Media Release:

Orsted A/S And Orsted Wind Power TW Holding A/S Downgraded To 'twA+/twA-1' On Further Write-Downs; Outlook Negative

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Rating Action Overview

- S&P Global Ratings recently revised its rating outlook on Danish offshore wind company **Orsted A/S** to negative from stable. The outlook revision followed Orsted's announcement of further write-downs that significantly increases the size of impairments charged in 2024 to about DKK19 billion before reversals.
- The announced impairments relate to U.S. interest rate increases, seabed lease valuations, and the execution of its offshore project Sunrise Wind. We view these impairments as negative for Orsted's U.S. offshore economics and overall business and financial profiles.
- We have therefore lowered the rating anchor for Orsted A/S and **Orsted Wind Power TW Holding A/S** (Orsted TW) to 'twa' from 'twa+'. We subsequently lowered the long-term issuer credit rating on the company's to 'twA+' from 'twAA-' and the short-term local rating to 'twA-1' from 'twA-1+'.
- The rating outlook is negative to reflect the possibility of an additional one-notch downgrade to the local rating to 'twA' if Orsted reports further sizable write-downs or if the group is unable to maintain stable credit ratios. This includes keeping the ratio of funds from operations (FFO) to debt above 25%, adjusted for minority payments.

Rating Action Rationale

The downgrade and negative rating outlook reflect our view of the potential continued loss of value of its U.S. offshore projects and the implications this has for the company's business and financial risk profiles. Orsted has announced that it will record additional impairments in 2024 of around Danish Krone (DKK) 12 billion. This is a major upward revision from the DKK6.8 billion that the group announced prior to the third-quarter report in November 2024 and marks the second consecutive year that Orsted A/S has faced major impairments related to its U.S. offshore assets. The latest write-downs are due notably to higher interest rates, revaluation of the company's seabed leases, and delays and cost-overruns for Sunrise Wind.

We view the write-downs related to interest rates as the least credit negative because they are outside the group's control. The delay to the Sunrise Wind project will also result in a revenue and EBITDA stream from the project starting 2027 at the earliest. The announcement of further material impairments signals that Orsted's management continues to face difficulties in predicting project economics due to very swiftly shifting economic conditions. Potential changes to regulatory conditions under the new Trump administration, including risks from interest rates, cost inflation, and supply chain issues, could deliver further obstacles to improve project predictions.

Executing farm-downs is essential to keeping credit metrics commensurate with the rating. In S&P Global Ratings' Dec. 19, 2024, report, titled "Offshore Wind Giant Orsted A/S Affirmed At 'BBB' As Farm-Downs Reduce Debt; Outlook Stable," the rating agency assumed the offshore wind company's investments would average DKK45 billion-DKK50 billion a year over 2025-2026, more than twice the forecast FFO. However, following the increased write-downs and increased costs for Sunrise Wind, we believe it is likely that Orsted will introduce remedy measures over the coming month, as it has done in the past, to support the ratings. We therefore believe the company's likely capital expenditure (capex) and farm-down assumptions will change significantly in the near term--which also could reduce asset-concentration risks.

To date, Orsted's management has been successful in executing its farm-down strategy, indicating a continuing supportive secondary market. However, we consider that the sale of projects that have profitable, long-term contracts for difference slightly weakens Orsted's business risk profile and increases its exposure to construction risks. This could lead us to further strengthen our credit-metric expectations for the rating.

We will monitor these risks, including any remedies and their implementation. This is notable because there is no rating headroom left. We believe, however, that management remains determined to reinforce Orsted's credit strength. We continue to expect that Orsted's debt level will moderate over 2025-2026 as it completes asset sales that support the credit profile. We will monitor the farm-downs of the large Hornsea 3 and potentially also Hornsea 4 U.K. offshore fields, because they are massive, requiring, in our estimate, total capex exceeding €15 billion.

Given the impact of the recent sale of minority interests in assets, we will closely monitor the impact of major farm-downs and sales on Orsted's consolidated accounts; we do not exclude that we could re-assess the rating trigger if we believe that Orsted's business risk has weakened.

Outlook

The negative rating outlook reflects the potential for a downgrade if we expect Orsted will fail to sustainably restore S&P Global Ratings-adjusted ratio of FFO (net of dividends to minorities) to debt to at least 25% by 2025. Whether we lower our long-term rating depends on the company's remedial plan, the execution of any such plans and our assessment of its business strategy that could develop depending on the remedy measures.

Downward scenario

We could lower our rating if we anticipate Orsted will not progressively restore adjusted FFO to debt to at least 25% during 2025. We could also lower the rating if Orsted continues to report significant impairments, fails to execute on its farm-downs, or if capex materially exceeds our forecast of DKK45 billion-DKK50 billion in 2025.

We could also lower the rating by one notch if we considered that the likelihood of government support had weakened. We could take this view if the Danish government seemed less willing or less able to support Orsted, or if it no longer held a majority stake in the company. We see this as unlikely over the next two years.

Upward scenario

A return to a stable outlook depends on Orsted restoring its track record of project execution and stronger credit measures.

Liquidity

The short-term issuer credit rating is 'twA-1'. We view Orsted's liquidity position as adequate, which balances the group's prudent liquidity management against the potential adverse impact of the expected market volatility and continued high investments. We estimate that cash, committed credit facilities, and operating cash flow will cover anticipated cash outflow by about 2.4x over the 12 months started Sept. 30, 2024. That said, this is unusually high because of the contracted asset sales amounting to about DKK27 billion. We forecast that the ratio will gradually decline toward 1.5x during 2025. Overall, we predict liquidity sources will exceed uses, even if EBITDA declined by 30%.

The absence of restrictive financial covenants in the group's loan documentation and its solid relationships with banks also support Orsted's liquidity position. We consider that management acted cautiously in 2022 and 2023, when rapid increases in gas and power prices heightened the need for cash collateral. The group obtained several committed credit facilities to improve its liquidity, which reinforces our view that its liquidity management is prudent. The company has also frequently demonstrated that it has access to the international bond market, including when the market was turbulent.

Principal liquidity sources

- Cash and cash equivalents of about DKK24 billion.
- Access to about DKK50 billion in undrawn committed credit facilities maturing after one year.
- Funds from operations of DKK21 billion over the 12 months ending September 2025.
- Asset sales amounting to about DKK27 billion over the 12 months ending September 2025.

Principal liquidity uses

- No meaningful debt maturities.
- Capex of about DKK49 billion annually in 2025 and 2026.
- Annual dividends of about DKK3 billion.

Rating Score Snapshot

Orsted A/S Orsted Wind Power TW Holding A/S		
	To	**From**
Issuer Credit Rating	twA+/Negative/twA-1	twAA-/Stable/twA-1+
Business risk	Satisfactory	Satisfactory
Country risk	Low risk	Low risk
Industry risk	Moderately high	Moderately high
Competitive position	Strong	Strong
Financial risk	Significant	Significant
Cash flow/Leverage	Significant	Significant
Anchor	twa	twa+
Modifiers		
Diversification/portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Neutral (no impact)	Neutral (no impact)
Financial policy	Neutral (no impact)	Neutral (no impact)
Liquidity	Adequate (no impact)	Adequate (no impact)

Management and governance	Neutral (no impact)	Neutral (no impact)
Comparable ratings analysis	Neutral (no impact)	Neutral (no impact)
Stand-alone credit profile	twa	twa+
Likelihood of government support	Moderate (+1 notch from SACP)	Moderate (+1 notch from SACP)
Note: The descriptors above are on a global scale.		

Related Criteria & Research

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology - April 04, 2024
- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 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 07, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating - October 01, 2010
- General Criteria: Guarantee Criteria - October 21, 2016

Related Research

- Research Update: Orsted Outlook Revised To Negative On Further Write-Downs; 'BBB/A-2' Ratings Affirmed, www.capitaliq.com, Jan. 23, 2024
- Research Update: Offshore Wind Giant Orsted A/S Affirmed At 'BBB' As Farm-Downs Reduce Debt; Outlook Stable, www.capitaliq.com, Dec. 19, 2024
- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Downgraded

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