Creditreform Corporate Issuer / Issue Rating
Ignitis grupė UAB

Creditreform Rating

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Rating Action / Update:

Creditreform Rating has affirmed the unsolicited corporate issuer rating of Ignitis grupė UAB at BBB+. The outlook has been revised from positive to stable.

Creditreform Rating (CRA) has affirmed the unsolicited, public corporate issuer rating of Ignitis grupė UAB—together referred to as "Ignitis", or "the Group"—as well as the unsolicited corporate issue rating of long-term local currency senior unsecured notes issued by Ignitis grupė UAB, at BBB+. The outlook has been revised from positive to stable. The unsolicited short term rating has been affirmed at L3 (Adequate level of liquidity).

Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

+ Strong operating performance in 2023 and Q1 2024
+ Increase in WACC for the Networks segment led to improved operating results
+ Increase in share of renewables as strategic plan progresses

– Significant increase in net debt due to ramp-up in investments
– Further increase in cash outflows expected after new strategic plan was announced
– Greater volatility in earnings expected due to foreseeable relative decrease in regulatory EBITDA and an increase in exposure to the Baltic energy markets
– Significant fall in revenues due to lower market prices on energy markets

ESG-criteria:

ESG factors are factors related to environment, social issues, and governance. For more information, please see the section "Regulatory requirements". CRA generally takes ESG relevant factors into account when assessing the rating object, and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of Ignitis grupė UAB we have not identified any ESG factors with significant influence.

As a distribution system operator and renewables-focused integrated utility, the Group plays an important role in the energy transition and decarbonization of Lithuania as well as the other countries where it has a presence. In May 2024 the Group announced its new investment plan, in which it seeks to significantly expand its renewable energy capacity and future-proof the electricity grid. Over the period of 2024–2027 Ignitis Group plans to invest between EUR 3.0 – 4.0 billion, of which approximately 60% will be allocated towards the Green Capacities segment, 35% towards the Networks segment, and the residual in the remaining segments. With its new targets, the Group aims to quadruple installed capacity and to achieve 4 to 5 GW installed capacity by 2030, as well as new investments in green flexibility technologies with an emphasis on battery storage, hydro pumped storage, and power to X technologies. The other focus of the strategic plan lies on the distribution grid, in which Ignitis aims to increase network resilience, automation and efficiency, and to focus on network expansion. Approximately 85% to 90% of the Company's investments are aligned with the EU taxonomy, and the Group plans to reduce its carbon scopes 1 & 2 GHG emissions by 20 to 40% to 215–289 g CO_2-eq/kWh (2023: 360 g CO_2-eq/kWh, and plans to reach net zero in the period between 2040 and 2050.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Rating result

The current unsolicited corporate issuer rating of Ignitis grupė UAB at BBB+ attests a highly satisfactory level of creditworthiness, representing a low-to-medium default risk. Positive factors that contribute to the rating result are the Group's solid financial profile, its relatively high degree of regulated activities, and its expanding segment of renewable electricity generation, aiding in its decarbonization process. In addition, the shareholder structure, with the Lithuanian government holding approximately three-quarters of its share capital, also has a positive influence on the rating. This, in combination with its systemic importance for Lithuania (CRA: Republic of Lithuania: A+ / stable as of 13.10.2023) leads to an uplift by one notch over its stand-alone rating.

These positive factors are partially offset by the Group's exposure to Baltic, Polish and Finnish energy market price developments, although the Group's relatively high hedge ratio limits this short- to medium-term exposure. Moreover, with the majority of investments during the period 2024–2027 being allocated towards the Green Capacities segment, we foresee a higher volatility in earnings as the exposure to the Baltic energy markets will increase. Furthermore, increasing investment pressure over the coming years is also currently a dampening factor for the rating.

Outlook

The one-year outlook for the Group has been revised from positive to stable. With the Group's newly announced strategic plan for the period 2024–2027, we believe that the negative pressure on the Group's FCF will increase, as expected investments are to be ramped up by approximately EUR 1 billion. Given our expectation of negative free cash flow in the coming periods, we believe an upgrade within the time horizon of one year to be unlikely.

Table 1: Financials of Ignitis grupė UAB I Source: Annual report 2023 Ignitis Grupė UAB, standardized by CRA

Ignitis grupė UAB Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IAS, Group)	CRA standardized figures[1]	
	2022	**2023**
Sales (million EUR)	4,381	2,542
EBITDA (million EUR)	538	507
EBIT (million EUR)	389	354
EAT (million EUR)	293	320
EAT after transfer (million EUR)	293	320
Total assets (million EUR)	5,040	5,106
Equity ratio (%)	44.56	49.21
Capital lock-up period (days)	14.76	25.44
Short-term capital lock-up (%)	12.73	9.22
Net total debt / EBITDA adj. (factor)	3.88	4.71
Ratio of interest expenses to total debt (%)	1.71	1.54
Return on Investment (%)	6.67	6.56

[1] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: BBB+

In our best-case scenario for one year, we assume a corporate issuer rating of BBB+. We believe an upgrade within the time span of one year to be unlikely. This assessment is based on our expectation that FCF generation will be impaired by increasing cash outflows in relation to the increased investment program. We therefore anticipate that net debt will continue to increase over the coming years, should the Group not resort to the sale of minority interests of certain assets.

Worst-case scenario: BBB

In our worst-case scenario for one year, we assume a corporate issuer rating of BBB. In this scenario, we expect FCF generation to be significantly negative due to the anticipated increase in investments, leading to increasing indebtedness. At the same time, we assume negative operating development in combination with a significant reduction in the electricity and natural gas market prices, which may lead to an unanticipated deterioration in credit metrics.

Business development and outlook

During the business year 2023 the Group recorded a substantial decrease in revenues as a consequence of a normalization of prices on the European energy markets, particularly in the Customers & Solutions segment, which declined by over 40% as a result of lower market prices and lower volumes supplied for both electricity and natural gas. The remaining segments also recorded a decrease in revenues, likewise as a result of lower electricity prices, as well as to a lesser extent due to regulatory effects in the Networks and Reserve Capacities segments.

Table 2: (Adjusted) revenues and EBITDA per segment l Source: Annual report 2023 Ignitis Grupė UAB

In EUR million	Revenues		EBITDA	
December 31	**2022**	**2023**	***2022***	***2023***
Green Capacities	458	342	252	223
Networks	698	480	165	180
Reserve Capacities	237	128	35	50
Customer & Solutions	3,001	1,737	16	30
Other activities & eliminations	-77	-161	2	2
Total Adjusted	**4,317**	**2,526**	**469**	**485**
Adjustments	70	23	70	23
Total reported	**4,387**	**2,549**	**540**	**507**

Adjusted EBITDA increased slightly due to strong performance across all segments, with the exception of the Green Capacities segment. The Networks segment's EBITDA increased, mainly due to a growing regulatory asset base. The Reserve Capacities segment increased its EBITDA based on commercial activities, driven by a utilized optionality to earn additional returns in the market on top of the regulated return, and the Customers & Solutions segment increased its profitability as a result of measures taken to resolve ineffective hedging. These positive factors were, however, in part offset by the Green Capacities segment, which decreased its EBITDA due to lower captured electricity prices following lower spot prices on European energy markets, as well as due to the fact that the share of electricity sold by Pomerania WF through a CfD subsidy scheme rose to 100% (2022: 27%).

The reported EBITDA was slightly lower than in the prior year. This was largely due to the temporary regulatory effects in the Group's activities during the prior year. The main difference between reported EBITDA and adjusted EBITDA are regulatory differences. During the business year, these temporary regulatory effects predominantly affected the results in the Networks and Customer & Solutions segments. The Networks segment generated a significantly higher reported EBITDA of EUR 292 million due to a higher-than-allowed regulatory income. This was partially offset due to negative EBITDA in the Customers & Solutions segment of EUR -60 million as a consequence of adding back a lower-than-established return in the calculation methodology used by the regulator in natural gas and electricity supply activities.

The slightly lower reported EBITDA was offset by a substantially better result from finance activities, partially driven by fair value changes in financial instruments and a relatively lower income tax expense, ultimately leading to a net profit of EUR 320 million (2022: EUR 293 million).

Table 3: Reconciliation of reported to adjusted EBITDA I Source: Annual report 2023 Ignitis Grupė UAB

In EUR million	Reported EBITDA to adjusted EBITDA reconciliation	
December 31	**2022**	**2023**
Reported EBITDA	**539.7**	**507.4**
Green Capacities	-0.8	-0.5
Networks	16.5	-112.2
Reserve capacities	-3.4	-0.2
Customers & Solutions	-82.7	90.2
Adjusted EBITDA	**469.3**	**484.7**

At the end of 2023, Ignitis recorded a substantial increase in net financial debt to EUR 1,318 million (2022: EUR 987 million), resulting from a negative FCF of EUR -212 million (2022: EUR 17 million). The negative FCF was predominantly driven by an increase in investments to EUR 937 million (2022: EUR 451 million). The higher investments were mainly allocated towards the Green Capacities and Networks segments. The higher cash outflows led to a slight deterioration in credit metrics relating to leverage, such as net total debt / EBITDA adj. of 4.71 (2022: 3.88). Overall, credit metrics have remained relatively stable.

Table 4: Adjusted revenue and EBITDA Q1 I Source: Interim report Q1 2024 Ignitis Grupė UAB

In EUR million			
December 31	**Q1 2023**	**Q1 2024**	**Δ%**
Adjusted Revenue	883	646	-26.8
Adjusted EBITDA	150	182	21.2

The Group recorded strong performance during the first three months of 2024. Revenue dropped substantially, primarily as a result of a decline in revenues in the Customers & Solutions segment as a consequence of lower market prices for electricity and natural gas throughout Ignitis' relevant markets. Adjusted EBITDA grew substantially due to strong performance across all segments, and was particularly strong in the Green Capacities and the Networks segment following the commissioning of new assets, a higher captured electricity price, a growing RAB, and an increase in the WACC as set by the regulator, along with other factors. However, Ignitis does not expect a substantial increase in EBITDA this year, as it reiterated its outlook for 2024 with an expected adjusted EBITDA of EUR 440–470 million. This is mainly due to the seasonality of the business, as well as the expectation that performance in Reserve Capacities and Customer

& Solutions is likely to level off, as well as some expected temporary volume effects. For the current business year, the Group is 76% hedged at EUR 138.6/MWh.

In May 2024 Ignitis presented a new strategic plan for the 2024–2027 period, in which it announced a new investment plan which foresees a substantial ramp-up in investments of approximately EUR 1 billion, against the previous plan with investments ranging between EUR 3.0 and EUR 4.0 billion. The Group plans to allocate approximately EUR 1.8 to EUR 2.4 billion towards green generation and green flexibility technologies expects to double installed Green capacity to 2.4 – 2.6 GW by 2027. (2023: 1.3 GW). Furthermore, approximately EUR 1.1 to EUR 1.3 billion is to be allocated towards the Networks segment for the future-proofing of the grid and upcoming electrification of the economy. Ignitis expects adjusted EBITDA to grow to approximately EUR 550–650 million (2023: EUR 485 million). In our view, with the accelerated pace of investments and higher amounts of cash outflows, this will lead to negative FCF generation, which in turn may lead to a deterioration of the Group's credit profile. To offset this, Ignitis announced potential asset rotation in order to partially finance its investments.

Further ratings

Based on the long-term issuer rating, and taking into account our liquidity analysis, the unsolicited short-term rating of Ignitis grupė UAB has been affirmed at L3 (standard mapping), which corresponds to an adequate level of liquidity assessment for one year.

The rating objects of the issue rating are exclusively long-term senior unsecured issues, denominated in euro, issued by Ignitis grupė UAB, and which are included in the list of ECB-eligible marketable assets. The Notes have been issued under the terms of the Euro Medium Term Note Program (EMTN), with the last base prospectus dating from 11 May 2020.

We have provided the long-term local currency senior unsecured Notes issued by Ignitis grupė UAB with an unsolicited rating of BBB+ / stable. The rating is based on the respective corporate issuer rating. Long-term local currency senior unsecured notes issued by the above-mentioned subsidiary, which have similar conditions to the current EMTN program, denominated in euro and included in the list of ECB-eligible marketable assets, generally receive the same ratings as the current LT LC senior unsecured notes issued under the EMTN program. Notes issued in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Overview

Table 5: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date of rating committee	Rating
Ignitis Gruppe UAB	03.06.2024	BBB+ / stable / L3
Long-Term, Local Currency, Senior Unsecured Issues, Issued by Ignitis grupė UAB	03.06.2024	BBB+ / stable

All future LT LC senior unsecured Notes issued by Ignitis grupė with similar conditions to the current EMTN program, denominated in euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured Notes issued under the EMTN program. Notes issued under the program in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programs (such as the Commercial Paper Program), and issues that do not denominate in euro, will not be assessed.

Appendix

Rating history

The rating history is available under the following link.

Table 6: Corporate Issuer Rating of Ignitis grupė UAB

Event	Rating created	Publication date	Result
Initial rating	20.08.2019	26.08.2019	BBB+ / stable

Table 7: Corporate Issue Rating of Ignitis grupė UAB

Event	Rating created	Publication date	Result
Initial rating	20.08.2019	26.08.2019	BBB+ / stable

Table 8: Short-Term Issuer Rating Ignitis grupė UAB

Event	Rating created	Publication date	Result
Initial rating	27.11.2023	30.11.2023	L3

Regulatory requirements

The rating[2] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

A management meeting did <u>not</u> take place within the framework of the rating process.

The documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

[2] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Corporate Short-Term Ratings	1.0	June 2023
Government-related Companies	1.1	May 2023
Non-financial Corporate Issue Ratings	2.0	March 2024
Rating Criteria and Definitions	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Rudger van Mook	Lead-analyst	R.vanMook@creditreform-rating.de
Natallia Berthold	Analyst	N.Berthold@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Tobias Stroetges	PAC	T.Stroetges@creditreform-rating.de

On 3 June 2024, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 4 June 2024. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

Creditreform Rating AG guarantees that the provision of ancillary services does not cause a conflict of interest with its rating activities and discloses in the final rating report which ancillary services were provided for the rating object or for third parties associated with it. The following ancillary services were provided for this rating object or for related third parties:

No ancillary services in the regulatory sense were provided for this rating.

For the complete list of provided rating and credit service ancillaries please refer to the Creditreform Rating AG's website.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report

2. Website

3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct, which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

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We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

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