S&P Global Ratings

RatingsDirect®

Research Update:

Uranium Enricher Urenco Ltd. Affirmed At 'A-' On Strong Nuclear Sentiment Driving New Growth Projects

September 12, 2024

Rating Action Overview

- The resurgence in the demand for uranium in the coming decades exceeds the current global enrichment capacity. Therefore, Urenco Ltd. has decided to heavily invest in the coming years to meet coming demand.
- The mismatch between the fruits of the investment program and actual cash flows would lead to temporary pressure on the company's credit metrics in the coming 24 months. The investments are backed by profitable contracts.
- We therefore affirmed our long-term issuer credit rating on Urenco at 'A-'.
- The stable outlook reflects the company's ability to enjoy the renaissance of the nuclear industry in the coming years, leading to a material increase in its backlog while building and executing its growth plan.

PRIMARY CREDIT ANALYST

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

SECONDARY CONTACT

Ben Murphy
London
ben.murphy
@spglobal.com

Rating Action Rationale

Energy security implications, which are largely driven by the war in Ukraine, have accelerated prospects for the nuclear power industry. Urenco closed 2023 with a backlog of €14.7 billion (an increase of 36% from 2022) to continue an increasing trend of positive sentiment for the nuclear industry. We consider the previous trend of a decreasing backlog to have been fully reversed, as the company are approaching an order book comparable of that a decade ago. We anticipate more nuclear initiatives that should support further growth, including government commitments in several geographies to accelerate nuclear capacity and extending of reactor lifetimes to ensure global energy supply. The propulsion of demand for nuclear power should support our strong assessment of Urenco's business risk profile for the near term.

Growth plans are moving from the drawing table to execution. An additional €640 million in capital expenditure (capex) over the next eight years will spur further growth, extending and refurbishments of existing enrichment capacity. The light, flexible, capital structure will allow Urenco to remain dynamic to meet demand where necessary. For 2024, we expect the ramp up of the capex program to be about €450 million and about €650 million in 2025 (compared to close to maintenance level of €150 million in 2023). The overall capex program would be about €5 billion over the coming years. The program is not linked to a single site, allowing Urenco to be adaptable in its priorities, but we understand that projects are developed as and when they are backed by long-term contracts. In our view, the financial risk profile will not be tarnished by this, instead undergo a transformational three to five years as the firm positions themselves for further growth as new capacity comes online toward the end of the decade.

Decommissioning liabilities are set to increase, but do not pose a financial risk. The increase in demand for Urenco's products means that the company's decommissioning liabilities are set to increase (the company will produce more uranium tails). Based on its recent production profile the decommissioning liabilities will increase to about €5 billion by 2030 (with a further increase later), compared to a level of about €2.2 billion (net of related funds) as of Dec. 31, 2023. We understand that the liabilities are set to increase by €150 million-€350 million a year, and the company would be able to allocate over time similar amounts to its decommissioning funds to eliminate carry an oversized liability. We understand that the company might consider building another Tails Management Facility (TMF) to handle the tails.

Urenco's creditworthiness remains solid, with potential upsides from extensive investment and capacity increases. The allocation of the company's cash flows in 2024-2026 to fund its growth plans, and an increase in the decommissioning liabilities (without allocating cash to the decommissioning funds) will result in a temporary increase in the company's adjusted debt, and in the company's adjusted funds from operations (FFO) to debt of around 25% by 2025 (compared to over 40% in our previous forecasts). The investments are backed by profitable contracts. We expect the company to return to an adjusted FFO to debt of more than 35% starting 2026 once the growth has been largely completed. We also note that the company's liquidity remains strong, thanks to a cash position of more than €1 billion as of July 2024, strong cash flows that can cover its capex and dividends needs, and comfortable gross debt level.

Outlook

The stable outlook reflects the company's ability to 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 medium and long term.

Under our base case, we forecast adjusted EBITDA of about €750 million-€850 million in 2024 and 2025, which would translate into adjusted FFO to debt of 25% or slightly better.

We view a minimum level of 25% as commensurate with our 'A-' rating, while the company executes its growth plan (from 2024-2032). We expect the company to return to a minimum level of 35% as it starts to harvest the new investments and contracts as early as 2027.

Our rating also incorporates the company's ability to replenish its backlog toward €15 billion over the coming years.

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 consider the likelihood of a downgrade within the coming 12-24 months to be remote. That said, the rating could come under pressure if:

- There is a complete U-turn in market sentiment toward nuclear (for example due to a catastrophic nuclear accident resulting in a social pressure to curb existing and future use of nuclear). In this case, the company's backlog would shrink.
- There is a 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 25% in the coming years (or below 35% once the capex program was completed).

Upside scenario

We think that 'A-' is the maximum rating level for the company, based on its current business position. This would be the case even if the company had no financial debt (including decommissioning liabilities).

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 17.6 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 U.K.-based TMF allows Urenco to treat depleted uranium "tails" before the final disposal, effectively providing in-house deconversion services.

In 2023, Urenco generated revenue of €1.9 billion and adjusted EBITDA of €0.9 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).

Our Base-Case Scenario

Under our base case, we forecast EBITDA of around €0.8 billion both in 2024 and in 2025 (without taking into account potential spot sales, similar to previous years). We think that an upside to the EBITDA to $1 billion and more will be achieved starting 2026, as the company will deliver enriched uranium under more favorable contracts.

Assumptions

- After their peak in 2022, we expect uranium and enrichment spot market prices to gradually decrease 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.

- Gradual increase in enrichment services on the back of a supportive environment for nuclear energy with the backlog reaching €15 billion (€14.7 billion in 2023) over the coming three years. The backlog is also subject to foreign exchange changes.
- EBITDA margin of 40%-45% in 2024-2025 (before the potential effect of any noncash provisions). We understand that margins are subject to temporary changes in the mix of customers.
- Heavy capex to support the capacity increase, compared with maintenance capex of about €150 million).
- In 2023, capex was mostly driven by maintenance levels (about €150 million). With growth projects starting from 2024, we expect a much larger capex of €450 million-€650 million over 2024/2025. This is in line with company's long-term objective of maintaining capacity of 18 million separative work units per year. The assumption reflects the company's maximum spending and would be closely linked to the increase in the backlog.
- In line with Urenco's financial policy and the previous few years' distributions of about €300 million.
- No acquisitions, disposals, or share buybacks.
- We expect the company to repay its upcoming maturity in December 2024, without a refinance.

Key metrics

Table 1

Urenco Ltd.--Key metrics

	--Fiscal year ended Dec. 31--			
(Mil. €)	**2022a**	**2023a**	**2024e**	**2025f**
Backlog	10,800	14,700	15,000 – 17,000	16,000 – 18,000
Revenue	1,717	1,922	1,850 – 1,950	1,850 – 1,950
Reported EBITDA (Excluding provisions)	1,056	1,037	950 - 1,050	950 - 1,050
Adjusted EBITDA	820	891	750 - 850	750 - 850
Funds from operations (FFO)	707	753	650 -700	650 – 700
Debt (reported)	1,138	1,125	625	625
Debt (adjusted)	1,983	1,871	2,200 - 2,300	2,500 – 2,600
Cash and short-term investments (reported)	1,310	1,695	About €1 billion	About €1 billion
Adjusted ratios				
Debt/EBITDA (x)	2.4	2.1	2.5 -3.0	2.5 – 3.5
FFO/debt (%)	35.7	40.2	About 30%	25 - 30

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

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 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 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).

For full details, see "Urenco Ltd.", published May 11, 2022, on RatingsDirect.

Issue Ratings - Subordination Risk Analysis

Capital structure

Urenco's capital structure consists of:

- €500 million senior unsecured Eurobonds due December 2024;
- €500 million Eurobonds due in June 2032 carrying effective interest rate of 3.25%. The bonds rank pari passu with other unsecured obligations; and
- Japanese yen (¥) 20 billion unsecured loan at the Urenco Ltd. level maturing in April 2038 and fully drawn at end-2020.

In addition, Urenco maintains a fully available undrawn €500 million senior unsecured revolving credit facility 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 'A-' long-term issuer credit rating on the company.

As of Dec. 31, 2023, Urenco had around €2.1 billion of net asset-retirement obligations (€3.1 billion gross), 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.

Ratings Score Snapshot

Issuer Credit Rating	**A-/Stable/--**
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	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile:	a-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, 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
- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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 Affirmed	
Urenco Ltd.	
Issuer Credit Rating	A-/Stable/NR
Urenco Ltd.	
Senior Unsecured	A-
Urenco Finance N.V.	
Senior Unsecured	A-