

ISSUER COMMENT

1 June 2018

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RATINGS

Eesti Energia AS	
LT Issuer Rating (Foreign)	Baa3
Outlook	Stable

Source: Moody's Investors Service

KEY METRICS:

Eesti Energia AS			
	2015	2016	2017
FFO Interest Cover	7.3x	8.7x	7.0x
FFO/net debt	29.9%	39.0%	34.5%
RCF/net debt	22.3%	38.9%	26.8%

Source: Moody's Financial Metrics™

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Eesti Energia AS

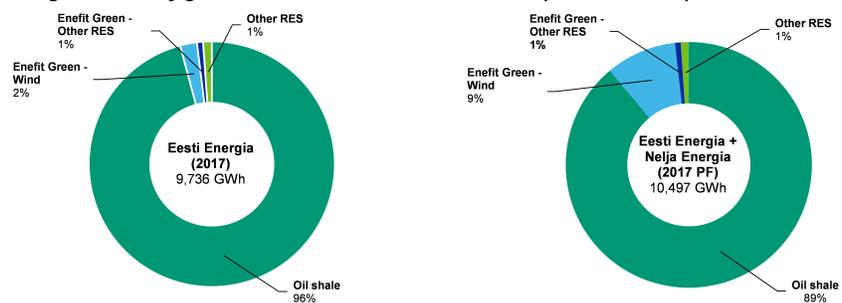
Wind assets' acquisition improves business risk profile, but financial profile likely to weaken

On 29 May, Eesti Energia AS (Eesti Energia) announced that it had signed a share purchase agreement for its renewable subsidiary, Enefit Green AS to acquire 100% of Nelja Energia AS (Nelja), a renewable energy producer and developer in the Baltic countries. The total consideration amounts to €493 million, of which €289 million relates to the equity of Nelja and €204 million to the latter's outstanding debt at the end of 2017. The transaction is subject to approval by the County Executive Board of Buskerud County Administration and customary approvals by relevant competition authorities.

If the transaction goes ahead it is likely to have a positive effect on Eesti Energia's business risk profile, as its enlarged renewables subsidiary would allow the group to move closer to its goal of increasing electricity produced from renewable and alternative sources to 40% by 2022, diversifying its current exposure from its carbon intensive, principally oil-shale based generation.

Exhibit 1

Eesti Energia's reliance on CO2-intensive oil shale generation should moderately reduce Eesti Energia's electricity generation breakdown - actual 2017 and pro forma of acquisition



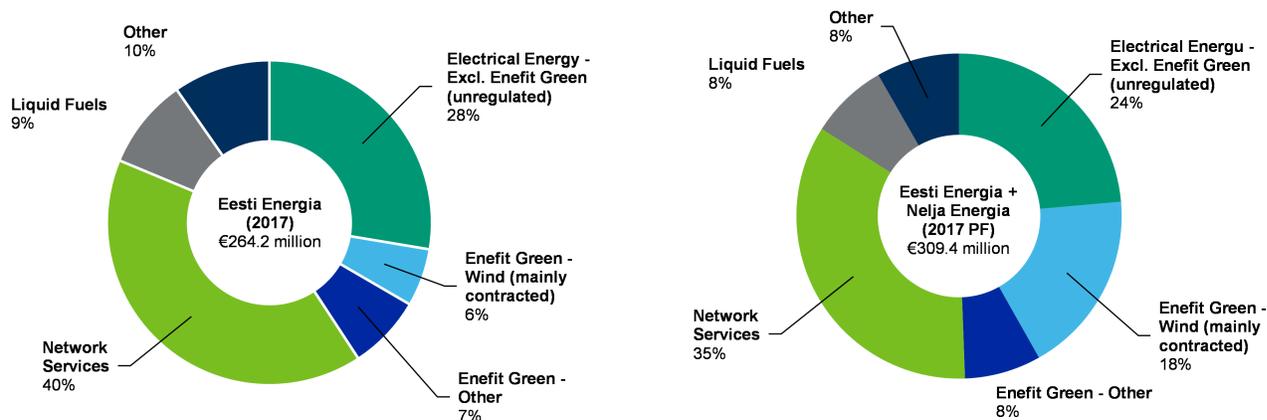
Source: Company, Moody's Investors Service

In addition, the new acquisition should bring greater stability to cash flows, as Nelja's Estonian and Lithuanian wind assets benefit from largely fixed price contracts, therefore moderately diluting Eesti Energia's exposure to volatile power and commodity prices through its conventional oil-based activities. Enefit Green will also have an enlarged platform from which to consider further renewable investment opportunities in its core Baltic, Polish and Finnish markets.

Exhibit 2

The acquisition will improve Eesti Energia's business risk profile

Eesti Energia's EBITDA breakdown - reported 2017 and pro forma of acquisition



Note: The support system for renewables in Estonia is based on feed-in premiums on top of the market electricity price, whereas the support scheme in Lithuania is based on feed-in tariffs.
Source: Company, Moody's Investors Service

At the same time, the transaction is sizeable in the context of Eesti Energia's own financial profile. The group's net debt is expected to almost double from €546 million as at 31 March 2018, assuming completion of the transaction. Over the 2016-18 period, the company has demonstrated growing financial flexibility and strong financial metrics for its current rating, with net debt/EBITDA of 2.1x, cash balances of €337 million and back up facilities of €150 million as at the end of Q1 2018. We expect the company to consider strategies to reduce the additional financial burden, taking into consideration its maximum current net debt/EBITDA target of 3.5x. In this context, we note that, according to Eesti Energia, the government has indicated that it expects to bring a minority equity stake in the Enefit Green subsidiary to the stock market through an Initial Public Offering (IPO), the proceeds of which we believe could be applied to debt reduction and investment opportunities.

As further information becomes available over forthcoming months, our assessment of the group's credit strength will take account of the evolution of its financial profile and the potential benefits of any debt reduction through an IPO, or other forms of risk sharing with partners, set against possible cash leakage through dividends to minority shareholders. We will also factor in any structural issues that may arise as result of future debt allocation across the group and the potential subordination of debt at the holding company to debt at the renewables subsidiary level. A significantly weaker financial profile on a sustained basis, outside of the company's existing target parameters, whilst not currently expected, would be credit negative.

We continue to factor in Eesti Energia's importance to the state, given its strategic role in the electricity and shale markets within Estonia. The group's Baa3 rating currently factors 2 notches of support from its current 100% ownership by the A1-rated government of Estonia. Our assessment of Eesti Energia's credit strength will continue to reflect both the company's fundamental credit profile (or Baseline Credit Assessment of ba2) combined with the likelihood of extraordinary support. We note that the government has demonstrated a supportive stance to the company in the past as reflected in a flexible dividend policy and a direct equity injection into the company in 2012.

The acquisition of Nelja Energia brings 17 wind farms in Estonia and Lithuania with a total capacity of 287MW. In addition the company owns a pellet factor and a combined heat and power plant in Latvia, as well as small stakes in two biogas stations in Estonia.

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Outlook:

- » [Unregulated electric and gas utilities - EMEA - 2018 outlook stable as diversification supports earnings, 22 November 2017](#)

Sector In-Depth:

- » [Europe's Electricity Markets - In Europe, subsidies decline slowly even as costs of new renewables plunge, 22 November 2017](#)
- » [Europe's Electricity Markets - In the Nordics, reduced capacity from 2020 will raise power prices from low levels, 22 November 2017](#)
- » [Global Unregulated Utilities and Power Companies - Carbon Transition Brings Risks and Opportunities, 19 October 2016](#)

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