

Corporate Credit Comment

13 February 2020

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Fortum (FUMVFH) FY19 shows progress, valuations remain interesting

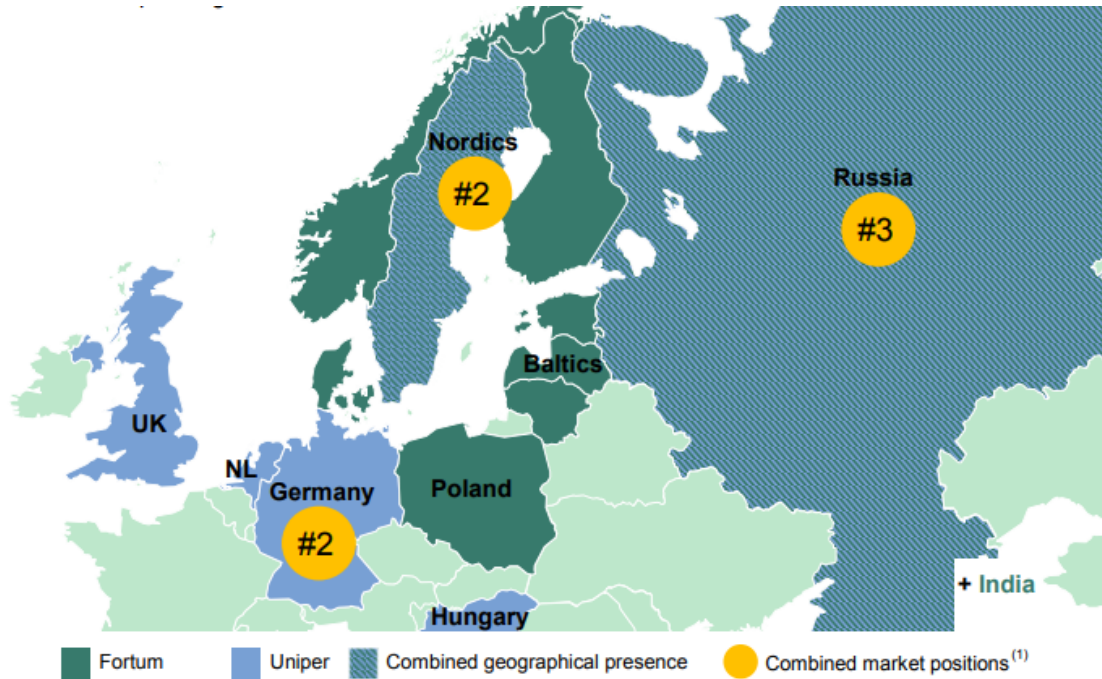
Fortum posted improved results for FY19, revenues for the year were €5,447m up 3.9%; nearly all segments improved Generation was +16% to €2,141m thanks to higher output from Nuclear and hydro volumes as well as higher achieved power prices, City Solutions +8% to €1,110m, Consumer Solutions +4.3% to €1,759 and Russia was unchanged at €1,071m. EBITDA came in 16% higher at €1,766m and share of profits from JV's (Uniper) was €744m.

Operating cash flow were very strong at €2,015m (up from €804m) but this number was flattered by a onetime change in settlements for futures which was a positive effect of €356m. Capex came in at €700m which was slightly above expectations. Net debt came in at €5,260m down a touch from €5,509m. This meant that leverage at year-end was 3.0x a decent decline from 3.6x in 2018, however when you factor in the asset sales for Joensuu district heating and Nordic wind divestments both which will close in 2020 then leverage will come down to 2.5x, the long term target set by management.

The Uniper acquisition continues to be the main driver in the Fortum credit story, during 1Q20 Fortum should finalise the purchase of an additional 20% from Elliott Management and Knight Vinke which would take the total stake beyond 70% and effectively acquire control of the entity and consolidate it. The transaction will increase the group's generation capacity significantly taking it from c.13GW to over 50GW, the overall profile will be balanced by fuel – 36% gas, 32% coal, 16%, hydro, 8% nuclear; however the Uniper portion is significantly more skewed to higher CO2 and the thermal coal generation will be phased out over time.

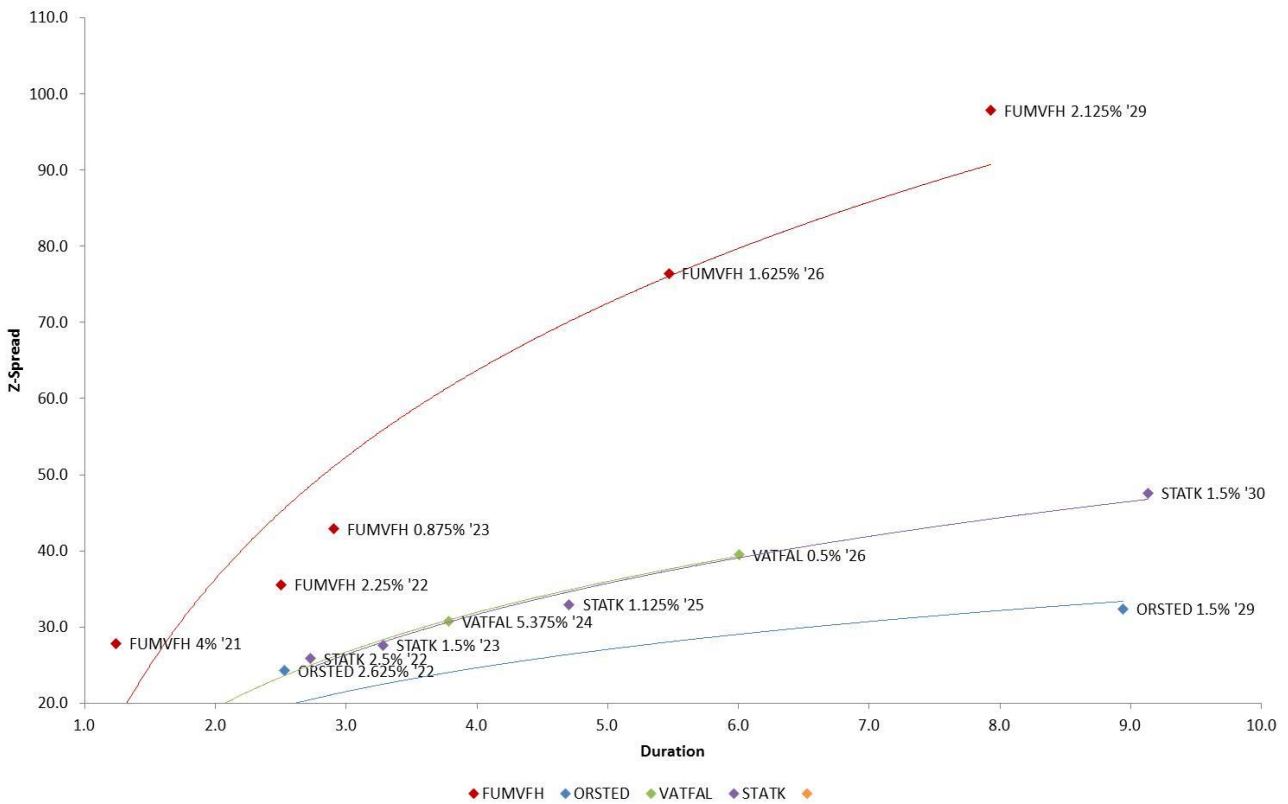
Fortum's current financial indebtedness is stretched for its current ratings hence the negative outlooks remain; once the balance of the Uniper transaction closes we expect that rating agencies will follow with a one notch downgrade. We have already seen the group accelerate its asset sales and we fully expect it to maintain IG ratings. We have been sympathetic on the credit for some time now and that Fortum still offers decent compensation among the widest priced instruments in the utility space, the newer issued bonds are CSPP eligible and we continue to think perceived risks here are overstated.

CHART 1: FORTUM + UNIPER COMBINED FOOTPRINT



Source: Company disclosure

CHART 2: AMONG THE WIDEST NAMES IN THE SPACE



Source: Bloomberg, MUFG

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