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## Research Update:

# Ameren Corp. and Subsidiaries Outlook Revised To Positive On Robust Financial Performance; Ratings Affirmed

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## Research Update:

# Ameren Corp. and Subsidiaries Outlook Revised To Positive On Robust Financial Performance; Ratings Affirmed

## Overview

- St. Louis, Mo.-based electric and natural gas utility company Ameren Corp.'s financial performance remains robust, mostly from consistent and timely recovery of invested capital and strengthening business operations.
- We are affirming our 'BBB+' issuer credit ratings on Ameren and its subsidiaries Ameren Illinois Co. and Union Electric Co. doing business as (d/b/a Ameren Missouri) and revising the outlook on these companies to positive from stable.
- We have revised the stand-alone credit profile (SACP) on Ameren Illinois to 'a-' from 'bbb+' following our revision of the business risk profile to excellent from strong. This change reflects a revision of the company's competitive position to strong based on the expectation that profitability will stabilize over the next several years.
- The positive outlook on Ameren and its subsidiaries reflects the potential for higher ratings over the next 12 months if Ameren can maintain its robust financial performance and strengthening business risk.

## Rating Action

On Nov. 22, 2017, S&P Global Ratings affirmed its ratings on Ameren Corp. and subsidiaries Ameren Illinois Co. and Union Electric Co. (d/b/a Ameren Missouri), including the 'BBB+' issuer credit ratings, and revised the outlooks to positive from stable.

## Rationale

The positive outlook on Ameren and its subsidiaries reflects the potential for higher ratings if Ameren can maintain its robust financial performance over the next few years. In our base-case scenario, we anticipate that Ameren will benefit from the consistent recovery of invested capital via regulatory riders and base rate cases along with ongoing prudent management of the capital structure, thereby supporting operating cash flow and financial measures.

Over the past few years, Ameren has continued to recover increasing amounts of invested capital in a timely manner using various regulatory constructs that have contributed to robust credit measures in conjunction with prudent financial policies. We expect Ameren to move closer to earning its authorized returns on equity as the utility continues to recover costs in a timely

manner.

Our view of Ameren's business risk is based on the very low risk of the regulated utility industry and the company's stand-alone operations. The company has a diverse customer base throughout Illinois and eastern Missouri of about 2.4 million electric customers and 900,000 natural gas distribution customers. Its business risk benefits from regulatory diversity that includes two state commissions and the Federal Energy Regulatory Commission (FERC). This regulatory diversity is bolstered by the company's strategic decision to disproportionately invest in FERC-regulated electric transmission. Although regulatory frameworks have strengthened, regulatory lag persists and limits the company's ability to earn its authorized returns on equity. Credit quality continues to be modestly weakened from owning a single nuclear generating plant, which we consider as increasing operating risk, and adherence to various environmental compliance rules affecting the company's coal-fired generation.

Our assessment of Ameren's financial risk takes into account ongoing capital spending and steady cost recovery through various rate mechanisms and base rates. Our base case indicates that Ameren will continue to benefit from timely recovery of invested capital, with funds from operations (FFO) to debt near 20% and debt to EBITDA of about 4.2x. The profile also reflects the company's steady cash flow-generating ability and discretionary cash flow that are similar to utility industry peers. We believe the utility's strategy will focus mainly on growth in its core utility businesses and on improving operating efficiency.

We rate Ameren one notch lower based on a peer comparison to incorporate into the analysis the lag in cost recovery through the regulatory process, average profitability, and the higher operating risk of a single nuclear generating plant. Over time, if lag is reduced and profitability strengthens, this distinction could be revised.

Regarding Ameren Illinois, we revised the SACP of the utility to 'a-' from 'bbb+' after revising the utility's business risk profile upward from strong to excellent, albeit the lower half of the category. The revision incorporates more stable profitability likely from steadier operating cash flow derived from supportive cost recovery of operating expenses and capital spending.

## **Liquidity**

We assess Ameren's liquidity as adequate because we believe its liquidity sources are likely to cover uses by more than 1.1x over the next 12 months and meet cash outflows even with a 10% decline in EBITDA. The assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in credit markets.

Principal liquidity sources:

- We estimate FFO of about \$2 billion; and
- Average expected credit facility availability of roughly \$2.1 billion

annually.

Principal liquidity uses:

- Debt maturities, including outstanding commercial paper, of about \$1.2 billion;
- Capital spending of about \$2 billion; and
- Dividends of roughly \$455 million.

## Outlook

The positive outlook on Ameren reflects the potential for higher ratings over the next year if the company can maintain its robust financial performance. The positive outlook also incorporates the expectation that management will maintain its strategy of remaining only a regulated utility. Under our base-case scenario, we expect Ameren would maintain adjusted FFO to debt of about 20% over the next few years.

### Downside scenario

We could affirm the ratings on Ameren and revise the outlook to stable if the company's financial profile weakens such that FFO to debt is consistently below 20% or the business risk profile does not strengthen. This could occur if the utility does not receive sufficient and timely cost recovery through the regulatory process or if the capital structure weakens.

### Upside scenario

We could raise the ratings on Ameren over the next year if the business risk profile continues to strengthen. We could also raise the ratings if the company's financial performance remains robust from ongoing prudent capital structure management and from higher operating cash flow, supporting a FFO to debt ratio consistently at or above 20% over the next few years.

## Ratings Score Snapshot

Ameren Corp.

Corporate Credit Rating: BBB+/Positive/A-2

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bbb+

- Group credit profile: bbb+

Ameren Illinois Co.

Corporate Credit Rating: BBB+/Positive/A-2

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: a

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: a-

- Group credit profile: bbb+
- Entity status within group: Core (-1 notch)

## Issue Ratings

- We base our 'A-2' short-term ratings on Ameren and Ameren Illinois on our issuer credit ratings on the companies.
- Ameren Illinois's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property, owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.
- We rate Ameren Illinois's preferred stock two notches below the issuer credit rating to reflect the discretionary nature of the dividend and the deeply subordinated claim if a bankruptcy occurs.

## Capital structure

The consolidated secured debt amount at Ameren includes about \$6.6 billion of priority debt both at the Ameren Illinois and Ameren Missouri level, including approximately \$6.1 billion of first-mortgage bonds and about \$500 million of other debt, which we classify as priority debt obligations.

## Analytical conclusions

The unsecured debt at Ameren is rated one notch below the issuer credit rating because priority debt exceeds 50% of the company's consolidated debt.

## Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Ratings List

Ratings Affirmed; Outlook Action

	To	From
Ameren Corp.		
Union Electric Co. d/b/a Ameren Missouri		
Ameren Illinois Co.		
Corporate Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2

Ratings Affirmed; Recovery Ratings Unchanged

*Research Update: Ameren Corp. and Subsidiaries Outlook Revised To Positive On Robust Financial Performance;  
Ratings Affirmed*

Ameren Illinois Co.	
Senior Secured	A
Recovery Rating	1+
Preferred Stock	BBB-
Commercial Paper	A-2

Union Electric Co. d/b/a Ameren Missouri	
Senior Secured	A
Recovery Rating	1+
Preferred Stock	BBB-
Commercial Paper	A-2

Ratings Affirmed

Ameren Corp.	
Senior Unsecured	BBB
Commercial Paper	A-2

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