

Research Update:

Uranium Enrichment Provider Urenco 'BBB+' Rating Placed On CreditWatch Positive On Improved Industry Outlook

March 10, 2023

Rating Action Overview

- On March 9, 2023, Urenco reported strong results for 2022 with EBITDA of over €800 million and an impressive increase in the backlog to €10.8 billion.
- We expect energy security in Europe and the general attitude toward nuclear energy will support healthy SWU prices and further increase the company's order backlog after years of shrinkage.
- We anticipate the company's capital structure will remain robust and that free cash flows in the coming years will allow it to address the overhanging decommissioning liabilities more quickly.
- We therefore placed our 'BBB+' long-term issuer credit rating on Urenco on CreditWatch with positive implications, indicating that we expect to raise the rating in the coming three months upon receiving greater clarity on the company's financial policy.

PRIMARY CREDIT ANALYST

Elad Jelasko, CPA
London
+ 44 20 7176 7013
elad.jelasko
@spglobal.com

SECONDARY CONTACT

Lena Liacopoulou Staad
Paris
+ 33 14 420 6739
lena.liacopoulou
@spglobal.com

Rating Action Rationale

Energy security discussions in Europe, following Russia's military actions in Ukraine, are already leading to improved prospects for the nuclear power generation industry. Urenco closed 2022 with a backlog of €10.8 billion (an increase of 24% compared with the previous year) after close to a decade of ongoing declines. This is a mirror image to the projection we held two years ago (assuming a sharp decrease in the backlog to €5 billion–€6 billion by 2026). According to the company's updated market forecast, the nuclear installed capacity is likely to increase by 10%-20% by 2040 (compared to a previous assumption of a more than 30% decline). The change in forecast may support our strong assessment of Urenco's business risk profile for the years to come.

Deleveraging will continue irrespective of market trends. Urenco finished 2022 with reported excess cash of more than €600 million, after reaching a major milestone of being net debt-free as of year-end 2021. Based on the company's existing financial policy, it aims to further build a cash cushion to address its long-term €2.4 billion environmental liabilities, which we add to our adjusted debt. In 2022, the company reduced its environmental liabilities by about €0.3 billion. Our previous base-case forecast assumed S&P Global Ratings-adjusted EBITDA of €800 million in 2022-2024 (reported EBITDA in 2022 was €825 million) and that the company addressed its environmental liabilities by the early 2030s. With the improved industry conditions, notably the growing backlog due to shifting global sentiment toward the nuclear energy, we now expect the company will generate higher cash flows in the coming years. At the same time, we also anticipate higher capital expenditure (capex) and dividends. We understand the company's board is currently fine tuning its financial policy for the coming years, though we anticipate it will continue to deleverage.

Urenco's creditworthiness remains solid, with potential upside depending on the lasting effects of the current market sentiment. Our long-standing 'BBB+' rating is explained by the company's strong business risk profile and S&P Global Ratings-adjusted funds from operations (FFO) to debt of above 20%. In practice, the company achieved S&P Global Ratings-adjusted FFO to debt of over 30%, which could have qualified for a higher rating. However, this has not translated to a higher rating because as we take a more holistic view. Specifically, we view the improved financial risk profile as offsetting the deterioration in its business risk profile. Given the better outlook for the industry and the further reduction in its S&P Global Ratings-adjusted debt, we think its credit story is now on an upswing. Our reassessment of the financial policy, and ultimately the rating, will be subject to the company's ongoing strategy discussions.

CreditWatch

The CreditWatch positive placement indicates that we expect to raise our rating on Urenco by one notch in the coming three months, upon receiving better clarity on the company's financial policy. We understand that management is holding internal discussions on the new trajectory of the industry and the effect this will have on the company's financial policy--including dividends and capex.

Company Description

Urenco is a leading uranium enrichment services supplier to the civil nuclear industry. It serves over 50 utilities across 21 countries, contributing to the provision of low carbon electricity through nuclear generation. More than 90% of earnings stem from uranium-enrichment tolling services using low-cost-to-use centrifuge technology.

Urenco has a production capacity of 17.9 million separative work units per year. It operates four plants in four countries (Germany, the Netherlands, the U.K., and the U.S.), which gives it flexibility of supply. The new U.K.-based TMF (construction completed in 2019 and currently in active commissioning, with commercial production expected to start in first half of 2021) will allow Urenco to treat depleted uranium "tails" prior to final disposal, effectively providing in-house de-conversion services.

In 2022, Urenco reported EBITDA of about €0.8 billion.

One-third of Urenco's shares are held by the U.K. government, one-third by the Dutch government,

and one-third by German utilities RWE and E.ON (the latter via its subsidiary PreussenElektra).

ESG credit indicators: E-2, S-3, G-2

Related Criteria

- General 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 | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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. 1, 2010

Ratings List

CreditWatch Action; Ratings Affirmed

	To	From
Urenco Ltd.		
Issuer Credit Rating	BBB+/Watch Pos/NR	BBB+/Stable/NR
Urenco Ltd.		
Urenco Finance N.V.		
Senior Unsecured	BBB+/Watch Pos	BBB+

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 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; or Stockholm (46) 8-440-5914

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.