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NON-RATING ACTION COMMENTARY

EDP's Business Profile and Leverage Unaffected by Updated Strategic Guidance

Wed 15 May, 2024 - 11:30 ET

Fitch Ratings-Barcelona-15 May 2024: EDP, S.A. 's (BBB/Stable) updated guidance, forecasting lower than previously anticipated consolidated EBITDA, will result in net leverage still in line with Fitch Ratings' previous expectations, as well as a broadly unchanged business profile.

EDP is now forecasting a consolidated EBITDA of EUR5-5.1 billion by 2026, EUR600-700 million less than its previously communicated target. This is compensated by EUR3 billion less in cumulative net investment over 2024-2026, mostly explained by the 3-gigawatt (GW) reduction in gross capacity additions targeted by EDP Renewables.

Management now expects to invest EUR17 billion over 2024-2026, adding a total of around 10GW on a gross basis. The continued execution of EDP's asset-rotation programme should partially finance the investment. This should result in the sell-down of around 4.5GW of renewable assets, resulting in EUR6 billion of proceeds from the renewables, clients and energy management segment. An additional EUR1 billion of asset-rotation proceeds are expected from the networks segment.

The strategic update reflects management's commitment to keep EDP's credit metrics commensurate with its 'BBB' Issuer Default Rating (IDR), in our view. EDP has several levers to defend its credit profile, including further delaying its development of renewables, accelerating of its asset-rotation programme or issuing more hybrid instruments.

EDP's leverage headroom remains limited, and we expect average funds from operations (FFO) net leverage of 4.7x in 2024-2026, compared with our negative sensitivity of 4.9x for the 'BBB' rating level. However, EDP's revised investment targets show its commitment to preserve leverage metrics consistent with its 'BBB' IDR despite the challenging current environment of lower energy prices and higher interest rates.

We do not see any material change to EDP's operational profile in light of the update, despite a marginally higher preference for solar assets and batteries compared with its previous targets. We forecast the regulated share of the business to remain around 30% and the quasi-regulated share to increase towards 45% in 2026, from around 30% in 2023.

Lower energy prices, higher interest rates and challenges in capacity deployment led EDP to review its targets for the current business plan. However, the update does not change the general direction of the company's strategy, and is in line with similar actions recently implemented by peers such as Naturgy Energy Group S.A. (BBB/Stable), Enel S.p.A. (BBB+/Stable), Orsted A/S (BBB+/Stable) and Corporacion Acciona Energia Renovables, S.A. (BBB-/Stable).

Contacts:

Jaime Sierra
Associate Director
+49 69 768076 275
Jamie.sierrapuerta@fitchratings.com
Fitch Ratings Ireland Spanish Branch, Sucursal en España
Paseo de la Castellana 31 9ºB Madrid 28046

Manuel Meneses Pereira, CFA
Associate Director
+34 934 92 95 11
manuel.menesespereira@fitchratings.com

Media Relations: Tahmina Pinnington-Mannan, London, Tel: +44 20 3530 1128, Email: tahmina.pinnington-mannan@thefitchgroup.com

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