S&P Global Ratings

Research

Eneco N.V.

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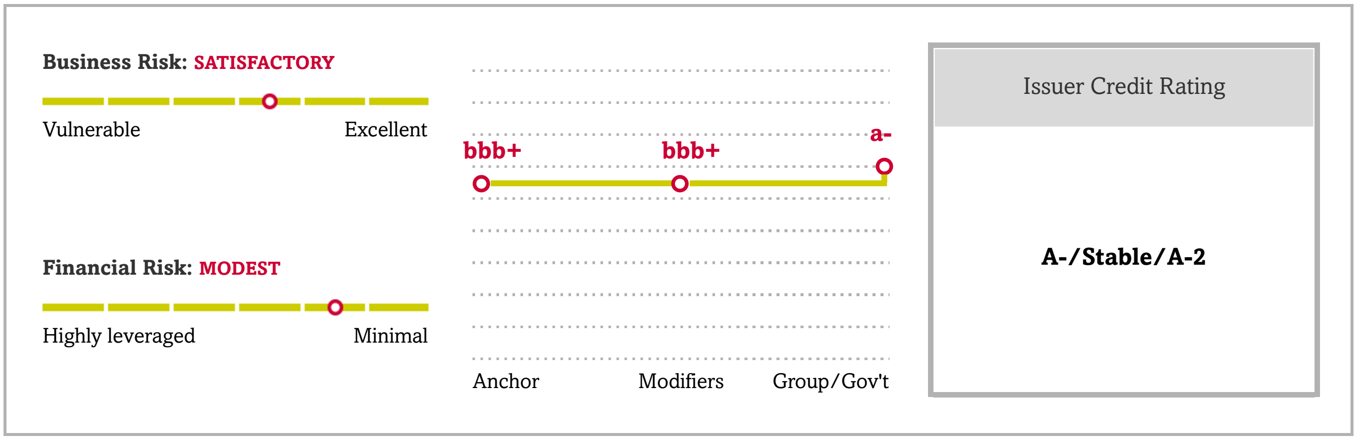
Eneco N.V.



Credit Highlights

Overview

Key strengths	Key risks
About 45%-50% of EBITDA comes from low-risk subsidized renewable energy generation and district heating, providing a stable stream of cash flow.	As subsidies decline and merchant capacity increases (currently about 50%-55% of EBITDA), Eneco will need to prudently manage its price exposure.
Mitsubishi (80%-owner) is willing and able 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 to remain a relatively small player compared with other integrated European utilities.
Very limited exposure to Russian gas (less than 10% of procurement contracts).	Significant exposure to margin collateral requirements, with an initial margin of about €0.5 billion at year-end 2021.

Exposure to Russian long-term contracted gas is minimal. Eneco's yearly gas needs are around 6.6 billion cubic meters. The vast majority of the gas (85%-90%) that Eneco purchases through direct contracts comes from non-Russian gas suppliers; it has minimal exposure to Russian gas. In 2010, Eneco entered into a 20-year contract with Wingas. At that time, Wingas was a joint venture between Germany's Wintershall and Gazprom; it is now wholly owned by Gazprom. Eneco also had several short-term contracts with Gazprom Marketing & Trade, a Gazprom subsidiary based in London. These contracts expired at the end of March 2022 and Eneco will not be entering any new contracts with Russian gas suppliers. On April 4, 2022, the German government took over the management of Gazprom Germania, including its subsidiary Wingas (under "trusteeship"). We understand that the company will remain in Russian hands for the time being, but control rests with the German government. Eneco is continuing its contract with Wingas to ensure the security of affordable supply to its customers. As part of its risk control measures, on Jan. 10, 2022, Eneco took out credit insurance of €400 million for one year, to cover related credit risks.

The impact from the energy crisis is so far manageable. So far the only impact of the energy crisis on Eneco was a stretched balance sheet at the end of 2021 due to the unprecedented increase in energy prices and the resulting spike in initial and variation margin requirements. In particular, net debt doubled to more than €1.0 billion from €503 million in 2020, mainly as a result of the margins posted as collateral, which were classified as debt. The initial margin at year-end 2021 was €560 million outstanding, whereas the net margin position was €186 million. This was also reflected in working capital (WC) movements of €436 million in 2021. Consequently, funds from operations (FFO) to debt will drop to 50.7% (absent the net margining position, FFO to net debt would have been above 60%).

It is expected that, with stabilizing energy prices, the initial and variation margining due to settlement of the underlying transactions will move to normal levels in 2022/2023, which will have a positive effect on the working capital and the FFO to debt ratio. We forecast that FFO to debt will increase to above 60% in 2022, which is well above our 50% threshold for a 'bbb+' stand-alone credit profile and a rating of 'A-'.

In the scenario of a complete halt to Russian gas flows, we believe that European governments will step in to prevent systemic risk. In a gas curtailment scenario, which we still view as possible though not part of our base case, we anticipate a wide effect on the utilities sector as a whole and on Eneco as one of the largest gas retailers in Benelux (Belgium, the Netherlands, Luxembourg). This includes a possible spike in margin calls, heightened trading risks, and the use of force-majeure clauses; state measures to tax windfall profits to contain unsustainable energy bills; and most likely adverse macroeconomic impacts. In case of temporary imbalance problems on the gas market, the government in the Netherlands would activate the "Bescherm en Herstesplan" (protection and recovery plan) to restore the balance between supply and demand. This includes several steps like shrinking demand, extra levies on gas, or scaling back on supply to 60 companies that consume large amounts of gas. Therefore, we understand that state intervention could supersede Eneco's contractual engagements for all physical gas deliveries. Even though this could hit Eneco, especially its trading activity, we expect downside to remain manageable, although it is difficult to predict.

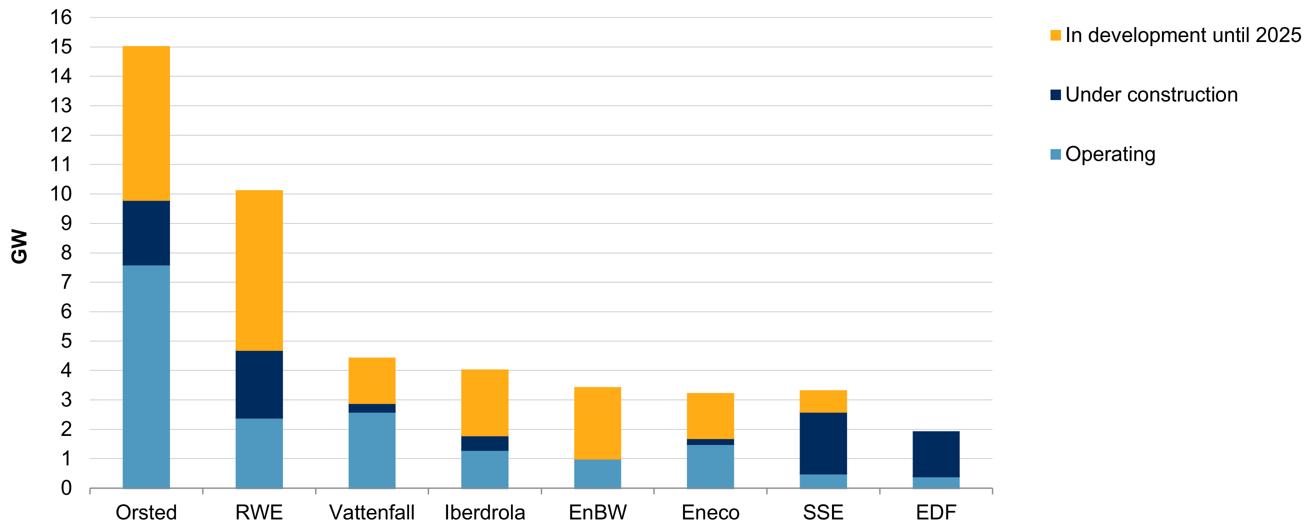
Merchant risk exposure management will be key for the rating. We monitor Eneco's increasing merchant risk. As subsidies expire on existing capacity and Eneco adds new non-subsidized offshore wind to its portfolio, subsidized generation will gradually decline in the company's mix. To mitigate merchant risk, Eneco is entering into long-term purchase power agreements (PPAs) with creditworthy counterparties. For example, at Maasvlakte 2 (116MW), Eneco closed a 25-year fixed price PPA for 100% of the power produced with the Dutch government. Also, in February 2021, Eneco reached a 12-year agreement with Amazon for 85% of the power generated at Hollandse Kust Noord (153 MW), which should cover for most of the investment (the rest covered with market hedges and stressed prices scenario).

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. To this end, Eneco targets increasing its own renewable capacity to 3.2GW by 2025 from close to 1.9GW as of end of 2021. At the same time, Eneco will accelerate innovation and investment in about 2GW 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--another target from Eneco's updated strategy. Financially, Eneco aims to achieve return on capital employed of 5% by 2025.

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 (5.3GW, made up of 1.7GW 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.

Chart 1

Eneco Set To Remain Among Leaders In Global Offshore Wind Development (Outside China) In The Next Five Years



GW--Gigawatt. Note: Orsted total pipeline until 2030 is 17.3 GW. Iberdrola total pipeline until 2030 is 17.3 GW with a total pipeline of 25 GW. Vattenfall has a 3.6 GW offshore wind project with commissioning in 2027-2029.
Source: Companies' reports, S&P Global Ratings.

Despite capital expenditure acceleration, we expect Eneco will continue posting FFO to debt consistently above 50%. The updated strategic plan entails about €1.6 billion-€1.8 billion of investments during 2022-2024, resulting in yearly average capital expenditure (capex) of €530 million-€600 million. Although this is an increase from an average of €380 million over the past two years, investments remain well within Eneco's operating cash flow generation, which we forecast will average €690 million over the same period. This will result in renewable capacity almost doubling compared with today, notably with renewables installed capacity increasing to 3.2GW by 2024 from 1.9GW in 2021.

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 80% shareholder, Mitsubishi Corp. (A/Stable/A-1) is willing and able 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 renewable capacity and district heating operations will continue to deliver 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 Eneco'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 occur if there were a more aggressive capex acceleration or unexpected M&A that caused Eneco's FFO to debt to drop below 50%. This could happen if:

- The output of the wind fleet is much lower than currently anticipated;
- The company loses significant market share in its supply segments; or
- Collateral posting because of continuous volatility in gas and power prices results in significant deterioration in the company's liquidity that can't be replenished from new sources of cash, coupled with a significantly negative working capital outflow.

Upside scenario

We are unlikely to upgrade Eneco over the next two years. Since we cap the group support that Eneco receives at one notch below the 'A' rating on Mitsubishi, an upward revision of the stand-alone credit profile to 'a-' from 'bbb+' would not lead us to raise the issuer credit rating.

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

We would consider revising upward the SACP if Eneco's strategic plan delivers 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

- 45%-50% of Eneco's EBITDA coming from subsidized renewable generation and district heating over 2022-2024.
- Eneco to retain its long-term hedging approach to manage commodity price risk. We assume no exposure to power prices over the next three years (that is, 100% hedged).
- Eneco's focus on digitalization and synergies resulting in increasing margins over 2022-2024, supporting EBITDA and FFO generation.
- Eneco retaining its leading position as an integrated player in the Benelux region, despite competitive pressures on retail business.
- We expect Eneco to receive variation margins in 2022 which will translate into positive working capital.
- Investment focus on increasing owned renewable capacity to about 3.2GW by 2024 from 1.9GW in 2021, which translates into capex of about €540 million in 2022 and €535 million in 2023.
- Dividend distributions at about 50% of the previous year's net income.

Key metrics

Eneco N.V.--Key Metrics*

(Mil. €)	2020a	2021a	2022f	2023f	2024f
EBITDA	502.3	588.0	620-640	650-570	740-760
Funds from operations (FFO)	443.0	513.0	545-565	570-590	646-666
Capital expenditure	393.0	380.0	529-550	525-545	555-575
Free operating cash flow (FOCF)	166.0	(338.0)	285-315	(5-25)	135-155
Debt	503.1	1,012.8	850-870	1120-1140	1190-1210
Debt to EBITDA (x)	1.0	1.7	1.3-1.5	1.6-1.8	1.5-1.7
FFO to debt (%)	88.1	50.7	60-70	45-55	50-60
FOCF to debt (%)	33.0	(33.4)	24-44	10-(10)	5-25

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

We see Eneco's investment strategy as sustainable since growth will be largely funded with own cash flows. We expect Eneco's €1.6 million-€1.8 million cumulative capex over 2022-2024 will be funded by €551 million of accumulated cash and the rest with own operation cash flows generated over the same period, with minimal need for debt issuance.

Borssele III and IV 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 inflow in 2022 due to a reversal of the initial margin paid in 2021. This inflow relates mostly to reversal of high margins posted as collateral in 2021 as a result high and volatile energy prices. We expect this will represent most of the €240 million-€250 million working capital cash inflow that we forecast for 2022 compared with outflows of about €436 million in 2021.

Company Description

Eneco N.V. (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 45% of EBITDA, as of 2021. About 8%-13% 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 3.2 million customers, the No. 3 in the Flanders region, with 0.9 million customers, and, since 2017, has also been 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.

Since 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

Eneco N.V.--Peer Comparison

Industry sector: Energy				
	Eneco N.V.	**Vattenfall AB**	**Centrica PLC**	**Engie S.A.**
Ratings as of Sept. 14, 2022	A-/Stable/A-2	BBB+/Positive/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
	--Fiscal year ended Dec. 31, 2021--			
(Mil. €)				
Revenue	5,208.0	17,515.3	17,554.2	57,866.0
EBITDA	588.0	4,481.3	2,205.2	10,203.0
Funds from operations (FFO)	513.0	3,548.3	1,771.6	8,794.8
Interest expense	22.0	103.2	230.0	1,545.2
Cash interest paid	22.0	279.0	266.9	840.2
Cash flow from operations	42.0	9,747.7	1,670.4	6,101.8
Capital expenditure	380.0	2,422.2	514.2	5,895.0
Free operating cash flow (FOCF)	(338.0)	7,325.5	1,156.2	206.8
Discretionary cash flow (DCF)	(396.0)	6,786.1	1,145.4	(1,601.0)
Cash and short-term investments	551.0	16,122.2	5,543.4	13,718.0

Table 1

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

Industry sector: Energy

	Eneco N.V.	Vattenfall AB	Centrica PLC	Engie S.A.
Debt	1,012.8	1,411.6	790.6	43,051.5
Equity	2,921.0	20,167.5	3,545.0	40,095.5
Adjusted ratios				
EBITDA margin (%)	11.3	25.6	12.6	17.6
Return on capital (%)	7.7	12.7	15.4	6.4
EBITDA interest coverage (x)	26.7	43.4	9.6	6.6
FFO cash interest coverage (x)	24.3	13.7	7.6	11.5
Debt/EBITDA (x)	1.7	0.3	0.4	4.2
FFO/debt (%)	50.7	251.4	224.1	20.4
Cash flow from operations/debt (%)	4.1	690.5	211.3	14.2
FOCF/debt (%)	(33.4)	518.9	146.3	0.5
DCF/debt (%)	(39.1)	480.7	144.9	(3.7)

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 and transmission activities, combined with heating and subsidized renewable generation. We believe this mix compares favorably against that of Eneco, since we don't view district heating activities as on 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 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's. Although recent sales of assets outside of U.K by Centrica have bolstered its financial metrics, it has come at the cost of reduction of scale, diversification, and profit margins. 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 explains Eneco's higher SACP of 'bbb+' compared with 'bbb' for Centrica.

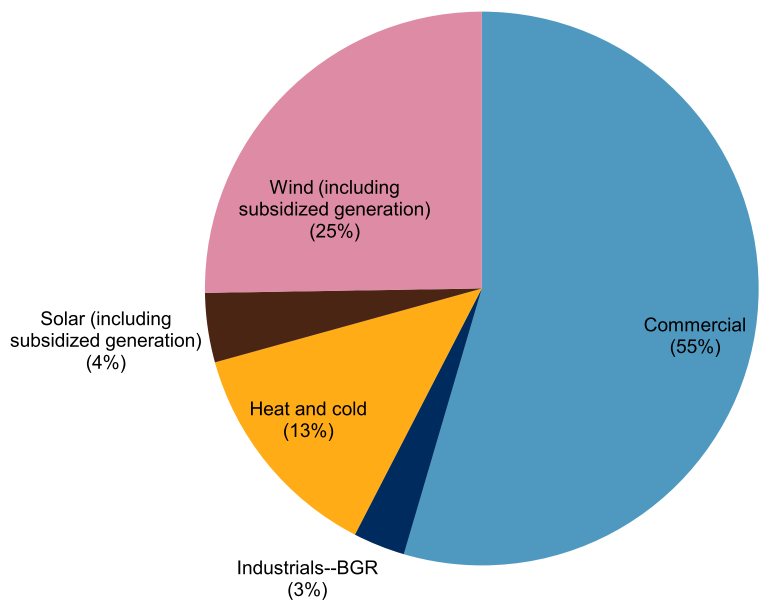
Business Risk: Satisfactory

Eneco's business risk profile is mostly supported by about 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 2

Eneco EBITDA Mix 2021

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 for the remainder 50% of the group's EBITDA over 2022-2024. Eneco aims 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.

Eneco aims to almost double its renewable capacity to 3.2GW by 2025. To this end, Eneco will hold 100% of Maasvlakte 2 (MV2) and 20% in Hollandse Kust Noord (HKN), which will represent 116MW and 153MW 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.

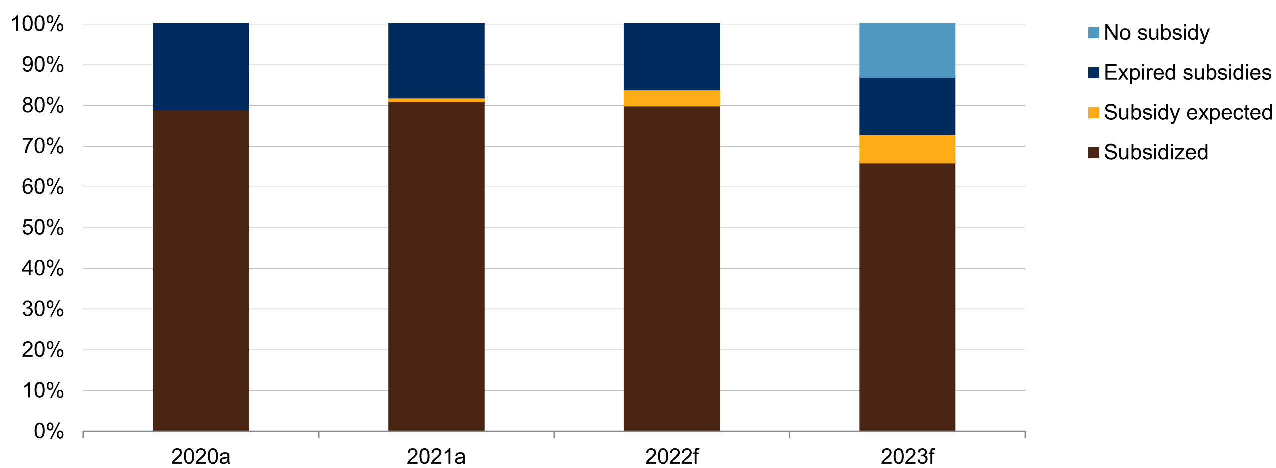
We see increasing merchant exposure on Eneco's renewable fleet over the medium term, but we believe risk management policies will mitigate this risk. As of 2021, close to 80% of Eneco's renewable capacity benefits from subsidy schemes, with the rest representing capacity with expired subsidies. We expect 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 pressure PPA prices and could also represent 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 at least 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 wind-farms 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. 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.

District heating, which we view as low risk and an expanding business in the Netherlands, accounts for 13% of Eneco's EBITDA. The company's district heating activities provide a good degree of earnings visibility. We believe this business could expand 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 aims to add 300,000 customers to its network by 2035. We expect the government to determine a regulatory framework for this infrastructure over 2023, 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.

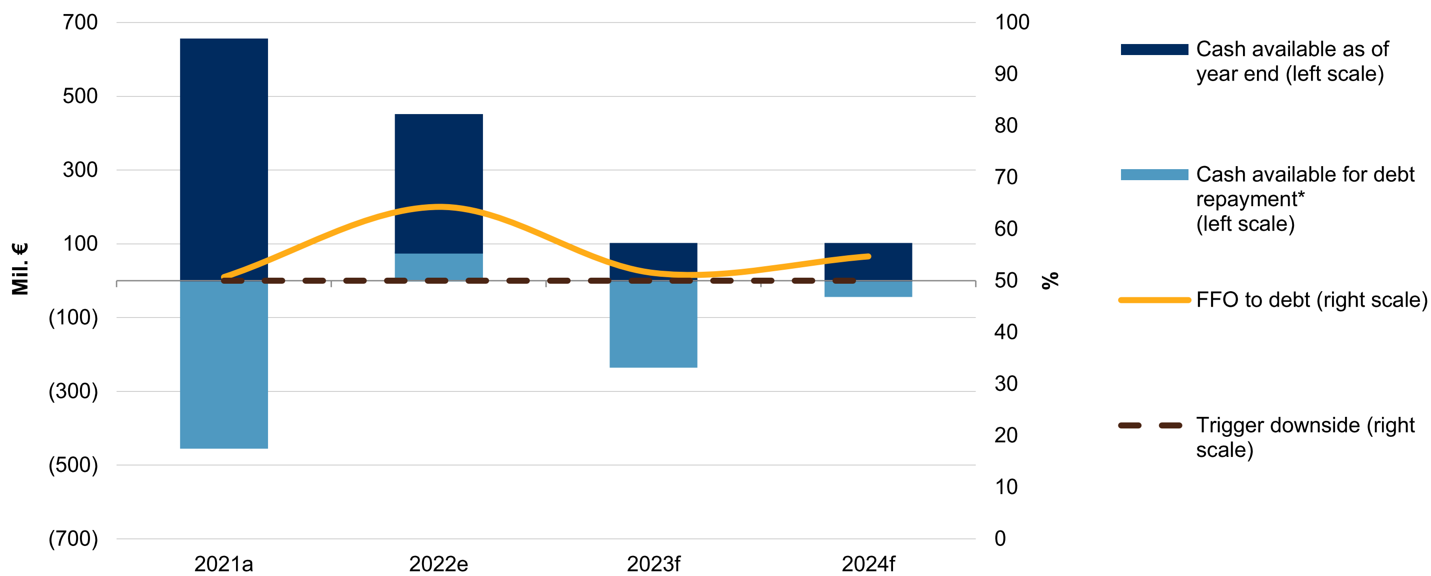
Eneco holds a leading position on its energy supply segment in the Netherlands and Belgium (20% of EBITDA), which benefits from the group's vertical integration, but this segment is inherently exposed to competition. We believe competition is intensifying in Eneco's home markets with the entrance of non-utility players. Key challenges in this segment remain growth, digitalization, 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 over 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 to remain well above the downside trigger despite increasing leverage to fund investments and some cash flow volatility on the back of the energy crisis. In the past year, Eneco has accumulated about €551 million cash. It will use this to fund investments, which we forecast at an average of €540 million over 2022-2024 from about €380 million in 2020 and 2021. We expect EBITDA will increase by about 27% by 2024 compared with 2021, mostly due to improvement from digital-oriented initiatives and new capacity coming online by that year. This will support credit metrics during the investment phase. As a result of expected margining positions and flow of working capital compared to year-end 2021, credit metrics will improve in 2022. In 2023, additional investments as HKN and MV2 are included, without supporting FFO at that stage, resulting in lower credit metrics but remaining above the 50% trigger for the current rating (see chart 4).

Chart 4

Eneco Will Accelerate Capex Over 2022-2024
Leverage will increase as Eneco consumes resources to finance capex



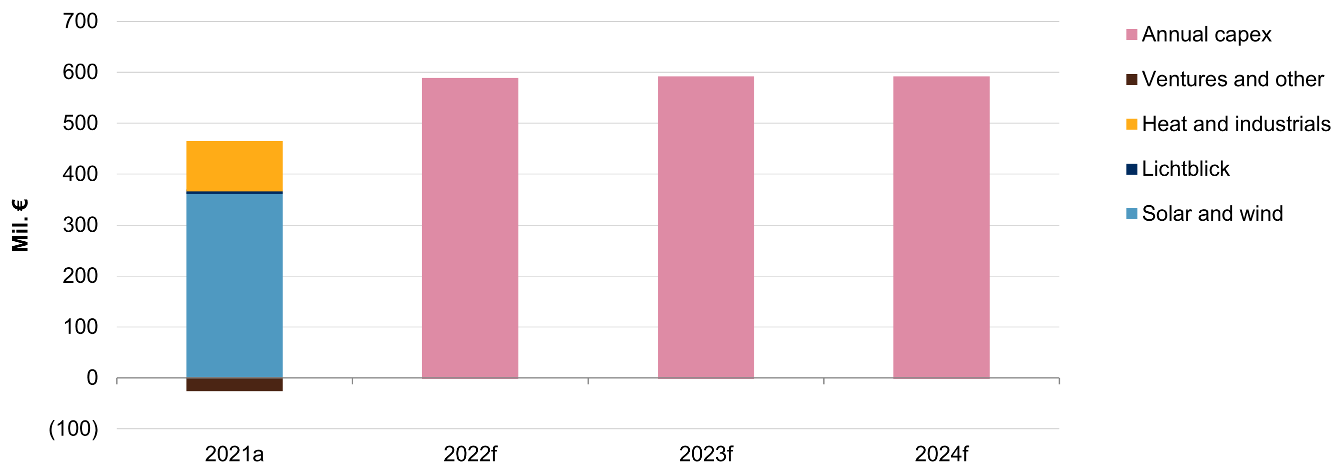
a--Actual. f--Forecast. e--Estimate. Cash available for debt repayment = Operating cash flow less capex, acquisitions and dividends, and other minor cash adjustments. Source: S&P Global Ratings.

Renewable capacity and district heating will represent most of Eneco's investments. We expect Eneco to allocate 55% of its investments to new wind and solar assets over 2022-2024, which we anticipate will add about 1.3GW capacity to the company's renewable generation fleet by 2024. In addition, we expect about 32% of the capex will be allocated to the expansion of the district heating network.

Chart 5

Eneco Capex Trajectory*

Acceleraion is mostly in new solar and wind capacity and district heating



a--Actual. f--Forecast. *Does not include acquisitions. 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 two years. We understand Eneco will continue to adhere to its financial policy 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

Eneco N.V.--Financial Summary

Industry sector: Energy					
	--Fiscal year ended Dec. 31--				
	2021	**2020**	**2019**	**2018**	**2017**
(Mil. €)					
Revenue	5,208.0	4,145.0	4,330.0	4,156.0	3,355.0
EBITDA	588.0	502.3	472.3	428.1	470.3
Funds from operations (FFO)	513.0	443.0	394.9	307.3	427.7
Interest expense	22.0	23.2	22.4	49.8	42.6

Table 2

Eneco N.V.--Financial Summary (cont.)

Industry sector: Energy					
	--Fiscal year ended Dec. 31--				
	2021	**2020**	**2019**	**2018**	**2017**
Cash interest paid	22.0	22.2	21.4	37.8	34.6
Cash flow from operations	42.0	559.0	461.9	446.3	756.7
Capital expenditure	380.0	393.0	350.9	251.3	160.7
Free operating cash flow (FOCF)	(338.0)	166.0	111.0	195.0	596.0
Discretionary cash flow (DCF)	(396.0)	98.0	43.0	131.0	596.0
Cash and short-term investments	551.0	496.0	479.0	446.0	347.0
Gross available cash	551.0	496.0	479.0	446.0	347.0
Debt	1,012.8	503.1	461.8	405.2	719.5
Equity	2,921.0	2,948.0	2,937.0	2,939.0	2,869.0
Adjusted ratios					
EBITDA margin (%)	11.3	12.1	10.9	10.3	14.0
Return on capital (%)	7.7	5.4	5.5	4.6	5.1
EBITDA interest coverage (x)	26.7	21.6	21.1	8.6	11.0
FFO cash interest coverage (x)	24.3	20.9	19.4	9.1	13.4
Debt/EBITDA (x)	1.7	1.0	1.0	0.9	1.5
FFO/debt (%)	50.7	88.1	85.5	75.8	59.4
Cash flow from operations/debt (%)	4.1	111.1	100.0	110.2	105.2
FOCF/debt (%)	(33.4)	33.0	24.0	48.1	82.8
DCF/debt (%)	(39.1)	19.5	9.3	32.3	82.8

Reconciliation

Table 3

Eneco N.V.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2021--						
Eneco N.V. reported amounts							
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**
Reported	1,192.0	2,914.0	5,211.0	572.0	222.0	15.0	588.0
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	--	--	(53.0)
Cash interest paid	--	--	--	--	--	--	(22.0)
Reported lease liabilities	233.0	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	2.3	--	--	--	--	--	--
Accessible cash and liquid investments	(551.0)	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	2.0	--

Table 3

Eneco N.V.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)							
Dividends received from equity investments	--	--	--	19.0	--	--	--
Asset-retirement obligations	136.5	--	--	--	--	5.0	--
Nonoperating income (expense)	--	--	--	--	67.0	--	--
Noncontrolling interest/minority interest	--	7.0	--	--	--	--	--
Revenue: Other	--	--	(3.0)	(3.0)	(3.0)	--	--
Total adjustments	(179.3)	7.0	(3.0)	16.0	64.0	7.0	(75.0)
S&P Global Ratings' adjusted amounts							
	Debt	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**
Adjusted	1,012.8	2,921.0	5,208.0	588.0	286.0	22.0	513.0

Liquidity: Adequate

We view Eneco's liquidity position as adequate, supported by its cash position as of June 30, 2022. The company's access to two different committed revolving credit facilities (RCF) also enhances the assessment. We believe these sources will support Eneco's expansive phase, which we believe will intensify over 2022-2024 to achieve strategic goals. We expect Eneco to maintain a sources-over-uses ratio well above 1.2x over the next 12 months.

In September 2022, Eneco also signed a €2.5 billion committed working capital facility with its main shareholder, Mitsubishi. Even though not included in the below calculation, this will further boost Eneco's liquidity sources for the next 12 months. We understand that the facility has a five-year tenor and will be used for regular working capital needs.

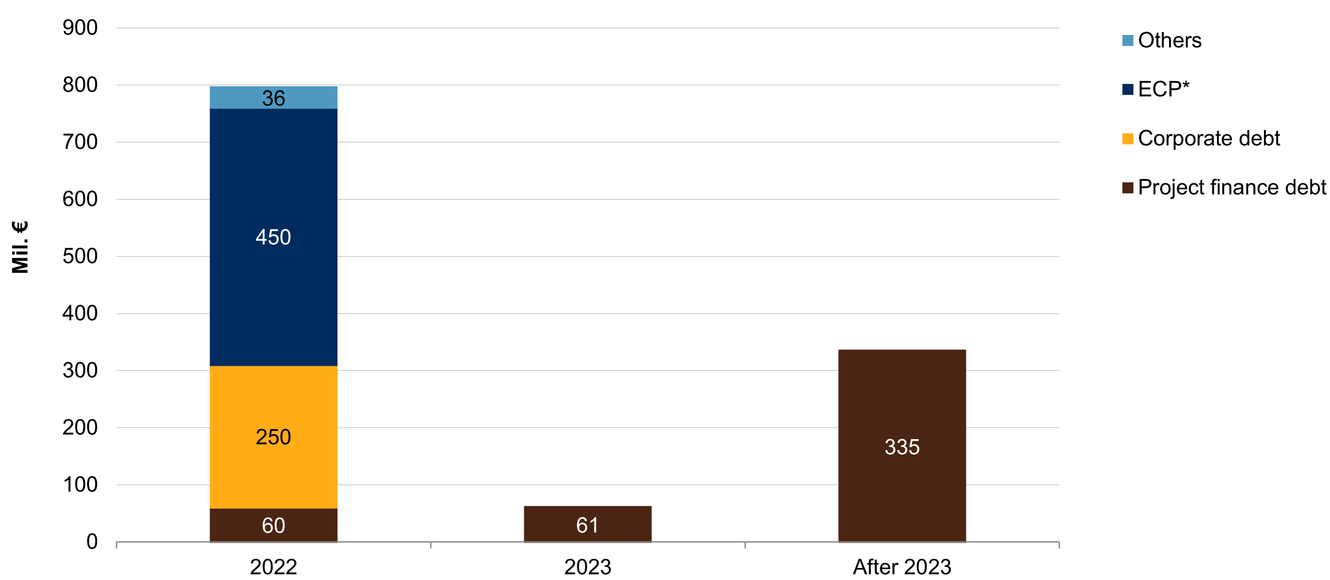
Principal liquidity sources	Principal liquidity uses
• Cash and liquid investments of about €648 million as of June 30, 2022. • Undrawn committed credit lines of €1,250 million maturing in June 2026. • Projected cash FFO of about €570 million over the next 12 months.	• Debt maturities of about €350 million in the next 12 months related to commercial paper debt and long-term debt. • Capex of about €537 million. • Dividend distributions of about €100 million.

Debt maturities

Eneco's maturities at the end of financial year 2021 include a €450 million commercial paper loan in 2022 and €250 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 2022 and 2023.

Chart 6

Debt Maturity Profile



*ECP=Euro Commercial Paper Program. Source: S&P Global Ratings.

Covenant Analysis

Eneco has no covenants under its bank facilities.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5

Environmental (E-1)	Social (S-2)	Governance (G-2)
- Climate transition risks.	- N/A	- N/A

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental factors are a positive consideration in our credit rating analysis of Eneco. The company was one of the first to use renewable energy in the Netherlands (5.3GW of owned and controlled renewable capacity as of 2021), which has provided the company with a large, subsidized portfolio, resulting in stable and predictable cash flows. Moreover, Eneco is one of the largest district heating providers in the Netherlands, a business that is poised for growth given that the central government intends to decarbonize its heating base (currently above 90% from gas). This will provide Eneco with a stable and increasing source of cash flows, which we see as an advantage from a credit perspective. As part of its strategy, Eneco 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. As of 2021, Eneco emits about 1.5 million tons of scope 1 and scope 2 CO2-equivalent emissions (13.2 million tons of CO2 scopes 1, 2, and 3 emissions).

Group Influence

Our ratings on Eneco are boosted by potential extraordinary support from Mitsubishi, the main shareholder. Since March 25, 2020, Eneco has been 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 is willing and able 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 benefiting 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: 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
- 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
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- What Europe's Energy Redesign Might Mean For Its Power And Gas Markets, Sept. 13, 2022

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 October 18, 2022)*

Eneco N.V.	
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
Related Entities	
Mitsubishi Corp.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1
Subordinated	BBB+
Mitsubishi Corp. (Americas)	
Commercial Paper	
Local Currency	A-1
Mitsubishi Corp. Finance PLC	
Issuer Credit Rating	A/Stable/A-1
Mitsubishi International Corp.	
Issuer Credit Rating	A/Stable/A-1
New Century Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable

Ratings Detail (As Of October 18, 2022)*(cont.)

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.