

Research Update:

# Urenco Ltd. Downgraded To 'BBB+' On Expanded Investment Cycle; Outlook Stable

May 14, 2025

## Rating Action Overview

- The resurgence in the demand for western uranium exceeds the current enrichment capacity. Urenco Ltd. has decided to heavily invest in the coming years to meet this demand.
- As the payback will come after the material additional investment, we project pressure on the company's credit metrics in the coming 24 months.
- Under the updated business plan, Urenco intends to increase capital expenditure (capex) over the next eight years, which will increase its leverage and suppress funds from operations (FFO) to debt.
- We therefore downgraded our long-term issuer credit rating on Urenco to 'BBB+' alongside the issue level rating to 'BBB+'.
- The stable outlook reflects the company's ability to enjoy the renaissance of the nuclear industry in the medium term, leading to a material increase in its backlog while building and executing its growth plan.

## Rating Action Rationale

**National energy security priorities, driven by the Ukraine war in particular, continue to fuel more positive sentiment toward the nuclear power industry.** We anticipate new nuclear initiatives to underpin long-term growth prospects for Urenco, including government commitments in several geographies to accelerate nuclear capacity and secure energy independence. Urenco maintains a solid competitive position in the highly concentrated global uranium enrichment market, a critical stage in the civil nuclear supply chain, as enriched uranium is subsequently fabricated into fuel pellets for use in nuclear power generation. Recent trends point to a material increase in nuclear activity in most Organization for Economic Cooperation and Development countries, relative to the sustained downturn witnessed in the previous decade. Combined with global demand for low emissions energy, this has bolstered Urenco's order book with a backlog of €18.7 billion in 2024 (an increase of 27% from 2023). As a result, we think that strong industry tailwinds remain intact and should support Urenco's strong business risk profile and our positive comparable rating analysis assessment.

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**Increased capex plans weigh on short term free cash flow generation but will further support long term growth.** Urenco plans to allocate sizeable additional capex over the next eight years, including towards the high assay low enriched uranium plant in the U.K. (which is partly funded by a UK government grant) and the Legacy Tails Separation Facility project. For 2025, we expect the ramp up of total capex to about €700 million-€800 million, followed by about €1,000 million in 2026 (above our previous expectations of €650 million in 2025, and €750 million in 2026). While these investments are consistent with Urenco's long-term asset strategy to support sustained growth in separative work unit capacity, they are not expected to generate meaningful free operating cash flow (FOCF) for the near term. Consequently, we forecast the additional capex, and continued dividends, to pressure cash balances, as we forecast S&P Global Ratings-adjusted FOCF to turn negative in the next two years.

**In our forecast, Urenco's credit metrics will temporarily weaken, with upsides from extensive investment and capacity increases bolstering the financials in the medium to long term.** In 2024, the company recorded S&P Global Ratings-adjusted EBITDA of €726 million (down from €891 million in 2023) and an EBITDA margin of about 39% (down from 46% in 2023). This reflects a continued drag from legacy contracts tied to historically lower pricing levels and is likely to weigh on results over the short term as they are executed, and new contracts come into place. The company expects the recent positive momentum in the nuclear industry, reflected in rising prices and an increasing order book in 2025, to translate into higher profitability over the medium term. However, in combination with lower cash balances and increasing decommissioning liabilities, we forecast S&P Global Ratings-adjusted debt to EBITDA to temporarily increase to about 4.0x-5.0x in 2025 (compared with 3.3x in our previous forecast). We also anticipate FFO to debt to decline to about 15% (compared with 26% in our previous forecast). We continue to view Urenco's long-term fundamentals as strong, with upside from its extensive investment program and increased capacity, although this will result in a weaker financial risk profile for at least the next two years. We also note the company's liquidity remains strong, thanks to a cash position of approximately €1 billion as of January 2025 and an undrawn revolving credit facility (RCF) of €500 million, even with weakening cash balances and credit metrics in the near term.

## Outlook

The stable outlook reflects our view that the company will enjoy the resurgence of the nuclear industry in the coming years, leading to a material increase in its backlog while building and executing its growth plan that will translate into strong cash flows over the long term.

Under our base case, we forecast adjusted EBITDA of about €700 million-€800 million in 2025, increasing to about €900 million-€1,000 million in 2026, which would translate into adjusted FFO to debt of approximately 15% for 2025, and 20%-25% in 2026.

We view a minimum level of 23%, on a weighted average basis, as commensurate with our 'BBB+' rating, while the company executes its growth plan (from 2024-2032).

Lastly, our rating factors in no changes in the company's ownership structure. Even if ownership changed, we expect a limited effect, if any, on the rating.

## Downside scenario

We do not see a meaningful likelihood of a downgrade within the coming 12-24 months. That said, the rating could come under pressure if:

- There is a complete reversal in market sentiment toward nuclear energy (for example due to a catastrophic nuclear accident resulting in social pressure to curb existing and future use of nuclear fuels). In this case, the company's backlog would likely shrink.
- There is a more generous dividend policy on top of an extensive capex plan that leads to an increase in the company's overall debt and its adjusted FFO to debt falling below 15% in the coming years.

## Upside scenario

We could consider raising the rating on Urenco within the next 12-24 months if:

- The capex program supports a material increase in FFO generation, which would translate into FFO to debt comfortably above 35%.

## Company Description

Urenco is a leading uranium enrichment services supplier to the civil nuclear industry. It serves around 50 utilities across 19 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 17.3 million separative work units per year in 2024, compared with about 7.5 million for peer Orano. It operated four plants in four countries in 2024 (Germany, the Netherlands, the U.K., and the U.S.), which gives it flexibility of supply. U.K.-based TMF Group Ltd. allows Urenco to treat depleted uranium "tails" prior to final disposal, effectively providing in-house deconversion services.

In 2024, Urenco generated revenue of €1.88 billion and an S&P Global Ratings-adjusted EBITDA of €0.73 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 Aktiengesellschaft and E.ON SE (the latter via its subsidiary PreussenElektra GmbH).

## Our Base-Case Scenario

### Assumptions

- Prices: After their sharp rise in 2022, we assume uranium and enrichment spot market prices to gradually increase/stay flat over the next few years but remain higher than long-term average prices. The change in spot prices will have a limited effect on Urenco's results over the near term.
- Backlog: A gradual increase in enrichment services on back of a supportive environment for nuclear energy with the backlog reaching €20 billion (€18.7 billion in 2024) over the coming years. The backlog is also subject to foreign exchange changes.
- EBITDA margin: 35%-45% in 2025-2026. We understand that margins are subject to temporary changes in the mix of customers.
- Capex: In 2024, capex was mostly driven by maintenance levels. With further growth projects starting from 2025, we expect a much larger capex of €700 million-€1,000 million over 2025-2026 in line with the company's long-term objective of maintaining capacity of 18 million

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separative work units per year. The assumption reflects the company's maximum spending and would be closely linked to the increase in the backlog.

- Dividends: In line with Urenco's financial policy and the previous few years' distributions of €300 million.
- Working capital: In line with management guidance.
- No acquisitions, disposals, or share buybacks.

## Key metrics

### Urenco Ltd.

--Fiscal year ended Dec. 31--				
(Mil. €)	2023a	2024a	2025e	2026f
Backlog	14,700	18,700	18,000-19,000	19,000-20,000
Revenue	1,922	1,877	2,000-2,100	2,000-2,100
Adjusted EBITDA	891	726	700-800	900-1,000
Funds from operations (FFO)	753	539	400-500	700-900
Debt (reported)	1,125	620.0	600-700	650-750
Debt (adjusted)	1,871	2,516	3,000-3,250	3,000-3,500
Cash and short-term investments (reported)	1,695	963	300-500	0-300
<b>Adjusted ratios</b>				
Debt/EBITDA (x)	2.1	3.47	4.0-5.0	3.0-4.0
FFO/debt (%)	40.2	21.4	10.0-15.0	20.0-25.0

All figures include S&P Global Ratings adjustments' unless stated as reported. a--Actual. e--Estimate. f--Forecast.

## Liquidity

We continue to assess the company's liquidity as strong, reflecting the cash on balance sheet, availability of funds under its committed credit facilities maturity over 12 months (October 2028). We calculate that liquidity sources cover uses by more than 1.5x for next 24 months starting Jan. 1, 2025.

Other factors supporting Urenco's liquidity include the absence of financial covenants, and its strong relationship with key banks reflected in the sustainability-linked €500 million RCF maturity, fully undrawn, and committed. We also factor in management's willingness to maintain this healthy liquidity profile, which is commensurate with our strong assessment.

### Principal liquidity sources

- Cash and liquid investments of about €1 billion;
- Undrawn committed bank lines of €500 million expiring in October 2028;
- Cash FFO of approximately €0.7 billion in the next 12 months; and
- About €0.1 billion in working capital inflows.

### Principal liquidity uses

- Capex of up to €800 million in the next 12 months, increasing to about €1 billion in the subsequent 12 months; and
- Dividend payment of €300 million in 2023 and in 2024.

## Covenants

We project that Urenco will maintain sufficient headroom under its financial covenants in the next 12-24 months.

## Environmental, Social, And Governance

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' aims 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 also 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 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 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; see "Urenco Ltd.," published on May 11, 2022 on RatingsDirect.)

## Issue Ratings--Subordination Risk Analysis

### Capital structure

Urenco's capital structure consists of:

- €500 million Eurobonds due in June 2032, ranking pari passu with other unsecured obligations; and
- A Japanese yen (¥) 20 billion unsecured loan at the Urenco Ltd. level maturing in April 2038 and fully drawn at end-2020.

Urenco maintains a fully available undrawn €500 million senior unsecured RCF at the parent level, maturing in October 2028. The instrument is pari passu with all other unsecured debt.

## Analytical conclusions

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

As of Dec. 31, 2024, Urenco had about €2.5 billion of net asset-retirement obligations (€3.6 billion gross), in which decommissioning liabilities are around one third of the total, with the remaining portion towards tails provisions. We also include the nuclear decommissioning fund within our net asset-retirement obligations. We do not take this into account within our subordination risk analysis.

## Rating Component Scores

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Component	
Foreign currency issuer credit rating	BBB+/Stable/--
Local currency issuer credit rating	BBB+/Stable/--
Business risk	Strong
Country risk	Low Risk
Industry risk	Intermediate Risk
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Positive
Stand-alone credit profile	bbb+

## Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019

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- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Urenco Ltd. Ratings Affirmed Following Implementation Of New Management And Governance Criteria; Off UCO, Jan. 17, 2024
- Urenco Upgraded To 'A-' On Nuclear Industry Resurgence; Off CreditWatch; Outlook Stable, June 15, 2023

Ratings List

Ratings list

Downgraded		
	To	From
Urenco Ltd.		
Issuer Credit Rating	BBB+/Stable/--	A-/Stable/--
Urenco Ltd.		
Urenco Finance N.V.		
Senior Unsecured	BBB+	A-

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