



ISSUER RATING

Long-Term

Outlook Stable

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RATING ACTION AND RATIONALE

- EthiFinance Ratings reaffirms Neoen SA's long-term rating at "BB+", with a Stable outlook.
- This rating is mainly supported by the growing worldwide demand for Neoen's low CO2 emission electricity, which is mainly produced by solar and wind facilities, as well as growing storage services. The group's revenues are backed by long-term fixed price (plus indexation) power purchase agreements or incentive schemes with counterparties such as large utilities or corporates covering around 84% of energy sales revenues in FY22, with an average residual contract maturity of 11.8 years at YE22, representing around €7.1bn in contracted future revenues. Our rating is also positively impacted by the good geographical diversification of revenue and assets of Neoen, with a sizable presence in Europe and Africa, Australia and in the Americas. We view positively Neoen's shareholder structure, with Impala (the holding of Jacques Veyrat and his family) controlling 42.2% of the company at end-June 23. In March 2023, the group launched successfully a €750m capital increase in order to finance its 2025 growth plan, with Impala subscribing around €329m (approximately 43.9% of the capital increase) and reaffirming its commitment to support Neoen's development.
- However, our rating is constrained by the high leverage of Neoen (EthiFinance Ratings adjusted net leverage of 6.9x at YE22), which is driven and explained by the capital-intensive nature of electricity production. Thanks to the long-term contracts and strong cashflow visibility, project lenders are willing to provide a significant amount of debt to finance the investment needed to build solar or wind plants or battery storage capacity. Neoen's balance sheet is composed of project finance debt as well as some corporate debt, which is injected into projects as equity or shareholders loans from the project owner, Neoen. While the group has a guidance of net leverage in a range of 8-10x, Neoen has already raised over €1.3bn of equity in support of its ambitious plan of reaching 10GW of operating or in construction capacity by YE25 (vs 4.8GW at end-June 2023), of which €600m was raised in April 2021 and €750m in March 2023.
- In line with our methodology, the renewable energy industry has low ESG risks (heatmap score between 1 and 2), which weighs positively on our industry assessment. Meanwhile, our assessment of the company's ESG policy is neutral (company ESG score between 1.5 and 3.5), resulting in our rating being positively impacted by industry-related ESG considerations.

ISSUER DESCRIPTION

Based in Paris, Neoen SA (hereafter "Neoen", "the group", or "the company") is an independent producer of renewable energy with solar, wind and storage capacity operating on several continents. Neoen was listed on Euronext Paris in 2018 and currently has a market cap of around €4.0bn (at the market close on 15 November 2023). At end-June 2023, Neoen had an installed capacity of 4.8GW, with power production of around 6,867GWh in LTM to end-June 2023. In addition, the group has 2.3GW of installed capacity under construction and a portfolio of projects under development with a total capacity of 16.3GW.

For 2022, Neoen reported revenues of €503m (+50.8% yoy), and adjusted EBITDA of €414m (+62.7%), equivalent to an 82.3% margin. The consolidated EthiFinance Ratings net leverageA ratio was 6.9x at end-2022. Over the last twelve months to end-June 2023, the group generated revenues of €556m, and adjusted EBITDA of €492m (88.4% EBITDA margin).

MAIN FINANCIAL FIGURES

Main financial figures. Millions of €.						
	2021	2022	2023E	2024E	2025E	22v21
Turnover	334	503	570	674	814	50,8%
EBITDA	300	414	464	540	652	37,7%
EBITDA Margin	90,0%	82,2%	81,5%	80,1%	80,1%	-7,8pp
EBIT	171	230	319	337	408	34,7%
EBIT Margin	51,3%	45,8%	56,0%	50,0%	50,0%	-5,5pp
EBT	64	95	128	87	72	48,6%
Total Assets	4 945	6 274	7 540	8 556	9 709	26,9%
Equity	1 374	1 914	2 672	2 718	2 756	39,3%
Total Financial Debt	2 943	3 557	4 092	5 033	6 142	20,9%
Net Financial Debt	2 283	2 855	3 268	4 551	5 759	25,0%
Equity/TFD	46,7%	53,8%	65,3%	54,0%	44,9%	7,1pp
NFD/EBITDA	7,6x	6,9x	7,0x	8,4x	8,8x	-0,7x
Funds From Operations	152	266	256	299	349	75,0%
FFO/NFD	6,7%	9,3%	7,8%	6,6%	6,1%	2,7pp
EBITDA/Interest	2,8x	3,0x	2,4x	2,2x	1,9x	0,3x

CREDIT RATING

Credit Rating	
Business Risk Profile	A
<i>Industry risk assessment</i>	AA+
<i>Industry's ESG</i>	Positive
<i>Competitive Positioning</i>	BBB-
<i>Governance</i>	BBB
Financial Risk Profile	BB-
<i>Cash flow and leverage</i>	BB-
<i>Solvency</i>	BB-
<i>Company's ESG</i>	Neutral
Anchor Rating	BBB-
<i>Modifiers*</i>	Rating Cap
Rating	BB+

* In line with our methodology, our final rating is capped at BB+ due to an assessment of the Financial Risk Profile at BB-

RATING SENSITIVITY

• Long-term rating positive factors (↑)

Neoen's rating could be upgraded to BBB- if the group managed to improve its NFD/EBITDA ratio (without a major reduction in its average residual duration of electricity supply contracts), which could come from higher profitability, lower pace of investments, or an additional capital increase. For the same business risk profile, a decrease in the consolidated NFD/EBITDA ratio below 7.0x for a sustained period of time could entail an improvement of its financial risk profile to BB, which would in turn result in the final rating no longer being capped at BB+ and therefore entail a long-term rating upgrade to BBB-. We view this as unlikely at the moment, given the company's ambitious growth strategy.

• Long-term rating negative factors (↓)

The rating could be downgraded to BB by an increase of the proportion of revenues that is at merchant price risk vs at long-term contracted prices, as this would increase the volatility of projects' profitability and therefore deteriorate the currently strong business profile. Also, a material deviation from earnings expectations that would result in lower cash generation and a significant deterioration of its main credit ratios could entail a downgrade to BB. For the same business risk profile, an increase in the consolidated NFD/EBITDA ratio above 10.0x for a sustained period of time could entail a long-term rating downgrade to BB.

RATING DISCLOSURES

LEI: 969500C0AIAGQWZGJO13

Initiation report: No

Rating initiation: BB+ for long-term rating on 29 November 2022.

Latest rating action: Initiation of long-term rating at BB+ on 29 November 2022.

Rating nature: Unsolicited (this report is paid by investors, not the issuer).

With rated entity or related third party participation: No, the report was published without having been reviewed by the issuer

With access to internal documents: No

With access to management: No

Ancillary services provided to the entity: In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.

Name of the rating committee chair: Thomas Dilasser, Head of Corporate Ratings France

Material sources used to support the rating decision:

- Annual report (2020, 2021, 2022)
- Quarterly reports, presentation slides and conference call
- Bloomberg

Limitation of the Rating action:

EthiFinance Ratings believes the quality and quantity of information available on the rated entity is sufficient to provide a rating.

EthiFinance Ratings has no obligation to audit or verify the accuracy of data provided.

Our methodologies used for this rating are available at:

https://files.qivalio.net/documents/methodologies/CRA_190_V3_Corporate%20Methodology_2023-10-06.pdf

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