

Bulletin:

Uniper's New Strategy Sheds Light On Longer-Term Business Prospects While Leaving Some Key Credit Considerations Open

August 2, 2023

This report does not constitute a rating action.

FRANKFURT (S&P Global Ratings) Aug. 2, 2023--S&P Global Ratings today said that the visibility on Uniper SE's longer-term business and investment prospects has improved following the energy group's announcement of its new strategic plan, including decarbonization targets, a greater renewable footprint, green dispatchable power generation capacity, and reducing the risk of its gas business.

We view positively these specifics to Uniper's long-term strategy. However, any change to our assessments of the group's stand-alone credit profile and of a very high likelihood of government support would hinge on still-unanswered questions. Particularly, we will monitor the developments we consider the most relevant to the company's credit quality over the coming months:

- **The German government's exit path:** We understand the German government will submit a plan regarding its exit of Uniper to the European Commission by the end of 2023. We incorporate in our assessment of Uniper's creditworthiness the German government's ongoing commitment to support Uniper in a hypothetical stress scenario. We anticipate that this commitment could diminish as Uniper regains sufficient business and financial strengths, and we will continue to combine our view of extraordinary government support for Uniper with our view of the group's stand-alone credit quality.
- **Equity support reimbursement:** Under the European support package agreed in December 2022, Uniper is obliged to cover part of the curtailment losses with 30% of its EBIT after adjusting for, among other things, mark-to-market derivative fluctuations from 2022 to 2024. Uniper must return all equity in excess of its equity level before the energy crisis accumulated from 2022 to 2024 to the German government. Uniper's equity of €13.7 billion, as of end-June 2023, is clearly above the pre-crisis equity level. We interpret this implies Uniper would have to return some cash to the German government. However, we understand that Uniper is currently reviewing its obligation regarding such a repayment and that the group will continue to engage with the German government before a final amount is determined. Although we assume these measures are unlikely to weaken Uniper's financial position because they are dependent on the company's performance and not a lump-sum payment, we think the cash outflows could significantly influence credit metrics and reduce the resources available for Uniper to accelerate its transformation.

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- Uniper's strategic plan implementation: Uniper aims to invest €8 billion over 2023-2030 in its business transformation, which we understand would come on top of any maintenance capital expenditure. Although we recognize that a business mix less dependent on CO₂-heavy assets is likely to be more competitive over the long term than Uniper's current business mix, we still have limited visibility on concrete projects that will lead Uniper to achieve a double-digit terawatt-hour renewable portfolio. We expect such projects will be subject to significant execution risk given sector-wide permitting and grid-access issues, as well as inflationary pressure and supply chain constraints. Moreover, we lack clarity on the contractual terms under which these new assets would operate. Overall, we will review prospects for Uniper's long-term EBITDA mix; this would determine the stability of its cash flow profile, which might support a stronger business risk assessment. These are relevant considerations on our assessment of Uniper's business risk profile as we review the pace at which the company reduces its currently heavy carbon footprint.

For now, we continue to believe that Uniper will not incur further losses related to gas curtailments, that the company is on track to a steady financial recovery, and that the German government will provide extraordinary support to Uniper if needed, as it has in the past. For more information, please see "Uniper Outlook Revised To Stable On Return To Profitability; 'BBB-' Rating Affirmed," published June 19, 2023, on RatingsDirect.

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