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Research

Bulletin:

Equity Injection Into EnBW Would Be Positive For Its Credit Metrics

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This report does not constitute a rating action.

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FRANKFURT (S&P Global Ratings) Sept. 23, 2024--According to recent statements by the parliament of Germany's State of Baden-Wuerttemberg, EnBW Energie Baden-Wuerttemberg AG (EnBW; A-/Stable/A-2) is in discussions with its principal shareholders, Baden-Wuerttemberg and the Zweckverband Oberschwäbische Elektrizitätswerke, each of which owns a 46.5% stake in EnBW, about a possible equity injection of around €3 billion.

A capital injection would be positive for EnBW's credit metrics in 2025 and potentially in 2026, as well as for the longer-term earnings potential of the group. Assuming EnBW receives the proceeds during 2025 and at the same time increases its net investment by about €500 million in 2025 and €1.2 billion in 2026, our forecast consolidated adjusted funds from operations (FFO) to debt would improve to about 24%-26% in 2025 and 2026, compared with our current assumption of about 22%-24%.

Positively, we note that the capital increase would directly proportionally improve EnBW's FFO to debt to about 18%-20% during 2025 and 2026, thereby increasing financial flexibility under the current rating because our current forecast assumes proportionate FFO to debt slightly below 18% in 2025 and 2026 (see "Full Analysis: EnBW Energie Baden-Wuerttemberg AG," Aug. 23, 2024). We note however, that the impact on metrics depends on how and when EnBW decides to use the gained financial flexibility, although we expect the company's financial policy will remain protective of an 'A-' rating.

We see the equity injection as a prudent step ahead of a potential increase in EnBW's capital expenditure plan, which we understand could incorporate €10 billion of additional gross investments by 2030 from the €40 billion currently captured in its investment plan. We would also see it as adding to the track record of EnBW's shareholder's commitment to supporting the group's credit quality.

We don't expect any change in the group's strategic direction compared with the current investment plan, keeping broadly unchanged the share of regulated activities and long-term contracted renewable generation at about 65%-70%, supporting its position as a diversified and integrated player throughout the power supply chain. We expect it will continue to enable the group to deliver a resilient operating performance.