

Research Update:

Algonquin Power & Utilities Corp. Ratings Affirmed Following Sale Of Algonquin Power Co; Outlook Stable; Ratings Withdrawn On Algonquin Power Co.

January 30, 2025

Rating Action Overview

- Algonquin Power & Utilities Corp. (APUC) sold its unregulated power business Algonquin Power Co (LPCo) and its 42.2% stake in Atlantica Sustainable Infrastructure plc (Atlantica), decreasing risk by becoming a pure-play regulated utility. We also expect that APUC will increase its capital spending program in 2026 and 2027 after recovering investments not currently in rate base, that will weaken financial performance.
- We therefore affirmed all our ratings on APUC and its subsidiaries, including our 'BBB' issuer credit rating. The outlook is stable.
- At the same time we revised our business risk profile assessment on APUC to excellent from strong and our financial risk profile assessment to aggressive from significant.
- We also withdrew our 'BBB' issuer credit rating on LPCo. This follows LPCo's acquisition by LS Power (not rated), which was completed on Jan. 8, 2025.
- At the same time, we discontinued our 'BBB' issue rating on LPCo's senior unsecured debt since all of the company's rated debt will be fully repaid on Feb. 6, 2025.
- The stable outlook on APUC and its subsidiaries reflects our view that it will maintain consolidated funds from operations (FFO) to debt consistently above our downgrade threshold of 11%. Specifically, we expect APUC's FFO to debt will generally reflect 11% to 13%. The stable outlook also reflects our expectation that APUC will remain focused on its core, lower-risk, regulated utility business

Rating Action Rationale

We revised APUC's business risk profile to excellent following the sale of higher-risk LPCo.

We now estimate the regulated utility business accounts for approximately 97% of APUC's consolidated EBITDA. The remaining unregulated power assets are limited to hydro facilities in Canada, which the company has already announced it plans to pursue divesting. Looking

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forward, we assess APUC's business risk profile as reflecting its lower-risk, fully rate-regulated utility businesses that provide essential services in its service areas. The regulated utility sector benefits from significant barriers to entry, insulating APUC's subsidiaries from competitive pressures and contributing to our view of regulated utilities' very low industry risk compared to that of other industries. APUC operates in a supportive regulatory environment across 16 jurisdictions--13 in the U.S., one in Canada, one in Bermuda, and one in Chile--regulated by 17 different utility regulators. This geographic and regulatory diversity enhances APUC's credit quality, reducing its dependency on any single regulator to sustain credit quality. That said, the company has some concentration risk with approximately 40% of its rate base in Missouri, and its subsequent four largest jurisdictions accounting for about 40% of rate base--California, New Hampshire, Bermuda, and New York. We view all these jurisdictions as generally credit-supportive with mechanisms that allow for effective management of regulatory risk affording timely recovery of all capital and operating costs. However, we note regulatory lag exists in Missouri due to reliance on historical test years and limited capital trackers. Our business risk profile assessment is also constrained by exposure to wildfire risks in California, particularly related to the state's interpretation of inverse condemnation, which expose APUC to significant losses if its utility is found to be the cause or contributes to a catastrophic wildfire, irrespective of negligence. APUC's Bermuda utility also faces hurricane risks and challenges related to fuel procurement due to its island location.

We revised APUC's financial risk profile downward to aggressive from significant. We expect APUC to mostly utilize proceeds from the sale of its unregulated businesses to reduce debt, offsetting the cash flow loss from these businesses. However, we also expect that APUC will increase its capital spending program in 2026 and 2027 after it recovers its investments not currently in rate base. The company may also pursue share buybacks in the future. As such, we expect FFO to debt to reflect 11% to 13%, consistent with its aggressive financial risk profile category. For 2025, we expect marginally improving financial measures, reflecting lower capital expenditures and revenue increases from rate cases. Currently the company has 10 pending rate cases, requesting approximately \$200 million.

We lowered our downgrade and upgrade thresholds for APUC. Given our assessment of the improvement to the company's business risk profile, we lowered our downgrade threshold to 11% FFO to debt from 14%, and our upside threshold to 13% from 21%.

Outlook

The stable outlook on APUC and its subsidiaries reflects our view that it will maintain consolidated FFO to debt consistently above our downgrade threshold of 11%. Specifically, we expect APUC's FFO to debt will generally reflect 11% to 13%. The stable outlook also reflects our expectation that APUC will remain focused on its core, lower risk, regulated utility business.

Downside scenario

We could lower our ratings on APUC and its subsidiaries, within the next 24 months, if consolidated FFO to debt is consistently below 11%. We could also downgrade the company if its business risk increases, such that the company were the cause of a catastrophic wildfire in California or its ability to effectively manage regulatory risk weakened.

Upside scenario

We could raise our ratings on APUC and its subsidiaries within the next 24 months, if consolidated FFO to debt is consistently above 13% without any material increase to business risk.

Company Description

APUC is a holding company of regulated utilities across the U.S., Canada, Chile, and Bermuda, serving about 1.26 million customers. Through Liberty Utilities Co. (LUCo), APUC owns and operates a portfolio of regulated electric, natural gas, water distribution, and wastewater collection utility systems.

Our Base-Case Scenario

Assumptions

- Continued recovery of costs through approved rate cases and rate riders;
- Capital spending of about \$650 million in 2025 before picking back up to about \$1 billion in 2026 and 2027;
- Use of net proceeds from asset sales to pay down debt; we estimate the company's net proceeds from the sale of Atlantica to be about \$1.1 billion, and from LPCo to be about \$1.7 billion;
- Negative discretionary cash flow in 2026 and 2027 indicating external funding needs; and
- All debt maturities will be refinanced.

Key metrics

Algonquin Power & Utilities Corp.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
Adjusted ratios								
Debt/EBITDA (x)	5.5	5.5	5.4	6.3	5.0-5.5	4.5-5.0	5.0-5.5	5.5-6.0
FFO/debt (%)	14.3	14.3	14.7	11.2	13-15	12-14	11-13	11-13
FFO cash interest coverage (x)	4.7	4.7	4.9	3.4	3.0-3.5	2.5-3.0	2.5-3.0	2.5-3.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. \$--U.S. dollar.

Liquidity

As of Sept. 30, 2024, we assess APUC's liquidity as adequate, which reflects our expectation that sources will cover uses by 1.1x over the coming 12 months. Additionally, we anticipate its net sources will remain positive even if consolidated EBITDA declines 10%. We believe the predictable regulatory frameworks for APUC's subsidiaries and the company's contracted cash flows provide cash flow stability even in times of economic stress. This supports our use of slightly lower thresholds than for a typical corporate issuer to assess the company's liquidity. In addition, APUC has the ability to absorb high-impact, low-probability events, given that it

maintains about \$2 billion of committed credit facilities that mature beyond 12 months. We also believe the company can significantly lower its robust capital spending during times of stress, which would reduce the need for refinancing under such conditions. Furthermore, our assessment reflects the company's generally prudent risk management, sound relationships with its banks, and satisfactory standing in the credit markets. Overall, we believe the company could withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations. We expect the company to proactively address its debt maturities well in advance of their scheduled due dates.

Principal liquidity sources

- Cash and liquid investments of about \$65 million;
- Availability under credit facilities of about \$1.5 billion; and
- Estimated cash FFO of about \$500 million.

Principal liquidity uses

- Debt maturities of about \$400 million;
- Capital expenditures of about \$740 million; and
- Dividends of about \$235 million.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Sept. 30, 2024, APUC's capital structure consists of approximately \$7.5 billion of consolidated debt, of which about \$4.3 billion is priority debt.

Analytical conclusions

- We rate APUC's unsecured debt issue 'BBB-', one-notch lower than the issuer credit rating. This is due to the significant proportion of priority debt at the company's subsidiaries.
- We rate APUC's preferred stock two notches below the 'BBB' issuer credit rating. This reflects the preferred stock's greater credit risk because of the securities' permanence, subordination in liquidation to all senior debt obligations, and deferability features.
- We view APUC's junior subordinated notes as hybrid securities and rate them two notches below our 'BBB' issuer credit rating to reflect their subordination to senior debt obligations and the company's ability to defer interest payments on the notes.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB/STABLE/--
Local currency issuer credit rating	BBB/STABLE/--
Business risk	Excellent
Country risk	Very Low Risk
Industry risk	Very Low Risk
Competitive position	Strong
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bbb
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
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: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- 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
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- 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

- Algonquin Power & Utilities Corp. , Dec. 13, 2023
- Algonquin Power & Utilities Corp Ratings Affirmed On Planned Sale; Algonquin Power Co. CreditWatch Revised To Developing , Aug. 15, 2023

Ratings List

Ratings list

Ratings Affirmed

Algonquin Power & Utilities Corp.

Empire District Electric Company (The)

Liberty Utilities Finance GP1

Issuer Credit Rating	BBB/Stable/--
Foreign Currency	BBB/Stable/--

Liberty Utilities Co.

Issuer Credit Rating	BBB/Stable/A-2
Foreign Currency	BBB/Stable/A-2

Algonquin Power & Utilities Corp.

Senior Unsecured	BBB-
Senior Unsecured	BB+
Subordinated	BB+
Junior Subordinated	BB+
Preferred Stock	BB+
Preferred Stock	P-3(High)

Empire District Electric Company (The)

Liberty Utilities Co.

Liberty Utilities Finance GP1

Senior Unsecured	BBB
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Liberty Utilities Co.

Commercial Paper	A-2
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Ratings Affirmed; Recovery Ratings Unchanged

Empire District Electric Company (The)

Senior Secured	A-
Recovery Rating	1+

Ratings Withdrawn

	To	From
Algonquin Power Co. dba Liberty Power		
Issuer Credit Rating	NR/NM/--	BBB/Negative/--
Foreign Currency	NR/NM/--	BBB/Negative/--

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Ratings list

Senior Unsecured	NR	BBB
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