



RATING ACTION COMMENTARY

Fitch Upgrades Energa to 'BBB+', Removes from Rating Watch Positive; Outlook Stable

Thu 17 Nov, 2022 - 10:53 ET

Fitch Ratings - Warsaw - 17 Nov 2022: Fitch Ratings has upgraded Energa S.A.'s Long-Term Issuer Default Rating (IDR) to 'BBB+' from 'BBB-' and removed it from Rating Watch Positive (RWP). The Outlook is Stable. A full list of rating actions is below.

The upgrade and removal from RWP mirror a recent similar rating action on Energa's controlling shareholder, Polski Koncern Naftowy ORLEN S.A. (BBB+/Stable), whose Long-Term IDR Fitch upgraded to 'BBB+' from 'BBB-' and removed from RWP on 9 November 2022.

The upgrade reflects our unchanged view on the company under our "Parent and Subsidiary Linkage Rating Criteria", under which we equalise Energa's rating with that of PKN ORLEN.

KEY RATING DRIVERS

Equalisation Rating Approach: We view the parent company PKN ORLEN's standalone credit profile (SCP) as stronger than Energa's (bbb-) due to its larger operations, stronger business diversification and lower leverage. Applying the stronger parent/weaker subsidiary approach under our "Parent and Subsidiary Linkage Rating Criteria", we equalise the rating of Energa with that of PKN ORLEN. This is based on our

assessment of "Medium" legal incentives, combined with "High" strategic and operating incentives for the parent to support the subsidiary.

Medium Legal Incentives: We view legal incentives to support the company as medium, given the cross-defaults in PKN ORLEN's debt with moderate permanence with regards to Energa, undertakings regarding subsidiary liquidity and in the absence of PKN ORLEN's guarantees for Energa's debt.

High Strategic Incentives: We assess strategic incentives to support the company as high due to the following factors. Energa is an important part of PKN ORLEN's strategy for energy transition, as an important company under which the parent invests in renewables, including onshore and offshore wind and also in gas-fired power plants. This is a new trend in the strategies of oil and gas companies due to an increased ESG focus. PKN ORLEN's strategy places Energa as one of its key acquisitions, generating additional EBITDA to meet the 2030 EBITDA goal.

Energa makes a substantial contribution to PKN ORLEN's group profile. In 6M22, Energa's EBITDA of PLN2.0 billion accounted for 25% of PKN ORLEN's last in first out EBITDA. Energa provides a material competitive advantage and growth potential to the parent. PKN ORLEN views Energa as an important subsidiary with more stable cash flow than its more cyclical and risky oil refining, oil and gas upstream and petrochemicals businesses. PKN ORLEN supports Energa through lack of dividend payments given its large capex.

High Operational Incentives: Energa is operationally integrated into the PKN ORLEN group. The majority ownership achieved by PKN ORLEN after its acquisitions of Energa's shares in 2020 (91% of capital and 93% of voting rights), common management structure and operational synergies result in our high assessment of operational incentives.

For Key Rating Drivers related to the SCP, Key Assumptions, Derivation Summary, Liquidity and Debt Structure applied to Energa's ratings, see: "Fitch Maintains Energa's 'BBB-' IDR on Rating Watch Positive", dated 20 January 2022.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Positive rating action on PKN ORLEN

- FFO net leverage below 4x on a sustained basis, which would be positive for the SCP

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Negative rating action on PKN ORLEN
- FFO net leverage above 5x on a sustained basis, for example, due to a protracted economic downturn, higher than planned capex or reinstatement of dividends, which would be negative for the SCP

PKN ORLEN's rating sensitivities from the most recent Rating Action Commentary on 9 November 2022 are:

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Rating upside is currently limited without significant further strengthening of the business profile with larger scale of operations and geographical diversification combined with lower execution risk of shifting the business towards lower emission technologies
- Net debt to EBITDA below 1.5x or FFO net leverage below 1.7x on a sustained basis

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Net debt to EBITDA above 2.5x or FFO net leverage above 2.7x on a sustained basis
- Higher than currently expected variability of cash flows
- Aggressive financial policy with higher than expected dividend payments or debt funded acquisitions

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>.

ISSUER PROFILE

Energa is an integrated utility operating in Poland. The main areas of operations are electricity distribution, generation and supply. Energa's shares are listed on the Warsaw Stock Exchange, but a controlling shareholding is held by PKN ORLEN.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Energa is credit-linked to PKN ORLEN.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
Energa S.A.	LT IDR	BBB+ Rating Outlook Stable
	Upgrade	BBB- Rating Watch Positive
	LC LT IDR	BBB+ Rating Outlook Stable
	Upgrade	BBB- Rating Watch Positive
	Natl LT	A(pol) Rating Watch Positive
	AA+(pol) Rating Outlook Stable	Upgrade

senior unsecured	LT	BBB+	Upgrade	BBB- Rating Watch Positive
subordinated	LT	BBB-	Upgrade	BB Rating Watch Positive
senior unsecured	Natl LT	AA+(pol)	Upgrade	A(pol) Rating Watch Positive
Energa Finance AB (publ)				
senior unsecured	LT	BBB+	Upgrade	BBB- Rating Watch Positive

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Corporate Hybrids Treatment and Notching Criteria \(pub. 12 Nov 2020\)](#)

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 09 Apr 2021\)](#)
(including rating assumption sensitivity)

[Parent and Subsidiary Linkage Rating Criteria \(pub. 01 Dec 2021\)](#)

[Corporate Rating Criteria \(pub. 28 Oct 2022\)](#) (including rating assumption sensitivity)

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