S&P Global
Ratings

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Urenco Ltd.

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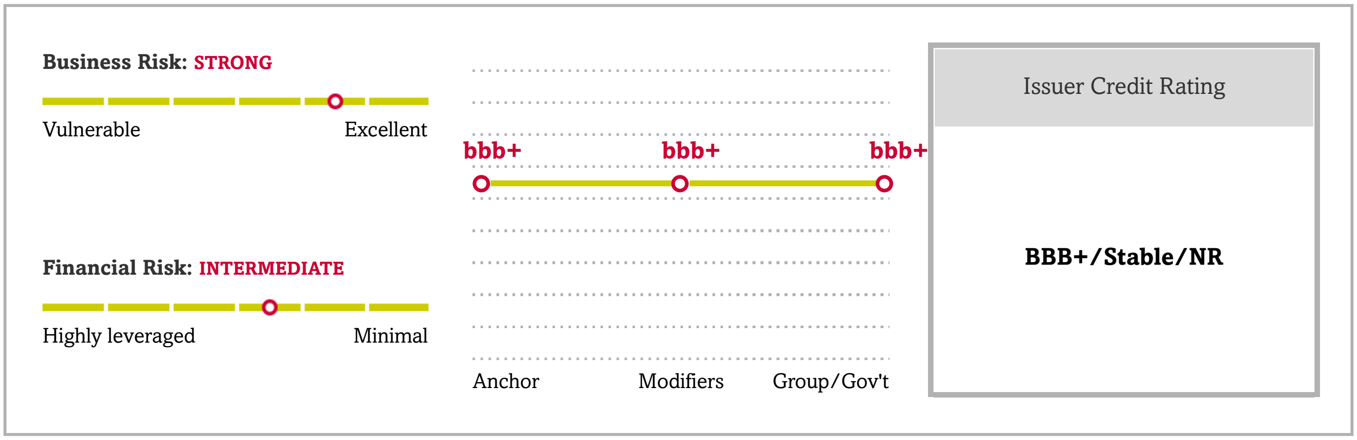

Credit Highlights

Overview

Key strengths	Key risks
A material order backlog of €8.7 billion as of year-end 2021 that extends beyond 2030, providing solid revenue predictability over the next five years.	A structural decline in demand for enriched uranium in most developed markets over the last decade, notably the U.S. and Europe, with some nuclear policy uncertainty, although energy security issues may change this situation in the future.
Strong market position (about 30% based on installed capacity globally) in the oligopolistic market of uranium enrichment services to the civil nuclear industry.	Almost no presence in China, a very large rapidly expanding market.
Competitive cost structure and low capital expenditure (capex) needs, translating into healthy, predictable cash flows in the near to medium term.	Limited product diversification, with operations focused on the uranium-enrichment niche.
Supportive financial policy, including low debt, limited pressure for dividends, and no growth projects.	

Energy security discussions in Europe, following Russia's military actions in Ukraine, may lead to a more favorable view of nuclear power generation. Urenco's order backlog has continued to decline, reaching about €8.7 billion as of Dec. 31, 2021, compared with about €17 billion in 2015. S&P Global Ratings estimates that, if the last years' book-to-order ratio remains the same (below 0.5x), the backlog is likely to reach about €5 billion-€6 billion by 2026. Such a decline could prompt a downward reassessment of the company's business risk profile. Without the ability to fully replenish maturing contracts, management has been very successful in taking opportunities in the spot market, which resulted in relatively stable revenue. For example, in 2020 and 2021, Urenco's revenue totaled to about €1.7 billion. With additional spot sales and higher prices, explained by the recovery of the enrichment market, we forecast revenue of €1.5 billion-€1.6 billion in 2022. With the ongoing situation in Ukraine, and greater awareness of energy security, the previously held bias against nuclear is changing somewhat. Moreover, sanctions on Russia (the largest global exporter of enriched uranium) may contribute to a reversal of the negative structural trend we saw in previous years, possibly leading to much higher demand for nuclear power generation, and to Urenco building new capacity.

Deleveraging will continue irrespective of market trends. After reaching a major milestone of a reported net debt-free position at year-end 2021, the company is now aiming to build a cash cushion to address its long-term €2.4 billion environmental liabilities. Under our base case, assuming EBITDA of €800 million, we expect the company to generate average free cash flow of €250 million-€300 million per annum in 2022-2024 (assuming capex averaging €200 million-€250 million and dividends of about €275 million-€300 million). Under a conservative approach, the company would be able to address its environmental liabilities by the early 2030s. Urenco's liquidity remains strong, thanks to cash and short-term investments of €1.1 billion as of Dec. 31, 2021, and a fully available committed long-term €500 million revolving credit facility (RCF) maturing in October 2026. According to our calculations, the company would be able to achieve S&P Global Ratings-adjusted fund from operations (FFO) to debt of 35% from 2023, which we see as the threshold for a modest financial risk profile, compared with intermediate currently.

Urenco's creditworthiness remains solid, with potential upside depending on the lasting effect of the current market sentiment. Our long-standing 'BBB+' rating is explained by the company's strong business risk profile and intermediate financial risk profile. We previously indicated that the company's path to achieving lower debt and the shrinking of the backlog aren't likely to lead to a change in the rating, but only to a change in the composition of the rating (to a combination of satisfactory business risk profile and modest financial risk profile). However, if the recent boost in sentiment toward nuclear energy persists, and the company can maintain its current backlog and profitability over the medium term, this may boost Urenco's ability to preserve a strong business risk profile, while improving its financial position, thereby supporting a higher rating.

Outlook: Stable

The stable outlook reflects Urenco's ability to maintain the headroom under the rating over the coming years, supported by a strong order backlog and contained spending. In our view, the forecast credit metrics and reduction in absolute debt provide a cushion for our rating, in case the recent positive sentiment about the uranium enrichment industry proves to be short-lived, and the gradual deterioration of Urenco's business risk profile continues.

Under our base-case scenario, we project our adjusted funds FFO-to-debt metric at about 30% in 2022 and more than 35% afterward, well above the 20% required for the 'BBB+' rating.

Our rating factors in no changes in the company's ownership structure. Even if this changed, we expect a limited impact, if any, on the rating.

Downside scenario

With the current and projected headroom under the credit metrics, we view downside pressure as remote in the coming 12-24 months. Although unlikely, pressure on the rating could emerge if the company saw a quicker-than-expected decline of its backlog, subsequent cost-structure or debt adjustments, for example due to a significant increase in the capex budget or distribution to shareholders.

We note that a downward revision of the business risk profile to satisfactory is unlikely to lead to a change in the rating, since the company's financial position is expected to improve in parallel, with adjusted FFO to debt reaching 35% by 2023.

Upside scenario

Contrary to the past, potential ratings upside cannot be ruled out in the coming 12-18 months. However, it is still premature to determine whether the recent positive sentiment toward nuclear energy is here to stay. In our view, any positive rating action would need to be supported by a U-turn in structural industry trends, with increasing demand for uranium and further reduction of the company's leverage.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	S-2	**S-3**	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

Environmental	Social	Governance
-Not applicable	-Health and safety	-Not applicale

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Nuclear energy (currently about 10% of global electricity generation) remains an important tool to limit global carbon dioxide emissions and therefore could play an important role in the energy transition. In our view, the contribution of nuclear in the future will reflect different countries' aim to ensure energy security and address concerns (especially after the Fukushima accident in 2011). That said, no two countries have the same view on the future use of nuclear power:

- The U.S. (over 50% of Urenco's revenue) remains broadly supportive of nuclear power--including $6 billion of subsidies for nuclear plants earmarked as part of the 2021 Infrastructure Investment and Jobs Act.

- Europe (about 30% of Urenco's revenue) lacks a consistent approach to policy within the EU (taxonomy for sustainable finance), which is a key concern for Urenco's long-term business prospects. The U.K. remains a strong proponent of nuclear power. France is supportive and recently announced that it will restart building new nuclear reactors after a decades-long pause, given energy security needs and commitments to carbon emission neutrality by 2050. The Netherlands has also recently announced that about €500 million will support the development of the expansion plans for its nuclear energy fleet; two new units are planned that would be on-line by the end of the decade, and the lifespan extension for the Borssele reactor has been confirmed. The EU will need to approve any state support for building new nuclear plants. A key roadblock in this respect is that nuclear energy is not included in the EU taxonomy on sustainable finance, which means that it does not qualify for support from the EU's economic growth funds. However, compared to the past, nuclear energy is viewed as neutral rather than negative (as for coal and oil).

Environmental factors are a neutral consideration in our rating on Urenco.

We think Urenco is better positioned than peers to manage the energy transition and other environmental challenges, since it has no exposure to mining activities or reactors. The main environmental issue facing the company in the coming years is the handling of hazardous byproducts, namely uranium hexafluoride. In our view, with the launch of its TMF facility, Urenco has significantly reduced this risk. As part of the process, the TMF facility deconverts the byproduct of enrichment--depleted uranium hexafluoride--into a more stable form, uranium oxide, for long-term storage until final disposal.

Urenco has ongoing environment-related initiatives that cover energy efficiency, emissions, water usage, and waste.

The company has recently committed to achieving net zero carbon emissions by 2040 and the board is working on defining new key performance indicators and the roadmap to achieve this target. Electricity sourcing will be key in this respect because the consumption of purchased electricity represents over 95% of the group's total carbon emissions. While we acknowledge their importance, these initiatives will have a limited impact on the company's competitive position and overall cost structure.

Until now, targets have been set yearly, in some cases with reference to the most recent best-performing year. For example, in 2021, Urenco reduced its water consumption by 12% (after a 10% reduction in 2020), mainly due to changes in operational processes. It also reduced its scope 1 and 2 emissions by 16% and 9%, respectively.

Overall, we consider social factors to be a moderately negative consideration in our credit rating analysis on Urenco, due to diverging views around the benefits and risks of nuclear power in the EU and elsewhere.

However, this has no impact on the rating. There is increasing pressure from citizens of some developed countries on their governments to shut down nuclear reactors due to safety risks. However, Urenco is a midsize employer of over 1,500 people, with a strong safety track record. We are not aware of any issues with the local communities where its facilities are located.

Governance, in terms of disclosures and board and management processes, is a neutral rating consideration.

Urenco's governance is at least on a par with that of other large, U.K.-based companies. We do not view the company's lack of independent directors as a weakness because it does not hinder its strategy and operations. This is due to the high regulation of the nuclear industry, which also limits the company's ability to expand significantly beyond its scope of operations and, in some cases, into new territories.

Government Influence

We consider Urenco a government-related entity, because the U.K. government owns one-third and the Dutch government one-third, while German utilities RWE and E.ON own the remaining third. Any transfer of Urenco's enrichment technology or change in its ownership requires the consent of the U.K., Dutch, and German governments, as per the Treaty of Almelo, an intergovernmental agreement that led to the company's creation in 1970.

We base our rating on Urenco solely on our assessment of the company's stand-alone credit profile, with no uplift for extraordinary state support. This reflects our opinion that there is a low likelihood of extraordinary government support, since we consider neither Urenco's ownership structure nor the Treaty of Almelo to be a basis for timely and sufficient government financial support. The various parties--each of which might have different objectives or political considerations--would have to reach a consensus on how to proceed, and we consider that Urenco has a:

- Limited link with the government stakeholders. In our opinion, the governments do not drive commercial strategy, and the company's operation and financing are decided on a commercial basis; and
- Limited importance to the national or local economies of the governments involved.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2021, Urenco's capital structure consists of:

- €405 million of unsecured Eurobonds due in August 2022;
- €500 million unsecured Eurobonds due in December 2024; and
- Japanese yen (¥) 20 billion unsecured loan at Urenco Ltd. maturing in April 2038 and fully drawn at year-end 2019.

In addition, Urenco maintains a fully available undrawn €500 million senior unsecured RCF at the parent company, maturing in October 2026. The instrument ranks pari passu with all other unsecured debt.

Analytical conclusion

There are no elements of subordination risk in Urenco's capital structure. We rate the senior unsecured Eurobonds in line with the 'BBB+' issuer credit rating on the company.

As of Dec. 31, 2021, Urenco had €2.4 billion of asset retirement obligations, which we do not take into account in our subordination risk analysis.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/NR

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Intermediate
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bbb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb+

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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, 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 Midstream Energy Industry, Dec. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks , Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	**a-/bbb+**	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of May 11, 2022)*

Urenco Ltd.	
Issuer Credit Rating	BBB+/Stable/NR
Senior Unsecured	BBB+

Ratings Detail (As Of May 11, 2022)*(cont.)	
Issuer Credit Ratings History	
22-Dec-2015	BBB+/Stable/NR
19-Nov-2014	BBB+/Stable/A-2
15-Jan-2014	BBB+/Negative/A-2
Related Entities	
Urenco Finance N.V.	
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.