S&P Global
Ratings

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Urenco Ltd.

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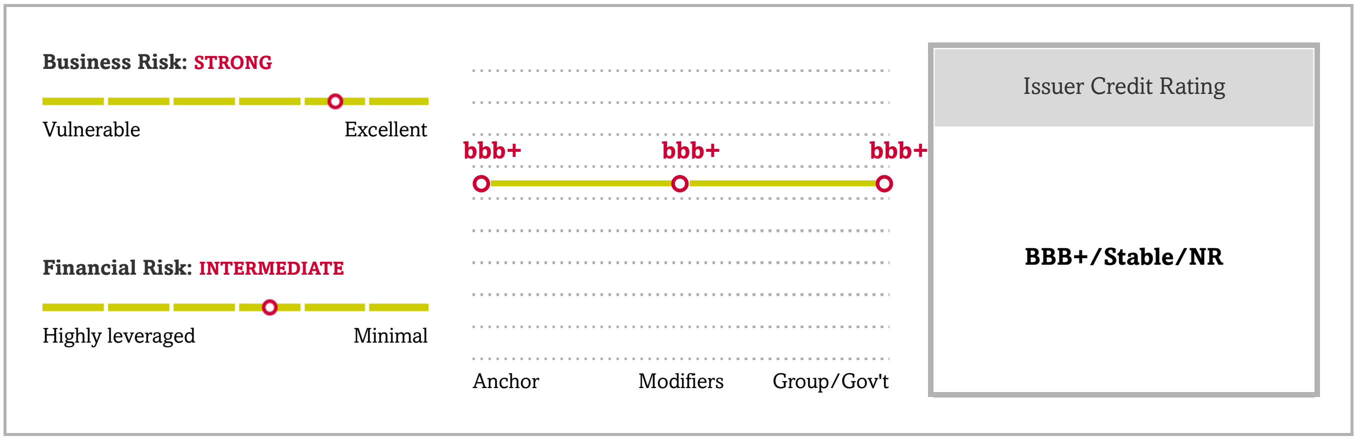

Credit Highlights

Overview	
Key strengths	**Key risks**
Large backlog of €10.6 billion covering up to 20 years (as of year-end 2019), which provides a high level of revenue predictability over the next three-to-five years	Structural decline in demand for enriched uranium in most developed markets, notably the U.S. and Europe
Competitive cost structure and low capex needs, translating into healthy cash flows	Despite the recent recovery in the price of uranium and other related products and the slightly positive trajectory, prices still trading at very low levels
Supportive financial policy, including low pressure on dividends, no growth projects, and comfortable debt maturity profile	Limited product diversification, with operations focused in the uranium-enrichment niche
Focus on debt reduction, with $900 million reported net debt at year-end 2019 and a debt-free position by 2022 under our base-case scenario, as well as on managing the sizable $1.8 billion decommissioning liabilities	Almost no presence in fast-growth markets such as China

Urenco Ltd.'s ability to replenish its backlog remains a key challenge. Like in previous years, Urenco's backlog has declined, reaching €10.6 billion as of Dec. 31, 2019. This compares with €11.9 billion in 2018 and close to €17 billion four years ago. Based on revenue of about €1.8 billion in 2019, the company's new orders to revenue was below 20%.

S&P Global Ratings expects the backlog to continue shrinking over the medium term as most developed countries shift away from nuclear energy. In our view, the size and the nature of Urenco's backlog provide excellent visibility over the coming three-to-five years. This should allow the company enough time to continue adapting its business model to the changing environment. A key focus area will be to increase its presence in markets like China, which continues to embrace nuclear energy.

Lower financial debt and sizable environmental liabilities will drive adjusted debt levels. Despite the structural decline in its business, Urenco is likely to remain cash generative in the coming years, with discretionary cash flow (DCF; free operating cash flow after capital expenditure [capex] and dividends) at an average of €300 million-€350 million per year over the next few years (compared to €430 million in 2019). This is due to limited need for growth capex following the completion of the Tails Management Facility (TMF), and relatively modest dividends. We understand that the company plans to continue directing the majority of its excess cash toward deleveraging. Assuming no new debt issuance in the coming years, Urenco will be debt-free by 2022. At the same time, we expect it to continue building a cash cushion to meet its €1.8 billion environmental liabilities (as of year-end 2019), which we take into account into our adjusted debt calculation.

Coronavirus risk for operations is limited, and mitigated by a contingency plan. The main risks related to the COVID-19 pandemic include concurrent illness of key plant-operating staff, potential delays in deliveries from transport disruptions, possible supply chain risks to chemicals and materials, and potential delays in payments. We understand that so far, the company has observed no incidence of the pandemic on its four sites and has laid out thorough contingency plans, which in our view minimize risks. We expect the sharp contraction in global GDP this year to have a limited impact on Urenco's business, given the long-term committed nature of the contracts and importance of nuclear in the electricity generation sector.

Outlook: Stable

The stable outlook reflects the company's ability to continue building headroom at the rating over the coming years, supported by a strong backlog and constrained spending. In our view, the improved credit metrics and reduction in absolute debt should offset structural changes in the uranium enrichment industry, and the gradual deterioration in Urenco's business risk profile.

Under our base-case scenario, we project adjusted funds from operations (FFO) to debt of more than 30% in 2020 and beyond, well above the 20% required for the 'BBB+' rating. Our rating factors in no changes in the 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. Nevertheless, we could lower the rating if Urenco's backlog continued declining without subsequent cost-structure or debt-level adjustments. For example, if we reassessed the business risk profile as satisfactory, down from strong, the company would need to maintain adjusted FFO to debt above 35% to support the rating. Under our base-case scenario, we assume that the company would reach and maintain such a level starting 2021. A revision of the business risk profile would take into account Urenco's capacity utilization over the short and medium term and its ability to replenish the backlog (volumes and prices).

Upside scenario

At this stage, we see very limited rating upside in the coming 12-18 months. Any positive rating action would need to be supported by a U-turn in expected industry structural trends, with increasing demand for uranium, which we do not see at the moment. Alternatively, we could consider a higher rating if the company adopted a very prudent financial policy with limited debt on the balance sheet.

Our Base-Case Scenario

Under our base-case, we project a stable EBITDA of €900 million-€1.0 billion in 2020 and 2021, compared with €1.1 billion in 2019. In our forecast, we take into account the long-term structural change in the industry and the contracts Urenco has in place. We understand that any changes in the demand for enriched uranium or prices will affect the company's results beyond 2021.

Assumptions

- Uranium and enrichment spot market prices to gradually improve over the next few years, but to remain historically relatively weak. The change in spot prices will have a limited effect on Urenco's results over the near term
- EBITDA margin of 58%-60% in 2020-2021 (before potential impact of noncash provisions). We understand that margins are subject to temporary changes in the mix of customers
- Capex at maintenance levels, with no growth projects
- Dividends in line with Urenco's financial policy and previous few years' distributions
- No acquisitions, disposals, or share buybacks
- No impact from Brexit on the company's operations--all major risks have been mitigated
- No material impact from the COVID-19 pandemic on the company's operations
- A small increase in the decommissioning provision from the €1.8 billion at year-end 2019

Key Metrics

	2019A	2020E	2021E
Backlog (bil. €)	10.6	9.0-10.0	9.0-10.0
Revenues (bil. €)	1.8	1.5-1.6	1.5-1.6
Adj. EBITDA (bil. €)*	1.1	0.9-1.0	0.9-1.0
Reported net debt (bil. €)	0.9	0.4	0.1
Capex (mil. €)	145	160	125
FOCF (bil. €)*	0.7	0.8-0.9	0.6-0.7
Dividends (bil. €)	0.3	0.3	0.3
DCF (bil. €)*	0.4	0.3-0.4	0.3-0.4
FFO/debt(%)*	31	30-35	35-40
Debt/EBITDA(x)*	2.6	2.5-2.7	2.3-2.5

*S&P Global Ratings-adjusted. Our main debt adjustments relate to the addition of the unfunded pension deficit (after tax) and unfunded asset-retirement obligations relating to depleted uranium disposal and plant and machinery decommissioning liabilities. We also deduct surplus cash. FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow. A--Actual. E--Estimate.

Company Description

Urenco is a leading uranium enrichment services supplier to the civil nuclear industry. It serves over 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 18.5 million separative work units per year, compared with about 7.5 million for peer Orano. 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) will allow the company to treat depleted uranium "tails" prior to final disposal, effectively providing in-house de-conversion services.

In 2019, Urenco generated revenues of €1.8 billion, and S&P Global Ratings-adjusted EBITDA of €1.1 billion.

The company's shares are held one-third by the U.K. government, one-third by the Dutch government, and one-third by German utilities RWE and E.ON.

Business Risk: Strong

We continue to assess Urenco's business risk profile as strong. This primarily reflects our view of the company's contracted revenue, and therefore highly predictable operating cash flows, at least in the near-to-medium term. We also view positively Urenco's high profitability levels and strong market position. The company's geographic, customer, and plant diversification also support our current business risk profile assessment. We note the limited business diversity, with a concentration in the nuclear-enrichment niche market, as a relative weakness.

Lower appetitive of developed countries for nuclear energy, with demand fueled by China and India

In general, demand across developed countries has been contracting over the past decade, while developing countries are aiming to increase their nuclear usage. The structural change that accelerated after the accident at the Fukushima nuclear power facility in 2011 has pushed countries to hasten their shift from nuclear energy toward other sources, in some cases driven by social pressure. Germany, for example, as one of the world's largest nuclear markets, has committed to begin decommissioning all of its 17 nuclear energy facilities by end-2022. Other countries, such as France and South Korea, took a less aggressive stance, aiming to reduce the proportion of nuclear in the overall energy mix. North America remains fully engaged in nuclear power generation, yet we expect demand to remain slow in the near future as some players' financial difficulties will drive additional reactor closures. On the other hand, we continue to see an appetite to build nuclear capacity in China (over the next decade), India (within a longer time horizon), and other developing countries.

Low risk from Brexit given extensive contingency planning

Given Urenco's enrichment plant in the U.K. and flow of raw materials and products between the U.K. and Europe, as well as existing legislation, the Brexit process required extensive contingency planning over the past few years. In addition, pre-Brexit, the company's operations were subject to the oversight and regulation of Euratom and the International Atomic Energy Agency.

That said, we do not see material Brexit-related risks. This is supported by Urenco's geographical diversity, and the new trade agreements concluded between the U.K. and Europe and the U.S. which will replace the existing arrangements. A key milestone was achieved when the U.K. parliament approved the ratification of all the new Nuclear Cooperation Agreements between the U.K. and its international partners (including the U.S., Urenco's main market).

Peer comparison

Table 1

Urenco Ltd.--Peer Comparison			
Industry sector: Mining			
	Urenco Ltd.	**Orano**	**Cameco Corp.**
Ratings as of April 1, 2020	BBB+/Stable/--	BB+/Stable/--	BBB-/Negative/A-3
	--Fiscal year ended Dec. 31, 2019--		
(Mil. €)			
Revenue	1,805	3,787	1,280

Table 1

Urenco Ltd.--Peer Comparison (cont.)

Industry sector: Mining			
	Urenco Ltd.	**Orano**	**Cameco Corp.**
EBITDA	1,079	1,012	277
Funds from operations (FFO)	859	742	215
Interest expense	142	238	69
Cash interest paid	78	160	50
Cash flow from operations	876	849	312
Capital expenditure	145	564	52
Free operating cash flow (FOCF)	731	285	261
Discretionary cash flow (DCF)	431	282	239
Cash and short-term investments	787	1,492	730
Debt	2,804	4,171	537
Equity	1,886	1,249	3,432
Adjusted ratios			
EBITDA margin (%)	59.8	26.7	21.7
Return on capital (%)	15.0	12.4	2.9
EBITDA interest coverage (x)	7.6	4.3	4.0
FFO cash interest coverage (x)	12.0	5.6	5.3
Debt/EBITDA (x)	2.6	4.1	1.9
FFO/debt (%)	30.6	17.8	40.0
Cash flow from operations/debt (%)	31.2	20.4	58.2
FOCF/debt (%)	26.1	6.8	48.5
DCF/debt (%)	15.4	6.8	44.5

Financial Risk: Intermediate

Our assessment of Urenco's financial risk profile is based on adjusted FFO to debt being at 20% or more. Other supportive factors include the company's ability to generate positive DCF and maintain relatively low reported net debt.

Supportive financial policy

In 2014, Urenco adopted a financial policy linked to a "solid investment grade" rating.

As part of this policy, dividends will be limited to 100% of the net income, until financial ratios comfortably exceed the minimum threshold for a high 'BBB' rating

Since 2014, Urenco has distributed to its shareholders about €300 million annually. Based on our forecast, the company will be debt-free by 2022, and we cannot rule out higher dividend payments starting 2022.

Financial summary

Table 2

Urenco Ltd.--Financial Summary

Industry Sector: Mining					
	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. €)					
Revenue	1,805	1,958	1,927	1,893	1,842
EBITDA	1,079	1,164	1,199	1,156	1,176
Funds from operations (FFO)	859	965	935	907	935
Interest expense	142	138	187	190	193
Cash interest paid	78	80	141	132	119
Cash flow from operations	876	1,212	1,064	968	952
Capital expenditure	145	183	299	408	520
Free operating cash flow (FOCF)	731	1,029	765	560	432
Discretionary cash flow (DCF)	431	729	465	210	92
Cash and short-term investments	787	531	59	253	391
Gross available cash	787	531	59	253	391
Debt	2,804	2,893	3,456	3,867	4,132
Equity	1,886	2,120	1,824	1,543	2,430
Adjusted ratios					
EBITDA margin (%)	59.8	59.4	62.2	61.1	63.9
Return on capital (%)	15.0	16.3	16.1	11.1	10.5
EBITDA interest coverage (x)	7.6	8.5	6.4	6.1	6.1
FFO cash interest coverage (x)	12.0	13.1	7.6	7.9	8.8
Debt/EBITDA (x)	2.6	2.5	2.9	3.3	3.5
FFO/debt (%)	30.6	33.4	27.1	23.5	22.6
Cash flow from operations/debt (%)	31.2	41.9	30.8	25.0	23.0
FOCF/debt (%)	26.1	35.6	22.1	14.5	10.5
DCF/debt (%)	15.4	25.2	13.5	5.4	2.2

Liquidity: Strong

We continue to view Urenco's liquidity as strong, reflecting the cash on balance sheet, and availability of funds under its committed credit facilities with maturity over 12 months. We calculate that liquidity sources to uses will be more than 1.5x for the 12 months started Jan. 1, 2020, as well as for the following 12 months.

Other factors underpinning Urenco's liquidity are the absence of financial covenants and its strong relationship with key banks, as evidenced by the extended maturity (to 2023) of its €750 million revolving credit facility (RCF). We also factor in management's willingness to maintain this healthy liquidity profile, which is commensurate with our strong assessment.

Principal Liquidity Sources	**Principal Liquidity Uses**

We project the following principal liquidity sources for the 12 months from Jan. 1, 2020:	We project the follow principal liquidity uses over the same period:
• Unrestricted cash of about €325 million and short-term deposits of about €465 million • FFO of €850 million-€900 million • Working capital inflow of €60 million-€70 million • €750 million available under the committed RCF maturing in 2023 and fully undrawn	• No scheduled debt amortization in 2020 • Capex of about €160 million in 2020, including completion of the commissioning of the TMF facility • Intra-year seasonal working capital swings of potentially up to €200 million outflows annually • Dividends of €300 million

Covenant Analysis

There are no financial covenants in the debt documentation.

Government Influence

We consider Urenco a government-related entity, because the U.K. government owns one-third, the Dutch state one-third, and German utilities RWE AG and E.ON AG 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 Almelo Treaty, 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 (SACP), with no notching for extraordinary state support. This reflects our opinion that there is a low likelihood of extraordinary government support, because 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 see:

- Limited links with the owner governments. 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 of Urenco to the national or local economies of the governments involved.

Environmental, Social, And Governance

In our view, the nuclear industry is subject to opposing trends. On the one hand, nuclear energy remains an important tool to limit global carbon dioxide emissions (currently about 10% of global electricity generation). On the other hand, we note pressure by citizens of some developed countries on their governments to shut down nuclear reactors. The pressure increased after the Fukushima accident in 2011. At this stage, it seems that governments in developed markets remain sensitive to the public, which will lead to lower demand for Urenco's services in the medium-to-long term.

Another environmental issue that the company will need to deal with in the coming years is handling some hazardous by products, namely uranium hexafluoride. In our view, with the launch of the TMF facility this year (construction completed in 2019 and currently in active commissioning), the company has reduced this risk materially. As part of the process, the TMF facility will deconvert the by-product 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. 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 best performing recent year. For example, in 2018 and 2019, Urenco reduced its water consumption by 4% and its carbon dioxide emissions by 5% (previous year year-on-year reduction was 14%). We understand that the board is looking to set long-term goals. Electricity sourcing will be key in this respect, because the consumption of purchased electricity represents over 95% of the group's total carbon emissions.

Urenco is a midsize employer of about 1,500 people, with a good safety record: It reported two lost-time incidents in 2019, compared with zero in 2018, three in 2017, and five in 2016. 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 at least on a par with other large UK 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 grow significantly beyond its scope of operations and, in some cases, into new territories.

Issue Ratings - Subordination Risk Analysis

Capital structure

At Dec. 31, 2019, Urenco's capital structure consisted of:

- Three senior unsecured eurobonds issued by Urenco Finance N.V., a special-purpose entity wholly owned by the parent company Urenco Ltd., and amounting to €1.53 billion:
- €534 million is due in February 2021, outstanding after the company completed a liability management tender offer closed in January 2019 and repaid €216 million of these bonds;

- €500 million in August 2022;
- €500 million in December 2024;
- €750 million senior unsecured RCF at the Urenco Ltd. level maturing in 2023, committed and fully undrawn; this would have the same seniority as all other unsecured debt; and
- ¥20 billion unsecured loan at the Urenco Ltd. level maturing in April 2038 and fully drawn at end-2019.

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+' issuer credit rating on the company.

As of Dec. 31, 2019, Urenco had €1.8 billion of asset retirement obligations, which we do not take into account in our subordination risk analysis.

We understand that the company will continue to reduce its gross debt over the coming years to address the structural changes in the market. This is unlikely to affect our subordination risk analysis.

Reconciliation

Table 3

Reconciliation Of Urenco Ltd. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2019--					
Urenco Ltd. reported amounts						
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
Reported	1,693.4	1,063.0	207.2	(16.1)	1,078.6	952.8
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	(141.5)	--
Cash taxes paid: Other	--	--	--	--	--	--
Cash interest paid	--	--	--	--	(78.3)	--
Reported lease liabilities	22.0	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	65.1	7.9	7.9	1.0	--	--
Accessible cash and liquid investments	(783.8)	--	--	--	--	--
Capitalized interest	--	--	--	62.4	--	--
Asset retirement obligations	1,807.3	--	--	67.1	--	--
Income (expense) of unconsolidated companies	--	(5.4)	--	--	--	--
Nonoperating income (expense)	--	--	1.2	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	(77.0)
EBITDA: Foreign exchange gain (loss)	--	13.1	13.1	--	--	--
Depreciation and amortization: Impairment charges (reversals)	--	--	500.0	--	--	--

Table 3

Reconciliation Of Urenco Ltd. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)						
Interest expense: Derivatives	--	--	--	27.2	--	--
Total adjustments	1,110.6	15.6	522.2	157.7	(219.8)	(77.0)
S&P Global Ratings' adjusted amounts						
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	2,804.0	1,078.6	729.4	141.6	858.8	875.8

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/NR

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Low
- **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+

- **Likelihood of government support:** Low

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General: Corporate Methodology: Ratios And Adjustments, April 1, 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, 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: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, 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 6, 2020)*

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