



## RATING ACTION COMMENTARY

# Fitch Affirms Teollisuuden Voima Oyj at 'BBB-', Negative Outlook

Fri 16 Apr, 2021 - 11:29 AM ET

### Related Fitch Ratings Content:

[Teollisuuden Voima Oyj \(TVO\)](#)

Fitch Ratings - Warsaw - 16 Apr 2021: Fitch Ratings has affirmed Teollisuuden Voima Oyj's (TVO) Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB-'. The Short-Term IDR has been affirmed at 'F3'. The Outlook on the Long-Term IDR remains Negative.

The affirmation reflects progress with TVO's 1.6GW Olkiluoto 3 (OL3) nuclear power plant project as fuel loading, a critical milestone, has recently been completed. It also incorporates continued shareholder support for the OL3 project, despite multi-year delays, as evident in the additional EUR400 million subordinated shareholder loan commitment signed in December 2020.

We may revise the Outlook to Stable from Negative once OL3 is connected to the grid and starts electricity production and also when we have more visibility over the financial impact of the OL3 delay announced in August 2020.

## KEY RATING DRIVERS

**Additional Shareholder Loans:** All of TVO's shareholders agreed an additional EUR400 million subordinated shareholder loan commitment in December 2020, in line with the proposal of TVO's board of directors. This is evidence of shareholders' continued support for the company and its OL3 project, which is one of the key drivers of TVO's rating. The new commitment brings the total subordinated shareholder commitment to about EUR1.33 billion, of which EUR929 million has been drawn down by TVO, including EUR250 million in 4Q20.

**Enhanced Liquidity:** The additional commitment allows TVO to enhance its liquidity position and equity ratio, and provide an additional buffer as it plans to commission OL3 in February 2022, almost 12 years behind the original schedule and with substantial cost overruns.

Shareholder loans are subordinated to other debt, have no maturity date and allow TVO to not pay interest, which is then non-cumulative. Given these features, we exclude shareholder loans from our adjusted debt, while TVO reports them as equity.

**Possible Outlook Revision to Stable:** We may revise the Outlook to Stable once we have more visibility over the financial impact of the OL3 delay and possible solutions from negotiations between TVO and the OL3 supplier

consortium - Areva NP, Areva GmbH, Siemens AG (A/Stable) and Areva Group parent Areva SA - regarding the terms for project completion. The Outlook revision will also depend on OL3's connection to the grid and start of electricity production.

**Delay Compensations Until June 2021:** The settlement agreement signed in March 2018 between TVO and the supplier consortium only offsets additional costs for TVO stemming from delays until its call-off date in June 2021. Power production is now expected to start in February 2022, following a 11-month delay announced in August 2020. The delay was caused by overall slow progress of system tests and technical problems that were identified in the tests.

The supplier consortium agreed to pay EUR450 million of compensation for delays that occurred until March 2018, with compensation capped at an additional EUR400 million for delays after 2019. This cap will be reached in June 2021, after which TVO is not entitled to further compensation.

**Financial Impact Unclear:** The financial impact on TVO from the delay is unclear as it is in discussion with the supplier consortium regarding project-completion. Also, Areva is preparing a financial solution to last through project-completion and until the end of the guarantee period. The additional shareholder loans enhance TVO's financial flexibility and mitigate the impact of the OL3 delay.

**Value Creation:** Value creation for TVO's shareholders is one of the key rating considerations. TVO's current production cost is about EUR20/MWh. The blended production cost is estimated to increase to about EUR30/MWh when OL3 comes onstream. Nord Pool futures for Finnish area trend at slightly above EUR30/MWh for 2023-2024, indicating positive value creation once OL3 starts production.

**Not-for-Profit Nuclear Generator:** The ratings reflect 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 58.5%) is Pohjolan Voima Oyj, a not-for-profit electricity generator owned by a consortium of Finnish industrials (mainly pulp and paper companies UPM-Kymmene Oyj and Stora Enso Oyj (BBB-/Stable)) and utilities. Its second-largest shareholder (with 25.8%) is Fortum Power & Heat Oy, a 100% owned subsidiary of Fortum Oyj (BBB/Negative).

**No Merchant, Volume Risk:** TVO has no direct exposure to wholesale electricity prices or volumes, as its shareholders are at-cost off-takers of the electricity produced. Shareholders have an incentive to keep costs low and to off-take their share of energy due to the large fixed costs they have to cover, according to TVO's articles of association.

If a shareholder fails to cover annual fixed costs (80% of total costs paid one month in advance, which also includes debt instalments falling due annually) and variable costs (about 20% of costs) in proportion to their off-take, TVO would cut the supply and sell the electricity to another shareholder or at the Nord Pool exchange.

**Low Political Risk for Nuclear:** Finland's regulatory environment supports the construction of nuclear power plants, given the country's concerns over supply security, the need for reasonably priced electricity for its energy-intensive industries, and stringent EU CO2 emission requirements driving the phase-out of thermal plants. TVO is a key generator of base-load electricity in Finland - it generates electricity corresponding to about 17% of the country's annual electricity consumption and will generate about 30% once OL3 is operational.

## **DERIVATION SUMMARY**

TVO is a not-for-profit company. Fitch therefore considers traditional leverage or coverage ratios, which are weak compared with that of other European utilities focused on electricity generation such as Fortum Oyj (BBB/Negative), RWE AG (BBB+/Stable), Orsted A/S (BBB+/Stable) or Statkraft AS (BBB+/Stable), as less relevant

for the ratings than for utilities operating on a fully commercial basis. TVO's funds from operations (FFO) after cash interest paid is typically negative and its FFO interest coverage is usually below 1x as interest expense related to OL3 debt in the construction phase is not covered by shareholders but capitalised.

Given these features we place more emphasis on the links between TVO and its shareholders and the value creation for them.

## KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Fitch calculates projected EBITDA and credit ratios in a profit-making scenario, assuming that TVO is able to sell its electricity output at market prices instead of at cost. This measures the incentive for shareholders to maintain their at-cost off-takes, as well as the dividend that would be paid in a profit-making scenario
- OL3 fully operational by February 2022
- Average production cost of TVO to increase to about EUR30/MWh as OL3 becomes operational, from about EUR20/MWh (with OL1 and OL2 only)
- Finnish area prices of EUR46/MWh in 2021, EUR39/MWh in 2022 and EUR33/MWh in 2023-2024

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of the rating is unlikely given the Negative Outlook. The Outlook could be revised to Stable if the following occurs:

- OL3's connection to the grid and start of power production and an agreement between TVO and the supplier consortium is signed regarding the terms of project completion after the delay.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Further OL3 delays substantially beyond February 2022 leading to additional costs for TVO;
- TVO's production costs significantly exceeding Finnish area prices on a sustained basis when OL3 is completed, leading to value destruction for TVO shareholders;
- Evidence of reduced support from shareholders or structural changes in the Mankala principle undermining the strength of shareholder support;
- Adverse regulatory or fiscal changes; and
- Deterioration in operating performance, safety issues and significantly reduced liquidity reserves.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: Cash and cash equivalents as at end- December 2020 were EUR161 million. At this date committed undrawn credit facilities were EUR1,270 million. In February 2021 TVO extended the maturity date of committed facilities of EUR1,000 million to 2024 from 2023 and cancelled the EUR300 million tranche due in 2022. In addition, the company has committed undrawn shareholder loans of EUR400 million valid until end-2022.

Available liquidity is sufficient to meet TVO's operating needs, capex and debt repayments in 2021-2022.

After OL3 comes onstream in 2022 and shareholders start to fully cover costs (including interest costs and asset depreciation), we expect total debt to gradually decline.

## ESG CONSIDERATIONS

TVO has an ESG Relevance Score of '4' [+] for Exposure to Social Impacts due to wide political and public acceptance of nuclear power in Finland, which has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Teollisuuden Voima Oyj (TVO)	LT IDR	BBB- Rating Outlook Negative	Affirmed	BBB- Rating Outlook Negative
	ST IDR	F3	Affirmed	F3

senior unsecured

LT BBB- Affirmed

BBB-

---

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Arkadiusz Wicik, CFA**

Senior Director

Primary Rating Analyst

+48 22 338 6286

arkadiusz.wicik@fitchratings.com

Fitch Ratings Ireland Limited spolka z ograniczona odpowiedzialnoscia oddzial w Polsce

Krolewska 16, 00-103 Warsaw

**Nicolò Meroni**

Director

Secondary Rating Analyst

+39 02 879087 296

nicolo.meroni@fitchratings.com

**Josef Pospisil, CFA**

Managing Director

Committee Chairperson

+44 20 3530 1287

josef.pospisil@fitchratings.com

**MEDIA CONTACTS****Adrian Simpson**

London

+44 20 3530 1010

adrian.simpson@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

**APPLICABLE CRITERIA**

[Parent and Subsidiary Linkage Rating Criteria - Effective from 26 August 2020 to 1 December 2021 \(pub. 26 Aug 2020\)](#)

[Corporate Rating Criteria -- Effective from 21 December 2020 to 15 October 2021 \(pub. 21 Dec 2020\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 09 Apr 2021\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

## ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## ENDORSEMENT STATUS

Teollisuuden Voima Oyj (TVO)

EU Issued, UK Endorsed

## DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

## COPYRIGHT

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and

to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **ENDORSEMENT POLICY**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU

CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

---

[Corporate Finance](#)   [Utilities and Power](#)   [Europe](#)   [Finland](#)

---