

Media Release:

Orsted A/S And Orsted Wind Power TW Holding A/S Ratings Placed On CreditWatch Negative On Substantial Charges

November 6, 2023

Overview

- S&P Global Ratings recently placed its 'BBB+' long-term global scale rating on Orsted A/S on CreditWatch with negative implications. We have therefore placed our 'twAA' long-term Taiwan national scale rating Orsted A/S and Orsted Wind Power TW Holding A/S (Orsted TW, the holding company for Orsted's activities in Taiwan) on CreditWatch with negative implications.
- Danish offshore wind company Orsted A/S (also rated 'BBB+/Watcg Neg/A-2' by S&P Global Ratings) has announced total exceptional losses of about Danish krone (DKK) 40 billion (€5.4 billion), stemming from substantial impairments of DKK28.4 billion for its U.S. assets, mostly offshore, and DKK8 billion-DKK11 billion of cancellation costs related to the Ocean Wind 1 and 2 offshore projects, both of which are being halted. In its Nov. 1 announcement, Orsted significantly increased the amount of upcoming impairments from its statement in August 2023, then estimated at up to DKK16 billion. Financially, we now forecast adjusted 2023 EBITDA of DKK9 billion-DKK15 billion, compared with DKK21 billion-DKK24 billion previously.
- Those costs are meaningfully higher than we previously assumed and may taint our view of the company's business profile. We have revised downward our view of management and governance.
- This said, Orsted has significant financial flexibility, particularly regarding capital expenditure (capex), and has announced a strategic review. This suggests that the company could materially change its strategy, including lowering capex.
- The CreditWatch placement with negative implications reflects that we could downgrade Orsted and Orsted TW by a maximum of one notch, to 'twAA-'. We affirmed our 'twA-1+' short-term rating on Orsted and Orsted TW. Whether we lower our long-term rating depends on the company's remedial plan and our final assessment of its business strategy.

Rating Action Rationale

We are placing Orsted and Orsted TW on Credit Watch negative, given the severity of the loss of value relating to U.S. offshore projects and the project management issues this reveals. Orsted's announcement that it will record impairments and cancellation cost of about DKK 40 billion is a major upward revision from the DKK16 billion (US\$2.3 billion) that the group announced on Aug. 31, 2023 (see "Orsted's Potential DKK16 Billion Impairment Of North American Wind Projects Reduces Rating Headroom," published on www.capitaliq.com on Aug. 31, 2023). The write-downs

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are due notably to continued supplier delays (60%), higher interest rates (22%, with the U.S. 10-year government rate up about 75 basis points [bps] in the quarter) and less favorable tax conditions than hoped for (17%). They relate primarily to three offshore projects: Ocean Wind 1, Revolution, and Sunrise Wind. Ocean Wind 1 accounts for the bulk of the write-downs, at DKK19.9 billion. Orsted had already invested significantly in Ocean Wind 1, before taking the Final Investment Decision. Other projects--Revolution Wind, South Fork, and Block Island--have also been hit, but to a lesser extent.

The very material charges signal that Orsted has not sufficiently accurately estimated the effect on project economics from the very swiftly shifting economic conditions over the past six to nine months, including risks from interest rates, cost inflation, and supplier-chain issues. The cancellation costs of DKK8 billion-DKK11 billion will roughly halve reported EBITDA for 2023.

The announced strategic review implies there could be material changes to Orsted's business and financial risk profiles. Orsted has announced that it will undertake a strategic review that it will present in the first quarter of 2024. We believe the company has some flexibility in its capital expenditure plan and we view positively that the Danish state's majority stake supports the company. However, the material charges indicate a riskier business risk profile for which a stronger capital structure will potentially be needed at the current rating level. When we resolve the CreditWatch, we will therefore form a view of the impact of the full spectrum of mitigants that management has put in place.

Management has already mentioned several options in terms of mitigating factors, notably further farm downs, various costs savings, prioritization of development activities, and substantially lower capex. The large Ocean Wind 1 and 2 projects being stopped will reduce capex materially during 2024-2026, compared with the DKK60 billion-DKK65 billion we previously assumed, of which about two thirds was to be spent in the U.S. Orsted's U.S. offshore setbacks and related reputational issues may somewhat hinder its ability to win further offshore tenders.

Orsted has a good existing asset base, which should generate about DKK33 billion-DKK37 billion in EBITDA in 2024, but future growth will be lower without the stopped projects, and as the company may critically review other growth capex.

We will monitor the risk that Orsted will not be able to carry out its farm downs at the same pace as previously. Farm downs are a critical component of Orsted's financing strategy, as they have part-financed capex and therefore eased the burden on its balance sheet. More than DKK60 billion has been raised over the past few years. That said, we note that Orsted announced several farm downs in the third quarter, despite increasing interest rates, such as Gode Wind 3 in Germany, and London Array. To date, the secondary market thus appears to have remained supportive. We expect continued refinancing access and no inflexion of shareholder distributions (the stock is down about 60% year-to-date).

We have revised our view of Orsted's management and governance score to fair from strong previously. The reassessment reflects that Orsted's management has not been able to execute on its strategy as planned, which has led to significant costs for its stakeholders. We see signs that management might have been too aggressive in its expansion plans, and in reacting late to serious adverse developments, including supply chain issues. That said, we view management's decision to walk away from projects that otherwise would have turned un-profitable as credit-supportive, and indicative of a more critical decision-making process going forward.

Credit Watch

The Credit Watch negative placement reflects that we could downgrade Orsted A/S and Orsted TW by a maximum of one notch. We aim to resolve the CreditWatch as soon as we have sufficient insights into the company's strategic update in the first quarter of 2024. Key drivers for whether we affirm the ratings or downgrade Orsted A/S and Orsted TW include:

- Mitigating factors such as potential owner support, notably the Danish government, lower capex, or farm downs.
- Short-to-medium growth strategy, including the amount of capex to be outlaid and how it will be financed. This also relates to geographic areas of growth expansion, to the extent these might change, as well as to Orsted A/S's risk tolerance.
- How management plans to operate and deal with the exposure to the more volatile and less supportive macroeconomic conditions.
- Stability of operations beyond 2023.

We will review and possibly amend our credit-metric expectations when resolving the CreditWatch placement, depending on our view of Orsted A/S's updated business and financial risk profiles.

Related Criteria & Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, Jun 08 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, Mar 02 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct 10 2021
- General Criteria: Group Rating Methodology, Jul 01 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Apr 01 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: Guarantee Criteria, Oct 21 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Mar 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, Mar 28 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov 19 2013
- General Criteria: Methodology: Industry Risk, Nov 19 2013
- Criteria | Corporates | General: Corporate Methodology, 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 01 2010

Related Research

- Wind Giant Orsted Long-Term Ratings Placed On CreditWatch Negative On Substantial Charges, www.capitaliq.com – November 2, 2023
- Taiwan Ratings' Ratings Definitions – November 11, 2021

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

CreditWatch Action

	To	From
Orsted A/S		
Orsted Wind Power TW Holding A/S		
Issuer Credit Rating	twAA/Watch Neg/twA-1+	twAA/Stable/twA-1+

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