S&P Global
Ratings

RatingsDirect®

Research Update:

Integrated Utility AB Ignitis Group Affirmed At 'BBB+' Amid Increasing Investments In Green Capacities; Outlook Stable

September 18, 2025

Primary Contact

Wen Li
Frankfurt
49-69-33999-101
wen.li
@spglobal.com

Secondary Contact

Per Karlsson
Stockholm
46-84-40-5927
per.karlsson
@spglobal.com

Research Contributor

Nandita Tm
CRISIL Global Analytical Center, an S&P Global Ratings affiliate
Mumbai

Rating Action Overview

- We expect limited headroom in AB Ignitis Group's (Ignitis') credit metrics due to increasing investments in renewable power generation capacities, especially in onshore and offshore wind projects from 2027 and beyond.
- To counter increasing leverage, Ignitis plans to sell noncontrolling shares in certain assets over 2025-2026, and we expect management to maintain financial discipline in making final investment decisions and to take timely mitigation measures if needed to protect its credit metrics.
- As a result, we have affirmed our 'BBB+' ratings on the company and its senior unsecured debt.
- The stable outlook reflects our expectation of a continued supportive operating and regulatory environment over the next two years, alongside Ignitis maintaining cautious financial policy, with funds from operations (FFO) to debt below 20% in 2025 due mainly to temporary regulatory accounting effects, recovering to about 23% from 2026.

Rating Action Rationale

We expect Ignitis' credit metrics to weaken in 2025, due to large regulatory accounting effects, followed by a swift recovery in 2026. Although we expect a continuous moderate increase in underlying EBITDA in 2025-2027, negative regulatory accounting effects are estimated at about €100 million this year, based on information provided by the regulator. In line with our standard approach for other rated Western European power distribution system operators, we do not adjust for these regulatory accounting effects from the International Financial Reporting Standards (IFRS) accounts. This will lead to S&P Global Ratings-adjusted FFO to debt declining temporarily to less than 20% in 2025, before a swift recovery to about 23% from 2026. On a weighted-average basis for 2023-2027, we estimate FFO to debt at about 23.2% in our current base case.

We expect limited headroom in Ignitis' credit metrics due to increasing investments in renewable power generation capacities, especially in onshore and offshore wind projects from 2027 and beyond. The company's strategic plan outlines a significant investment program of €3 billion-€4 billion over 2025-2028, of which we expect €650 million-€800 million per year in 2025-2026, followed by an increase to €800 million-€900 million in 2027-2028 (despite a large uncommitted portion from 2027). These investments are primarily focused on expanding green capacities (roughly 60% of investments), aiming to double capacity to 2.6 gigawatts (GW)-3.0 GW by 2028 and quadrupling it to 4.0GW-5.0 GW by 2030 from 1.4GW in 2024, alongside strengthening network infrastructure (more than 35% of investments). Although these projects offer long-term growth potential, the substantial upfront capital outlay, coupled with the timing of returns from these new assets, will place pressure on the company's key credit ratios. Specifically, we anticipate the expansion projects will drive S&P Global Ratings-adjusted EBITDA to €560 million-€650 million in 2026-2027 and further to €650 million-€700 million by 2028 from about €550 million in 2024. However, increased capital expenditure (capex) is expected to result in constantly negative free operating cash flow (FOCF) and push FFO to debt toward our downside threshold of 23% in 2026-2027.

We expect Ignitis' planned asset rotation to contribute to higher financial flexibility, albeit increasing the group's complexity. Ignitis' asset rotation plan entails the planned sale of up to 49% of its non-controlling interests in selected projects (a combined heat and power plant and selected renewable assets) to investors to recycle capital. These proceeds are intended to offset a portion of the increased debt arising from the renewable energy investments, thereby mitigating the impact on credit metrics. The asset-rotation strategy is predicated on supportive market conditions and successful negotiations with potential buyers, both of which are subject to external factors and uncertainties. We view asset rotation as a critical component of the company's financial strategy. Any continued significant deviation from the projected timeline would require additional funding, which could constrain the company's financial flexibility and potentially increase its reliance on external financing, further exacerbating its leverage. Moreover, we note that the asset rotation strategy might increase the group's complexity, which will have to be reevaluated in the future.

Nevertheless, we assume that if the asset rotation were to be further delayed, Ignitis will maintain financial discipline and take timely measures to mitigate the impact on its credit profile. Options include cutting noncommitted capex and issuing hybrid bonds. Although the planned capex is significant, Ignitis has the potential to prioritize projects and defer or cancel less critical investments. Furthermore, the company could explore alternative financing options, such as issuing hybrid bonds, which would provide additional capital without significantly increasing its leverage ratio.

The company's track record of cautious financial policy, which we expect to continue at least until 2027, supports the rating. The company publicly commits to maintaining a credit rating of 'BBB' or higher, while the current rating is 'BBB+'. Nevertheless, we recognize that management is determined to preserve the current rating. The final investment decision (FID)for the large offshore wind project, Curonian Nord (700 MW) could lead us to reassess our view of management's rating commitment, due to the substantial investment and complexity. Any FID is however likely to be postponed beyond 2027, due to the current difficulties in securing long-term power offtake agreements and financing for offshore wind initiatives. Consequently, we do not anticipate Ignitis will exhaust the headroom under its public leverage target of 5.0x net debt to EBITDA (as adjusted by the company), which translates into our adjusted FFO to debt ratio of more than 16%, before embarking on substantial investments in Curonian Nord, especially given the estimated ratio of 3.1x at the end of 2024. Furthermore, we expect Ignitis to exercise financial discipline when making FIDs across all projects, which we estimate will result in investments aligning with the lower end of its €3 billion-€4 billion capex plan for 2025-2028.

We have factored into the rating increasing earnings from stable, regulated businesses and some positive evolution in the regulatory framework. The regulatory environment in Lithuania plays an important role in Ignitis' financial performance, since the company expects that regulated activities will generate 47%-50% of the group's EBITDA (as adjusted by the company) in 2025-2028. The networks segment's EBITDA (as adjusted by the company) has been steadily increasing since 2022 due to higher regulated asset base (RAB), which has resulted from continued investments in the distribution network, and a higher weighted average cost of capital (WACC) set by the regulator. We expect this to continue in 2025-2028. The regulator has already approved pre-tax nominal WACC for 2025 at 5.82% for electricity and 5.64% for gas, and for 2026 at 5.77% for electricity and 5.56% for gas, suggesting a continued supportive regulatory stance.

Ignitis also benefits from an additional tariff component. Since 2022, the National Energy Regulatory Council (NERC) has incorporated an additional tariff component into the regulatory framework for electricity distribution, designed to support Lithuanian energy system operators' (ESOs') 10-year investment plan. This component is linked to a leverage cap of 5.5x net debt to ESOs' regulated EBITDA (including RAB x WACC, regulatory depreciation and amortization, and the additional tariff component). The regulator annually reviews and adjusts this component based on ESOs' projected leverage, increasing it if leverage projections exceed the cap and decreasing it (but not below zero) if they fall below the cap. In 2024, this component contributed about €40 million (7.6%) to the group's EBITDA (as adjusted by the company). We expect the additional tariff to remain a supportive component, since the new 10-year investment plan (2024-2033) for distribution networks that Ignitis submitted to NERC foresees a 40% increase in investments to €3.5 billion. These elements support our assessment of the preliminary regulatory advantage at strong/adequate.

Ignitis' integrated business model, with synergies between increasing green capacities and its large customer portfolio, supports the rating. The company has the largest electricity distribution network in the Baltics and serves about 1.8 million customers. We view the business potential as high for Ignitis to use its large customer base to structure offtake agreements to facilitate its green capacities expansion. This is illustrated in the gap between the 6.9 terawatt hours (TWh) of electricity supplied to customers and the 2.3 TWh of renewables generated by Ignitis in 2024, which can be covered by about 2.4 GW of new green capacity, indicating a solid foundation for securing offtake agreements. However, we note that secured long-term contracts with external customers contribute only a limited portion of the company's EBITDA from renewables generation. In addition, the Kruonis pumped storage hydroelectric power (PSHP) facilities, for which a new fifth unit is being built, provide large balancing capacities and ensure green energy transition in the region. Since February 2025, the Baltic balancing capacity market has been established, which is crucial for synchronization with Continental European networks, after which the Baltic states are operating as a unified frequency control block.

Our rating on Ignitis continues to benefit from a one-notch uplift due to our view of a moderately high likelihood of government support in the event of financial distress. The Lithuanian government, represented by the Lithuanian Ministry of Finance, owns 74.99% of Ignitis.

Outlook

The stable outlook on Ignitis reflects our expectation of a continued supportive operating and regulatory environment over the next two years as a result of a relatively low risk regulated distribution business. We also factor in our assumption of management maintaining a cautious financial policy. Despite our expectation of a temporary decline of FFO to debt to slightly below 20% in 2025, mainly due to large negative temporary regulatory accounting effects, we anticipate that credit measures will recover swiftly, with FFO to debt back to about 23% from 2026.

Downside scenario

We could lower the rating if Ignitis' financial and operating performance materially deviated from our base case, with S&P Global Ratings-adjusted FFO to debt remaining below 23% without any prospects for recovery. This could lead us to change our assessment of its stand-alone credit profile (SACP). This could result from:

- A delay in executing the asset-rotation measures amid increasing investments in new green capacities;
- Weaker cash flow generation, accompanied by cost overruns;
- Weakening liquidity, which is not included in our base case; or
- More aggressive financial policy with much higher shareholder remuneration than expected.

We could also lower the rating if we see a reduced likelihood of the company receiving extraordinary support from the Lithuanian government, which we do not expect, however.

Upside scenario

We currently see a higher rating as unlikely, mainly due to Ignitis' substantial investment program. However, we could raise the rating if we revised our SACP assessment to 'bbb+', which could happen if the company's FFO to debt remained sustainably above 30%, with neutral to slightly negative discretionary cash flow.

Company Description

AB Ignitis Group is a renewables-focused integrated utility, leading energy transition in the Baltics. The company focuses on green electricity generation and green flexibility technologies, including onshore and offshore wind power, batteries, pumped-storage hydropower, and power-to-X. It targets to install 4GW-5GW of green capacities by 2030 and achieve net-zero emissions by 2040–2050. Ignitis also benefits from an integrated business model and has the largest customer portfolio, energy storage facility, and network in the Baltics. Ignitis is active in the Baltic states, Poland, and Finland.

The company generated EBITDA (as adjusted by the company) of €528 million in 2024, to which green capacities contributed about 50%, followed by networks (42%), reserve capacities (gas-fired power plants, 8%) and customers and solutions (1%). Its electricity generation fleet had an installed capacity of 1.4GW at the end of 2024. In 2024, the company distributed 10.1 TWh of electricity to 1.8 million customers across the Baltics and generated about 2.8 TWh of electricity. The Lithuanian government, represented by the Lithuanian Ministry of Finance, owns 74.99% of the company.

Our Base-Case Scenario

Assumptions

- Real GDP growth in Lithuania of 2.8% in 2025, 2.5% in 2026, and 2.4% over 2027-2028.
- The current five-year regulatory period for electricity distribution goes through 2022-2026, and for gas distribution 2024-2028. Electricity WACC increased to 5.09% in 2024 from 4.17% in 2023 and the natural gas WACC to 5.03% from 3.99% in 2023. The regulator has already approved the WACC for 2025 at 5.82% for electricity and 5.64% for gas, and for 2026 at 5.77% for electricity and 5.56% for gas.
- Average market power price in Lithuania of €73 per megawatt hour for 2024-2027.
- Revenue up 10%-12% in 2025, flat to 2% growth in 2026, and up 8%-10% in 2027.
- EBITDA margin down to 18%-19% in 2025, before recovering to 21%-22% in 2026-2027, compared to 23.9% in 2024, reflecting normalizing electricity prices and negative temporary regulatory accounting effects over 2025-2027.
- Annual interest costs of €70 million-€80 million in 2025-2027.

Key Metrics

AB Ignitis Group--Forecast summary

Period ending	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2023a	2024a	2025e	2026f	2027f
EBITDA	507.4	549.6	450-500	550-600	580-630
Funds from operations (FFO)	387.4	495.5	350-400	420-470	450-500
Capital expenditure (capex)	838.6	773.8	750-800	650-700	800-850
Dividends	106.0	106.3	105-115	140-150	125-135
Debt	1,419.6	1,716.8	1,980-2,030	1,900-1,950	2,050-2,150
Adjusted ratios					
Debt/EBITDA (x)	2.8	3.1	4.1-4.3	3.3-3.5	3.4-3.6
FFO/debt (%)	27.3	28.9	18.5-20	~23	~23

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

Liquidity

We assess the company's liquidity as adequate, since we forecast liquidity sources will cover uses by more than 1.2x over the 12 months from July 1, 2025. Qualitative factors that support our assessment include Ignitis' good relationships with local banks, demonstrated by the availability of multiple credit facilities, the company's good standing in credit markets as a publicly listed company, its status as a state-owned entity, and the expectation of financing plans to offset heavy capital spending plans.

As of June 30, 2025, there were seven credit lines and overdraft facilities available with five separate banks with a total commitment of €732.5 million maturing in more than 12 months.

Principal liquidity sources

- Unrestricted cash and cash equivalents of about €246 million.
- Total undrawn long-term committed credit facilities of €569 million.
- Cash FFO of about €400 million-€450 million.
- Working capital inflows of below €50 million.

Principal liquidity uses

- Debt maturities of about €230 million in the next 12 months.
- Total capex of €700 million-€750 million (growth and maintenance).
- Dividend payments of about €120 million-€130 million.

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Ignitis, due to carbon pricing and a potential tax increase on biofuels and waste for incineration. However, this is partly offset by the company's activity as a network operator (42% of 2024 EBITDA of €528 million as adjusted by the company) and its strategy to increase its renewable energy generation to 2.6GW-3.0 GW by 2028, and to 4.0GW-5.0GW by 2030.

Issue Ratings--Subordination Risk Analysis

Capital structure

Ignitis' capital structure included total debt of about €1.78 billion on Dec. 31, 2024, containing about €82 million of secured debt and our estimate of €305 million of unsecured debt at the operating subsidiaries, leading to a priority debt ratio of about 22% of total debt.

Analytical conclusions

Ignitis' debt is rated 'BBB+', the same level as the issuer credit rating, because no significant elements of subordination risk are present in the capital structure. In line with our standard approach, we do not include project finance debt as priority debt in our notching analysis. We note that project finance debt now accounts for more than 20% of Ignitis' total financial debt, and the asset rotation strategy is likely to further increase this share.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB+/Stable/--
Local currency issuer credit rating	BBB+/Stable/--
Business risk	Satisfactory
Country risk	Intermediate risk
Industry risk	Intermediate risk
Competitive position	Satisfactory
Financial risk	Intermediate (medial volatility table)
Cash flow/leverage	Intermediate
Anchor	bbb
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb
Likelihood of government support	Moderately high (+1 notch)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- 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: 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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- 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

Related Research

- Industry Credit Outlook Update Europe: Utilities, July 16, 2025
- Greening Up Without Blackouts: Boosting European Power Grids' Resilience May Dent Credit Quality, July 2, 2025
- Tear Sheet: AB Ignitis Group, Aug. 12, 2024

Ratings List

Ratings List	
Ratings Affirmed	
AB Ignitis Group	
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+