

Research Update:

Energie Oberoesterreich 'A' Rating Affirmed Despite Lower Stand-Alone Credit Profile; Off Watch, Outlook Negative

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Overview

- We have revised our assessment of Energie AG Oberoesterreich's stand-alone credit profile to 'A-' from 'A' due to the impact of the current downturn on the company's performance.
- We view the likelihood of extraordinary government support as "moderate", resulting in a one-notch uplift to the company's stand-alone credit profile.
- We are affirming our 'A' rating on Energie AG, and removing it from CreditWatch negative.
- The negative outlook reflects our view that credit metrics could remain weak for the ratings in the short term.

Rating Action

On Nov. 17, 2009, Standard & Poor's Ratings Services affirmed its 'A' long-term corporate credit rating on Austrian utility Energie AG Oberoesterreich (Energie AG). At the same time, the rating was removed from CreditWatch with negative implications, where it had been placed on June 25, 2009. The outlook is negative.

Rationale

The rating affirmation follows our revision of Energie AG's stand-alone credit profile (SACP), which we have lowered to 'A-' from 'A'. This primarily reflects our view that the current economic downturn will depress Energie AG's fiscal 2009 performance and weigh on its path to recovery in the intermediate term, resulting in an overall structurally weaker credit profile than previously factored into the ratings. Specifically, the utility's weaker fundamentals translate into weaker cash flow generation while its debt levels remain relatively high primarily due to sustained capital expenditures and investments and fixed dividends.

At the same time, we view the likelihood of extraordinary government support from the State of Upper Austria (AAA/Stable/A-1+) as "moderate", resulting in a one-notch uplift to the company's stand-alone credit profile, in line with our criteria for rating government-related entities.

We view Energie AG's business risk profile as "strong." This reflects its position as the leading utility in Upper Austria, the prosperity of its

service area, its regional electricity distribution monopoly, the availability of long-term contracts in waste management with the public sector, and a strategy of sharing risk in generation investments with partners. Constraining factors include: Energie AG's energy supply and trading activities, which are exposed to commodity prices volatility and demand contraction; increasing competition in retail supply; an increasing share of profits to come in the future from higher-risk waste management activities and transition economies; large investment plans in generation capacity; and regulatory distribution tariff reset risk in 2010. We regard Energie AG's financial risk profile as "intermediate". This reflects an overall adequate debt structure and liquidity in our view and our expectation that the current environment and ongoing sustained planned investments will weigh on coverage ratios in fiscal 2009 and could limit recovery in 2010. Energie AG's reported results for the six months ended March 31, 2009, have been significantly weak: EBITDA stood at €135 million, down 16% compared with the same period of the previous year, due to the poor performance of both the energy segment (€102 million in EBITDA, down 20%), and the waste segment (€28 million in EBITDA, down 10%); full-year results for fiscal 2009 (year-ended Sept. 30, 2009) are in our view likely to remain weak, notwithstanding some recovery in the second half. A substantial rebound is anticipated by the company in fiscal 2010, but appears ambitious in our view.

The 'A' rating reflects our opinion that there is a "moderate" likelihood that the State of Upper Austria would provide timely and sufficient extraordinary support to Energie AG in the event of financial distress. In accordance with our criteria for government-related entities, our view of a "moderate" likelihood of extraordinary government support is based on our assessment of Energie AG's:

- "Important" role for the government as a provider of an essential infrastructure and services to the population; and
- "Limited" link with Upper Austria given the latter's 51% ownership of Energie AG and the group's substantial deregulated operations.

Liquidity

We consider Energie AG's liquidity to be adequate. The company indicated on a preliminary basis that short-term debt stood at €258 million on Sept. 30, 2009, compared with €65 million in cash and securities of €392 million (of which €355 million in investment funds). In addition, the company also had €574 million under bank lines (of which €344 million was undrawn), although these lines are not all committed (for tax reasons) and are short term. At the same time, it is worth underlining that out of these €574 million of lines, €278 million (€107 million undrawn) are provided by banks that are shareholders of Energie AG, which should provide more comfort about the degree of their commitment.

We expect Energie AG to be slightly cash flow negative in the short term, but available liquidity should cover its funding needs. In addition, planned investments are deferrable to some extent.

Outlook

The negative outlook reflects our opinion that the short-term recovery anticipated by Energie AG is in our view ambitious and that the current economic slowdown could continue to weigh on Energie AG's performance in the intermediate term, possibly requiring corrective actions. The ratings assume that Energie AG can reach funds from operations (FFO) to debt of about 25% in fiscal 2011. An increase in business risk or a weakening of the financial profile--due, for example, to operating underperformance, debt-financed investments or acquisitions, or a lower-than-expected return on investments--would put downward pressure on the ratings. We could revise the outlook to stable if Energie AG can comfortably and sustainably reach and maintain FFO to debt of 25%, and assuming that we perceive that there has been no deterioration in Energie's business risk profile.

Related Research

- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Energie AG Oberoesterreich		
Corporate Credit Rating	A/Negative/--	A/Watch Neg/--
Senior Unsecured	A	A/Watch Neg

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