

Summary:

Exeltium S.A.S.

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Summary:

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Rationale

France-based Exeltium S.A.S. is a virtual power project (VPP) transaction, which provides cheap, wholesale power to large, energy-intensive industrial companies that operate in France (the offtakers). The transaction has a single large upstream contract with French state-owned electricity company Electricite de France S.A. (EDF).

In 2010, Exeltium secured a €1.58 billion senior secured bank loan due 2019 from a pool of banks. It used this loan to fund an upfront fee of €1.75 billion payable to EDF for the power contract. Exeltium will repay the debt on an ongoing basis with receivables from the various major industrial offtakers under downstream contracts.

Our long-term 'BBB-' issue rating on the loan raised by Exeltium reflects the following credit risks:

- Exposure to counterparty risk. Exposure to speculative-grade offtakers has increased to 32% from approximately 15% six months ago. Despite this increase in the revenue counterparty risk, the rating on the project is not yet constrained according to our counterparty methodology (see "Project Finance Construction And Operations Counterparty Methodology," published on Dec. 20, 2011). Furthermore, the loan documentation requires counterparties to post an increased level of collateral if their credit quality deteriorates.
- The offtakers' ability to break their power contracts with Exeltium. The contract includes breaks at preset windows (in years 10, 15, and 20). Use of these breaks would likely depend on the contract's fixed price for power being higher than the market price, meaning that the project had become uneconomic.
- The credit quality of the put option provider. This has deteriorated to speculative-grade, blocking offtakers from receiving the discounts in the contract. If not resolved, this may prompt offtakers to opt out, increasing Exeltium's exposure to the put option provider's credit quality. Should a lock up continue, we believe it could make refinancing Exeltium's current debts more difficult.
- The aggressive capital structure. A significant 60% of the loan has a bullet maturity in June 2019. (We calculate the 60% bullet maturity using our base-case forecast and including the cash sweep stream). This maturity creates significant refinancing risk. However, the transaction will have partially amortized the debt at the point of maturity.
- The aggressive financial profile. This is typical of project financing--approximately 80% of debt ranks as senior debt and just 20% is in the form of equity and subordinated debt. The base-case annual senior debt service coverage ratios (ADSCRs) are a minimum of 1.42x and an average of 1.63x, computed according to Standard & Poor's definition, which excludes interest income.
- The relatively weak security package available to lenders. This package does not include the physical power assets themselves.

These risks are offset by the following strengths:

- Low or minimal operating risk, including power supply risk. Exeltium signed a 24-year "take-or-pay" power agreement for 148 terawatt hours (TWh) with EDF, but has passed through the risk by selling the power to its offtakers on the same terms. EDF is the major electricity provider in France and thus benefits from a diversified production portfolio.
- Exeltium offers a competitive price, especially if discounts are included. Although the discounts are currently locked

up, Exeltium's price is in line with the current and projected market electricity prices.

- Various structural features that are likely to give Exeltium incentives to manage the project to mitigate risks. For example, the project's covenants include a cash sweep (from year three onward) and margin-increase mechanisms which, in our opinion, provide Exeltium with an incentive to refinance the bank loan before its ultimate maturity date.
- The availability of a put option, signed with a major industrial group, for 51% of volumes that the offtakers may give up from 2020. This partially mitigates offtaker risk, although the credit quality of the put option provider has recently led to a lock-up situation.
- An automatic upstream price decrease from 2020. This protects Exeltium should market prices fall below a certain threshold for the remaining 49% of volumes.

Exeltium has hired advisors to work on:

- Engaging in discussion with the French public authorities. These discussions would be in the context of the wider public debate on French energy transition.
- Solving the lock up situation, which started in December 2012, before the first opt-out period in 2020.
- Kicking off the refinancing process. From 2015 onward, under the current contract, 100% of excess cash will be swept in favor of lenders.

We do not consider that the transaction's portfolio of counterparties constrains the rating.

Liquidity

The project benefits from a debt service reserve account covering six months of full debt service payments.

In addition, offtakers must post a minimum of four months' of cash collateral guaranteeing all obligations to Exeltium. Offtakers must also provide additional security, according to their creditworthiness.

Outlook

The stable outlook reflects our view that Exeltium will continue to offer a competitive price, thereby reducing the likelihood of offtakers opting out of their contracts in 2019. We would likely lower the rating if the credit quality of the portfolio of offtakers--calculated on a weighted-average basis--deteriorates further to a level that constrains the issue rating when we apply our project finance counterparty methodology.

We anticipate that this could occur if the credit quality of material offtakers deteriorates or if the market price of electricity drops below Exeltium's price on a sustained basis, because this would increase the likelihood of offtakers opting out in 2019. If the latter occurs, it would increase Exeltium's exposure to the speculative-grade put option provider.

We would also consider negative rating actions if Exeltium does not resolve the current lock up. In our opinion, the lack of discounts may make Exeltium unattractive to offtakers and increase their likelihood of opting out in 2019.

Finally, we could also lower the rating if Exeltium draws on its debt service reserve account repeatedly.

We do not expect to raise the rating at this stage.

Related Criteria And Research

- Transaction Update: Exeltium S.A.S., Jan. 10, 2013
- Project Finance Construction And Operations Counterparty Methodology, Dec. 20, 2011
- Updated Project Finance Summary Debt Rating Criteria, Sept. 18, 2007

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