuses on remaining a leading player amid the energy transition, targeting climate neutrality by 2035. On June 15, 2021, Eneco updated its long-term strategy and announced that it aims to be carbon neutral by 2035. This entails Eneco's own activities and the energy supplied to its customers, meaning that the strategy's reach covers scope 1, 2, and 3 emissions. Eneco aims to provide 100% of green electricity to its residential customers by 2020 and to its business customers by 2030. To this end, Eneco targets doubling its own renewable capacity to 3.2 gigawatts (GW) by 2025 from close to 1.7 GW as of end of 2020. At the same time, Eneco will accelerate innovation and investment in about 2 GW of sustainable heat sources, such as geothermal, large-scale heat pumps, heat buffers, and residual heat utilization. These investments should support customer contracts increasing to 6.9 million by 2025 from 5.9 million today, which is another target of Eneco's updated strategy. Financially, Eneco aims to triple its net profit by 2025 compared with 2020.

Eneco's competitive position benefits from a business mix that we view as well aligned with the energy transition. For example, because of its sizable renewable fleet (4.8 GW, made up of 1.7 GW of own capacity and the remainder controlled capacity) and district heating activities, which are characterized by lower carbon emissions than, for example, gas or oil heating. We believe companies with an asset portfolio and strategy aligned with the energy transition will have an advantage compared with players that will incur higher costs to adapt to, for example, a cleaner generation mix. We believe that the updated strategy will contribute to protect Eneco's leading position within the European energy transition.

Despite capital expenditure acceleration, we expect Eneco will continue posting funds from operations to debt consistently above 50%. The updated strategic plan entails about €2 billion of investments from 2021-2025, resulting in a yearly average capital expenditure (capex) of €400 million. Although this is an acceleration from an average of

€330 million over the past three years, investments remain well within Eneco's operating cash flow generation, which we forecast at an average of €520 million over the same period.

We expect shareholders will remain supportive of Eneco's credit quality. Our rating on Eneco benefits from a one-notch uplift for support coming from our expectation that its main shareholder, Mitsubishi Corp. (A/Stable/A-1) has the willingness and ability to provide extraordinary financial support. In addition, the rating reflects our expectation that Eneco's shareholders will uphold its historically prudent financial policy.

Outlook: Stable

The stable outlook on Eneco reflects that on its main shareholder, Mitsubishi.

It also reflects our expectation that Eneco's subsidized or long-term contracted and district heating operations will continue delivering stable cash flows, underpinning the group's credit quality.

Furthermore, we believe Eneco will be able to sustain funds from operations (FFO) to debt consistently above 50% while expanding its renewable fleet due to a supportive financial policy. This is despite the risk that the company could engage in small-to-midsize mergers and acquisitions (M&A), which historically has been part of its strategy but was put on hold during the company's sale. As such, we expect the company's metrics to remain within the range for the 'bbb+' stand-alone credit profile (SACP).

Downside scenario

We could lower the ratings if Mitsubishi's credit quality deteriorates, thereby reducing its ability to provide extraordinary support to Eneco.

A downgrade over the next two years would also result from a more aggressive capex acceleration or unexpected M&A that result in its FFO to debt dropping below 50%. This could also occur, for example, if the output of the wind fleet was much lower than currently anticipated; or if the company lost significant market share in its supply segments.

Upside scenario

An upgrade is unlikely over the next two years. Since we cap the group support that Eneco receives at one notch below the 'A' rating on Mitsubishi, any upside to its 'bbb+' SACP to 'a-' would not yield a higher issuer credit rating.

We believe the upside in terms of stand-alone credit quality is limited for now. Eneco is in an expansion cycle, and we believe capex will exhaust some of the company's financial headroom. We also believe there is some inherent volatility in Eneco's trading and supply businesses.

We would consider upside to the SACP conditional upon Eneco's strategic plan being able to deliver stable and profitable cash flows, particularly from new subsidy-free capacity. Upside would also require the financial commitment from management and shareholders to a higher stand-alone level.

Our Base-Case Scenario

Assumptions

- 50% of Eneco's EBITDA coming from subsidized renewable generation and district heating over 2021-2023.
- Eneco remaining with a long-term hedging approach to manage commodity price risk. We assume no exposure to power prices over the next three years (i.e. 100% hedged).
- Eneco's focus on digitization and synergies resulting in increasing margins over 2021-2023, supporting EBITDA and FFO generation.
- Eneco retaining its leading position as an integrated player in the Benelux region, despite competitive pressures on retail business.
- Offshore wind farms Borssele III and IV contributing to Eneco's EBITDA as of 2021 after becoming fully operational in January 2021.
- Significant working capital outflow in 2021 due to normalization after COVID-19 tax deferrals.
- Investment focus on doubling owned renewable capacity to 3.2 GW by 2025, which translates into capex of about €430 million in 2021 and €575 in 2022 (excluding acquisitions).
- We assume Eneco will go back to acquiring midsize targets over the medium term, in order to accelerate growth of its supply business. We assume acquisitions of close to €200 million in 2021 and €50 million in 2022.
- No material bad debt provisions from ongoing pandemic.
- Debt issuance of about €100 million in 2022.
- Dividend distributions at about 50% of previous year's net income.

Key metrics

N.V. Eneco--Key Metrics*

	--Fiscal year ended Dec. 31--				
(Mil. Euro)	**2019a**	**2020a**	**2021e**	**2022f**	**2023f**
EBITDA	472.3	502.3	550-570	620-640	660-680
Funds from operations (FFO)	394.9	443.0	480-500	530-550	570-590
Capital expenditure	350.9	393.0	420-440	575-595	440-460
Free operating cash flow (FOCF)	111.0	166.0	(80-100)	(10-30)	100-120
Debt	461.8	503.1	740-760	895-915	950-970
Debt to EBITDA (x)	1.0	1.0	1.3-1.4	1.4-1.5	1.4-1.5
FFO to debt (%)	85.5	88.1	60-70	55-65	55-65
FOCF to debt (%)	24.0	33.0	(0-20)	10-(10)	0-20

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

We see Eneco's investment strategy as sustainable since growth will be largely funded with own cash flows. We expect Eneco's €1.4 million capex over 2021-2023 will be funded by €560 million of accumulated cash, €100 million of debt, and the rest with own operation cash flows generated over the same period.

Borssele III and IV will contribute to EBITDA from 2021. Eneco holds a 20% share in the 732MW Blauwwind project, which includes Borssele III and IV offshore wind farms. These plants became operational in January 2021. We expect their EBITDA contribution will support Eneco's cash flows over the upcoming investment cycle.

We expect a significant working capital outflow in 2021 due to extraordinary COVID-19 measures enabled by the Dutch government over 2020. This outflow relates mostly to energy tax payments deferred by Eneco's customers, which were cashed in by the company in December 2020, and which Eneco paid to the government in January 2021. We expect this will represent most of the €150 million working capital cash outflow that we forecast for 2021.

Company Description

N.V. Eneco (formerly N.V. Eneco Beheer) is headquartered in Rotterdam, The Netherlands.

Eneco generates electricity from onshore and offshore wind and solar parks in The Netherlands, Belgium, and the U.K. Eneco also provides heating and cooling services in The Netherlands. Together, these activities accounted for close to 50% of EBITDA, as of 2020. About 8% of the group's EBITDA comes from gas-fired generation and storage, which Eneco uses to balance generation from renewable assets.

The rest of the company's EBITDA comes from commercial activities, which include energy retail, trading, and other energy services. Eneco is The Netherlands' second-largest energy supplier, with 3.6 million customers, the No. 3 in the Flanders region, with 0.8 million customers, and, since 2017, a niche participant in the German renewable energy supply market through its acquisition of Lichtblick SE and E.ON Heizstrom, together accounting for about 1.1 million customers.

As of March 25, 2020, the group is fully owned by a consortium in which Mitsubishi Corp. owns 80%, while Chubu Electric holds the remaining 20%.

Peer Comparison

Table 1

N.V. Eneco--Peer Comparison

Industry sector: Energy				
	N.V. Eneco	**Vattenfall AB**	**Centrica PLC**	**ENGIE SA**
Ratings as of July 6, 2021	A-/Stable/A-2	BBB+/Stable/A-2	BBB/Negative/A-2	BBB+/Stable/A-2
	--Fiscal year ended Dec. 31, 2020--			
(Mil. €)				
Revenue	4,145.0	15,811.3	13,671.1	55,751.0
EBITDA	502.3	4,143.5	1,847.1	8,903.0
Funds from operations (FFO)	443.0	3,622.8	1,639.0	7,503.0
Interest expense	23.2	361.6	259.6	1,477.0
Cash interest paid	22.2	250.0	205.9	832.0
Cash flow from operations	559.0	4,157.6	939.2	6,888.0
Capital expenditure	393.0	2,110.6	545.8	5,012.0

Table 1

N.V. Eneco--Peer Comparison (cont.)

Industry sector: Energy

	N.V. Eneco	Vattenfall AB	Centrica PLC	ENGIE SA
Free operating cash flow (FOCF)	166.0	2,046.9	393.4	1,876.0
Discretionary cash flow (DCF)	98.0	1,484.1	339.2	1,318.0
Cash and short-term investments	496.0	5,596.2	1,879.5	12,912.0
Debt	503.1	11,548.1	6,229.9	42,791.0
Equity	2,948.0	12,028.6	2,153.0	31,817.0
Adjusted ratios				
EBITDA margin (%)	12.1	26.2	13.5	16.0
Return on capital (%)	5.4	9.9	7.7	5.5
EBITDA interest coverage (x)	21.6	11.5	7.1	6.0
FFO cash interest coverage (x)	20.9	15.5	9.0	10.0
Debt/EBITDA (x)	1.0	2.8	3.4	4.8
FFO/debt (%)	88.1	31.4	26.3	17.5
Cash flow from operations/debt (%)	111.1	36.0	15.1	16.1
FOCF/debt (%)	33.0	17.7	6.3	4.4
DCF/debt (%)	19.5	12.9	5.4	3.1

We compare Eneco against Vattenfall, ENGIE, and Centrica because these entities operate to different degrees in the energy supply industry, although with different business mixes. In particular, Vattenfall and Engie compete directly with Eneco in the Benelux region through different subsidiaries.

In general, Vattenfall and ENGIE benefit from a higher share of purely regulated distribution activities, combined with heating and subsidized renewable generation. We believe this mix compares favorably against that of Eneco, since we don't see district heating activities at par with purely regulated power or gas distribution operations. This, in addition to Eneco's significantly smaller scale compared with Vattenfall or ENGIE, results in a relatively weaker business risk profile. This is nevertheless compensated by Eneco's lower leverage relative to its business strength.

We believe Eneco's business is better positioned than Centrica. We see substantially more pressure in energy supply activities in the U.K., which is Centrica's home market, than in the Netherlands, Belgium, and Germany, where Eneco operates. Also, we believe that Eneco's renewable generation fleet compares favorably with that of Centrica, which is mostly a minority stake in nuclear and combined cycle gas turbine plants. This, in addition to Centrica's higher leverage, explains Eneco's higher SACP of 'bbb+' compared with 'bbb' for Centrica.

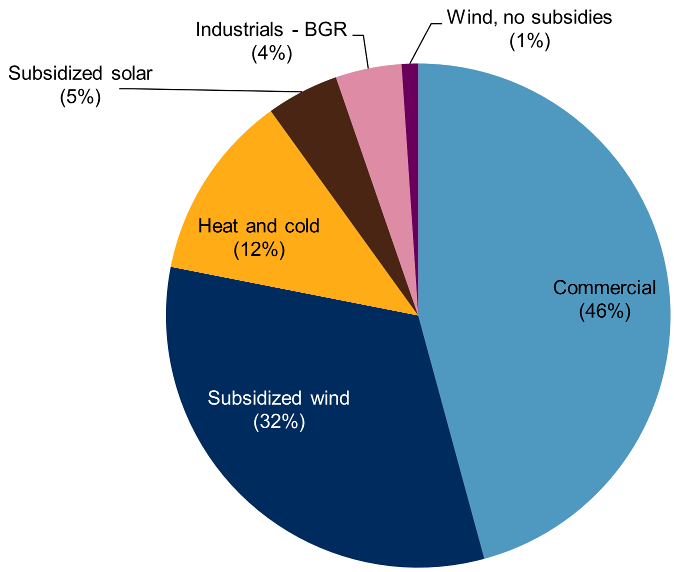
Business Risk: Satisfactory

Eneco's business risk profile is mostly supported by 50% of EBITDA coming from low-risk segments. Eneco's earnings quality benefits from subsidized renewable power generation in The Netherlands, Belgium, and the U.K., which provide a floor price, guaranteed return, or a feed-in tariff, respectively, depending on the location, for a period of 15 years, on average, from the start of operations. In addition, the company's district heating activities provide further earnings visibility, since this business has some characteristics of a regulated business, such as steady tariff structures and monopoly-like regional operations. We estimate these segments will account for close to 50% of Eneco's EBITDA over the next two to three years, and that they'll add visibility and stability to the company's cash flows (see chart 1).

Chart 1

Eneco EBITDA Mix 2020

We expect Eneco's EBITDA mix to remain stable

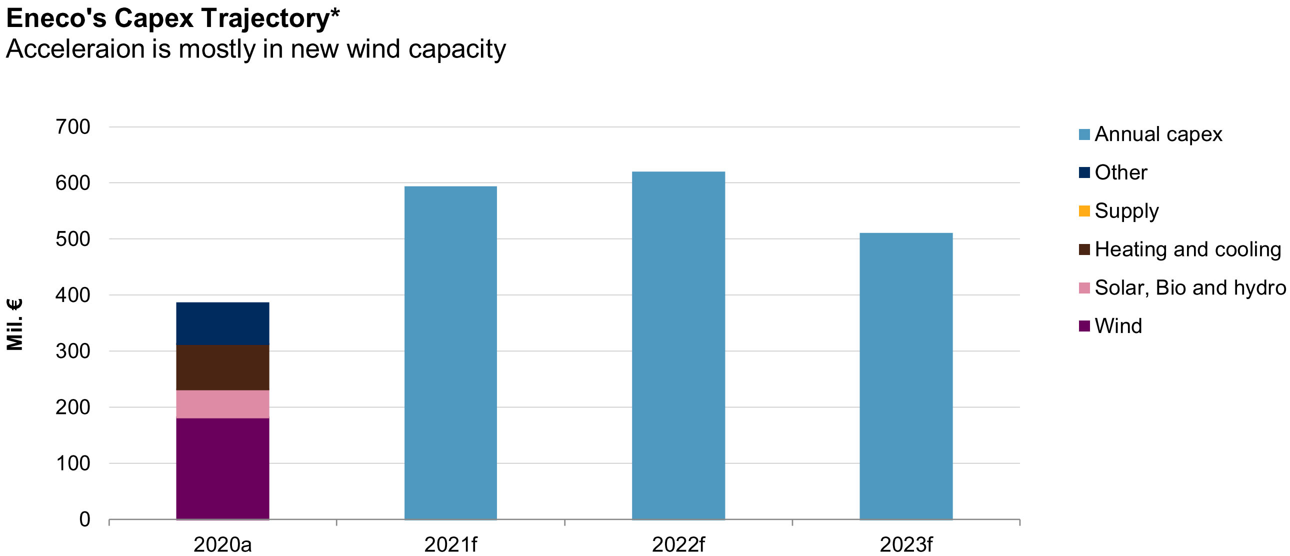


Source: S&P Global Ratings.

We expect the commercial business, which includes residential customers, business customers, and energy solutions activities, will provide about 50% of the group's EBITDA over 2021-2023. Eneco targets to add about 1 million customers to its portfolio by 2025, which implies this segment will expand along with the rest of the group's activities.

Renewable capacity and district heating will represent most of Eneco's investments, with growth in supply business driven mostly by acquisitions. We expect 50% of Eneco's investments will be allocated to new wind offshore parks, namely Hollandse Kust Noord and Maasvlakte 2, which together will add about 250 megawatts (MW) capacity to the company's renewable generation fleet. In addition, we expect 25% of the capex will be allocated to the expansion of the district heating network. We expect growth in the supply segment to be driven by small-to-midsize acquisitions consistent with Eneco's historically cost-effective approach to expanding its customer base. We assume acquisitions close to €200 million in 2021 and €50 million in 2022.

Chart 2



a--Actual. f--Forecast. *Does not include acquisitions. Source: S&P Global Ratings.

Eneco aims at doubling its renewable capacity to 3.2 GW by 2025. To this end, Eneco is participating with a 100% share in Maasvlakte 2 and 20% in Hollandse Kust Noord, which will represent a 100 MW and 150 MW add-ons to its renewable fleet, respectively, by 2023. We expect Eneco's participation in new offshore wind tenders will remain part of the company's core business as signaled by its recent strategic plan. However, we expect such capacity will be increasingly subsidy-free as new technologies become more cost-competitive and government support is redirected to electrification efforts from subsidy regimes.

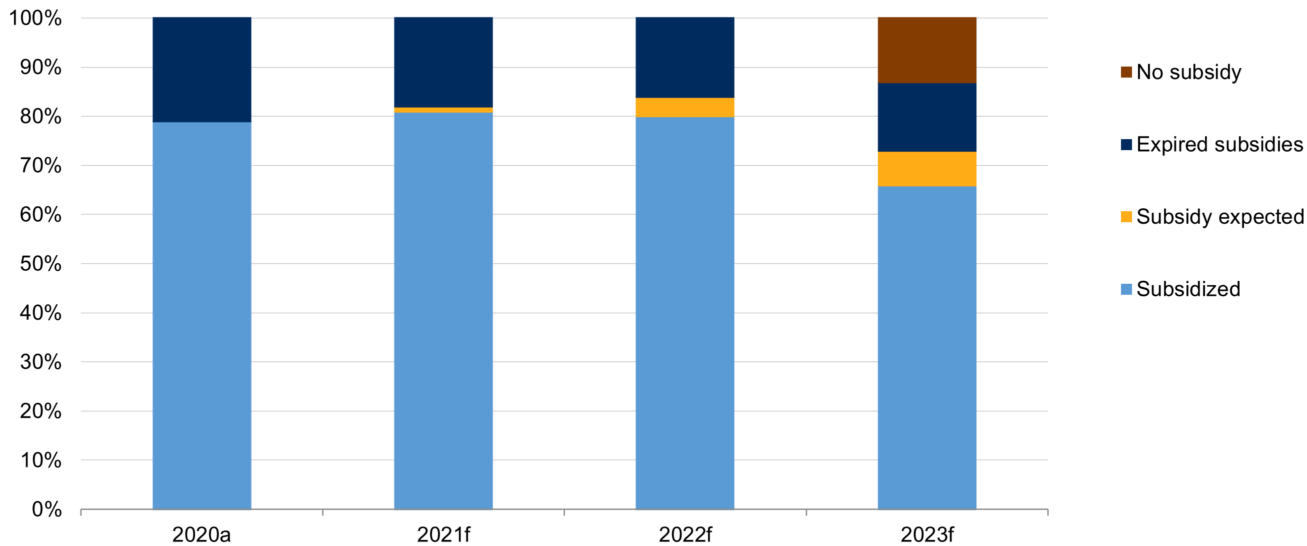
We see increasing merchant exposure on Eneco's renewable fleet over the medium term, but we believe risk management policies will mitigate this risk. As of 2020, close to 80% of Eneco's renewable capacity benefits from subsidy schemes, with the rest representing capacity with expired subsidies. We expect subsidized capacity will decline gradually to 60%-75% by 2025 as subsidies expire in some of its plants and new subsidy-free capacity starts operations (see chart 3). Also, in our opinion, a stronger political commitment to the energy transition in Europe, which aims to double renewable capacity by 2050, is creating the conditions for increasing investments in renewables and therefore competition. This trend could potentially pressure purchase power agreement (PPA) prices and could also be a medium-to-long term risk, particularly as we expect Eneco's new capacity will come increasingly from subsidy-free tenders. We believe both trends will increase Eneco's exposure to power prices over the medium term.

However, we perceive Eneco's risk management policies as prudent since it hedges almost all of its price exposure over a period of three years. This compares with what we believe is the industry's common practice of hedging about 100% the current year, about 75% the second year, and about 50% the third year. In addition, the company's long-term PPA agreements in its first subsidy-free capacity mitigate investment recovery risk by providing contractual certainty with creditworthy offtakers. For example, Eneco closed a 25-year PPA agreement with the Dutch government for capacity at Maasvlakte 2, to be operational by 2023. Also, Eneco reached a long-term agreement with Amazon.com Inc. (AA/Stable/A-1+) for 130 MW of the 150 MW capacity to be built by 2023 at Hollandse Kust Noord. Moreover, we believe that Eneco has accumulated significant expertise over the past decade developing offshore wind capacity, which we expect will provide a competitive edge to the company when managing cost and development risks.

Chart 3

Eneco Renewable Capacity By Contract Type

The expiration of subsidies will require prudent risk management



a--Actual. f--Forecast. Source: S&P Global Ratings.

15% of Eneco's EBITDA comes from district heating, which we view as low risk and is an expanding business in the Netherlands. The company's district heating activities provide a good degree of earnings visibility. We believe this business could grow in the Netherlands over the medium term, since the Dutch government aims to increase households connected to district heating to 1.5 million by 2030 from about 380,000 today, in an effort to phase out natural gas as the main source of heating, which still represents over 90% of heating sources for the close to 7 million Dutch households. We believe Eneco could seize these opportunities to expand its leading position in this segment and at the same time achieve sustainable growth. In fact, the company targets adding 300,000 customers to its network by 2035. We expect the government to determine a regulatory framework for this infrastructure over 2022, when we expect the approval of the Heat Act 2.0. A supportive framework could enhance Eneco's earnings profile and therefore support its credit quality.

Eneco holds a leading position on its energy supply segment in the Netherlands and Belgium (22% of EBITDA), which benefits from the group's vertical integration, but this segment is inherently exposed to competition. We believe competition is intensifying in Eneco's home markets with the entrance of non-utility players. Key challenges in this segment remain growth, digitization, and cost competitiveness. However, we believe that Eneco should be able to retain its edge, because it generates about 50% of the power that it sells through its own capacity and procurement rights. This provides the company with an advantage toward players with a lower electricity coverage ratio (power generated divided by power sold), particularly in a scenario of increasingly volatile power prices, which is likely as most European countries increase renewables in their generation mix.

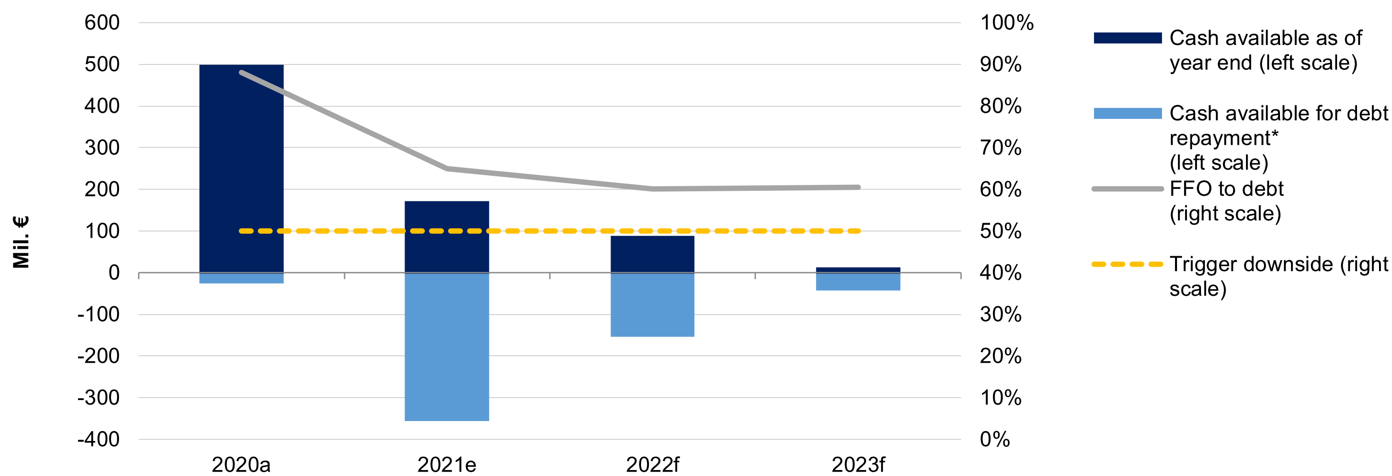
Financial Risk: Modest

We expect credit metrics will remain well above the downside trigger, despite increasing leverage to fund investments. From the announcement of Eneco's sale process to its conclusion, the company's investment approach excluded any material expansion decisions to leave room for new shareholders to decide on the company's strategic direction. During this time, and also due to some delays in investments during the COVID-19 pandemic, the company has accumulated about €557 million in cash. Eneco will use this cash to fund investments, which we forecast at an average of €480 million, compared with about €340 million in 2019 and 2020. We expect EBITDA will expand by about 35% by 2023 compared with 2020, mostly due to improvement from digital-oriented initiatives and new capacity coming online by that year. We forecast these factors will result in FFO to debt declining to about 60% over 2021-2023 from 88% in 2020, which is nevertheless well above our 50% trigger for the current rating (see chart 4).

Chart 4

Eneco Will Accelerate Capex Over 2021-2023

Leverage will increase as Eneco consumes resources to finance capex



a--Actual. e--Estimate. f--Forecast.. *Cash available for debt repayment: Operating cash flow less capex, acquisitions and dividends, and other minor cash adjustments. Source: S&P Global Ratings.

Despite Eneco's strong credit metrics, we don't see upside for the rating in the near term. This is because we believe the company will use its financial headroom to expand its scale across its renewable, district heating, and supply segments, either with organic growth or acquisitions. In addition, we believe increasing competitive pressures could introduce some volatility at the group's energy supply segment. Also, we believe that Eneco's trading activities carry inherently more risk.

We believe Eneco's financial policy will remain prudent, at least over the next three years. We understand Eneco's financial policy will remain unchanged at least until 2023, supported by a shareholder agreement. This agreement includes a dividend payout ratio of 50% of the previous year's net income and maintaining Eneco's stand-alone credit quality at least in line with a 'bbb' SACP assessment. We don't see this stand-alone credit level as a target, but rather as a level of protection on the downside for Eneco. In our view, these financial measures are credit supportive.

Financial summary

Table 2

N.V. Eneco--Financial Summary					
Industry sector: Energy					
	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016***
(Mil. €)					
Revenue	4,145.0	4,330.0	4,156.0	3,355.0	2,746.0
EBITDA	502.3	472.3	428.1	470.3	421.6
Funds from operations (FFO)	443.0	394.9	307.3	427.7	356.3
Interest expense	23.2	22.4	49.8	42.6	41.3
Cash interest paid	22.2	21.4	37.8	34.6	35.3
Cash flow from operations	559.0	461.9	446.3	756.7	325.3
Capital expenditure	393.0	350.9	251.3	160.7	306.3
Free operating cash flow (FOCF)	166.0	111.0	195.0	596.0	19.0
Discretionary cash flow (DCF)	98.0	43.0	131.0	596.0	19.0
Cash and short-term investments	496.0	479.0	446.0	347.0	278.0
Gross available cash	496.0	479.0	446.0	347.0	278.0
Debt	503.1	461.8	405.2	719.5	471.1
Equity	2,948.0	2,937.0	2,939.0	2,869.0	3,121.0
Adjusted ratios					
EBITDA margin (%)	12.1	10.9	10.3	14.0	15.4
Return on capital (%)	5.4	5.5	4.6	5.1	2.7
EBITDA interest coverage (x)	21.6	21.1	8.6	11.0	10.2
FFO cash interest coverage (x)	20.9	19.4	9.1	13.4	11.1
Debt/EBITDA (x)	1.0	1.0	0.9	1.5	1.1
FFO/debt (%)	88.1	85.5	75.8	59.4	75.6
Cash flow from operations/debt (%)	111.1	100.0	110.2	105.2	69.1
FOCF/debt (%)	33.0	24.0	48.1	82.8	4.0
DCF/debt (%)	19.5	9.3	32.3	82.8	4.0

*Financial figures for 2016 are pre-unbundling.

Reconciliation

Table 3

N.V. Eneco--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)									
	--Fiscal year ended Dec. 31, 2020--								
N.V. Eneco reported amounts									
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	599.0	2,942.0	4,148.0	484.0	163.0	11.0	502.3	551.0	385.0
S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	--	(37.0)	--	--

Table 3

N.V. Eneco--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)									
Cash interest paid	--	--	--	--	--	--	(21.0)	--	--
Reported lease liabilities	229.0	--	--	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	3.0	--	--	--	--	--	--	--	--
Accessible cash and liquid investments	(496.0)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	6.0	--	--	--
Dividends received from equity investments	--	--	--	12.0	--	--	--	--	--
Power purchase agreements	69.1	--	--	9.3	1.2	1.2	(1.2)	8.0	8.0
Asset-retirement obligations	99.0	--	--	--	--	5.0	--	--	--
Nonoperating income (expense)	--	--	--	--	22.0	--	--	--	--
Noncontrolling interest/minority interest	--	6.0	--	--	--	--	--	--	--
Revenue: Other	--	--	(3.0)	(3.0)	(3.0)	--	--	--	--
Total adjustments	(95.9)	6.0	(3.0)	18.3	20.2	12.2	(59.2)	8.0	8.0
S&P Global Ratings' adjusted amounts									
	Debt	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
Adjusted	503.1	2,948.0	4,145.0	502.3	183.2	23.2	443.0	559.0	393.0

Liquidity: Adequate

We view Eneco's liquidity position as adequate, supported by its cash position as of March 31, 2021. The company's access to two different committed revolving credit facilities (RCF) also enhances the group's assessment. We believe these sources will provide support amid Eneco's expansive phase, which we believe will intensify over 2021-2023 to achieve strategic goals. We expect Eneco to be able to maintain a sources-over-uses ratio well above 1.2x over the next 12 months.

Principal liquidity sources	Principal liquidity uses
• Cash and liquid investments of €281 million as of March 31, 2021. • Undrawn committed credit lines of €800 million with a five-year maturity starting July 2021.	• Debt maturities of about €60 million in the next 12 months related to project finance debt. • Projected working capital outflows of €114 million. • Capex of about €460 million.

• Projected cash FFO of about €470 million over the next 12 months.	• Acquisitions of about €200 million. • Dividend distributions of about 50% of previous year's net income.

Debt maturities

Eneco's maturities include a €150 million Euro commercial paper loan in 2021 and £100 million and €50 million bank loans due in 2022. In addition, maturities related to Eneco's nonrecourse project finance debt amount, on average, to €60 million per year over 2021 and 2022.

Covenant Analysis

We are not aware that Eneco's new revolving credit facility is subject to financial covenants.

Group Influence

Our ratings on Eneco are boosted by potential extraordinary support from Mitsubishi, the main shareholder. As of March 25, 2020, Eneco is fully owned by a consortium in which Mitsubishi Corp. (A/Stable/A-1) owns 80% of the total shares and Chubu Electric (not rated) owns the remaining 20%. We assume Mitsubishi has the ability and willingness to provide financial support to Eneco, given the integrated utility company's relevance for the group's long-term strategy. Such extraordinary support is beyond what we capture in Eneco's stand-alone credit profile (SACP), supported by its existing business operations. As such, we apply a one-notch positive adjustment to our 'bbb+' assessment of Eneco's SACP, resulting in the 'A-' issuer credit rating.

We understand Eneco will be key in Mitsubishi's aim to develop a European renewable platform. Mitsubishi intends to use Eneco's expertise and well-balanced portfolio from generation to retail as a platform to expand its footprint across Europe and Asia, among other regions. For example, Eneco's expertise in wind power generation would support Mitsubishi in its offshore wind business in Japan. Furthermore, some of Eneco's business solutions could be rolled out to Mitsubishi's retail operations in the Japanese market. We also note that benefits will run in both directions. Eneco will be able to expand its customer solutions offerings by benefitting from Mitsubishi's experience in the automobile industry, artificial intelligence, living essentials, and internet of things.

We see Mitsubishi as a long-term investor with no short-term return pressures. We understand Mitsubishi will focus on expanding Eneco's business sustainably rather than seeking short-term returns. In our opinion, this will allow Eneco to remain a financially robust company on a stand-alone basis and support its long-term credit quality.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

Business risk: Satisfactory

- **Country risk:** Very low
- **Industry risk:** Moderately high
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb+

- **Group credit profile:** a
- **Entity status within group:** Moderately strategic (+1 notch from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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 | 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: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- The Energy Transition And The Diverging Credit Path For European Utilities. Feb 16, 2021.

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 July 16, 2021)*

N.V. Eneco	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Issuer Credit Ratings History	
31-Mar-2020	A-/Stable/A-2
04-Dec-2019	BBB+/Watch Pos/A-2
24-Nov-2016	BBB+/Stable/A-2
20-Sep-2016	A-/Watch Neg/A-2
Related Entities	
Mitsubishi Corp.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Subordinated	BBB+
Mitsubishi Corp. Finance PLC	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Foreign Currency	A-1
Mitsubishi International Corp.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	A-1
New Century Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--

Ratings Detail (As Of July 16, 2021)*(cont.)

*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.

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