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Stockholm Exergi Holding AB (publ)

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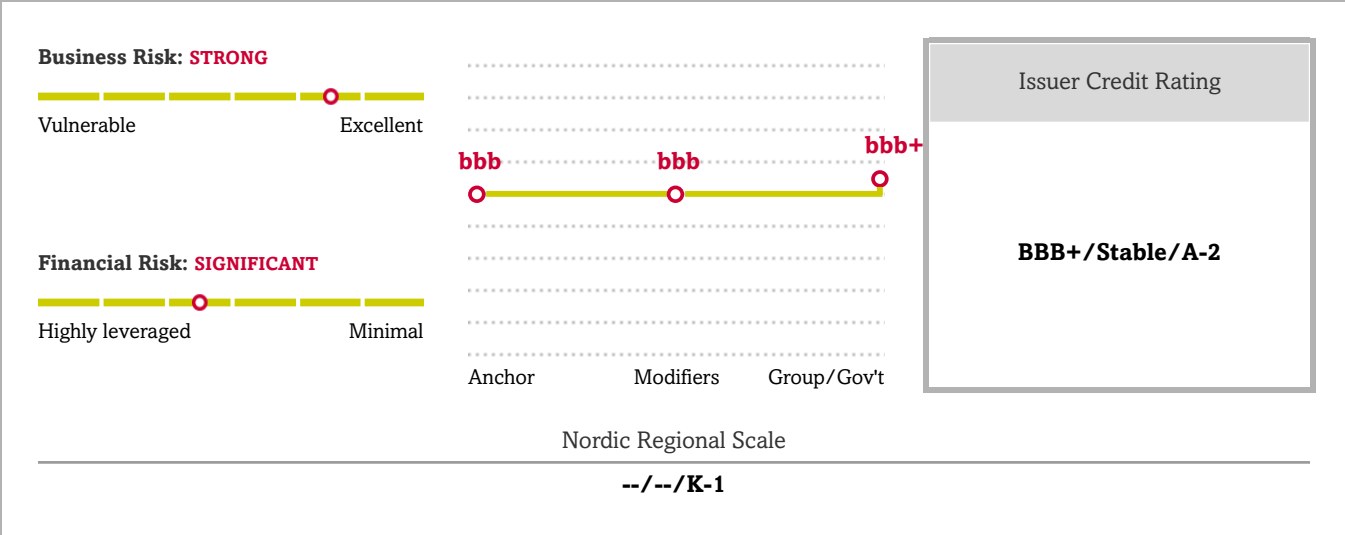
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Related Research

Stockholm Exergi Holding AB (publ)



Credit Highlights

Overview

Key strengths	Key risks
Stable district heating business contributes more than 80% EBITDA on average.	Environmental policies and taxation.
Key provider of heat in the Stockholm area, with a stable and dominant market position.	Large fuel consumption related to the combined heat and power (CHP) plants creates exposure to volatile prices of commodities such as biomass, but also electricity.
Support from the city of Stockholm, which has a 50% stake.	Upcoming large capital expenditure (capex) to finance a new CHP plant and the transition to become climate positive by 2025.
	Change in ownerships structure, resulting in less support from the city of Stockholm.

S&P Global Ratings regards Stockholm Exergi's district heating business as predictable and stable. On average, about 80% of EBITDA stems from the district heating segment, which we view as an efficient way to produce heat, with some flexibility to increase/decrease electricity generation when needed. In addition, we view its district heating business as stable with monopoly-like features, as barriers to entry are high. Pipes are buried in cities, and it would require extensive work and high costs to challenge the company's position as the heat provider in its region. We expect Stockholm Exergi to maintain its strong local position as a key provider of heat in Stockholm. It has about an 80% market share in its operating area, with a diverse customer base. We expect the market share to grow modestly, as a high share, about 95%, of new properties in the Stockholm area choose Stockholm Exergi as the heating provider. We don't expect that Stockholm Exergi operation will be affected significantly by COVID-19, as we believe demand for district heating will be stable. Stockholm Exergi also has a diversified customer portfolio, and we do not expect significant credit losses from its customers.

A massive capex program over 2020-2024 will result in increased debt, but also increased earnings. We understand that Stockholm Exergi plans to invest about Swedish krona (SEK)14 billion in the period of 2020-2024. The investment peak will start in 2022 as the construction phase of its planned CHP plant in Lövsta will start, total cost is expected at about SEK6 billion. Commissioning is set for January 2025, although the project could be delayed by environmental approvals, as the planned construction site was contaminated by the previous owner, making the process cumbersome. We also expect Stockholm Exergi to complete mandatory maintenance on all CHP plants before 2025,

roughly totaling SEK4.0 billion. Other investments relate to replacing the coal-based production with recycled waste fuels for the KVV6 boilers.

We forecast debt will rise to almost SEK17 billion by year-end 2024. This compares with SEK12.6 billion in 2019. Despite the increase in capex, we expect credit ratios to remain broadly unchanged: We forecast adjusted funds from operations (FFO) to debt of 18%-21% and debt to EBITDA below 4.8x during the period, compared with 20.3% and 4.4x in 2019.

Government-imposed environmental taxation has led to new power supply agreement to secure security of supply in the Stockholm region. The Swedish government implemented increased taxation on coal usage and carbon dioxide emissions during 2019, then imposed additional taxation on district heating businesses, since taxation for using waste as fuel was increased in April 2020 and will gradually increase in coming years. We expect no material impact from those changes on Stockholm Exergi's credit ratios:

- Coal and carbon dioxide taxation: we understand that phase out of Stockholm Exergi's CHP plant was executed prior to previous timetable from the company as it would not be profitable with the newly implemented taxation scheme. In April 2020, Stockholm Exergi completed the closure of the second boiler in the plant in Värtaverket, leading to an impairment of about SEK600 million. It also resulted in a complete phase out of its coal production in 2020, compared with previous plan to phase out in 2022.
- Waste as fuel taxation: We expect the company will be able to mitigate the impact of the waste taxation by transferring its additional costs to suppliers, by renegotiating contracts, and increasing waste management tariffs. In April 2020, the taxation on waste used as fuel became effective. The new taxation is based on a metric ton (mt), and will increase gradually from SEK75/mt in 2020 to SEK125/mt by 2022. Stockholm Exergi used about 877,000 tons of waste as fuel, in 2019, in its district heating operations. Waste-based fuels account for about 27% of the energy supplied.

It is our understanding that the phase out of the coal-fired boiler resulted in risk of electricity capacity shortage in Stockholm, and led to a new business opportunity for Stockholm Exergi as security of supply in the region needs to be maintained. The agreement with the Swedish grid operator Ellevio AB (senior secured debt rated BBB/Negative/--), which ensures 320 MW of power generated in one of Stockholm Exergi's renovated cogeneration plants rebuilt to run on biofuel. The agreement covers 12 years, while Stockholm Exergi will receive a fixed annual remuneration and additional compensation for electricity produced under the security of supply contract.

Warmer weather and very low electricity prices have limited effects on Stockholm Exergi's margins, so far. About 10%-15% of Stockholm Exergi's EBITDA is historically derived from electricity generation. Due to extremely low Nord Pool power prices, Stockholm Exergi has adjusted its electricity generation to a minimum level. We understand that, despite lower revenue, cost of heat production is much lower when capacity is lowered, since its fuel costs are significantly lower. To reach maximum capacity, more expensive fuels, such as bio-oil or coal, are needed. It is our understanding that not using such fuels results in higher margins and stable EBITDA despite decreasing revenue. The fall in European power exchange "Nord Pool" power prices has been dramatic. In the five months of 2020, power prices were down by about 70% from average 2019 levels of €39/MWh. This is mainly a direct consequence of high precipitation, supported by a warm and windy winter. Spot prices now stand at about €2-€7/MWh, but in some periods this year, we have even seen negative prices. Consequently, we expect power prices in the region to remain depressed, at €10-€15/MWh on average during 2020-2022, and at €17.5-€22.5/MWh on average during 2021 (see "The Energy Transition And What It Means For European Power Prices And Producers: Midyear 2020 Update," published June 8, 2020, on RatingsDirect). And we understand that it is not economically viable for Stockholm Exergi to produce in this low price environment.

We expect revenue to decrease 7% in 2020 as a result of very limited electricity sales. We expect the revenue share from heating will increase to about 90% of revenue in 2020-2022, since we expect the company to produce very little electricity during 2020, due to very low electricity prices. For the coming two years, we expect S&P Global Ratings-adjusted EBITDA of SEK2,900-SEK3,100 million.

Part ownership by the government of Stockholm enhances the company's stand-alone credit profile. Stockholm Exergi is 50% owned by the city of Stockholm and 50% by Fortym Oyj, with equal voting rights. Our 'BBB+' long-term rating on Stockholm Exergi includes one notch of uplift because we believe the city would support the company if it faced difficulties outside the ordinary course of business. We consider a change in ownership support to be unlikely.

Outlook: Stable

Our outlook is stable because we expect Stockholm Exergi's stable heating operations will continue to support its operating cash flows. We believe the company's financial risk profile will likely stay well in line with our parameters for the current ratings. We forecast that Stockholm Exergi's credit metrics will remain at about the current levels in the coming three years, with FFO to debt at 18%-21%, comfortably above our 15% threshold. In addition, we forecast debt to EBITDA will stay below 4.5x in 2020-2022.

Downside scenario

We could consider a negative rating action if Stockholm Exergi's credit metrics were to deteriorate substantially, with FFO to debt below 15% and limited prospects for a swift recovery. This could result, for example, from any significant further debt-funded investment, or operational underperformance as a result of significantly higher fuel prices. In addition, we could lower the ratings if the city of Stockholm's ownership stake decreased, because this could lead us to revise down our assessment of the likelihood of extraordinary support.

Upside scenario

We could consider an upgrade if Stockholm Exergi's financial policy supported a sustainable improvement of its financial position to a level we view as commensurate with an intermediate financial risk profile. This could materialize, all else being equal, if the company's adjusted FFO-to-debt ratio were to exceed 23% on a sustainable basis.

Our Base-Case Scenario

Assumptions

- Sweden's GDP to decline 6.4% in 2020, then increase by 4.8% for 2021 and 2.9% for 2022.
- Revenue to decrease in 2020 by SEK500 million to about SEK6.6 billion, due to lower revenue streams from electricity sales. District heating tariff increase of 0.5% in 2020, 2.0% in 2021, and 2.5% in 2022.
- The ongoing cost-savings program will reduce fixed costs by about 8% by end of 2022 and in total by about 18% by 2025 compared with 2020.
- EBITDA-margin of about 44% in 2020 and 2021.

- Capex of SEK2.1 billion in 2020. We expect capex to peak in 2022-2023 in the range SEK3.6 billion-SEK3.9 billion.
- Dividend payouts of about SEK850 million in 2020 and subsequent years.

Key Metrics

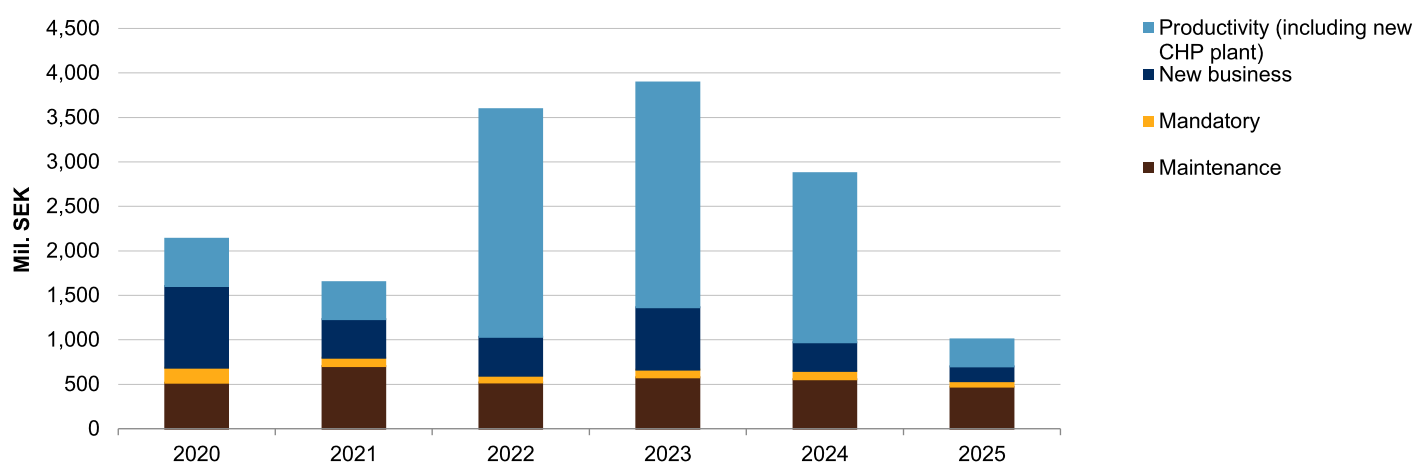
Stockholm Exergi Holding AB--Key Metrics*				
--Fiscal year ended Dec. 31--				
(Bil. SEK)	2019a	2020p	2021p	2022
EBITDA	2.9	2.8-2.9	3.0-3.2	3.3-3.5
FFO	2.6	2.3-2.5	2.5-2.7	2.8-3.0
Capex	1.8	2.1	1.6-1.8	3.5-3.7
Dividends	0.9	0.9	0.9	0.9
Debt	12.6	12.5-13.5	12.5-13.5	14-15
FFO/Debt (%)	20.3	18-19	20-21	20-21
Debt/EBITDA (x)	4.4	4.3-4.5	4.1-4.3	4.1-4.3

*All figures adjusted by S&P Global Ratings. a--Actual. p--Projected. FFO--Funds from operations. Capex--Capital expenditure. SEK--Swedish krona.

Stockholm Exergi's extensive capex program and fixed dividends will drive up debt in 2020-2025. We expect investment levels to peak during 2022-2024 at about SEK6.0 billion, because of the installation of the new biomass-fired CHP plant in Lövsta, which is set to be operational by 2025. Despite stable and gradually increasing EBITDA, we expect that the investment program and dividends will lead to negative discretionary cash flow (DCF), and result in increasing debt. We estimate a debt buildup at about SEK17.0 billion by year-end 2024, up from SEK12.6 billion in 2019.

Chart 1

Stockholm Exergi: Investment Plan In 2020-2025



SEK--Swedish krona. Source: S&P Global Ratings.

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We expect credit ratios to remain solid as operating cash flows increases. Stockholm Exergi's performance was in line with our expectations in 2019, with adjusted FFO to debt in the range of 18%-21%, well above our downside threshold for the rating at 15%. Additionally, we forecast that its debt to EBITDA will remain below 4.5x during 2020-2022, followed by a temporary increase as investments peak during 2023 and 2024, but remaining well below 5x.

Company Description

Stockholm Exergi is the largest provider of district heating in the Stockholm region. It has roughly an 80% market share in its operating area, and reported EBITDA of about €277 million in 2019. Stockholm Exergi provides heating for over 800,000 people in and around Stockholm and the district heating network is made up of 2,900 kilometers of underground pipes. Of the 10,400 individual customers, roughly 5,000 are apartment building associations. Stockholm Exergi also provides cooling to about 400 customers. More than 90% of Stockholm Exergi's district heating system is based on renewable or recycled energy. The company is 50% owned by the city of Stockholm and 50% by Fortum Oyj.

Peer Comparison

Table 1

Stockholm Exergi Holding AB (publ)--Peer Comparison			
Industry sector: Combo			
	Stockholm Exergi Holding AB (publ)	Kraftringen Energi AB (publ)	Tekniska verken i Linköping AB
Ratings as of July 3, 2020	BBB+/Stable/A-2	BBB+/Stable/A-2	A+/Stable/A-1
--Fiscal year ended Dec. 31, 2019--			
(mil. SEK)			
Revenue	7,094.0	3,570.2	5,511.0
EBITDA	2,882.0	796.5	1,439.5
Funds from operations (FFO)	2,552.0	716.0	1,404.5
Interest expense	195.0	56.8	45.0
Cash interest paid	187.0	58.0	39.0
Cash flow from operations	2,295.0	714.7	1,597.5
Capital expenditure	1,805.0	457.4	1,399.0
Free operating cash flow (FOCF)	490.0	257.3	198.5
Discretionary cash flow (DCF)	(360.0)	140.3	73.5
Cash and short-term investments	0.0	195.0	197.0
Debt	12,593.0	2,370.2	2,281.3
Equity	11,762.0	3,359.7	5,674.0
Adjusted ratios			
EBITDA margin (%)	40.6	22.3	26.1
Return on capital (%)	3.2	8.5	9.1
EBITDA interest coverage (x)	14.8	14.0	32.0
FFO cash interest coverage (x)	14.6	13.4	37.0
Debt/EBITDA (x)	4.4	3.0	1.6

Table 1

Stockholm Exergi Holding AB (publ)--Peer Comparison (cont.)

	Stockholm Exergi Holding AB (publ)	Kraftringen Energi AB (publ)	Tekniska verken i Linköping AB
FFO/debt (%)	20.3	30.2	61.6
Cash flow from operations/debt (%)	18.2	30.2	70.0
FOCF/debt (%)	3.9	10.9	8.7
DCF/debt (%)	(2.9)	5.9	3.2

SEK--Swedish krona.

Although there is no rated counterpart to Stockholm Exergi with district heating as the main activity in the Nordics, we have included the two Swedish multi-utilities with significant district heating operations, Kraftringen Energi AB (publ) and Tekniska verken i Linköping AB(TvAB) as peers.

Compared with Kraftringen and TvAB, we view Stockholm Exergi's business as slightly stronger because district heating represents the majority of its operations. By contrast, these peers conduct multiple activities, including regulated electricity distribution activities, and what we view as weaker activities such as retail and generation businesses. We also regard peers as having higher asset concentration, since they rely more heavily on individual power plants than Stockholm Exergi. That said, Stockholm Exergi's planned CHP plant with a total cost of about SEK6 billion will impose a construction risk until commissioned.

Nevertheless, Stockholm Exergi's financial risk profile is the weakest. We forecast Stockholm Exergi's FFO to debt at 18%-19% in 2020, compared with Kraftringen at about 30%, and Tekniska Verken at 45%-50%. Stockholm Exergi's projected leverage (debt to EBITDA) is also in a weaker category, at 4.5x, compared with 1.7x-2.0x for TvAB and 2.8x-3.1x for Kraftringen.

Kraftringen has the lowest stand-alone credit profile at 'bbb-'; TvAB has the strongest stand-alone credit profile at 'bbb+'; while Stockholm Exergi is at 'bbb'.

Business Risk: Strong

In our view, Stockholm Exergi has stable and predictable district heating operations, with monopoly-like features. In 2019, about 83% of revenue came from district heating, 11% from electricity production and certificates, 3% from district cooling, and 3% from other activities. District heating accounts for about 80% of the company's total EBITDA.

Although there is no defined regulatory framework for district heating in Sweden, Stockholm Exergi is the sole district heating network operator in its area, with implicit oversight from the Swedish Competition Authority. We view the current market-based framework as predictable, which brings stability to the business. We see political risk as a potential forthcoming risk factor, since newly environmental policies adopted by the government have had a direct impact on earnings and investment strategy. And we cannot rule out additional unforeseen changes in the future.

Stockholm Exergi's business risk profile is also supported by its diverse customer base. Customers are mainly real estate companies and housing associations, which generally exhibit more stable demand than industrial customers. The company also benefits from a diverse fuel mix, which enables it to react, to some extent, to prevailing fuel prices by switching between different fuel types.

The business is, however, geographically concentrated because all of its operations are in the City of Stockholm region. This is mitigated by the region's very strong and dynamic local economy. However, the stable operating environment is partly offset by volume and fuel price risks related to district heating. Warmer or colder winters lead to unpredictable demand and volatile fuel prices, as seen in 2020 with the substantial drop in electricity prices.

The absence of a defined tariff regulation for cost cover means there is no guarantee that the company can recover costs linked to volatility. However, its operating profit has historically been stable, and the plant in Stockholm, commissioned in 2016, is one of Europe's largest urban CHP plants. It has increased the efficiency and flexibility of the company's production. The planned CHP plant with expected commissioning in 2025, at a total cost of about SEK6 billion, would increase capacity significantly, but in the meanwhile is a source of construction risk.

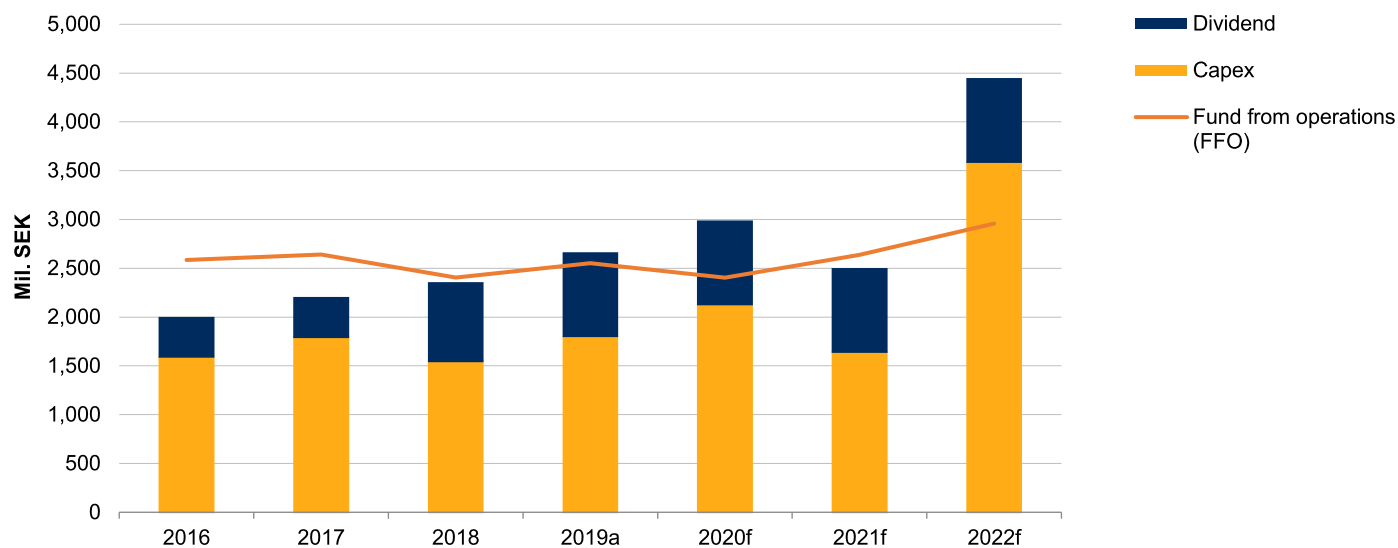
Financial Risk: Significant

We view Stockholm Exergi's cash flow in terms of FFO as very stable and predictable. The new plant commissioned in 2016 has improved the efficiency of its heating operations, with increasing cash flows through additional electricity production. That said, Stockholm Exergi has some vulnerability to volatile commodity prices and weather conditions. As its revenue weakens when fuel prices for its fuel-fired plants increase (biomass and/or coal), and also when electricity prices are very low. Warmer weather lowers demand, and therefore also its revenue.

The company has updated its capex plan for the coming years, mainly to build a new plant, decommission an old plant, and convert existing heat plants to use renewable fuels. The construction of the new plant with a total cost of about SEK6 billion, results in an investment peak during 2022 and 2023, with capex at SEK3.6 billion and SEK3.9 billion, respectively. We forecast that cash flow from operations will not cover dividends and capex during these peak cash outflow years. Our base case includes a debt buildup to about SEK17 billion by year-end 2024. Despite the debt buildup, we expect that credit ratios will remain stable, with FFO to debt of 18%-21%, which we view as commensurate with the rating.

Chart 2

Stockholm Exergi: Funds From Operations Do Not Comfortably Cover Investment And Dividends



Capex--Capital expenditure. f--Forecast. SEK--Swedish krona. Source: S&P Global Ratings. Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Financial summary

Table 2

Stockholm Exergi Holding AB (publ)--Financial Summary

Industry sector: Combo

	--Fiscal year ended Dec. 31--				
	2019	2018	2017	2016	2015
(mil. SEK)					
Revenue	7,094.0	7,149.0	6,788.0	6,746.0	6,323.0
EBITDA	2,882.0	2,778.5	3,022.0	2,799.0	2,824.5
Funds from operations (FFO)	2,552.0	2,405.0	2,640.4	2,584.2	1,961.7
Interest expense	195.0	193.5	181.6	183.8	618.8
Cash interest paid	187.0	157.5	168.6	158.8	631.8
Cash flow from operations	2,295.0	2,240.0	2,714.4	2,296.2	1,958.7
Capital expenditure	1,805.0	1,548.0	1,795.0	1,593.0	2,520.0
Free operating cash flow (FOCF)	490.0	692.0	919.4	703.2	(561.3)
Discretionary cash flow (DCF)	(360.0)	(108.0)	519.4	303.2	(961.3)
Cash and short-term investments	0.0	0.0	0.0	0.0	0.0
Gross available cash	2.0	152.0	149.0	123.0	1.0
Debt	12,593.0	12,011.1	11,785.9	12,291.1	13,060.1

Table 2

Stockholm Exergi Holding AB (publ)--Financial Summary (cont.)

Industry sector: Combo

	--Fiscal year ended Dec. 31--				
	2019	2018	2017	2016	2015
Equity	11,762.0	12,355.0	11,969.0	11,236.0	10,430.0
Adjusted ratios					
EBITDA margin (%)	40.6	38.9	44.5	41.5	44.7
Return on capital (%)	3.2	5.6	7.0	6.8	7.1
EBITDA interest coverage (x)	14.8	14.4	16.6	15.2	4.6
FFO cash interest coverage (x)	14.6	16.3	16.7	17.3	4.1
Debt/EBITDA (x)	4.4	4.3	3.9	4.4	4.6
FFO/debt (%)	20.3	20.0	22.4	21.0	15.0
Cash flow from operations/debt (%)	18.2	18.6	23.0	18.7	15.0
FOCF/debt (%)	3.9	5.8	7.8	5.7	(4.3)
DCF/debt (%)	(2.9)	(0.9)	4.4	2.5	(7.4)

SEK--Swedish krona.

Reconciliation

Table 3

Stockholm Exergi Holding AB (publ)--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (mil. SEK)

--Fiscal year ended Dec. 31, 2019--

Stockholm Exergi Holding AB (publ) reported amounts

	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations	Capital expenditure
Reported	12,028.0	11,757.0	2,836.0	738.0	191.0	2,882.0	2,299.0	1,809.0
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(143.0)	--	--
Cash interest paid	--	--	--	--	--	(183.0)	--	--
Reported lease liabilities	567.0	--	--	--	--	--	--	--
Accessible cash and liquid investments	(2.0)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	4.0	(4.0)	(4.0)	(4.0)
Nonoperating income (expense)	--	--	--	1.0	--	--	--	--
Noncontrolling interest/minority interest	--	5.0	--	--	--	--	--	--
EBITDA: Derivatives	--	--	46.0	46.0	--	--	--	--
Total adjustments	565.0	5.0	46.0	47.0	4.0	(330.0)	(4.0)	(4.0)

Table 3**Stockholm Exergi Holding AB (publ)--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (mil. SEK) (cont.)**

S&P Global Ratings' adjusted amounts								
	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
Adjusted	12,593.0	11,762.0	2,882.0	785.0	195.0	2,552.0	2,295.0	1,805.0

SEK--Swedish krona.

Liquidity: Adequate

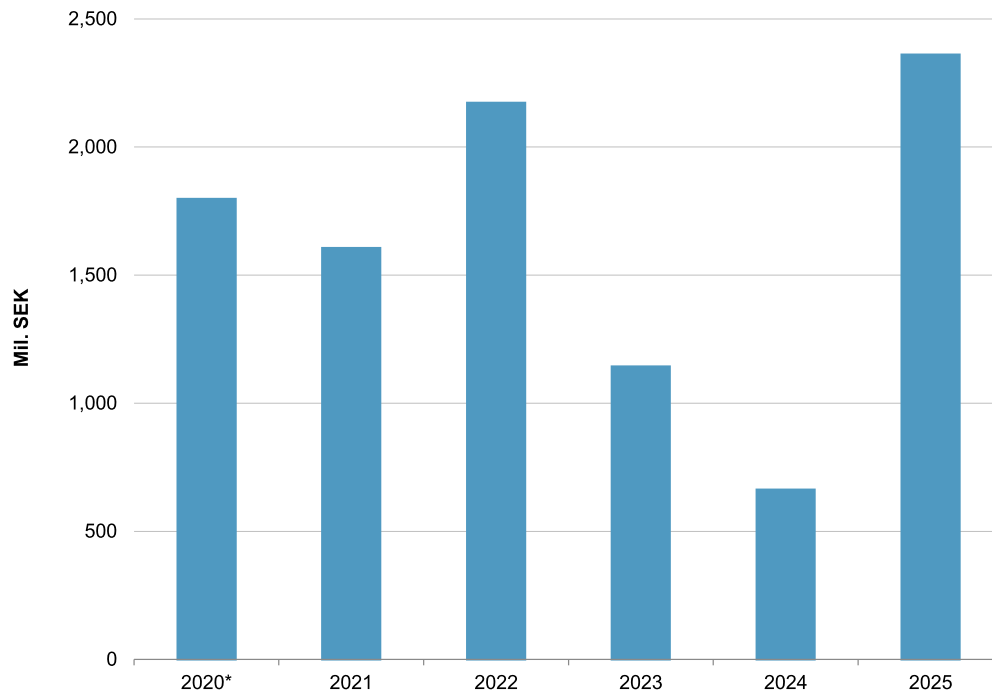
We view Stockholm Exergi's liquidity as adequate, reflecting that available liquidity sources should exceed forecast near-term cash outflows by 1.2x. We also expect that sources will exceed uses even if EBITDA declines by 15%. We believe that the company has sound relationships with banks, generally prudent risk management, and no restrictive financial covenants in its loan documentation.

Principal Liquidity Sources	Principal Liquidity Uses
<p>For the 12 months started March 31, 2020:</p> <ul style="list-style-type: none"> • Access to undrawn committed credit facilities totaling SEK3.65 billion. RCF of SEK3.0 billion with maturity in 2023, bank facility of SEK500 million with maturity in October 2021, and a bilateral RCF facility of SEK150 million with maturity in August 2021. • Cash FFO of about SEK2.5 billion. • Working capital inflow of about SEK118 million 	<p>For the 12 months started March 31, 2020:</p> <ul style="list-style-type: none"> • Debt maturities of about SEK2.3 billion, predominantly outstanding bonds. • Capex of about SEK2.0 billion in 2020. • Annual dividend of SEK850 million

Debt maturities

Chart 3

Stockholm Exergi: Debt Maturities



*As of May 2020. SEK--Swedish krona. Source: S&P Global Ratings.
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Covenant Analysis

Stockholm Exergi's credit facilities have no financial covenants.

Environmental, Social, And Governance

The utilities industry, which includes district heating providers, faces short- and long-term risks from environmental factors, but also societal issues in terms of pollution and governance risk related to political decisions affecting the industry, for example targets for carbon dioxide emissions.

Environmental risk has historically been a significant factor for Stockholm Exergi because of its fuel consumption related to the heat and coal CHP plants, and carbon dioxide emissions. Stockholm Exergi has reduced its carbon dioxide footprint by about 46% since 2010, mainly thanks to a shift from fossil fuel to biofuels and more efficient technology.

In 2020, Stockholm Exergi was able to execute its coal-phase out strategy in its district heating system, two year ahead of schedule. By year-end 2025, the company aims to finish the construction of the new CHP plant in Lövsta and the ongoing conversion to renewable fuels, and also to invest in technology to filter coal emission levels. In 2025, Stockholm Exergi plans to introduce the first Swedish bioenergy carbon capture and storage (BECCS) plant. The plant will be located at the current CHP plant at Värtaverket. Stockholm Exergi now aims to be climate-positive by year-end 2025, a revision of its previous aim to be climate neutral by 2030—a significant change to enhance its positive environmental strategy.

We see Stockholm Exergi's change in strategy as positive, as a mission to transform from a significant polluter in Stockholm to highly prioritize and minimize its carbon footprint. Swedish politicians are increasing their focus on major industries that drive carbon dioxide pollution, and have raised taxes on district heating in the past couple of years. The most recent tax implementation was to increase taxes on using waste as fuel for district heating. The company's shift away from fossil fuels has increased future investments for green based energy production.

Government Influence

In accordance with our criteria for government-related entities, we see a moderate likelihood of extraordinary support for Stockholm Exergi from the city of Stockholm, based on our assessment of the company's:

- Strong link to the city, which owns 50% of the company. We believe the city of Stockholm has no plans to reduce its stake in Stockholm Exergi. The remaining 50% is owned by Fortum Oyj, and the two shareholders have equal voting rights and board representation; and
- Limited importance for the city. Although Stockholm Exergi provides the majority of heating in Stockholm, we consider that, given the company's part ownership by Fortum, the city of Stockholm is primarily interested in Stockholm Exergi's operations and that its services could be provided by a private-sector entity.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Related government rating:** AAA
- **Likelihood of government support:** Moderate (+1 notch from SACP)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
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- ESG Industry Report Card: Regulated Utilities Networks , Feb. 11, 2020
- Are Regulatory Framework Changes Threatening The Credit Quality Of Swedish DSOs? Aug. 21, 2019

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of July 3, 2020)*

Stockholm Exergi Holding AB (publ)

Issuer Credit Rating	BBB+/Stable/A-2
<i>Nordic Regional Scale</i>	--/--/K-1
Senior Unsecured	BBB+

Issuer Credit Ratings History

03-Apr-2014	BBB+/Stable/A-2
03-Apr-2014 <i>Nordic Regional Scale</i>	--/--/K-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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