



RATING ACTION COMMENTARY

Fitch Revises Teollisuuden Voima Oyj's Outlook to Negative; Affirms at 'BBB-'

Mon 20 Apr, 2020 - 1:24 PM ET

Fitch Ratings - Warsaw - 20 Apr 2020: Fitch Ratings has revised Teollisuuden Voima Oyj's (TVO) Outlook to Negative from Stable and affirmed the Long-Term Issuer Default Rating (IDR) at 'BBB-'.

The Negative Outlook reflects the latest announced delay of fuel loading, a critical milestone, at the third 1,600 MW nuclear plant Olkiluoto 3 (OL3) project caused by overall slow progress of works as well as disruption due to the coronavirus outbreak.

There is a risk that the settlement agreement signed with the supplier consortium (Areva NP, Areva GmbH, Siemens AG (A/Stable) and Areva Group's parent Areva SA) in March 2018 would not protect TVO from financial impacts should the start of power production be delayed beyond June 2021, because the consortium has not yet assigned a new date for the fuel loading. After this date, TVO would not be entitled to penalty payments from the supplier consortium under the settlement agreement anymore.

The Negative Outlook also reflects the current weak power price environment, which will erode the value creation for TVO's shareholders, a key consideration for our assessment of TVO's credit profile.

The affirmation of the ratings reflects our view that despite the announced delay of fuel loading, the supplier consortium has not announced a delay of the commencement of power production currently scheduled for March 2021 (based on the latest updated schedule of OL3 announced by the consortium in December 2019). Should the supplier consortium later announce that this will be pushed substantially beyond June 2021, we would likely downgrade the ratings.

KEY RATING DRIVERS

OL3 Schedule Uncertain: The OL3 plant's supplier consortium has announced that fuel loading will not take place in June 2020, according to the latest project schedule due to slower-than-planned progress of works as well as uncertainty brought by the coronavirus outbreak.

This means the start of power production, planned currently for March 2021, could be postponed. A significant delay could be negative for TVO's cash flow as the company has to service debt related to OL3 without cost pass-through to shareholders in the construction phase.

Settlement Agreement: TVO and the supplier consortium signed a settlement agreement in March 2018, which states that TVO would receive compensation of EUR450 million from the supplier consortium. The settlement further includes a penalty mechanism, under which the supplier consortium pays additional penalties to TVO in case of further delays beyond 2019. However, these are capped at EUR400 million, which would be reached in June 2021.

Should the commissioning of the plant be delayed beyond this, the agreement would not offset financial impacts on TVO, according to our understanding. Areva is currently making arrangements in order to secure funding until the end of the project (including the guarantee period).

Weak Power Prices and Value Creation: Value creation for TVO's shareholders, which is one of the key rating considerations, is expected to be significantly weaker in 2020 compared with the past two years. Average Nord Pool system price in the

first quarter was EUR15.4/MWh compared with EUR46.8/MWh for the same period last year.

TVO's current production cost is about EUR20/MWh. The blended production cost is estimated to increase to about EUR30/MWh when OL3 comes online. Nord Pool futures for 2021-2022 currently trade about EUR23-EUR26/MWh and Finnish area prices at slightly higher levels.

Not-for-Profit Nuclear Generator: The ratings reflect TVO's position as a not-for-profit Finnish nuclear generator, producing at-cost electricity for the company's six shareholders. TVO's largest shareholder (with 57.1%) is Pohjolan Voima Oyj, a not-for-profit electricity generator owned by a consortium of Finnish industrials (mainly pulp and paper companies UPM-Kymmene Oyj and Stora Enso Oyj (BBB-/Stable)) and utilities. Its second-largest shareholder (with 27.6%) is Fortum Power & Heat Oyj, a 100% owned subsidiary of Fortum Oyj (BBB/Negative).

No Merchant, Volume Risk: TVO has no direct exposure to wholesale electricity prices or volumes, as its shareholders are at-cost off-takers of the electricity produced. Shareholders have an incentive to keep costs low and to off-take their proportion of the energy due to the large fixed costs they have to cover, according to TVO's articles of association.

If a shareholder fails to cover annual fixed costs (80% of total costs paid one month in advance, which also includes debt instalments falling due annually) and variable costs (about 20% of costs) in proportion to their off-take, TVO would cut the supply and sell the electricity to another shareholder or at the Nord Pool exchange.

Low Political Risk: Finland's regulatory environment supports the construction of nuclear power plants, given the country's concerns over supply security (TVO is a key generator of base-load electricity in Finland - its nuclear plant generated electricity corresponding to roughly 16% of the country's annual electricity consumption), the need for reasonably priced electricity for its energy-intensive industries, and stringent EU CO2 emission requirements driving the phase-out of thermal plants.

DERIVATION SUMMARY

As TVO is a not-for-profit company, Fitch considers traditional leverage or coverage ratios, which are weak compared with other European utilities such as Fortum Oyj (BBB/Negative) or Statkraft AS (BBB+/Stable), as less relevant for the ratings than for utilities operating on a fully commercial basis. TVO's funds from operations (FFO) after cash interest paid is typically negative and FFO interest cover usually below 1x as interest expense related to OL3 debt in the construction phase is not covered by shareholders but capitalised.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

-Fitch calculates projected EBITDA and credit ratios hypothetically in a profit-making scenario, assuming that TVO is able to sell its electricity output at market prices instead of at-cost prices. This measures the incentive for shareholders to maintain their at-cost off-takes, as well as the theoretical dividend that would instead be paid in a profit-making scenario

-OL3 operational by June 2021

-Average production cost of TVO to increase to about EUR30/MWh as OL3 becomes operational, from about EUR20/MWh (with OL1 and OL2 only)

-Finnish area prices of about EUR30-EUR35/MWh in the medium term

RATING SENSITIVITIES

Factors That May, Individually or Collectively, Lead to Positive Rating Action/
Upgrade

An upgrade of the rating is unlikely given the Negative Outlook.

The Outlook could be revised to Stable if the following occurs:

-Start of power production by June 2021 or reasonably soon thereafter, together with improved power price environment

Factors That May, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

-Further OL3 delays substantially beyond June 2021 leading to additional costs for TVO

-TVO's production costs significantly exceeding Finnish area prices on a sustained basis when OL3 is completed, leading to value destruction for TVO shareholders

-Evidence of reduced support from shareholders or structural changes in the Mankala principle undermining the strength of shareholder support

-Adverse regulatory or fiscal changes

-Deterioration in operating performance, safety issues and significantly reduced liquidity reserves

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>.

LIQUIDITY AND DEBT STRUCTURE

Adequate liquidity: Cash and cash equivalents as at end-March 2020 were EUR147 million. Committed undrawn credit facilities were EUR1,300 million (EUR300 million maturing in 2022 and EUR1,000 million in 2023), resulting in sufficient liquidity to cover for 2020-2021 debt repayments of EUR674 million (excluding

repayments of lease liabilities of EUR3 million). In addition, TVO has committed and undrawn shareholder loans of EUR250 million allocated to OL3 project costs, if needed. Its overall liquidity is considered adequate.

After OL3 comes online and shareholders start to cover full costs (including interest costs and asset depreciation), total debt is projected to start gradually declining. In September 2019, TVO issued EUR650 million bonds with a coupon of 1.125% due in 2026. About EUR350 million of the proceeds were used to partially repay the EUR500 million bond maturing in March 2021. This year, TVO obtained a new three-year EUR100 million bilateral bank loan and has extended maturities of a EUR500 million from 2022 to 2023.

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.

ESG CONSIDERATIONS

TVO has an ESG Relevance Score of '4' [+] for Exposure to Social Impacts due to wide political and public acceptance of nuclear power in Finland, which has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING
-------------	--------

ENTITY/DEBT	RATING		
Teollisuuden Voima Oyj (TVO)	LT IDR	BBB-	Affirmed
	ST IDR	F3	Affirmed
● senior unsecured	LT	BBB-	Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Arkadiusz Wicik, CFA

Senior Director

Primary Rating Analyst

+48 22 338 6286

Fitch Polska SA Krolewska 16, 00-103 Warsaw

Harry Monthen

Associate Director

Secondary Rating Analyst

+44 20 3530 1247

Josef Pospisil, CFA

Managing Director

Committee Chairperson

+44 20 3530 1287

MEDIA CONTACTS

Adrian Simpson

London

+44 20 3530 1010

adrian.simpson@thefitchgroup.com

Malgorzata Socharska

Warsaw

+48 22 338 6281

malgorzata.socharska@fitchratings.com

Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Parent and Subsidiary Rating Linkage \(pub. 27 Sep 2019\)](#)[Corporates Notching and Recovery Ratings Criteria \(pub. 14 Oct 2019\) \(including rating assumption sensitivity\)](#)[Short-Term Ratings Criteria \(pub. 06 Mar 2020\)](#)[Corporate Rating Criteria \(pub. 27 Mar 2020\) \(including rating assumption sensitivity\)](#)**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 ([1](#))**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Teollisuuden Voima Oyj (TVO)

EU Issued

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-](https://www.fitchratings.com/rating-)

DEFINITIONS-DOCUMENT DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual

investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by

Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction.

Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

