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Research Update:

Greek Public Power Corp. Rating Raised To 'CCC+' On Improved Liquidity; Outlook Positive

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Table Of Contents

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Overview

- Greek utility Public Power Corp. (PPC) has successfully secured liquidity sources to meet debt maturities in 2019 including the €1.3 billion syndicated loans with Greek banks and the April 2019 maturities on its €350 million unsecured notes.
- Improved economic prospects in Greece slightly enhances the Greek government's capacity to provide PPC extraordinary support.
- However, we continue to have doubts over the long-term sustainability of PPC's operations given the ongoing very weak market fundamentals, which leaves the capital structure still fragile.
- We are therefore raising our long-term issuer credit and issue ratings on PPC to 'CCC+'.
- The positive outlook reflects that on the Greek government and our expectations that PPC would receive extraordinary support in case of need, specifically in the form of facilitated access to financing markets.

Rating Action

On Nov. 27, 2018, S&P Global Ratings raised its long-term issuer credit rating on Greek utility Public Power Corp. S.A. (PPC) to 'CCC+' from 'CCC'. The outlook is positive.

At the same time, we raised the issue rating on PPC's €1.3 billion syndicated loans with Greek banks, and on the €350 million senior unsecured notes issued by PPC Finance Ltd. and guaranteed by PPC. The '4' recovery rating on both instruments is unchanged, reflecting our expectation of average recovery (30%-50%; rounded estimate: 35%) in the event of a payment default.

Rationale

The upgrade primarily reflects our improved expectations of PPC's liquidity for the next 12 months. In October 2018, PPC signed an agreement to extend the maturity of two loan agreements amounting to €1.3 billion in total with a syndicate of Greek banks for the refinancing of existing debt. The refinancing, combined with additional €620 million dedicated and contracted liquidity credit lines, will allow PPC to meet the April 2019 maturities on its €350 million unsecured outstanding notes. As a result, our view of PPC's stand-alone credit quality has slightly improved, though we acknowledge it remains fragile.

Furthermore, we continue to assess PPC as a government-related entity (GRE) and we believe that slightly improved economic prospects in Greece somewhat enhance the government's capacity to provide PPC timely extraordinary support (see "Outlook On Greece Revised To Positive On Improved Policy Predictability And Growth Prospects; 'B+/B' Ratings Affirmed," published on July 20, 2018, on RatingsDirect). Our ratings on PPC do not currently include any benefit due to extraordinary government support, but we could include an additional notch within the PPC rating for such potential support if we upgrade Greece.

However, we continue to have doubts over the long-term sustainability of PPC's operations and market position. We recognize the need for PPC to strategically transform itself in order to reduce its dependency on imported fossil fuels and the evolution of carbon prices and to shift the energy generation mix toward renewables. Furthermore, the full implementation of European competition regulation for utilities entails a steep contraction of PPC's domestic market share both on its electricity supply and its generation market share to below 50% by the end of 2019 (from 63% in retail and 95% in generation in 2015). PPC faces a significant cut in its lignite capacity as European authorities have imposed the sale of about 40% of PPC's lignite plant and mines to enhance efficiency and competition in Greece, further reducing the company's weight in the market. This transformation process, will require significant investments of about € 2.2 billion from 2019 to 2021.

At the same time, we expect PPC's adjusted EBITDA to decline to about €370 million-€390 million in 2018 compared to €634 million in 2017 (€805 million reported EBITDA in 2017 including the positive one–off impact of €360 million for public service obligations for the years 2012-2016). The fall is mainly due to the sale of the electricity transportation business IPTO in 2017, the higher cost of commodities required for generation (gas, oil, and carbon dioxide rights) and the renewables special levy (ELAPE). Due to PPC's negligible cash generation, it will need to finance its investments with additional debt, which could eventually further weaken already-fragile credit metrics. Additionally, unlike most European power generators, PPC's earnings upside potential is limited in the coming two to three years as we do not see generation spreads improving.

The working capital has reversed its trend in 2018 and improved thanks to the reduction of overdue receivables. PPC has achieved this thanks to the collection of overdue receivables by state entities and active customers. Despite these positive indications, we still consider the behavior of PPC's working capital as uncertain. Overdue receivables peaked at about €2.5 billion at the end of December 2017, compared with €1.7 billion in 2014, before Greece's economic crisis.

In our base-case scenario for 2019 and 2020, we assume:

- Flat revenues for 2019. We expect a reduction in energy sales of around 5%. We understand that the company will try to compensate for this with higher revenues per client, addressing higher CO2 and wholesale market prices.

- A material reduction of revenues in 2020 of up to 14%-15% following the expected reduction in market share.
- An EBITDA margin that narrows to around 11%, excluding any potential future positive onetime contribution from the public service obligation (PSO) due to electricity supply on non-interconnected islands.
- Positive working capital movements of €100 million per year, thanks to the improvement to recover overdue receivables.
- Capital expenditures (capex) of about € 1.7 billion for 2019 and 2020, with €800 million already committed.
- Cash intake from the disposal of lignite assets will partially support debt repayment. At this stage, we do not quantify the market value or specific timing of this transaction.

Based on these assumptions, we arrive at the following credit measures for PPC:

- Debt to EBITDA at 10x-11x;
- FFO to debt below 5.0%; and
- €1 billion of negative cash flow available for debt repayment.

Liquidity

We continue to assess PPC's liquidity as less than adequate.

We factor into our liquidity assessment the following sources of cash for the 12 months started Oct. 1, 2018:

- €620 million of available credit lines, comprising €340 million from the unused amount under the signed syndicated bond for the construction of the Ptolemais V unit and €280 million available under committed capex-related credit facilities from the European Investment Bank (EIB);
- Our estimate of about €150 million in cash;
- Operating cash flow before working capital of €205 million; and
- Positive working capital inflow of €250 million following the repayment of overdue receivables by state entities and active customers.

Against these sources, we see the following liquidity uses for the same period:

- Debt maturities of about €675 million;
- Contracted capex of €414 million.

Outlook

Our positive outlook mirrors our positive outlook on the Greek government. This reflects our view that improved economic prospects in Greece enhance the government's capacity to provide PPC with timely extraordinary support. We expect PPC to secure in advanced its liquidity needs within the next 12 months, which is a paramount factor for a potential rating upgrade.

Upside scenario

We could raise the long-term rating by one notch if we raise the rating on the sovereign, all other factors remaining unchanged. Although unlikely in the coming two years, we could raise the stand-alone credit profile if the company successfully completes the transformation process and demonstrate capacity to deleverage its balance sheet.

Downside scenario

We would take a negative rating action if PPC's liquidity were to weaken, specifically if the company failed to secure in advanced its liquidity needs within the next 12 months; announced a debt renegotiation or haircut that we consider to be distressed; or we foresaw a higher likelihood that PPC would fail to meet any of its liabilities.

Issue Ratings--Recovery Analysis

Key analytical factors

- The issue ratings on the €1.3 billion syndicated term loans with Greek banks and on the €350 million senior unsecured notes issued by PPC Finance Ltd. and guaranteed by PPC, are 'CCC+', aligned with our long-term issuer credit rating on the company.
- The recovery rating on these instruments is '4', indicating our expectation of average recovery (30%-50%; rounded estimate: 35%) in the event of payment default.
- We understand that the quasi-totality of PPC's debt is unsecured at the PPC level and ranks pari passu in the event of default.
- In our hypothetical default scenario, we assume that PPC's loss of customer market share will be steeper than anticipated, combined with higher commodity prices, while its business rightsizing efforts are unsuccessful.
- We value the company as a going concern, due to its still-leading position in electricity supply in Greece and the strategic role it plays for the country.

Simulated default assumptions

- Year of default: 2020
- Jurisdiction: Greece
- Emergence EBITDA: €510 million
- Multiple: 3x

Simplified waterfall

- Gross recovery value: €1.53 billion
- Net recovery value for waterfall after administrative expenses (5%): €1.45 billion
- Senior unsecured claims: €3.65 billion*
- --Recovery range: 30%-50% (rounded estimate: 35%)

Related Criteria

- Criteria - Corporates - General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria - Corporates - Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- 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
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, 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 And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Public Power Corp. S.A.		
Issuer Credit Rating	CCC+/Positive/--	CCC/Negative/--
Senior Unsecured	CCC+	CCC
Recovery Rating	4(35%)	4(45%)
PPC Finance PLC		
Senior Unsecured	CCC+	CCC
Recovery Rating	4(35%)	4(45%)

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.