

Tear Sheet:

EDP S.A.

June 12, 2024

We view positively EDP's updated business plan, which sees the company scaling down its capital expenditure (capex) to alleviate pressure on the balance sheet and protect the 'BBB' rating. In May 2024, EDP announced an amended business plan for the 2024-2026 period that will reduce investments by about €3billion. The company now plans to add only 3.6 gigawatt (GW) in renewable energy generation over 2024-2026 (100% consolidated basis), compared with 4.5 GW per year in the previous plan.

We now expect S&P Global Ratings-adjusted funds from operations (FFO) to debt will remain at 19%-20% over 2024-2026, with little headroom for the 'BBB' rating. By 2026, we forecast that S&P Global Ratings-adjusted net debt will be broadly in line with 2023, at about €19 billion, and that adjusted EBITDA will increase by about 6% annually to €4.9 billion (excluding asset rotation gains). Based on EDP's revised business plan new plan, we still estimate annual free operating cash flow (FOCF) will remain negative at an average of €1.5 billion-€1.8 billion over 2024-2026. This is because of annual average investments of about €5 billion, slightly increased dividend distributions of about €1.0 billion-€1.1 billion, and structurally negative working capital, mainly linked to tax equity credits EDP receives to develop renewable energy generation in the U.S. To mitigate balance sheet pressure, EDP relies on extra asset rotation proceeds of about €2.3 billion per year, compared with €1.7 billion-€1.8 billion previously. All in all, we forecast a reduced, albeit still negative, annual discretionary cash flow of about €2.7 billion on average, with a peak in 2024. If EDP's credit metrics came under pressure, we would expect a change in investments and asset rotation policy rather than a reduction in dividend distributions.

EDP's investment plan remains focused on adding renewable capacity (80% of capex) and continuous investments to networks (20% of capex). EDP plans to spend €17 billion over the next three years, with an expected €13.6 billion earmarked for renewable projects. We view positively the stricter investment plan, which targets fewer but more profitable projects, with an internal rate of return to weighted average cost of capital target of about 250 basis points (bps), compared with about 200 bps previously. EDP's higher selectivity in Europe has become key to protect its profitability on the back of falling electricity forward prices and higher funding costs that resulted from higher interest rates. Similar to the previous business plan, lower-risk markets in Europe will account for 45% of EDP's capex and North America for 33%. EDP's investments in North America will focus on developing new renewable assets, not on buying existing assets. We expect the most pronounced growth in the portfolio will come from solar and onshore wind generation, with minimal investments in offshore wind projects. We view

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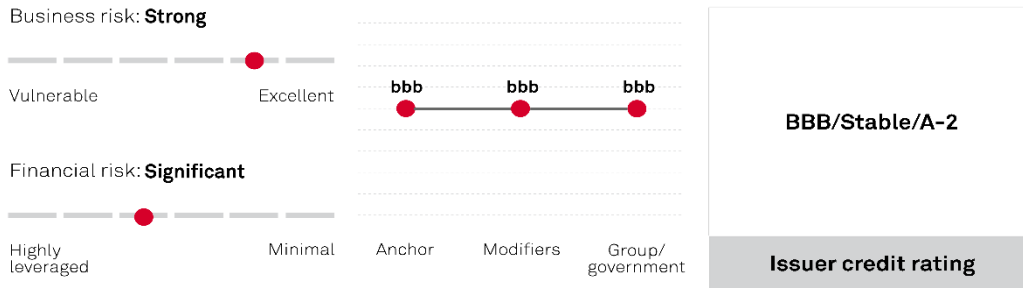
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positively EDP's long-term contracted revenue, especially with regard to power purchase agreements for new renewable capacity under construction.

EDP's strong operational performance in the first quarter of 2024 was offset by lower prices.

The company's reported EBITDA declined by 5% year over year to €1.415 billion. A 53% decline in the Iberian electricity market's average spot price to €45 per megawatt hour (MWh) (€96/MWh in the first quarter of 2023) more than offset asset rotation gains of €76 million in Brazil and €58 million in North America. We forecast adjusted EBITDA will increase to about €4.9 billion in 2026, excluding asset rotation gains of about €300 million from growth in renewables and networks. Net debt will slightly decrease to €18.2 billion-€18.6 billion, resulting in FFO to debt slightly above 19%.

Ratings Score Snapshot



Recent Research

- EDP S.A.'s Proposed Hybrid Instruments Assigned 'BB+' Rating; Equity Content Intermediate, May 21, 2024
- EDP - Energias de Portugal S.A., Dec. 14, 2023
- EDP Energias do Brasil S.A.'s Sale Of Two Transmission Lines Aligns With Asset Rotation Strategy, Nov. 1, 2023

Company Description

EDP is a vertically integrated utility company. It is the largest generator, distributor, and supplier of electricity in Portugal, and the third-largest electricity generator on the Iberian Peninsula.

EDP is among the largest wind power operators worldwide. Through its subsidiary EDPR, the company develops and operates wind and solar energy generation facilities in four regional

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hubs, North and Latin America, and, more recently, in the Asia-Pacific region with the Sunseap acquisition.

In Brazil, EDP is Brazil's fifth-largest private electricity operator, with two electricity distribution concessions (EDP São Paulo and EDP Espírito Santo). Additionally, the company is Brazil's fourth-largest private electricity supplier in the liberalized market and is responsible for power transmission in the country.

EDP operates across two business segments:

- **Renewables**, including client solutions, and energy management (70% of reported EBITDA in 2023): This segment includes EDP's hydro, wind, and solar power assets across all geographies. EDP's renewables capacity accounts for 86% of total installed capacity (EBITDA MW), equivalent to 22.4 GW (79% in 2022). Client solutions and energy management include EDP's supply activities on the Iberian Peninsula and Brazil, thermal generation, and energy management businesses.
- **Networks** (30% of reported EBITDA in 2023): This segment includes EDP's electricity distribution activities on the Iberian Peninsula and Brazil, transmission lines in Brazil, and electricity last-resort supply activity in Portugal, with a total regulated asset base of €7.6 billion as of Dec. 31, 2023. EDP has an installed capacity of 26.6 GW and generated 56.4 terawatt hours of electricity in 2023.

Outlook

The stable outlook reflects our expectations that (i) EDP's FFO to debt will remain between at 19%-20%, (ii) debt to EBITDA will be below 4.0x over 2024-2026, (iii) the company will continue investing in regulated activities and renewables in a balanced way, and (iv) EDP will maintain a financial policy that is commensurate with the 'BBB' rating.

Downside scenario

We could lower the rating if, over 2024-2026, EDP's FFO to debt declines significantly below 19% or adjusted debt to EBITDA remains above 4.0x. We could take a negative rating action if:

- EDP experiences a material operational setback, such as lower-than-expected profitability from installed assets or material delays in construction that are not compensated by supportive credit remedy measures;
- The presence of minorities increases, which would result in higher-than-expected cash flow leakage;
- The country risks of Portugal and Brazil increase, including adverse regulatory or fiscal effects; or
- EDP is unable to achieve the €7 billion asset rotation target over 2024-2026 without any measures to reduce capex.

Upside scenario

We view an upgrade as unlikely, given the company's current financial policy and ambitious investment plan. That said, rating upside would require EDP to achieve FFO to debt above 25% under its current business risk profile.

Key Metrics

EDPS.A.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. €)	2020a	2021a	2022a	2023a	2024e	2025f	2026f
EBITDA	3,278	3,289	4,167	4,589	4,800-4,900	4,850-4,950	4,850-4,950
Less: Cash interest paid	(622)	(584)	(775)	(989)	(950)-(1000)	(975)-(1,025)	(1,000)-(1,050)
Less: Cash taxes paid	(39)	(37)	(207)	(384)	~(300)	~(250)	~(200)
Funds from operations (FFO)	2,606	2,669	3,185	3,216	3,400-3,700	3,450-3,750	3,500-3,800
Capital expenditure (capex)	2,339	3,261	3,454	5,268	~4,900	~4,900	~4,900
Dividends	832	931	1,000	1,010	~1,000	~1,000	~1,000
Net debt	15,566	14,581	16,908	18,894	18,200-18,600	18,100-18,500	18,600-19,000
Adjusted ratios							
Debt/EBITDA (x)	4.7	4.4	4.1	4.1	3.7-3.9	3.7-3.9	3.8-4.0
FFO/debt (%)	16.7	18.3	18.8	17.0	19.0-19.5	19.5-20.0	19.5-20.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Rating Component Scores

Foreign currency issuer credit rating	BBB/Stable/A-2
Local currency issuer credit rating	BBB/Stable/A-2
Business risk	Strong
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb

Related Criteria

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- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

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