Uniper SE
Federal Republic of Germany, Utilities

BBB- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	<0x	>20x	6x-7x	4x-5x
Scope-adjusted debt/EBITDA	<0x	0.2x	0.0x-0.5x	0.5x-1.0x
Scope-adjusted free operating cash flow/debt	<(50)%	>50%	>50%	(30)%-(20)%
Liquidity	<0%	>200%	>200%	>200%

Rating rationale

The rating reflects the company's standalone credit assessment of BB+ and a one-notch uplift related to its status as a government-related entity. The standalone credit assessment benefits from Uniper's position as an important European player in power and gas supply, solid diversification regarding markets, its technologies, the accelerated decarbonisation of its power generation fleet (positive ESG factor), some integration across the utility's value chain and solid credit metrics. Challenges include industry-inherent merchant risks in non-regulated power generation and commodity trading, a weak merit order position and above-average carbon intensity of large parts of the power generation fleet (negative ESG factor), regulatory, environmental and political risks mainly related to fossil-fuel, but also to some extent to nuclear power plants (negative ESG factor), the vulnerability of group profitability to external and non-controllable effects, and overall margin dilution due to the high share of trading business.

Outlook and rating sensitivities

The Stable Outlook reflects our expectation of solid operating performance coupled with low leverage (Scope-adjusted debt/EBITDA below 2.0x) despite negative Scope-adjusted free operating cash flow. We also expect the German government to keep its controlling stake in the utility in the next couple of years.

The upside scenarios for the ratings and Outlook are (individually or collectively):

1) Reversion to neutral or positive Scope-adjusted free operating cash flow and Scope-adjusted debt/EBITDA remaining below 2.0x on a sustained basis
2) Stronger business risk profile, e.g. through higher and more stable profitability
3) Continued government support

The downside scenarios for the ratings and Outlook are (individually or collectively):

1) Scope-adjusted debt/EBITDA above 3.0x and negative Scope-adjusted free operating cash flow for a prolonged period
2) Severe operational or liquidity issues that cannot be mitigated by existing government support measures
3) The German government giving up control of the company

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
26 Jun 2024	Affirmation	BBB-/Stable
25 Sep 2023	Affirmation	BBB-/Stable

Ratings & Outlook

Issuer	BBB-/Stable
Short-term debt	S-2
Senior unsecured debt	BBB-

Analyst

Marlen Shokhitbayev, CFA, CESGA
+49 30 27891 127
m.shokhitbayev@scoperatings.com

Related Methodologies

General Corporate Rating Methodology, October 2023

European Utilities Rating Methodology, June 2024

Government Related Entities Rating Methodology, July 2023

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Important European player in power and gas supply • Good diversification regarding markets, technologies, and some integration across the utilities' value chain, thereby limiting the incremental effect of underperformance in particular business segments • Accelerated decarbonisation of the power generation fleet (ESG factor) • Largely hedged generation exposure, which supports visibility on cash generation • Solid credit metrics and liquidity • Potential support from the German government	• Industry-inherent merchant risks in non-regulated power generation and commodity trading • Large parts of the power generation fleet with a weak position in the merit order and above-average carbon intensity (ESG factor) • Regulatory, environmental and political risks mainly related to fossil-fuel, but also to some extent to nuclear power plants (ESG factor) • Vulnerability of group profitability to external and non-controllable effects, and overall margin dilution due to the high share of trading business

Positive rating-change drivers	Negative rating-change drivers
• Neutral or positive Scope-adjusted free operating cash flow and Scope-adjusted debt/EBITDA below 2.0x on a sustained basis • Stronger business risk profile, e.g. through higher and more stable profitability • Continued government support	• Scope-adjusted debt/EBITDA above 3.0x and negative Scope-adjusted free operating cash flow for a prolonged period • Severe operational or liquidity issues that cannot be mitigated by existing government support measures • German government giving up control of the company

Corporate profile

Uniper SE is an important European player in power and gas supply with a wide reach across the different segments of its industry. Uniper operates a diversified generation portfolio of around 22 GW in major European markets (Germany, Sweden, the UK and the Netherlands). The company is also an important player in commodity supply, i.e. natural gas including LNG, electricity and coal, serving a wide range of industrial and municipal customers.

Financial overview

			Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA/interest cover	<0x	>20x	6x-7x	4x-5x	6x-7x
Scope-adjusted debt/EBITDA	<0x	0.2x	0.0x-0.5x	0.5x-1.0x	1.0x-1.5x
Scope-adjusted free operating cash flow/debt	<(50)%	>50%	>50%	(30)%-(20)%	<(50)%
Scope-adjusted EBITDA in EUR bn					
EBITDA	(10.2)	7.2	1.5-2.0	1.0-1.5	1.0-1.5
Dividends from associates	0.1	0.1	0.0-0.1	0.0-0.1	0.0-0.1
Scope-adjusted EBITDA	**(10.1)**	**7.2**	**1.5-2.0**	**1.0-1.5**	**1.0-1.5**
Scope-adjusted interest in EUR bn					
Net cash interest paid	0.3	0.2	0.2-0.3	0.1-0.2	0.1-0.2
add: accrued interest on pension provisions and asset retirement obligations	(0.0)	0.1	0.0-0.1	0.0-0.1	0.0-0.1
Scope-adjusted interest	**0.3**	**0.2**	**0.2-0.3**	**0.2-0.3**	**0.1-0.2**
Funds from operations in EUR bn					
Scope-adjusted EBITDA	(10.1)	7.2	1.5-2.0	1.0-1.5	1.0-1.5
less: Scope-adjusted interest	(0.3)	(0.2)	0.2-0.3	0.2-0.3	0.1-0.2
less: taxes paid	(0.3)	(0.4)	(0.6)- (0.5)	(0.1)-(0.2)	(0.1)-(0.2)
Funds from operations	**(10.8)**	**6.6**	**0.8-1.3**	**0.8-1.3**	**0.8-1.3**
Free operating cash flow in EUR bn					
Funds from operations	(10.8)	6.6	0.8-1.3	0.8-1.3	0.8-1.3
Change in working capital	(4.9)	(0.2)	0.5-1.0	0.0-0.5	0.0-0.5
Non-operating cash flow	0.5	-	-	-	-
less: capital expenditure (net)	(0.4)	(0.6)	(1.3)-(0.8)	(1.5)-(1.0)	(2.0)-(1.5)
less: amortisation of leases	(0.1)	(0.2)	(0.2)-(0.1)	(0.2)-(0.1)	(0.2)-(0.1)
Free operating cash flow	**(15.7)**	**5.8**	**0.5-1.0**	**(0.5)-0**	**(1.0)-(0.5)**
Scope-adjusted debt in EUR bn					
Reported gross financial debt	11.6	1.8	1.0-2.0	1.0-2.0	1.0-2.0
less: cash and cash equivalents	(4.6)	(4.3)	(6.0)-(5.0)	(2.5)-(1.5)	(1.5.)-(0.5)
add: pension adjustment	0.3	0.3	0.2-0.3	0.2-0.3	0.2-0.3
add: asset retirement obligations net of related deferred tax position	1.1	1.1	1.0-1.5	1.0-1.5	1.0-1.5
add: other (claims arising from the expected overcompensation received via the stabilisation measures)	-	2.2	2.0-3.0	-	-
Scope-adjusted debt	**8.3**	**1.2**	**0.0-1.0**	**0.5-1.5**	**1.0-2.0**

Table of Content

Environmental, social and governance (ESG) profile[1]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

Legend

Green leaf (ESG factor: credit positive)

Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

Strategy 2030; accelerated decarbonisation

In August 2023, Uniper presented a new, ambitious strategy to accelerate its transformation into a greener company with a low-risk business model. A successful execution of the strategy will likely support the company's business risk profile in the medium to long term. Targets include an exit from coal by 2029; zero-carbon for at least 80% of installed generating capacity and for 5%-10% of the gas portfolio in line with the market by 2030; and carbon-neutrality for Scope 1 to 3 emissions by 2040, 10 years earlier than previously planned. The strategy assumes around EUR 8bn of transformation and growth investments in 2023-2030.

Large parts of the power generation fleet with a weak position in the merit order

Nevertheless, large parts of the power generation fleet still have a weak position in the merit order and an above-average carbon intensity in a European context. This is particularly the case for the highly CO_2-intensive coal-fired power plants. The position of these plants in the merit order weakened in Q1 2024, leading to lower, more volatile profitability and cash flow going forward.

Regulatory, environmental and political risks related to fossil-fuel and nuclear power plants

The company is also exposed to regulatory, environmental and political risks mainly related to fossil-fuel, but also to some extent to nuclear power plants. While the security of energy supply amid the European energy crisis has put these risks into perspective, we expect them to play a greater role in the future.

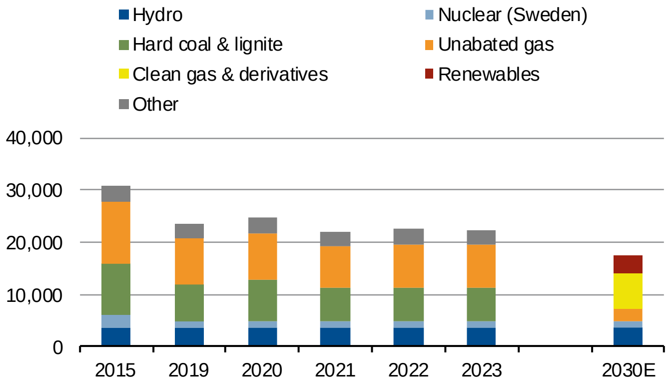
[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BB

Important European player in power and gas supply

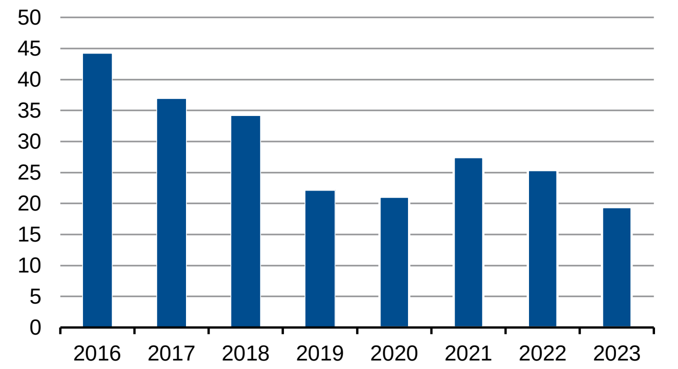
Uniper's business risk profile benefits from its position as an important European player in power and gas supply. With an installed capacity of around 22 GW and generation volumes of around 53 TWh in 2023, the company belongs to large European power generators. Uniper supplies around 200 TWh per year, mainly to municipal utilities and industrial customers. Uniper is also the largest gas storage operator in Germany and one of the largest in Europe.

Figure 1: Generation portfolio measured by installed capacity (MW)



Source: Uniper, Scope

Figure 2: Direct (scope 1) CO2 emissions in European generation (million metric tons)

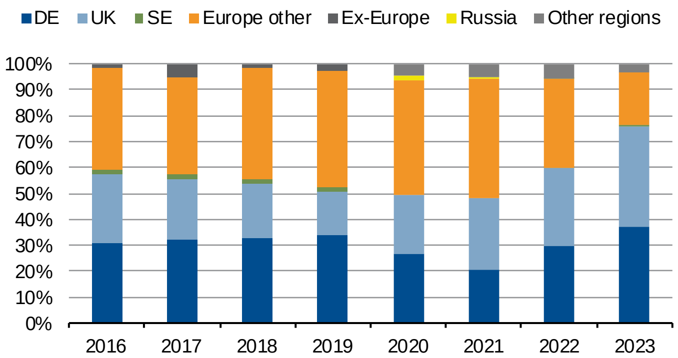


Source: Uniper, Scope

Good diversification

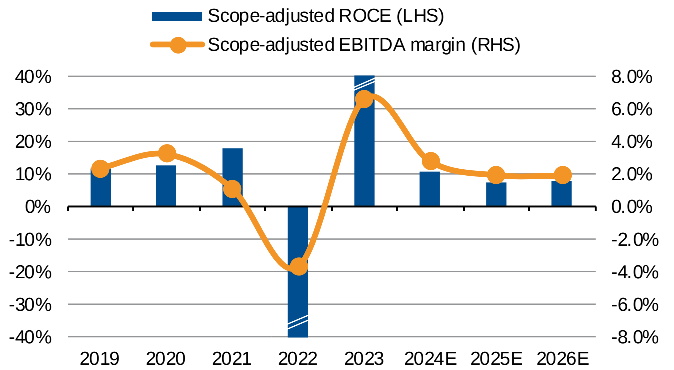
Geographical diversification is good, with a focus on Germany, Sweden, the UK and the Netherlands. Uniper is active across different utilities segments. In its dominant generation segment, the company operates a range of technologies, including gas, coal, hydro and nuclear. Some integration across the utilities' value chain helps to limit the incremental effect of any underperformance in particular business segments.

Figure 3: Geographical outreach (sales split)



Source: Uniper, Scope

Figure 4: Profitability ratios



Source: Uniper, Scope estimates

Largely hedged generation exposure

Uniper largely hedges its generation exposure up to two years in advance, which supports visibility on cash generation. However, hedging activities do not protect the company from extended periods of low power prices and margins. We also note that at the peak of the European energy crisis, Uniper reduced forward sales and thus its hedging ratio to limit the potential cash outflows from margin requirements. Moderating energy prices and volatility allowed the company to return towards its original pace of forward sales.

Industry-inherent merchant risks

Nevertheless, Uniper's business risk profile is hampered by industry-inherent merchant risks in non-regulated power generation and commodity trading including natural gas, power and coal. The prices for these commodities are highly volatile, which can lead to fluctuating cash flows.

Vulnerability of group profitability to external and non-controllable effects

Due to its business model, group profitability can be heavily impacted by external and non-controllable effects, e.g. achievable power prices or prices for carbon emission allowances. It can also be affected by operational issues and contract renegotiations or litigations initiated by Uniper's counterparts. In addition, the overall margin is strongly diluted due the high share of trading business.

Recent developments

During the European energy crisis, Uniper restructured its gas portfolio, focusing on supplier diversification, closer integration of supply and sales, and the hedging of price exposure for the next one to three years, beyond which visibility remains limited. Following the discontinuation of Gazprom deliveries in 2022, Uniper's open market position in gas has turned from net seller to net buyer, which allows better balancing of margining requirements with other commodities, primarily power (of which Uniper is a net seller). In June 2024, Uniper terminated its gas supply contracts with Gazprom. The decision was made possible after an arbitration tribunal granted Uniper the right to terminate the contracts. The ruling provides Uniper with legal clarity. These developments contribute to improved stability and visibility on cash generation.

Nevertheless, there are also factors negatively affecting the business risk profile. Uniper is implementing an asset divestment plan as part of the remedies under the EU state aid approval, with an agreement to sell the Gönyű power plant in Hungary signed in February 2024. In addition, high gas storage levels and a secular decline in natural gas demand, combined with a growing share of renewable energy sources and the good availability of nuclear reactors, has further moderated European natural gas and power prices. This weakened the competitive position of the coal-fired power plants in Uniper's generation fleet in Q1 2024 and led to a decline in the generation volumes of these power plants. As a result, we expect more volatile profitability and cash flow going forward. This is only partly offset by the fact that the coal-fired power plants continue to play an important role in ensuring supply security, as evidenced by the placement of several Uniper plants in Germany (including Heyden 4, Staudinger 5 and Scholven C) in the grid reserve.

Financial risk profile: BBB

Key planning assumptions

Our financial projections for 2024-2026 are mainly based on the following assumptions:

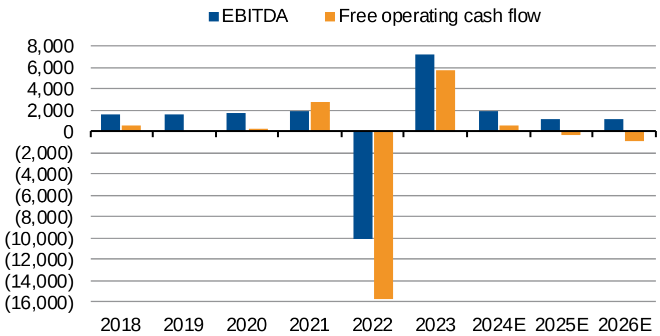
- Further moderation in market fundamentals with Scope-adjusted EBITDA of around EUR 1.5bn-2.0bn in 2024 and EUR 1.0bn-1.5bn in 2025-26
- Significant increase in investment spending to EUR 1.0bn-1.5bn in 2025 and EUR 1.5bn-2.0bn in 2026
- Recurring issuance of short-term debt to maintain market presence and a solid level of liquidity.

Our adjustments

We included associate dividends received in Scope-adjusted EBITDA, since these subsidiaries are integral to Uniper's business model. We also included asset retirement obligations net of the related deferred tax position in our Scope-adjusted debt calculation. Scope-adjusted debt was further adjusted for half of the company's unfunded pension provisions, given the high coverage of annual pension payments through dedicated pension assets. Interest is adjusted for the (estimated) interest component of pension provisions and asset retirement obligations.

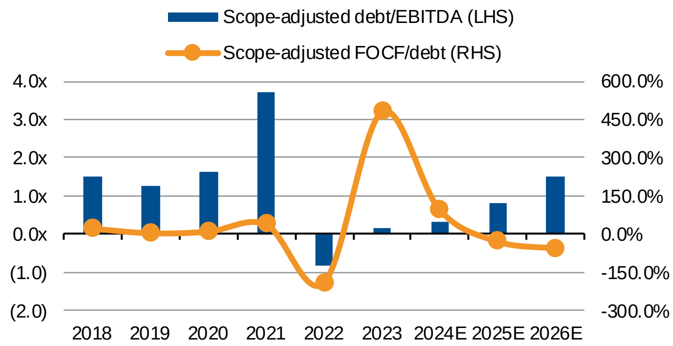
We note that margining receivables fell significantly from EUR 7.9bn at YE 2021 and EUR 6.2bn at YE 2022 to EUR 2.9bn at YE 2023 and EUR 1.5bn as of 31 March 2024. We expect margining receivables to stabilise around recent levels. We exclude margining receivables from our adjusted debt calculation, because they cannot be freely used to cover operating expenses or maturing unrelated debt positions. We also treat the repayment of the overcompensation received via the stabilisation measures, estimated at EUR 2.2bn at YE 2023, as a debt-like item.

Figure 5: Cash flow development (EUR m)



Source: Uniper, Scope estimates

Figure 6: Leverage and cash flow cover



Source: Uniper, Scope estimates

Exceptional losses in 2022 followed by a rapid recovery

Uniper's financials deteriorated sharply in 2022 due to heavy losses amid curtailments of gas deliveries from Russia and elevated energy prices. The situation improved significantly in 2023 supported by a EUR 13.5bn equity injection by the German state in December 2022, some normalisation in the energy markets and the hedging of the risk from gas supply curtailments. Uniper's financial risk profile also benefits from the improved visibility on cash flows in the next couple of years, including the expected amount of overcompensation to be paid to the German government.

Leverage is likely to increase…

We expect the company to maintain a very low leverage – as measured by Scope-adjusted debt/EBITDA – at around 0x in 2024. However, we believe that this is unlikely to be sustained for a prolonged period, driven by the stabilisation of earnings and cash flows below recent levels, growing capex spending and likely dividend payments.

…driven by moderation in market fundamentals and growing investments

From a still strong level of EUR 1.5bn-2.0bn projected for 2024, Scope-adjusted EBITDA is likely to decline and stabilise at around EUR 1.0bn-1.5bn going forward, mainly driven by a further moderation in market fundamentals. We expect a significant increase in investment spending to EUR 1.0bn-1.5bn in 2025 and EUR 1.5bn-2.0bn in 2026 as Uniper continues to pursue its transformation and growth focused strategy, pushing Scope-adjusted free operating cash flow deep into negative territory. Nevertheless, we expect credit metrics to remain solid overall, with Scope-adjusted debt/EBITDA below 2.0x. This view is supported by Uniper's target debt factor (defined by the company as economic net debt/adjusted EBITDA) of less than or equal to 2.5x.

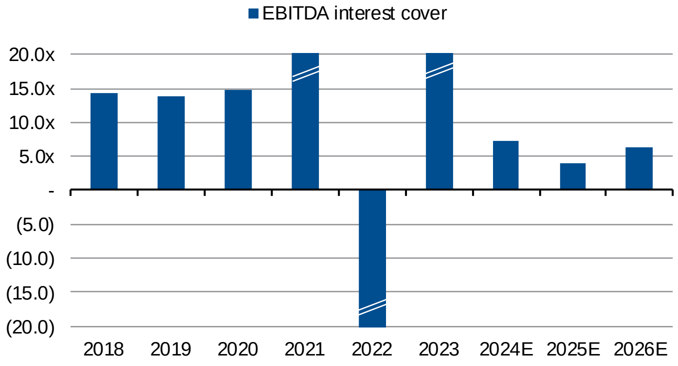
Solid interest cover

Scope-adjusted EBITDA interest cover is likely to remain between 4x and 7x. It is mainly supported by a moderate amount of interest-bearing debt.

Moderate amount of short-term debt

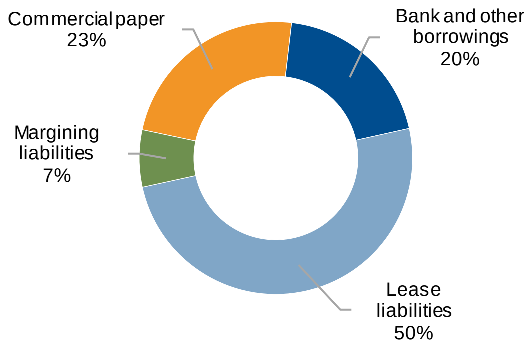
Uniper's financial liabilities mainly include lease liabilities, commercial paper and liabilities from shareholder loans. The moderate amount of short-term debt is largely balanced by available cash and committed credit lines.

Figure 7: Interest cover ratio



Source: Uniper, Scope estimates

Figure 8: Reported financial liabilities at YE 2023



Source: Uniper, Scope

Adequate liquidity

The company's liquidity remains adequate. Our view is primarily based on the availability of cash and cash equivalents of EUR 7.3bn as of 31 March 2024, the EUR 9.5bn KfW facility (unused as of 31 March 2024, reduced to EUR 5.0bn as of 30 April 2024) and the increased EUR 3.0bn revolving credit facility (unused as of 31 March 2024). These comfortably cover the repayment of the overcompensation received via the stabilisation measures, the moderate amount of maturing financial debt and the expected negative free operating cash flow.

Balance in EUR bn	2024E	2025E	2026E
Unrestricted cash (t-1)	4.3	5.0-6.0	1.5-2.5
Open committed credit lines (t-1)	11.2	8.0	3.0
Free operating cash flow (t)	0.5-1.0	(0.5)-0.0	(1.0)-(0.5)
Short-term debt (t-1)	0.7	3.0-4.0	0.0-1.0
Coverage	**>200%**	**>200%**	**>200%**

Supplementary rating drivers: +1 notch

Credit-neutral financial policy

Uniper's financial policy is neutral for our issuer rating assessment. The company targets a solid investment-grade credit rating based on a stable balance sheet and ample financial headroom. This is specified by Uniper's target debt factor (defined by the company as economic net debt/adjusted EBITDA) of less than or equal to 2.5x.

One-notch uplift from shareholder structure

We continue to assess Uniper as a government-related entity and apply a bottom-up approach in accordance with our Government Related Entities Rating Methodology. The capacity of the German government (rated AAA/Stable by Scope) to provide support remains 'high'. While we continue to assess the government's willingness to provide support at 'medium', we note that Uniper's systemic relevance and default implications for the German government are lower than at the peak of the energy crisis. This view is mainly based on the company's declining share of German power generation and gas supply (mainly related to open market/spot sales, while sales to industrial and municipal customers remained broadly stable), coupled with an improved situation in the energy markets. In addition, Uniper's strong financial results in 2023 and improved cash flow visibility lower the likelihood of any financial distress that would require extraordinary state support. This is exemplified by the expiry (EUR 2.0bn) and early reduction (EUR 4.5bn) of the KfW facilities as of 30 April 2024. We also note that the EU remedies require the German state to reduce its stake in Uniper to a maximum of 25% plus one share by end-2028. Preparations include the General Meeting decisions from December

2023 related to the equity structure. As a result, we have reduced the related rating uplift to one from two notches.

Long-term and short-term debt ratings

Senior unsecured debt: BBB-

The rated debt is issued by Uniper SE. Senior unsecured debt including the EUR 2.0bn debt issuance programme has been affirmed at BBB-, the level of the issuer rating.

Short-term debt: S-2

The affirmed S-2 short-term debt rating is based on the underlying BBB-/Stable issuer rating. This reflects Uniper's strong short-term debt coverage, which is supported by the available KfW facility and the revolving credit facility.

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com