Research Update:

Finnish Distribution Operator Elenia Verkko Oyj 'BBB' Issue Rating Affirmed; Outlook Stable

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Rating Action Overview

- The Finnish regulator and Elenia Verkko Oyj have differing views on the correct accounting treatment of some items related to the sale of its district heating business in 2019. The regulator has determined that Elenia potentially accrued a cumulative surplus instead of the cumulative deficit we expected. This weakens Elenia's business risk profile, in our view.
- Although we expect funds from operations (FFO) to debt to remain above 8% thanks to countermeasures--lower investments, tax payments, and shareholder distributions--we think Elenia now has limited financial headroom for the current rating.
- We affirmed our 'BBB' rating on Elenia Verkko Oyj's senior secured debt.
- The stable outlook indicates that we forecast Elenia will operate with FFO to debt of 8.5%-9.0% over 2025-2027.

Rating Action Rationale

The Energy Authority's decision that Elenia potentially accrued a surplus and not a deficit for 2024-2027 weakens its business risk profile, in our view. On June 3, 2025, Elenia announced that the Finnish regulator's annual review resulted in a disagreement over the company's accounting treatment of some items related to the 2019 disposal of its district heating business. Elenia had planned to recover a deficit of €54 million over the current regulatory period, but now potentially may have to compensate its customers over the remaining years of the current regulatory period. This comes after the Energy Authority's 2024-2031 final decision that resulted in the industry reducing investments due to uncertainty regarding asset valuation, which lead us to view Elenia at the low end of our excellent category compared to its peers (see "Finnish Electricity DSO Elenia Verkko Oyj Debt Rating Affirmed At 'BBB' And Off Watch; Outlook Stable," April 3, 2024, on RatingsDirect). We understand that Elenia will appeal this decision, which will be the third appeal of a regulator's decision in three years. This increases our view that the regulator and the network's objectives are misaligned and make them harder to predict, which we view as a weakness.

We continue to expect Elenia's FFO to debt to remain higher than 8% over 2025-2027, based on mitigating measures approved by the board in March 2024. The measures--which followed the 2024-2031 regulatory parameter announcement--should enable Elenia to maintain an IFRS 15-adjusted FFO-to-debt ratio above 8% over 2025-2027, albeit with little headroom. They include tax optimization resulting in limited to no cash taxes being paid over 2025-2027, lower capital expenditure (capex) remaining about €110 million-€120 million, and reduced shareholder remuneration to about €20 million-€60 million. These measures should allow Elenia to report FFO of €160 million-€170 million, translating into FFO to debt of 8.5%-9.0% over 2025-2027, which we view as commensurate with the rating. Having said that, we view Elenia's financial metrics as very sensitive to minimal changes in EBITDA and interest rates, demonstrating the limited headroom. In this context, we flag that the company expects to refinance 25% of its outstanding debt stock by the first quarter of 2026.

Elenia's refinancing strategy will be key to maintaining the rating. We expect Elenia to refinance its benchmark bond well ahead of its February 2027 maturity. However, we will monitor the refinancing, particularly regarding its 50% debt maturity concentration limit requirement that allows Elenia to benefit from the structurally enhanced debt features. These features currently lead to a one-notch uplift to the stand-alone credit profile (SACP). A failure to keep the ratio below 50% could lead us to remove the one-notch uplift.

Outlook

The stable outlook reflects our expectation that Elenia's FFO will remain at €160 million-€170 million over 2025-2027. We continue to expect that Elenia's shareholders will adjust shareholder distributions to protect its credit metrics. Therefore, we expect FFO to debt to remain 8.5%-9.0% and debt to EBITDA to be on average below 9x over 2025-2027, which we consider commensurate with a 'bbb-' SACP.

Downside scenario

We could lower the rating to 'BBB-' if:

- Elenia's FFO to debt falls below 8%. This could occur if shareholder remuneration, investments, or the interest rate on the refinanced benchmark bond is higher than we expect.
- We revise our assessment of Elenia's business risk profile. This could occur if we view Elenia's business profile as weaker than its international peers.
- The supportive measures protecting the debtholders weaken. This could occur if we view Elenia's management of its capital structure as weaker, resulting in 50% or more of its debt maturing over any three-year period. This could make debt refinancing more difficult during a credit remedy period.

Upside scenario

We view an upgrade as unlikely over the medium term given the limited financial headroom.

Company Description

Elenia's main business operation is electricity distribution. It is the second-largest electricity DSO in Finland, behind Caruna Networks Oy. It has a 12% market share and a network of about

76,700 kilometers, serving about 444,000 end users as of June 2025. In 2024, Elenia's S&P Global Ratings-adjusted EBITDA reached €244 million, including International Financial Reporting Standard (IFRS) 15 adjustments.

Elenia's main owners are Valtion Eläkerahasto and Allianz Capital Partners (ACP) on behalf of the Allianz Group, together with Allianz subsidiaries and investment vehicles managed or advised by ACP and Macquarie Super Core Infrastructure Fund.

Elenia's financing structure is ring-fenced. The financing group's issued debt includes structural enhancements designed to reduce the likelihood of default and the risk to creditors.

Our Base-Case Scenario

Assumptions

- Pretax WACC at 7.37% for 2024, growing with a higher cost of debt.
- EBITDA margins to be about 63%.
- Limited working capital change annually over the forecast period.
- The company must provide a one-off tariff decrease. This follows the recent Energy Authority decision that Elenia had a cumulative surplus to return and not the €54 million deficit to recover that we previously expected.
- Shareholder distributions of about €20 million-€60 million over 2025-2027.
- Capex of about €110 million-€120 million over the period, down from about €150 million.
- No mergers or acquisitions.

Key metrics

Elenia Verkko Oyj--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2021a	2022a	2023a	2024a	2025e	2026f	2027f
EBITDA	223	214	227	244	221	222	223
Less: Cash interest paid	(40)	(39)	(46)	(52)	(47)	(56)	(56)
Less: Cash taxes paid	(5)	(5)	0	(3)	(3)	(3)	(3)
Plus/(less): Other	--	--	--	--	--	--	--
Funds from operations (FFO)	178	169	181	190	172	164	165
Capital expenditure (capex)	157	154	123	109	114	112	151
Dividends	70	34	154	103	44	61	28
Debt	1,767	1,785	1,876	1,895	1,882	1,897	1,907
Adjusted ratios							
Net Debt/EBITDA (x)	7.9	8.4	8.3	7.8	8.5	8.5	8.5
FFO/debt (%)	10.1	9.5	9.6	10.0	9.2	8.7	8.7

Liquidity

We now assess Elenia's liquidity as adequate from strong. While we expect available liquidity sources to cover uses by more than 1x over the 12 months starting March 31, 2025, we simultaneously expect the ratio to be below 1x over the following 12 months. This is predominantly due to a relatively sizable debt maturity of €500 million due in February 2027. Over the next 12 months, however, we expect Elenia's sources to cover uses by more than 4.5x starting March 31, 2025, excluding the €500 million benchmark bond refinancing due in February 2027.

We factor into our assessment Elenia's sound relationships with banks, very good standing in credit markets, and potential ability to absorb high-impact, low-probability events, with no debt maturities until 2027. We also consider Elenia's strong liquidity management as demonstrated by previous successful refinancing well in advance of maturities.

Principal liquidity sources

- Forecast cash FFO of about €160 million-€170 million.
- Available cash and marketable securities of about €140 million.
- Access to committed credit lines of €370 million.

Principal liquidity uses

- Capex of about €110 million-€120 million over the next 12 months.
- About €20 million-€60 million shareholder distributions.
- No debt maturities until February 2027.

Covenants

Elenia has two covenants, one on interest coverage and one on leverage (debt to EBITDA), with two different triggers--a lockup trigger for shareholder distributions of 1.46x and 10.18x and a default trigger of 0.96x and 11.33x, respectively. These covenants provide creditors with significant control over Elenia at an early stage of financial or operational difficulty or following material changes in business circumstances. The covenants reduce the borrower's probability of default and create an additional credit cushion. We view ample headroom for both ratios annually.

A liquidity facility provided by suitably rated counterparties is available if Elenia enters a standstill, and it is sufficient to cover finance charges for one year. The protective structure for bondholders not only includes covenants, but also limitations on additional debt, a defined cash waterfall of payments giving senior debt priority, a minimum level of financial performance, and restrictions on shareholder distributions.

Environmental, Social, And Governance

ESG factors do not have a material influence on our credit rating analysis of Elenia. The company's network resilience has improved significantly, with fewer interruptions thanks to a greater amount of underground cabling.

Rating Component Scores

Rating Component Scores

Component	
Issue Credit Rating	BBB/Stable
Business risk	Excellent
Country risk	Very low
Industry risk	Very low
Competitive position	Strong
Financial risk	Highly leveraged
Cash flow/leverage	Highly leveraged
Anchor	bbb-
Diversification/portfolio effect	Neutral/undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb-
Structurally Enhanced Debt	+1 notch

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
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Utilities: Rating Structurally Enhanced Debt Issued By Regulated Utilities And Transportation Infrastructure Businesses, Feb. 24, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

Ratings List

Ratings list	
Ratings Affirmed	
Elenia Verkko Oyj	
Senior Secured	BBB/Stable