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Research

Research Update:

France-Based Power Project Exeltium's Refinancing Debt Assigned Preliminary 'BBB' Rating; Outlook Stable

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Overview

- France-based virtual power project Exeltium S.A.S' senior secured €1.435 billion refinancing facility is a new financing structure with no refinancing risk and minimum/average annual debt service coverage ratios (ADSCRs) of 1.49x/1.70x.
- The proposed financing will fully refinance all existing senior debt raised in 2010. The new facility will fully amortize by June 2030, leaving a four-year tail until the end of the current project agreement.
- The proposed financing will include structural features, such as an automatic price decline mechanism from EDF S.A., as well as a put option, which covers 51% of the volume sold in order to mitigate the risk of opt out.
- We are assigning our preliminary 'BBB' long-term rating to the senior secured bank loan, which comprises a €1 billion "bank tranche" and a €435 million "institutional tranche", both ranking senior pari passu.
- The stable outlook reflects our view that Exeltium will maintain average and minimum debt service coverage ratios (DSCRs) of around 1.70x and 1.49x, respectively. It also reflects that Exeltium has a reduced risk of opt-out during the next opt-out window (2019/2020). This is a result of the new financing structure in conjunction with its more competitive pricing, which it gained from EDF in August 2014 under a new agreement.

Rating Action

On April 22, 2015, Standard & Poor's Ratings Services assigned its preliminary 'BBB' long-term rating to the €1.435 billion senior secured bank loan issued by France-based Exeltium S.A.S. The outlook is stable.

The final debt issue rating on Exeltium's senior secured debt will depend upon our receipt and satisfactory review of the documentation for the final transactions. The ratings will remain preliminary until the funding transaction has been completed and all conditions have been met. Accordingly, the preliminary rating should not be construed as indicative of the final rating. If we do not receive the final documentation within a reasonable timeframe, or if the final documentation departs from the material we have already reviewed, we reserve the right to withdraw or revise the rating.

Rationale

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 payment of €1.75 billion to EDF Energy S.A. (EDF) for the upstream contract in which EDF agrees to sell fixed volumes of power to Exeltium at an agreed price over the project period. Exeltium will use the new facility to fully repay all of the existing €1.3 billion senior debt and cover upfront fees and other refinancing costs. The refinancing will lead to approximately €80 million of the current subordinated debt being repaid, leaving approximately €153 million of the original subordinated debt outstanding. We understand that the refinancing will be effective over the next two months.

The project's preliminary issue credit rating reflects our view of the credit risks associated with the operations phase. More specifically, the ratings are driven by the project's annual debt service coverage ratios (ADSCRs), combined with our view of its performance under our downside scenario assumptions.

Operations phase

Our operations phase stand-alone credit profile (SACP) of 'bbb' reflects the transaction's minimal operating risk given that there are no assets owned by Exeltium, as well as the company's relatively simple activities (which involve taking orders for electricity from off-takers and balancing it with EDF's supply). We assess Exeltium's exposure to market risk as "low". This is due to long-term contractual arrangements for the supply of power from EDF under a contract which runs parallel to long-term offtake commitments from industrial buyers through to 2034. Exeltium's main potential exposure to market risk occurs if buyers choose to opt out within designated windows allowed over the life of the project. We consider the risk of opt out to be minimal under our base case.

Our operations phase business assessment of '5' reflects our view of the project's low exposure to market risk, offset by minimal operating performance risk, given that it predominantly involves the balancing of supply with offtake contract demand.

We assess the market exposure of the project based on our forecast decline in cash flow available for debt service (CFADS) under our market downside scenario. This is, in our view, a low probability event as we do not expect Exeltium to be exposed directly to market prices under our base case, given that we expect buyers to stay in the transaction despite opt-out periods available to them. Under our downside case, we assume that all buyers opt out in 2019, but return in 2024/2025. We also assume that the transaction relies on a commitment by the put option provider to purchase up to 51% of the volumes sold by Exeltium at a fixed price in the event that other buyers choose to opt out during any opt-out period, resulting in 49% of output being sold into the market directly. Consequently, we project a reduction in CFADS of about 15%.

We assess the project's competitive position as "satisfactory," taking into account the predictable regulatory support, Exeltium's relatively unique offering, and relatively competitive pricing and security of supply offered under the transaction compared with alternatives in the wholesale power market.

Our key base-case assumptions are:

- Wholesale pricing at about €40 per megawatt hour as of January 2015, rising to just under €60 per megawatt hour at year-end 2022, rising gradually thereafter.
- Clients do not opt out because net downstream prices remain competitive relative to the market price.
- Working capital requirement: Receivables 30 days, payables (EDF) 30 days.
- The corporate tax rate of 34%.
- A hedging profile with interest rate exposure fully swapped.

Under this scenario, we forecast that the project's minimum annual debt service coverage ratio (ADSCR) will be 1.49x, and the average ADSCR will be 1.70x over the transaction's remaining life.

Our downside scenario incorporates, among other things, the following scenarios:

- Buyers opt out in 2019, returning in 2024/2025.
- Wholesale pricing between about €25 and €35 per megawatt hour between January 2015 and 2022, rising gradually thereafter.
- Management operating costs increase by 50% from Jan. 1, 2015, until the end of the project's life.

Under our downside case we project that the minimum DSCR will be 1.27x. As a result, our downside scenario assessment is 'a'.

Project counterparties

We assign a counterparty dependency assessment (CDA) to counterparties that we consider not easily replaceable without significant time or cash-flow implications (see "Project Finance Construction And Operations Counterparty Methodology," published Dec. 20, 2011.) The long-term rating incorporates our CDA as a weak link, which means that the long-term rating on the loan is limited by the CDAs we assign. Currently, the long-term rating is not constrained by any counterparty rating.

Revenue counterparty

We assign a CDA to the off-taker portfolio of 27 electro-intensive companies. However, the CDA does not currently constrain the long-term rating on the project.

Operations and maintenance counterparty

The project has sufficient cash to cover replacement costs, and given the relatively simple tasks, we consider the operations and maintenance counterparty to be easy to replace. In accordance with our construction and operations counterparty methodology, we do not assign a CDA to the operator, and the operator does not constrain the ratings on the project.

Financial counterparties

The project's bank account remains BNP Paribas. The accounts agreement and the project's hedge agreements are compliant with our financial counterparty criteria. Consequently, the ratings on the financial counterparties do not currently constrain the project's rating.

Liquidity

We assess liquidity as "neutral," given the presence of a fully-funded debt service reserve account covering the following six months of debt service for both senior and subordinated debt, in addition to an operating account balance of €2 million, and requirements for buyers regarding collateral.

Outlook

The stable outlook reflects our view that Exeltium will maintain DSCRs on an average and minimum basis at around 1.70x and 1.49x, respectively. The stable outlook also reflects a number of mitigants against merchant exposure during the opt-out period, which makes it likely, in our view, that buyers would remain in the transaction until the end of the project agreement on Dec. 30, 2034.

Downside scenario

We would likely lower the rating if the market price of electricity in France drops below Exeltium's recently agreed purchase price with EDF on a sustained basis, because this would increase the likelihood of off-takers opting out in 2019. If this occurs, it would increase Exeltium's exposure to the speculative-grade put option provider.

We would likely lower the rating if the credit quality of the portfolio of off-takers--calculated on a weighted-average basis--deteriorates to a level that constrains the issue rating when we apply our counterparty methodology. Finally, we could also lower the rating if Exeltium repeatedly draws on its debt service reserve account.

Upside scenario

We do not expect to raise our ratings at this stage without a material improvement in Exeltium's minimum ADSCRs.

Ratings Score Snapshot

Construction Phase SACP (Senior Debt): Not applicable

Operations Phase SACP (Senior Debt): bbb
- Asset class operational stability assessment: 1
- Operations Phase Business Assessment: 5 (1=best to 12=worst)
- Preliminary SACP: bbb-
- Downside Impact on Prelim SACP: a (+1 notch)
- Liquidity: Neutral
- Comparative Analysis Assessment: 0
- Counterparty Assessment Limitation: bbb+
- Operations Phase SACP: bbb

Modifiers (Senior Debt)
- Parent Linkage: De-linked
- Structural Protection: Neutral
- Senior debt issue rating: BBB

Related Criteria And Research

- Project Finance Framework Methodology, Sept. 16, 2014
- Project Finance Transaction Structure Methodology, Sept. 16, 2014
- Project Finance Operations Methodology, Sept. 16, 2014
- Key Credit Factors For Power Project Financings, Sept. 16, 2014
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Project Finance Construction And Operations Counterparty Methodology, Dec. 20, 2011

Ratings List

New Rating

Exeltium S.A.S.	
Senior Secured	BBB/Stable

Additional Contact:
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