Tear Sheet:

AB Ignitis Group

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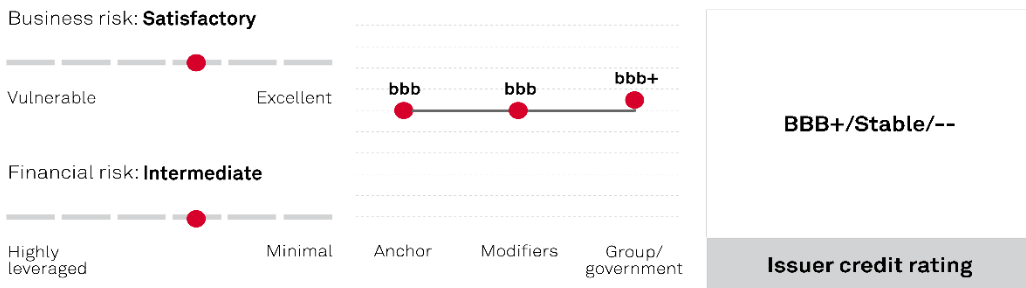
AB Ignitis Group's Strategic Plan 2024-2027, focusing on doubling its green capacities and expanding its distribution network, will increase debt and reduce rating headroom. We believe Ignitis Group's accumulated investments will reach €3.0 billion-€4.0 billion in 2024-2027, a €1 billion increase from the previous four-year strategic period. We understand the company will invest €1.8 billion-€2.4 billion (61% of total investments) in onshore and offshore wind power, solar, and pumped storage hydropower, targeting 2.4-2.6 gigawatts (GW) of installed renewable generation capacity by 2027 and 4-5 GW by 2030, from 1.3 GW in 2023. Despite investing€1.1 billion-€1.3 billion (33%) in network expansion, we expect S&P Global Ratings-adjusted funds from operations (FFO) to debt will stay above 23% during 2024-2027. We anticipate the increased debt-funded growth will erode most of the rating headroom. However, we believe management is committed to protecting FFO to debt at or above 23%, consistent with our 'BBB+' rating.

EBITDA from the networks segment will increase due to an increased regulatory asset base (RAB), and an updated weighted average cost of capital (WACC) methodology. Ignitis Group's regulated EBITDA is mainly derived from its electricity and gas distribution networks. The National Energy Regulatory Council (NERC) updated the WACC methodology in July 2023, resulting in electricity WACC increasing to 5.09% in 2024 from 4.17% in 2023, and gas WACC increasing to 5.03% in 2024 from 3.99% in 2023. We view this as positive since it will result in higher regulated cash flows. The WACC increase is mainly related to new loans with higher interest rates, thus increasing the cost of debt and affecting the WACC calculation. Furthermore, NERC updated the methodology for calculating additional tariff components so the Lithuanian Energy System Operator (ESO) could maintain a sustainable level of debt. It is now linked to a leverage cap of 5.5x (ESO net debt to ESO adjusted EBITDA, calculated using NERC methodology), which means that if ESO's leverage exceeds the cap, the additional tariff component will increase proportionally. We view this as a positive development, since it ensures sustainable leverage metrics for Ignitis Group's regulated business. Electricity distribution represented 84% (€1.3 billion) and gas distribution 16% (€0.25 billion) of the company's total RAB as of Dec. 31, 2023. We expect the company's RAB will increase to €2.0 billion–€2.1 billion by 2027. We assume EBITDA from the networks segment at €240 million-€250 million annually by 2027. Furthermore, we continue to view the regulatory framework as stable and transparent, ensuring highly predictable earnings over the 2022-2026 regulatory period for electricity and 2024-2028 for gas.

The company's renewable energy generation portfolio will benefit from long-term power purchase agreements (PPAs) and hedging. Of the 4.0-5.0 GW targeted renewable energy capacity by 2030, Ignitis Group has already secured 2.9 GW, 0.7 GW is in the advanced development pipeline, and 3.8 GW is in early development. The majority of green generation projects will be deployed in the company's home market – the Baltic states and Poland, and we view positively that many of these projects are secured via PPAs, which guarantee a certain level of revenue with inflation protection, and support cash flow visibility and stability. As of March 31, 2024, the company has hedged 75% of its generation portfolio for 2024, 56% for 2025, and 48% for 2026-2027, which mitigates the risk of declining power prices. As a result, we expect EBITDA from the green generation segment to gradually increase to about €250 million-€270 million annually by 2027.

Ratings Score Snapshot



Recent Research

- AB Ignitis Group, Oct. 23, 2023
- Eastern European Utilities' Regulatory Frameworks Are Varied, But Most Are Adequate To Strong, Sept. 18, 2023
- Eastern European Utilities Handbook 2023, Jan. 5, 2023

Company Description

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

The company's reported EBITDA was €507.4 million in 2023. Green energy generation represented 46% and networks represented 37% of the company's total adjusted EBITDA for 2023. Its electricity generation fleet has an installed capacity of 2,383 megawatts. In 2023, the company distributed 9.73 terawatt hours (TWh) of electricity to 1.85 million customers across Lithuania and generated about 2.07 TWh of electricity. The Lithuanian government, represented by the Lithuanian Ministry of Finance, owns 74.99% of the company.

Outlook

The stable outlook on Ignitis Group 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 anticipate that credit measures will remain in line with the rating, including FFO to debt of at least 23%.

Downside scenario

We could lower the rating if Ignitis Group's financial and operating performance materially deviates from our base case, leading us to change our assessment of its stand-alone credit profile (SACP). This could result from:

- Weaker cash flow such that FFO to debt reduces to below 23% without any prospect for recovery;
- A large debt-financed acquisition completed during the company's extensive investment program;
- Pressure on liquidity, which is not included in our base case; or
- Cost overruns affecting cash flow, leading to FFO to net debt of below 23%.

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.

Upside scenario

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

Key Metrics

AB Ignitis Group--Forecast summary

Period ending	**Dec-31-2023**	**Dec-31-2024**	**Dec-31-2025**	**Dec-31-2026**
(Mil. EUR)	2023a	2024e	2025f	2026f
EBITDA	507	510-530	480-500	530-550
Funds from operations (FFO)	387	430-450	400-420	440-460
Capital expenditure (capex)	839	910-930	660-680	490-510
Dividends	106	90-100	95-110	95-110
Debt	1,420	1,550-1,570	1,740-1,760	1,820-1,840
Adjusted ratios				
Debt/EBITDA (x)	2.8	2.8-3.2	3.4-3.8	3.2-3.6
FFO/debt (%)	27.3	26-29	22-25	23-27

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

Rating Component Scores	
Foreign currency issuer credit rating	**BBB+/Stable/--**
Local currency issuer credit rating	**BBB+/Stable/--**
Business risk	**Satisfactory**
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb**

Related Criteria

- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010