S&P Global Ratings

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Tear Sheet:

Electricity Supply Board

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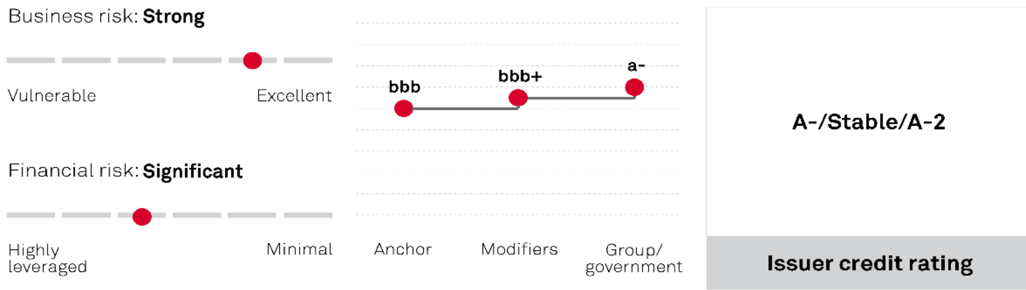
A significant ramp-up in capital expenditure (capex) to around €2 billion per year could put pressure on Electricity Supply Board's (ESB's) rating headroom, albeit with funds from operations (FFO) to debt remaining above 17%. ESB, which generated EBITDA of €2 billion in 2023, intends to invest approximately €11 billion on capex between 2024 and 2028, primarily to fund network extensions and upgrades (66% of gross capex) as well as to fund the shift in its energy generation mix toward renewables and away from fossil fuels. We expect that increased capex, coupled with dividends, will lead to negative discretionary cash flows of around €1 billion over 2025 and 2026. The capex program will gradually strain balance sheet leading to additional debt issuance of around €1 billion in 2025 and €600 million in 2026 (from a total debt quantum of €6.7 billion-€7.2 billion in 2024). Yet, we consider the investment will be partly compensated by EBITDA increase within networks for at least the next two years. This is because we expect it should gradually increase EBITDA because the majority of capex is earmarked for networks in Ireland where we see the regulatory framework as very supportive. We forecast our adjusted FFO to debt at around 20% in 2024, remaining at 17%-18% in 2024-2026, still in line with our current guidance of 17%. Given the Irish government's ownership of the company, we understand that the dividend policy which targets 40% of adjusted profit after tax, remains flexible and could provide support to ESB should the rating level face downward pressure.

Both ESB Networks and Northern Ireland Electricity Networks (NIE Networks) are in the final years of their respective price control periods, with RP7 beginning in April 2025 for NIE Networks and PR6 commencing in January 2026 for ESB Networks. We view the draft determination for RP7 as largely positive and in line with the submitted plan, which, despite some uncertainties surrounding the inflation adjustment to the cost of debt, will enable NIE Networks to significantly increase capex and support Northern Ireland's energy transition. For ESB Networks, we expect the Commission for Regulation of Utilities to publish a draft determination for PR6 in early 2025, but early indications from the published strategy paper are in line with ESB's net zero strategy and Ireland's climate action plan. We will monitor the progress on the draft determination and impact on ESB's credit metrics.

ESB's performance in 2023 surpassed our projections, with FFO to debt reaching 23.2% and S&P Global Ratings-adjusted EBITDA reaching approximately €2 billion, compared with our expected range of €1.60 billion to €1.65 billion. This outperformance was primarily due to sustained higher wholesale power prices. We anticipate that increased EBITDA from Networks and Customer Solutions will offset a decline brought by stabilizing power prices, keeping EBITDA within a €1.8 billion to €2.0 billion range until 2026. Although So Energy, ESB's U.K. retail supply business, has dragged on profitability within Customer Solutions, we expect a positive operating profit in 2024.

Ratings Score Snapshot



Company Description

ESB was established in 1927 and is 97% owned by the government of Ireland. It reported an 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%.

Outlook

The stable outlook reflects our forecast of continued stable and predictable earnings and cash flow from what we see as ESB's relatively low risk regulated distribution and transmission business. We also anticipate that the utility will continue to benefit from its leading market position in the Irish electricity generation and supply markets and FFO to debt will remain around 17%, on average, over the medium term.

Downside scenario

We could lower the rating on ESB if we took a similar rating action on Ireland and at the same time revised downward the utility's stand-alone credit profile (SACP) by one notch to 'bbb', assuming our view of moderately high extraordinary state support for ESB does not change. We could also lower the rating if we revised the SACP downward by two notches.

We could consider revising down our assessment of the SACP if, for example its earnings became more volatile or if the group's profitability weakened resulting in FFO to debt falling below 17% without any prospects for recovery. This could stem from lower returns from the regulated network businesses, reflecting underperformance against regulatory allowances or a weaker performance in the unregulated business.

ESB's SACP could also come under pressure if its 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, which is not our base case.

Upside scenario

We could upgrade ESB if we upgrade Ireland. We could also upgrade ESB if we revise the SACP to 'a-', which we view as unlikely over the next three years, mainly based on the group's forecast metrics, which are affected by its sizable and partly debt-financed capex program.

Key Metrics

Electricity Supply Board--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
EBITDA	1,354	1,493	1,686	2,006	1,800-2,000	1,800-2,000	1,900-2,100	2,100-2,300
Funds from operations (FFO)	1,088	1,214	1,312	1,650	1,400-1,600	1,400-1,600	1,700-1,900	1,800-2,000
Net Debt	5,821	5,770	7,264	7,111	6,700-7,200	8,000-8,500	9,000-9,500	9,700-10,200
Capex	965	1,091	1,323	1,685	~1,500	~2,000	~2,000	~2,000
Adjusted ratios								
Debt/EBITDA (x)	4.3	3.9	4.3	3.5	3.0-4.0	4.0-5.0	4.0-5.0	4.0-5.0
FFO/debt (%)	18.7	21.0	18.1	23.2	20.5-21.5	17.5-18.5	17.0-18.0	17.0-18.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Rating Component Scores	
Foreign currency issuer credit rating	**A-/Stable/A-2**
Local currency 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**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	**bbb+**

Related Criteria

- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010