STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

# Research

## Summary:
# Exeltium S.A.S.

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## Summary:

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## Rationale

The long-term 'BBB-' rating on the €1.58 billion senior secured bank loan due 2019, raised by Exeltium, reflects a composite of credit factors that we outline below. The 'BBB-' rating reflects the following credit risks:

- Exposure to counterparty risk. Exposure to speculative-grade offtakers is currently 32%, an increase from approximately 15% in June 2012. Despite this increase in counterparty risk, it does not yet constrain the current rating according to our counterparty methodology (see "Related Research" below). Furthermore, the documentation requires counterparties to post an increased level of collateral if their credit quality deteriorates.
- The offtakers' ability to suspend their power contracts with Exeltium at preset windows in years 10, 15, and 20. Such a suspension would, in all likelihood, be driven by the Exeltium price for power being higher than the market price, meaning that the project had become uneconomic.
- Deterioration in the credit quality of the put option provider to speculative grade, which has triggered a lock-up of discounts. If this issue is not resolved, it may, in combination with low market prices, increase the likelihood of offtakers opting out of their contracts with Exeltium from year 10. This would increase Exeltium's exposure to the put option provider's credit quality. Should the lock-up continue, we believe it could make the refinancing of Exeltium's current debt more difficult.
- An aggressive capital structure, as the significant 60% bullet debt maturity in June 2019 demonstrates. (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.
- An aggressive financial profile, typical of project financing, with approximately 80% of senior debt to 20% of equity and subordinated debt. The base-case annual senior debt service coverage ratios are a minimum of 1.35x and an average of 1.52x, 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 benefits from a 24-year 'take-or-pay' power agreement for 148 terawatt hours, split into seven blocks. EDF is the major electricity provider in France and therefore benefits from a diversified production portfolio.
- The competitive price that Exeltium offers, in particular with discounts--although these are now in lock-up--compared with the current and projected market electricity prices.
- Various structural features that are likely to incentivize Exeltium 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 that in our opinion provide Exeltium with an incentive to refinance the bank loan prior to 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 market risk, although the credit quality of the put option provider has recently led to a lock-up.
- An automatic upstream price decrease from 2020. This protects Exeltium in the event that market prices fall below

a certain threshold for 49% of volumes from 2020.

**Liquidity**

The project benefits from a liquidity account covering six months of full debt service payments, which as of November 2013 amount to approximately €72 million. As a result of the lock-up, Exeltium has been unable to offer discounts since January 2013, and has trapped approximately €73 million of cash as of November 2013.

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

## Outlook

The stable outlook reflects our view that Exeltium will continue to offer electricity at 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 to a level that constrains the issue rating when we apply our project finance counterparty methodology.

A drop in the market price of electricity below Exeltium's price on a sustained basis 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 taking a negative rating action if Exeltium does not resolve the current lock-up over the next six months. We anticipate that a resolution will occur within the next six months as the banks have accepted a waiver. In our opinion, the lack of discounts may make Exeltium unattractive to offtakers and increase their likelihood of opting out in 2019, and at the same time, may render refinancing more complicated.

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

All articles listed below are available on RatingsDirect, unless otherwise stated.

- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Project Finance Construction And Operations Counterparty Methodology, Dec. 20, 2011
- Updated Project Finance Summary Debt Rating Criteria, Sept. 18, 2007
- Criteria For Special-Purpose Entities In Project Finance Transactions, Nov. 20, 2000

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