

Research Update:

# Irish Utility Electricity Supply Board Outlook Revised To Positive After Similar Action On Ireland; Ratings Affirmed

November 22, 2024

## Rating Action Overview

- On Nov. 15, 2024, we revised our outlook on Ireland to positive from stable on extraordinary fiscal overperformance and affirmed our 'AA/A-1+' long- and short-term ratings.
- Given Electricity Supply Board (ESB)'s role in Ireland's energy transition and its strong link with the Irish government, we continue to believe that there is a moderately high likelihood of extraordinary sovereign support.
- Consequently, we have revised our outlook on ESB to positive from stable and affirmed our 'A-/A-2' long- and short-term issuer credit ratings.
- The positive outlook on ESB mirrors that of Ireland, with our expectation that ESB will continue to generate most of its profits from regulated power transmission and distribution operations under a supportive regulatory framework.

## Rating Action Rationale

**The positive outlook on ESB mirrors that on the republic of Ireland.** On Nov. 15, 2024, S&P Global Ratings revised its outlook on Ireland to positive from stable given the overperformance in corporate tax receipt collections, which are driving fiscal surpluses in Ireland. At the same time, we expect the government will use proceeds to rebuild fiscal buffers rather than increase current expenditure, supporting the resilience of Ireland's small open economy (see "Republic Of Ireland Outlook Revised To Positive On Extraordinary Fiscal Overperformance; 'AA/A-1+' Ratings Affirmed, published on Nov. 15, 2024, on RatingsDirect).

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**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 and Northern Ireland. It has the only license to operate the electricity distribution system in both jurisdictions--through its ring-fenced subsidiaries, ESB Networks DAC in Ireland, and Northern Ireland Electricity Networks (NIE Networks) in Northern Ireland. We expect ESB will generate about 70% of its EBITDA from regulated power transmission and distribution activities over 2024-2025 under a supportive regulatory framework. That said, Both ESB Networks and NIE Networks are in the final years of their respective price control periods, with regulatory price control 7 (RP7) beginning in April 2025 for NIE Networks and price review 6 (RP6) commencing in January 2026 for ESB Networks. We will monitor the progress and assess the impact of the final determination on the credit metrics.

**ESB will continue to benefit from support from the Irish government (AA/Positive/A-1+).** The Irish state owns 96.9% of the company and considers ESB strategically important because it is the largest Irish power generator and the monopoly power distributor. This translates in one notch of uplift from the 'bbb+' stand-alone credit profile (SACP).

## Outlook

The positive outlook on ESB mirrors the positive outlook on Ireland.

We also anticipate that the utility will continue to post stable and predictable earnings in the low-risk regulated networks business. We also expect ESB to continue to benefit from its leading market position in the Irish electricity generation and supply markets, with funds from operations (FFO) to debt remaining around 17%, on average, over the medium term.

### Downside scenario

We would revise the outlook to stable if we took a similar action on Ireland.

We could also lower the rating if we revised the SACP downward by two notches to 'bbb-', which we view as unlikely.

### Upside scenario

We would raise the ratings on ESB if we took a similar action on Ireland, all else being equal.

## Company Description

ESB was established in 1927 and is 96.9% owned by the government of Ireland. It reported a S&P Global Ratings-adjusted EBITDA of roughly €2 billion for 2023.

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, electricity transmission and distribution, and power supply. ESB is the monopoly owner of the transmission and distribution grids in Ireland and Northern Ireland with a regulated asset base of approximately €13.2 billion (comprising ESB Networks' €10.6 billion and NIE Networks' €2.6 billion) and has a 27% 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 2023, ESB had a 40% share of the Irish electricity supply market with over 1.4 million customer accounts. Within gas supply, ESB had market share of 21%.

## Liquidity

We assess ESB's liquidity position as strong, reflecting our view that its liquidity resources will exceed its funding needs by more than 1.5x in the 12 months started Oct. 1, 2024, and by about 1.4x for the following 12 months. The group's ongoing and proactive liquidity and debt management, solid relationships with banks, and ample, proven access to capital markets, further support our assessment.

### Principal liquidity sources

- Available cash balance of about €1.0 billion;
- An undrawn committed credit facility of €1.4 billion maturing in February 2027; and
- Annual FFO of about €1.5 billion.

### Principal liquidity uses

- Debt maturities of about €58.7 million;
- Capital expenditures of about €2.2 billion; and
- Dividend payments of about €202 million.

## Rating Component Scores

### Rating Component Scores

Component	
Foreign currency issuer credit rating	A-/Positive/A-2
Local currency issuer credit rating	A-/Positive/A-2
Business risk	Strong
Country risk	Low
Industry risk	Low
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Positive
Stand-alone credit profile	bbb+

## Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

## Related Research

- Republic Of Ireland Outlook Revised To Positive On Extraordinary Fiscal Overperformance; 'AA/A-1+' Ratings Affirmed, Nov. 15, 2024
- Utilities Handbook 2024: Western Europe Regulated Gas, Sept. 16, 2024

## Ratings List

### Ratings list

#### Ratings Affirmed; Outlook Action

	To	From
<b>Electricity Supply Board</b>		
Issuer Credit Rating	A-/Positive/A-2	A-/Stable/A-2
<b>Ratings Affirmed</b>		
<b>ESB Finance DAC</b>		
Senior Unsecured	A-	

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com](http://www.spglobal.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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