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Electricity Supply Board

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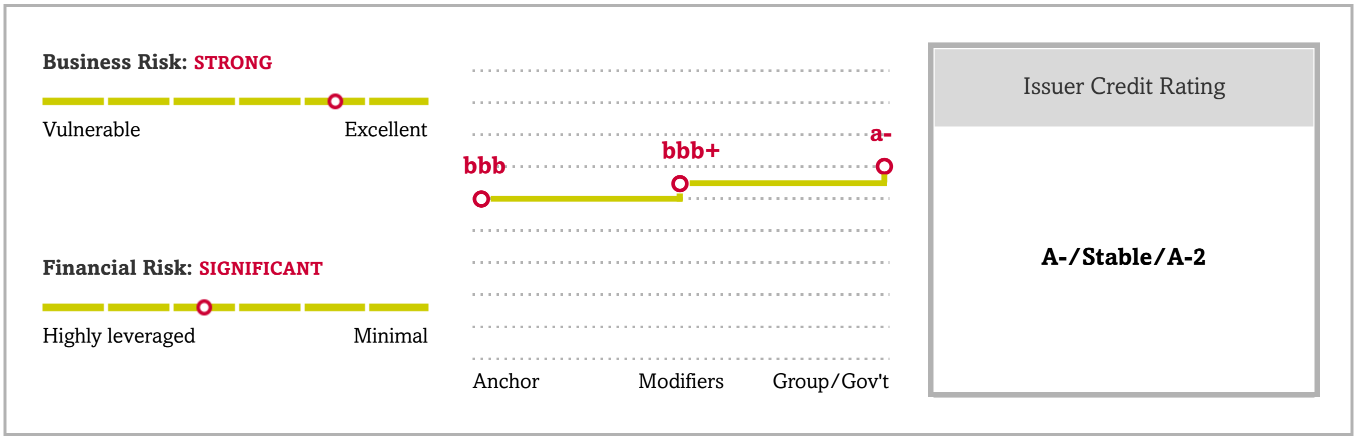
Electricity Supply Board



Credit Highlights

Overview

Key strengths	Key risks
Strong position in the Irish energy market where it is the largest vertically integrated utility by revenue.	Sizeable capital expenditure (capex), averaging more than €1.3 billion per year over 2022-2024, reducing deleveraging prospects.
Stable and predictable regulated networks that generate more than two-thirds of EBITDA.	Complexity due to the mandated shift of energy generation toward renewables, which is currently facing operational delays.
Flexible financial policy with relatively low dividend payout of about 40%.	Lower remuneration for regulated power transmission and distribution operations in Ireland for the current five-year regulatory period (2021-2025), which should be manageable.
Moderate support from the Irish government (96% shareholder), which translates into one notch of uplift to the stand-alone credit profile (SACP).	Customer solution business (about 1% of EBITDA) is exposed to volatile market conditions.

ESB's dominant position in Ireland's energy market and low risk regulated network will continue to support earnings stability and credit quality. The company is a diversified, vertically integrated utility, with operations spanning generation, transmission and distribution, and customer supply. It benefits from monopoly ownership of the transmission and distribution networks in the Republic of Ireland (ROI) and Northern Ireland (NI). It has the only license to operate the electricity distribution system in both jurisdictions--through its ring-fenced subsidiaries, ESB Networks DAC in ROI, and NIE Networks in NI. S&P Global Ratings expects ESB will generate about 70% of its EBITDA from regulated activities over 2022-2024, which provides earnings stability, and we assess the group's regulatory advantage as strong.

ESB's significant investment in networks and renewables over the next five years aligns the company with the politically driven transition to lower carbon energy production. The company plans to invest (gross capex) €1.5 billion-€2.0 billion each year over 2022-2026, with at least two-thirds of that earmarked for low risk network activities. The remaining funds, amounting to about €2.2 billion over the entire 2022-2026 period, have been allocated to expand ESB's generation and trading activities. About 82% of that budget, or €1.8 billion, is expected to be invested in renewables, including €1.5 billion of loans to joint ventures for onshore and offshore wind generation.

The company faces little regulatory reset risk ahead of 2026. Ireland's Commission for Regulation of Utilities (CRU) set the pre-tax, real weighted average cost of capital (WACC) for the 2021-2025 regulatory period at 3.80%, down from 4.95%, effectively removing regulatory reset risk for the current five-year period. Regulatory periods in Ireland have been reviewed every five years since 2001, for electricity, and since 2002 for gas. We view as low the likelihood of a review before the end of 2025.

ESB's Customer Solutions business, which accounted for 1% of EBITDA in 2021, is expected to make a loss in 2022 due to significant energy market volatility. The division reported an operating loss of €19 million in 2021 and EBITDA of €11 million, both before exceptional items, down from a profit of €58 million in 2020. The loss in 2021 was largely driven by increased wholesale energy costs and the mandatory price cap on sales in Great Britain. ESB's British gas and electricity supplier, So Energy, is expected to remain loss making in 2022. That will have a negative impact on Customer Solutions' EBITDA in 2022, before rebounding back in 2023, reflecting our expectation of So Energy's improved results.

ESB's commitment to net zero by 2040 creates long-term alignment with governments' carbon-neutral energy commitments. We view ESB as well placed to benefit from European governments' commitment to the energy transition. European governments' target of net zero emissions by 2050--combined with a need to strengthen power networks, prevailing low interest rates, and investors' increasing appetite for sustainable finance--is creating conditions for an investment supercycle. ESB announced its net zero target in February 2022, implementing a strategy that meshes with Ireland's "Climate Action Plan", Northern Ireland's "Path to Net Zero Energy", and the U.K.'s "Net Zero Strategy: Build Back Greener". The strategy includes: 1) a commitment to renewable generation capacity of five gigawatts--a 400% increase that will aim to reduce carbon output by two-thirds by 2030; 2) Increased investment in energy storage infrastructure, including batteries and the launch of three pilot hydrogen projects by 2023; 3) a doubling of electric vehicle charging points to 3,000 and the electrical retrofitting of 35,000 homes, both by 2030. ESB is also rolling out smart meters in Ireland, with almost 620,000 installed and a target of a further 40,000 a month until the end of 2024. As such, we foresee greater political support and growth prospects for ESB's regulated network operations, which contribute about 70% of EBITDA.

ESB will continue to benefit from support from the Irish government. The Irish state owns 96.5% of the company and considers ESB strategically important because it is the largest Irish power generator and the monopoly power distributor. This strong link with the Irish government leads us to incorporate one-notch of uplift in our rating on ESB.

Outlook: Stable

The stable outlook on ESB mirrors that on Ireland. We expect ESB to maintain S&P Global Ratings-adjusted funds from operations (FFO) to debt above 17%, based on its regulated network's stable contribution, and despite the sizable capex required for the transformation of its generation portfolio.

Downside scenario

We could lower the rating on ESB if we take a similar action on Ireland. We could revise down ESB's standalone rating if its earnings became more volatile or if the group's profitability weakened. This could stem from lower returns from the regulated network businesses--reflecting underperformance against regulatory allowances--or weaker performance in the unregulated business.

ESB's SACP could also come under pressure if the group's debt increased without a simultaneous increase in FFO. This could be caused by an unexpected increase in capex, a debt-financed acquisition, or higher-than-anticipated dividend pay-outs. At the current sovereign rating level, if we revised down the SACP by one notch, we would also lower the rating on ESB by one notch under our GRE methodology.

Upside scenario

We cap our ratings on ESB at the sovereign rating because the Irish government owns 96.5% of ESB, and a significant proportion of the group's earnings are regulated in, and originate from, Ireland. If we raise the rating on Ireland by one notch, the rating on ESB would not change, all else being equal.

We are unlikely to revise the SACP upward over our three-year rating horizon, mainly based on the group's forecast metrics, which are affected by its sizable and partly debt-financed capex program.

Our Base-Case Scenario

Assumptions

Our base-case assumptions for 2022-2024 are:

- Real GDP growth for Ireland of 3.6% in 2022, and 3.1% in 2023 and 2024.
- Reduction in WACC for the current regulatory period (PR5) to 3.80% from 4.95% under the previous regulatory period (PR4).
- Continued regulatory visibility and high predictability of earnings from ESB's Ireland-based network operations, as well as its subsidiary, Northern Ireland Electricity (NIE).
- Revenue decline of about 25%-30% in 2022 followed by revenue growth of about 3.5%-5.5% over 2023-2024.
- EBITDA margins of about 34.5%-38.5%, when supply contributions are subtracted from EDITDA.
- Annual net capex of about €1.2 billion-€1.6 billion, with about two-thirds to be invested in regulated networks.
- The dividend policy agreed with the Government in 2013 provides for targeted dividends at a rate of 40% of adjusted profit after tax since 2017.

Key metrics

Electricity Supply Board*--Key Metrics

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2020a**	**2021a**	**2022e**	**2023f**	**2024f**
EBITDA	1,354.4	1,493.3	1,300-1,400	1,500-1,600	1,500-1,600
Capital expenditure	881.1	934.9	1,100-1,200	1,100-1,200	1,350-1,450
Dividends	50.3	80.8	120-130	65-75	155-165
Debt	5,820.6	5,769.6	6,200-6,300	6,500-7,500	6,500-7,500
Debt to EBITDA (x)	4.3	3.9	16.5-17.5	18-19	17.5-18.5
FFO to debt (%)	18.7	21.0	4.0-5.0	4.0-5.0	4.0-5.0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations.

Company Description

ESB was established in 1927 and is 96.5% owned by the government of Ireland. It reported an adjusted EBITDA of roughly €1.49 billion for 2021. ESB is an integrated utility predominantly operating in Ireland and Northern Ireland. It has a leading market position across the island. ESB's activities span power generation, the transmission and distribution of electricity, and power supply.

ESB is the monopoly owner of the transmission and distribution grids in Ireland and Northern Ireland and has a 33% share in the integrated single electricity generation market across the whole island.

NIE is a wholly owned subsidiary of ESB. It is the only electricity transmission asset owner and the electricity distribution network owner and operator in Northern Ireland.

In 2021, ESB had a 40% share of the Irish electricity supply market, while within gas supply, ESB had a market share of 22% and supplied electricity and gas to about 1.4 million customers.

Peer Comparison

ESB's closest peer is EnBW Energie Baden-Wuerttemberg AG (A-/Stable/A-2), which is one of Germany's largest vertically integrated utilities. EnBW is principally engaged in electricity generation and trading, as well as the operation of electricity grids. The State of Baden-Wuerttemberg and Zweckverband Oberschwabische Elektrizitatswerke, an association of municipalities in Baden-Wuerttemberg, each own 46.75% of EnBW. The remaining shares are held by several associations of municipalities in Baden-Wuerttemberg and private investors through a free float. We assess the likelihood of government support as moderate for EnBW leading to one notch of uplift from the SACP, as is the case with ESB.

Energie AG is the largest Austrian utility company and has a high market share in the retail supply of power and gas. Austria accounts for about 94% of Energie's EBITDA, while 6% comes from the Czech Republic. The Upper-Austria state owns 53% of Energie, the Raiffeisen consortium has 14%, Oberbank has 5%, and several regional Austrian utilities own the rest. The rating on Energie includes one notch of uplift, reflecting a moderate likelihood that the majority shareholder would provide timely and sufficient extraordinary support in the event of financial distress.

Iberdrola's fully owned subsidiary Scottish Power Ltd. (BBB+/Stable/A-2) is a vertically integrated electric utility with operations in the U.K. It is among the U.K.'s six largest energy supply companies, the third largest electricity distributor, and the largest renewable energy provider, with 100% of its production coming from renewable sources.

SSE plc (BBB+/Stable/A-2) is a listed, investor-owned energy company with generation, transmission, distribution, and supply operations in Scotland, England, Wales, and Ireland. It reported adjusted EBITDA of about £1.97 billion for the year to the end of March 2021. SSE operates mainly in two segments: networks and energy.

Table 1

Electricity Supply Board--Peer Comparison

Industry sector: Electric

	Electricity Supply Board	Energie AG Oberoesterreich	EnBW Energie Baden-Wuerttemberg AG	Scottish Power Ltd.	SSE PLC
Ratings as of June 16, 2022	A-/Stable/A-2	A/Stable/--	A-/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2
	--Fiscal year ended--				
	Dec. 31, 2021	Sept. 30, 2021	Dec. 31, 2021	Dec. 31, 2021	March 31, 2021
(Mil. €)					
Revenue	5,319.2	2,207.7	32,074.7	6,317.1	8,012.1
EBITDA	1,493.3	318.5	3,385.0	1,866.0	2,310.1
Funds from operations (FFO)	1,213.7	265.9	2,884.0	1,552.1	1,866.8
Interest expense	155.4	24.3	312.5	241.8	467.5

Table 1

Electricity Supply Board--Peer Comparison (cont.)					
Cash interest paid	168.0	21.5	300.4	227.9	369.6
Cash flow from operations	1,411.1	378.5	7,637.7	1,995.0	2,102.1
Capital expenditure	934.9	197.9	2,225.3	1,093.2	1,365.1
Free operating cash flow (FOCF)	476.2	180.6	5,412.4	901.8	736.9
Discretionary cash flow (DCF)	385.8	126.6	4,827.0	768.7	(1,135.0)
Cash and short-term investments	276.4	348.9	5,215.6	1,175.5	1,878.2
Debt	5,769.6	557.4	8,763.5	6,433.7	10,075.2
Equity	4,111.3	1,535.8	9,742.3	10,284.6	7,425.9
Adjusted ratios					
EBITDA margin (%)	28.1	14.4	10.6	29.5	28.8
Return on capital (%)	5.7	9.3	10.3	5.8	9.5
EBITDA interest coverage (x)	9.6	13.1	10.8	7.7	4.9
FFO cash interest coverage (x)	8.2	13.4	10.6	7.8	6.1
Debt/EBITDA (x)	3.9	1.8	2.6	3.4	4.4
FFO/debt (%)	21.0	47.7	32.9	24.1	18.5
Cash flow from operations/debt (%)	24.5	67.9	87.2	31.0	20.9
FOCF/debt (%)	8.3	32.4	61.8	14.0	7.3
DCF/debt (%)	6.7	22.7	55.1	11.9	(11.3)

Business Risk: Strong

ESB's strong business risk profile is underpinned by stable and predictable cash flows from its low risk regulated electricity transmission and distribution network operations in Ireland. These cash flows contributed almost 72% of consolidated EBITDA each year in 2020 and 2021.

We consider that regulatory frameworks for electricity and gas transmission and distribution networks in Ireland exhibit the following supportive characteristics consistent with a strong regulatory advantage:

Use of system tariffs are set over a five-year period (and reset annually for electricity networks) based on the regulator's allowed operating costs, recovery of allowed capital investment over their asset lifetimes, and an allowed return on the regulatory network asset base.

The regulator benefits from a solid track record of stability over successive five-year regulatory periods, with well-defined conditions. This provides companies with good visibility on their financial performance.

The regulatory reset risk in ESB's network activities in Ireland eased with the commencement of the current five-year regulatory period, which started in January 2021 and will continue till December 2025.

The PR5 determination for ESB's regulated transmission and distribution activities in Ireland (which account for about

57% of ESB's EBITDA) decreased ESB's transmission activities remuneration. Ireland's CRU set the pre-tax, real WACC for the 2021-2025 regulatory period at 3.80%, down from 4.95%. The lower assessment is mainly a reflection of lower interest rates in capital markets. We note that the WACC is still relatively high compared to other European regulatory frameworks. PR5 also introduced an increase in the gross capex allowance, to €4.4 billion from €2.7 billion under PR4, which we view as positive. The increase accounts for an accelerated smart meter roll-out and investment in renewable generation. Furthermore, we understand the CRU will allow flexibility with regards to capex, depending on the speed of electrification in other sectors, namely heating and transport. We expect ESB's dividend policy to remain flexible and the state supportive.

For further information on the Irish regulatory framework, see "Why We See The Republic of Ireland's Electricity And Gas Regulatory Framework As Supportive," published May 8, 2018.

Northern Ireland's regulatory period runs from Oct. 1, 2017, to March 31, 2024. The current six-and-a-half-year price control period (RP6) in Northern Ireland follows the key principles of the regulatory frameworks applicable to U.K.-regulated utility businesses, which we assess as credit-supportive. These strengths are partially offset by the most recent regulatory determination, which we consider tough, because it includes one of the lowest WACCs we have seen (3.14% vanilla or 3.8% pre-tax). The price control, however, includes an adjustment mechanism to WACC for new debt raised during RP6 that references the prevailing market rate at the time of issue.

ESB benefits from its leading market position in the Irish electricity generation market. Its well-balanced power generation and supply operations offset, to some extent, the risk stemming from competition and price volatility. We consider ESB well-positioned, and a significant proportion of its energy margin is expected to continue benefiting from capacity payments and quasi-regulated regulatory supports.

Financial Risk: Significant

ESB's financial risk profile reflects our view that the group will generate gradually increasing FFO over the medium term in the next two to three years, mainly because of growth in its regulated assets base where it has made sizable investments to improve networks and increase renewable generation. Our forecast suggests that FFO will remain above 17%.

We expect ESB to increase capex over the next few years, to fund extensions and upgrades to its networks and a shift in its energy generation mix toward renewables, and away from fossil fuels such as coal. Capex is expected to be over €4.0 billion over the next three years, which is notably approaching our forecast for ESB's EBITDA generation of about €4.5 billion over the same period. We expect this increased capex, coupled with dividends, to lead to negative free cash flow about €500 million per year over the next two years. The capex program will strain the balance sheet, leading to additional debt issuances of about €1.5 billion-€2.0 billion from 2022 to 2024. Yet we consider the investment to be credit-positive over the next two to three years as it should increase EBITDA, with adjusted FFO to debt to expected to increase to over 18% in 2023-2024, up from about 17% in 2022.

The company benefits from a supportive dividend policy agreed with the government in 2013, which provides for targeted dividends at a rate of 40% of adjusted profit after tax since 2017.

Financial summary

Table 2

Electricity Supply Board--Financial Summary

Industry sector: Electric

	--Fiscal year ended Dec. 31--				
	2021	**2020**	**2019**	**2018**	**2017**
(Mil. €)					
Revenue	5,319.2	3,653.1	3,641.0	3,431.8	3,229.0
EBITDA	1,493.3	1,354.4	1,368.3	1,204.1	1,331.4
Funds from operations (FFO)	1,213.7	1,088.3	1,124.3	891.0	1,100.7
Interest expense	155.4	168.4	198.7	260.2	279.9
Cash interest paid	168.0	184.3	193.5	238.2	212.9
Cash flow from operations	1,411.1	1,005.2	938.3	852.3	928.9
Capital expenditure	934.9	881.1	804.2	907.0	788.5
Free operating cash flow (FOCF)	476.2	124.1	134.1	(54.7)	140.4
Discretionary cash flow (DCF)	385.8	65.4	86.6	(94.5)	19.0
Cash and short-term investments	276.4	248.7	125.1	229.1	380.4
Gross available cash	276.4	248.7	125.1	229.1	380.4
Debt	5,769.6	5,820.6	6,013.4	5,703.8	5,258.5
Equity	4,111.3	3,908.1	3,895.2	3,644.1	3,712.5
Adjusted ratios					
EBITDA margin (%)	28.1	37.1	37.6	35.1	41.2
Return on capital (%)	5.7	6.4	6.4	4.4	5.9
EBITDA interest coverage (x)	9.6	8.0	6.9	4.6	4.8
FFO cash interest coverage (x)	8.2	6.9	6.8	4.7	6.2
Debt/EBITDA (x)	3.9	4.3	4.4	4.7	3.9
FFO/debt (%)	21.0	18.7	18.7	15.6	20.9
Cash flow from operations/debt (%)	24.5	17.3	15.6	14.9	17.7
FOCF/debt (%)	8.3	2.1	2.2	(1.0)	2.7
DCF/debt (%)	6.7	1.1	1.4	(1.7)	0.4

Reconciliation

Table 3

Electricity Supply Board--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2021--								
Electricity Supply Board reported amounts									
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	5,363.2	4,160.4	5,400.0	1,631.4	769.5	120.5	1,493.3	1,557.9	1,091.1
S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	--	(82.5)	--	--

Table 3

Electricity Supply Board--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)

Cash interest paid	--	--	--	--	--	--	(139.9)	--	--
Cash interest paid: Other	--	--	--	--	--	--	(28.1)	--	--
Reported lease liabilities	119.5	--	--	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	66.5	--	--	1.8	1.8	6.0	--	--	--
Accessible cash and liquid investments	(276.4)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	23.9	--	--	--
Dividends received from equity investments	--	--	--	8.6	--	--	--	--	--
Asset-retirement obligations	396.9	--	--	--	--	5.0	--	--	--
Nonoperating income (expense)	--	--	--	--	(69.2)	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	9.4	--
Noncontrolling interest/minority interest	--	(49.1)	--	--	--	--	--	--	--
Debt: Contingent considerations	28.9	--	--	--	--	--	--	--	--
Debt: Other	71.0	--	--	--	--	--	--	--	--
Revenue: Other	--	--	(80.8)	(80.8)	(80.8)	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	--	(84.0)	(84.0)	--	--	--	--
EBITDA: Derivatives	--	--	--	19.5	19.5	--	--	--	--
EBITDA: Other	--	--	--	(3.2)	(3.2)	--	--	--	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	--	--	(79.0)	--	--	--	--
Depreciation and amortization: Other	--	--	--	--	80.8	--	--	--	--
Funds from operations: Other	--	--	--	--	--	--	(29.1)	--	--
Operating cash flow: Other	--	--	--	--	--	--	--	(156.2)	--
Capital expenditure: Customer contributions	--	--	--	--	--	--	--	--	(156.2)
Total adjustments	406.4	(49.1)	(80.8)	(138.1)	(214.1)	34.9	(279.6)	(146.8)	(156.2)

Table 3

Electricity Supply Board--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)

S&P Global Ratings' adjusted amounts

	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
Adjusted	5,769.6	4,111.3	5,319.2	1,493.3	555.4	155.4	1,213.7	1,411.1	934.9

PP&E--Plant, property, and equipment.

Liquidity: Strong

We assess ESB's liquidity position as strong, reflecting our view that its liquidity resources will exceed its funding needs by about 2.3x in the 12 months started March 31, 2022, and by more than 1.0x for the following 12 months. Our assessment is supported by the group's ongoing and proactive liquidity and debt management, solid relationships with banks, and ample and proven access to capital markets. Our liquidity- sources-over-uses test suggests a higher liquidity assessment, though we understand ESB is not currently committed to maintaining a higher liquidity score.

For our liquidity assessment, we exclude from cash and liquid investments net cash collateral amounts received in relation to exchange traded gas, carbon, and power contracts, since we assume them to be restricted cash.

Principal liquidity sources	Principal liquidity uses
• Principal liquidity sources for the 12 months from March 31, 2022 include: • Available cash balance of about €1.19 billion. • An undrawn committed credit facility of €1.4 billion maturing in February 2027. • Annual FFO of about €1.13 billion.	Principal liquidity uses for the same period include: • Debt maturities of about €77 million. • Working capital outflows of about €205 million. • Capex of about €1.26 billion. • Dividend payments of about €126 million.

Covenant Analysis

Requirements

The private placement debt and certain other facilities have conditions which require ESB to maintain certain interest cover and asset covenants.

Compliance expectations

At Dec. 31, 2021, ESB is fully compliant with all the covenant requirements associated with the private placement debt and other facilities.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have an overall neutral influence on our credit rating analysis of Electricity Supply Board (ESB). The company currently generates just under 80% of its energy from fossil fuel--mostly gas. That makes its generation business highly carbon intensive, though the remainder, about 1 GW of generation, comes from zero-emission renewable generation. We expect ESB's carbon intensity will decline gradually over the next decade as the company transitions its thermal-based generation to clean energy sources; notably with the planned mothballing of coal generation at the Moneypoint power plant in 2025. ESB plans to transition, over the next decade, its Moneypoint coal generation site into a green energy hub with the capacity to power 1.6 million homes.

(See "ESG Credit Indicator Report Card: Power Generators" published on Nov. 19, 2021)

Group Influence

We do not apply the Group Rating Methodology to ESB, but we use it to arrive at the group credit profile (GCP) for its rated subsidiaries. ESB is the parent company, and we assess the GCP for ESB as 'bbb+', based on consolidated cash flows and debt at the level of ESB.

We view its 100% owned subsidiaries NIE and ESB Energy International (ESB EI) as core entities because their activities are aligned with the group's strategic focus on regulated networks.

Even though we assess NIE's SACP at 'a-', we do not think that regulatory or other protections are sufficient to insulate its credit quality from that of its parent. Accordingly, we rate NIE at the level of the GCP.

We believe that ESB EI is a core entity within the ESB group, due to its high strategic importance to ESB and because it is an integrated subsidiary. We therefore equalize the rating on ESB EI with the GCP of ESB. ESB EI is a power generator and electricity supplier to small and midsize enterprises and large electricity users in Ireland and Northern Ireland, and provides engineering consultancy services internationally. It contributes about 6% of ESB's EBITDA and supports ESB's strategy to remain a vertically integrated utility.

Government Influence

We consider ESB as a government-related entity (GRE). The long-term issuer credit rating of 'A-' on ESB incorporates one notch of uplift above the SACP, reflecting our view that there is moderately high likelihood that Ireland would provide timely and sufficient extraordinary support to ESB in the event of financial distress. We base our view of a moderately high likelihood of extraordinary government support on our assessment of ESB's:

Important role as the monopoly owner of the national electricity transmission grid and the owner and operator of the electricity distribution network. The group has a leading position in the Irish energy market.

Strong link with the Irish government, based on our view that the government will remain a majority shareholder and has no plans to privatize or divest a minority stake. ESB is 96% state-owned, the remainder is held through an employee share-ownership plan. Although ESB has an independent management team that makes autonomous business decisions, the government has a strong influence on the group's strategy and business plan.

Issue Ratings - Subordination Risk Analysis

Capital structure

ESB's group capital debt structure totalled €5.4 billion at Dec. 31, 2021, and was mostly unsecured. The majority of ESB's debt is raised via ESB Finance DAC (a financing vehicle), though NIE debt (currently €891 million of bonds) is raised by NIE Finance. As a result, structural subordination is fairly limited, at about 17% by our calculation.

Analytical conclusions

ESB's debt is rated 'A-', the same level as the long-term issuer credit rating, because no significant elements of subordination risk are present in the capital structure.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Low
- **Competitive position:** Strong

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:** Strong (no impact)

- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : bbb+

- **Likelihood of government support:** Moderately high (+1 notch from SACP)

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Group Rating Methodology, July 1, 2019
- Ratios And Adjustments, April 1, 2019
- Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Guarantee Criteria, Oct. 21, 2016
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Corporate Methodology, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- The Dash For Gas Fuels Risks For European Utilities, Slows Energy Transition; Jun. 29, 2022
- ESG Credit Indicator Report Card: Power Generators, Nov 19, 2021
- Research Update: Electricity Supply Board Affirmed At 'A-/A-2' On Pandemic Resilience And Regulatory Visibility; Outlook Stable, Jul 07, 2021
- Research Update: Ireland 'AA-/A-1+' Ratings Affirmed; Outlook Stable, Nov 28, 2020
- Why We See The Republic of Ireland's Electricity And Gas Regulatory Framework As Supportive, May 08, 2018

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 27, 2022)*

Electricity Supply Board	
Issuer Credit Rating	A-/Stable/A-2
Issuer Credit Ratings History	
09-Jun-2015	A-/Stable/A-2
13-Feb-2013	BBB+/Stable/A-2
17-Jan-2012	BBB+/Negative/A-2
Related Entities	
Northern Ireland Electricity Networks Ltd.	
Issuer Credit Rating	BBB+/Stable/A-2

*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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