Teollisuuden Voima Oyj (TVO) (/gws/en/esp/issr/83573665)

FitchRatings

Fitch: Nuclear Project Delay Has No Immediate Rating Impact on TVO

Fitch Ratings-Warsaw/London-19 October 2017: Fitch Ratings says there is no immediate rating impact on Teollisuuden Voima Oyj (TVO, BBB-/Stable) from the recently announced five-month delay of the Olkiluoto 3 (OL3) nuclear power plant project. The start of regular electricity production from the 1.6GW OL3 plant is now expected in May 2019.

We estimate that the impact of the delay on electricity production costs from 2019 will be fairly small and mitigated by TVO's decreasing average cost of borrowings. OL3's higher production costs are mainly due to the additional five months of debt service before the project starts to generate cash flows.

However, a rating downgrade cannot be ruled out and will be determined by the OL3 project's progress and the performance of the leading contractor AREVA, which is undergoing restructuring in France, with regards to project completion in line with the updated schedule and within budget.

We understand that the delay is partly driven by AREVA's experience with similar projects under construction in China, resulting in a longer testing phase than previously expected before the plant reaches full production.

TVO continues to benefit from strong support from its shareholders, demonstrated through arrangements for fixed- and variable-cost coverage and subordinated shareholder loans covering part of the funding.

The OL3 project has faced many challenges in the planning and construction phase, which resulted in a 10-year delay from 2009 and substantial cost overruns. Another European Pressurised Reactor (EPR) nuclear plant constructed by AREVA, Flamanville 3 in France, also faces substantial delays and is considerably above the original budget.

Fitch believes that the restructuring of AREVA creates both long- and short-term challenges for TVO. AREVA's technological know-how is critical during the final stages of the OL3 project as the EPR used in OL3 is the first of its kind. There are three other EPR reactors under construction (Taishan 1 and 2 in China, and Flamanville 3) and two in the planning phase (Hinkley Point C) but the technology is unproven, which creates uncertainty about the availability of technological know-how in the long term.

TVO and the AREVA-Siemens consortium, the OL3 construction contract supplier, have filed claims against each other regarding the multi-year delay of the OL3 plant and cost overruns.

Our view is that a favourable outcome for TVO in its litigation with the supplier, with significant compensation for the delay, considerably decreasing TVO's production costs, could be credit positive, while substantial compensation for the contract supplier would be negative. We believe TVO is unlikely to be a net payer in the arbitration process after the partial awards from International Chamber of Commerce received by TVO in November 2016 and July 2017 resolving the great majority of the matters in favour of TVO. The arbitration proceeding is still under way. Our rating case does not assume any compensation payments.

The OL3 supplier consortium companies AREVA GmbH, AREVA NP SAS and Siemens AG (A/Stable) are jointly and severally liable for the plant contract obligations, including current and future liabilities, until the end of the guarantee period of the project.

The rating reflects 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 58.3%) is Pohjolan Voima, a not-for-profit generator owned by a consortium of Finnish industrials (mainly pulp and paper) and utilities. Its second-largest shareholder (with 25.8%) is Fortum Power & Heat, a 100% owned subsidiary of Fortum Oyj, whose 'BBB+' rating was placed on Rating Watch Negative on 28 September 2017.

The Rating Watch reflects the downgrade risk associated with Fortum's intention to launch a voluntary public offer to Uniper SE's shareholders, which may cost it as much as EUR8 billion for 100% of the shares and could lead to a revision of its rating guidelines if the two business are consolidated.

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