MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Urenco's Baa1 ratings with stable outlook

26 Apr 2019

London, 26 April 2019 -- Moody's Investors Service ("Moody's") has today affirmed the Baa1 issuer rating and the baa2 baseline credit assessment (bca) of Urenco Ltd (Urenco). Concurrently, Moody's has affirmed the (P)Baa1 ratings on the Senior Unsecured MTN program and the Baa1 ratings on the Senior Unsecured Notes issued under the program by Urenco Finance N.V. The outlook is stable.

RATINGS RATIONALE

Today's affirmation of Urenco's baa2 bca reflects Moody's expectation of resilient operational and financial performance over the period 2019-21, owing to the company's leading position in the concentrated global market of uranium enrichment services and benefits arising from the industry's high entry barriers and increasingly regulated nature.

As the second largest provider of enriched uranium to utilities worldwide, Urenco enjoys good revenue visibility for the coming years due to substantial contracted capacity at relatively high historical prices. This help mitigate the ongoing downward pressure on prices for future contracts, as the uranium enrichment services' market experiences continued oversupply in the aftermath of the Fukushima nuclear accident of 2011 and the withdrawal of some European countries from nuclear power generation.

Urenco's operating performance in 2018 was strong, as evidenced by revenue of €1.95 billion and Moody's-adjusted EBITDA of €1.14 billion compared to €1.93 billion and €1.17 billion in 2017, respectively. Moody's-adjusted Cash Flow from Operation amounted to €1.22 billion in 2018 versus €1.07 billion in 2017 and was sufficient to cover capex requirements of €185 million (€302 million in 2017) and €300 million of dividends (unchanged versus 2017). Accordingly, Urenco's adjusted Free Cash Flow improved significantly to €736 million in 2018, significantly higher compared to the €470 million in 2017, allowing financial debt repayment of €278 million debt during the year. However, Moody's-adjusted gross leverage marginally increased to 2.4x in 2018 from 2.3x in 2017 owing to higher provisions for nuclear decommissioning liabilities reported at the end of 2018, which are included in Moody's-adjusted debt. On the other hand, adjusted Net Debt / EBITDA improved to 2.0x in 2018 versus 2.3x in 2017 owing to the higher cash balance of €531 million compared to €59 million reported in 2017.

Going forward, Moody's expects Urenco's revenue to decline to €1.55 -- 1.60 billion as well as its EBITDA generation to lower to around €900 million annually in 2019-21, owing to the still challenging market conditions. Notwithstanding this projected deterioration, the company should be able to sustain healthy EBITDA margins in the high-50s in line with historical results. The rating agency forecasts annual cash flow from operations of around €850 million over 2019-21, sufficient to cover moderate working capital needs as well as annual capital expenditure of approximately €125 million. Capital expenditure should decrease from high historical levels as Urenco completed the construction of its nuclear tails management facility and no additional capacity expansions are currently budgeted for. After constant annual dividend payments of €300 million annually to its shareholders, Moody's expects Urenco to remain Free Cash Flow (FCF) positive in the range of €330 -- 430 million throughout the next three-years period. Urenco's FCF generation should be adequate to meet scheduled debt repayments when due while allowing for discretionary build-up of cash to fund future nuclear decommissioning costs.

Moody's forecasts adjusted net debt/EBITDA to remain largely stable at around 2.1x over 2019-20 due to the rating agency's projection of a rising cash balance and falling levels of funded debt which offsets falling EBITDA generation and rising debt adjustments related to tails and decommissioning liabilities.

The ratings affirmation also factors Moody's expectation of very limited impact potentially arising from the UK's withdrawal from the European Union and the Euratom, as the company has already put in place mitigating actions to ensure business continuity to its UK facility.

RATING OUTLOOK

The stable outlook reflects Moody's expectation that despite the weak pricing environment, Urenco's operating profitability will remain resilient and that reduced capex requirements and stable dividends will enable the company to generate sizeable positive FCF and to maintain a low level of adjusted net leverage in the next few years.

LIQUIDITY ANALYSIS

Urenco's liquidity position is strong. At the end of 2018 the group held cash balances of €531 million on its balance sheet and had access to a €750 million revolving credit facility, which was fully undrawn and matures in June 2023. The facility has no financial covenants. The company's notes and bank facility benefit from the change of control provisions. In January 2019, Urenco prepaid around €216 million of its €750 million Eurobond due in February 2021. The remaining €534 million outstanding represent Urenco's next debt maturity and the related repayment should be more than covered by Urenco's projected positive FCF generation over the next two years.

WHAT WOULD CHANGE THE RATING -- UP

A rating upgrade of the baa2 bca is unlikely for the foreseeable future considering the sustained pressure on market prices for future enrichment contracts and the expected decline in Urenco's revenue and EBITDA going into the 2020s.

WHAT WOULD CHANGE THE RATING -- DOWN

A downgrade of Urenco's baa2 bca and the Baa1 issuer rating would depend on one or more of the following developments:

» Faster than anticipated decline in revenue and deterioration in operating cash flow, preventing balance sheet deleveraging required to maintain a solid financial profile on the back of lower expected future profitability

» Expected FCF turning negative, preventing debt reduction and resulting in higher adjusted net leverage above 3.0x in the coming years versus 2.0x at year-end 2018

» Changes in the company's sovereign ownership may lead to the elimination of the one-notch uplift to the baseline credit assessment

GOVERNMENT -- RELATED ISSUER (GRI) CONSIDERATIONS

By virtue of its current ownership structure (33.3% owned by the government of the United Kingdom, 33.3% owned by the government of Netherlands and a 33.3% owned by German utilities RWE AG and E.ON AG), Urenco qualifies as a government-related issuer ("GRI"). As such, Urenco's Baa1 issuer rating reflects the application of Moody's rating methodology for GRIs.

The Baa1 rating reflects the combination of the following inputs:

- Baseline Credit Assessment of baa2

- Aaa and Aa2 local currency ratings of the Dutch and the UK governments, respectively

- Moderate government support

- Low default dependence

Moody's assessment of moderate government support reflects the strategic and sensitive nature of Urenco's activities for both the UK and the Dutch governments, specifically in terms of national security arrangements, sensitive information, and legal restrictions on the scope of the company's activities.

Moody's believes that the strategic and sensitive nature of Urenco's business goes beyond any potential future change in ownership, while the provisions of the Treaty of Almelo would remain binding on its signatories. Given the nature of the obligations imposed upon them by the Treaty and the very sensitive nature of Urenco's proprietary technology, it is hard to conceive that any of the two governments would not act in the event of Urenco experiencing financial distress. Moody's therefore views strategic/security considerations as the main drivers of the potential support to be provided by the three signatory governments; as such the level of support is not directly correlated to the percentage of government ownership in Urenco's share capital.

DEFAULT DEPENDENCE

The low default dependence assigned to Urenco reflects Moody's assessment that events which may cause financial distress at Urenco are unlikely to be correlated to events which would cause a default either by the UK or the Dutch government. As such, low default dependence reflects the nature of Urenco's business activities, as well as the substantial geographic diversification of the company's revenues, which further limits the company's exposure to events related to either parent government.

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Chemical Industry published in March 2019, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Headquartered in Stoke Poges (UK), Urenco is an international supplier of enrichment services to power utility customers worldwide who typically supply it with natural uranium and uranium hexafluoride (UF6), which Urenco then enriches to international specifications for use in nuclear power stations. It supplies more than 50 customers in 19 countries from its operations spread across four sites in four countries (UK, Germany, the Netherlands and the US). Urenco reported revenue of €1,958 million in 2018 (€1,927 million in 2017) while its Moody's-adjusted EBITDA for the same period stood at €1,140 million (€1,169 million in 2017). The group's order book amounted at €11.9 billion corresponding to approximately 6 years of revenue based on 2018 level.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Sven Reinke
Senior Vice President
Corporate Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Peter Firth

Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN

Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.