RATING ACTION COMMENTARY

Fitch Assigns Eesti Energia 'BBB-' IDR; Outlook Stable

Tue 22 Jul, 2025 - 10:34 ET

Fitch Ratings - Warsaw - 22 Jul 2025: Fitch Ratings has assigned Estonia-based Eesti Energia AS (Eesti) a Long-Term Issuer Default Rating (IDR) of 'BBB-', with Stable Outlook.

The IDR reflects a two-notch uplift from Eesti's Standalone Credit Profile (SCP) of 'bb' reflecting moderate expectations of support from Estonia (A+/Stable), based on our Government-Related Entities Criteria.

The rating is constrained by exposure to oil-shale generation units, the limited transparency of the regulatory framework and higher-than-average earnings volatility. Rating strengths are Eesti's large share of regulated and quasi-regulated earnings and its incumbent position in the domestic market. We expect Eesti's net leverage to remain within our sensitivities for the 'bb' SCP over 2025-2028, with funds from operations (FFO) net leverage below 4.5x, despite the company's large capex plan.

KEY RATING DRIVERS

Medium-Sized Regional Operator: Eesti's operations and asset base are largely focused on the Baltics, with some renewable assets in Finland and Poland. Dispatchable thermal generating capacity totalled 1.2GW at end-2024, while its renewables portfolio (including Enefit Green) was 1.1GW. We expect Eesti to continue to moderately expand its renewable installed capacity towards 1.5GW by 2028, focusing largely on the regions in which it is operating.

Oil Shale Generation Assets: About half the energy generated by Eesti comes from oil shale dispatchable units, which is a rating constraint in our view. These plants are uncompetitive in the current environment due to declining electricity prices and increasing CO_2 costs, which is exacerbated by the fixed cost base of its oil shale mines. We forecast limited income upside from reserve mechanism services that should benefit dispatchable units starting in 2026. Total contribution from these assets is estimated to account for 20% of consolidated EBITDA.

Volatile Earnings: The company is materially exposed to power prices and CO2 costs as its conventional generation is operated entirely on a merchant basis, with limited hedging. Eesti's energy retail supply can weigh on its cash at times, due to margin requirements related to hedging. Between 2021 and 2023, Fitch-defined EBITDA fluctuated between EUR240 million and EUR480 million, with cash flow from operations varying from about zero to EUR180 million.

Supportive Enefit Green Integration: The recent acquisition of a 20% stake in Enefit Green for EUR180 million raised Eesti's stake in the renewables subsidiary to 97.2%. This transaction improves vertical integration by partially matching renewables generation with supply and Eesti's overall operating profile, in our view. We forecast that Enefit Green will represent around 45% of consolidated EBITDA, largely covered by contracts-for-difference, feed-in-tariffs and fixed-volume power purchase agreements

Moderate Share of Regulated Earnings: The SCP is supported by a moderate share of regulated electricity distribution earnings, at 29% in 2024 and projected at 25% for 2025-2028. Under Estonian regulations, there is no regulatory period and tariff revisions can be initiated by the company at any time with evidence of costs overruns for justification. We believe the transparency of the tariff-setting mechanism is lower than that of most other European countries; however, the regulator's overall approach is moderately supportive of the business.

Large Capex Pressures FCF: We expect consistently negative free cash flow (FCF) after acquisitions and divestitures over 2025-2028, driven mostly by high capex and the Enefit Green minorities acquisition in 2025. The negative FCF should stabilise and average close to EUR110 million from 2026, driven by annual net capex of EUR360 million. The investment plan is consistent with the company's focus on energy transition, with most of the investment (around 40%) allocated to renewables growth.

Moderate Leverage Headroom: We forecast FFO net leverage to increase to 4.2x by 2025 and to remain broadly unchanged until 2028, which is commensurate with a 'bb' SCP, although with limited headroom. This is due to Eesti's large capex plan, the Enefit Green acquisition, dividend distribution of close to EUR150 million cumulatively across 2025-2028 and a more challenging operating environment limiting the expected growth of EBITDA and FFO.

Uncertain Funding Policy: Eesti has roughly EUR720 million of debt under Enefit Green or 1.8x consolidated Fitch-defined EBITDA. Prior ranking debt (i.e. debt at Enefit Green or other subsidiaries) consistently above 2.0x-2.5x consolidated EBITDA would result in the senior unsecured ratings at the parent level being notched down to 'BB+' and the subordinated hybrid rating to 'BB-', compared with where they would otherwise be.

Government Responsibility to Support: Fitch assesses decision-making and oversight as 'Very Strong' because the Estonian state is Eesti's sole shareholder, approves its strategy and business plan, and tightly controls Eesti's operations. We view the government's precedents of support as 'Strong', due to support provided mostly in the form of equity injections (the most recent announced in May 2025 of EUR100 million). We assess preservation of government policy role as 'Not Strong Enough', while contagion risk is also 'Not Strong Enough', as Estonia is rated 'A+'/Stable and has one of the lowest levels of government debt in the EU.

Government-Related Entity Uplift: Our assessment under the Government-Related Entities Rating Criteria results in a support score of 15, out of a maximum 60, implying 'Moderate Expectations' of support. This, together with Eesti's 'bb' SCP and the Estonian government's 'A+' IDR, results in a two-notch uplift from the SCP to the 'BBB-' IDR.

PEER ANALYSIS

Eesti's close peer group includes electricity-focused integrated utilities in Poland, TAURON Polska Energia S.A. (Tauron, BBB-/Stable), ENEA S.A. (ENEA, BBB/Stable), PGE Polska Grupa Energetyczna S.A. (PGE, BBB/Stable) and Energa S.A. (Energa, BBB+/Stable; rating equalised with ORLEN S.A.'s), Bulgarian Energy Holding EAD (BEH, BB+/Stable, SCP: bb) and Hungary's largest electricity and gas utility MVM Zrt. (MVM, BBB/Stable).

Eesti's business profile is similar to that of the Polish peers, Tauron, Energa, PGE and ENEA, whose business profiles benefit from a higher share of regulated distribution in EBITDA. Unlike Polish utilities, Eesti does not benefit from capacity payments, which improve the revenue visibility and results of the Polish peers. Eesti's operations are smaller than all the peers'.

BEH and MVM have better integration and business diversification than Eesti and the Polish peers as their activities include generation, transmission and supply of electricity, alongside transmission, transit and supply of gas, and lignite mining. However, BEH is a negative outlier in the peer group in corporate governance and has lower cash flow predictability, due to the higher merchant exposure of its generation assets.

Eesti's rating benefits from a two-notch uplift for its links with the Estonian state. Tauron, PGE and ENEA are rated at a standalone level without any uplift for state links, while BEH's 'BB+' rating includes a one-notch uplift for links with the Bulgarian state. MVM is rated at the Hungarian sovereign level.

KEY ASSUMPTIONS

Key Assumptions Within Our Rating Case for the Issuer:

- Energy generation increasing modestly towards 5.5TWh with renewable generation increasing to close to 4TWh in 2028, from 2TWh in 2024

- Energy sales increasing towards 11TWh in 2028 from 10TWh in 2024, with stable margins

- Shale oil production CAGR of 5% between 2024 and 2028 while prices fall 7% CAGR

- Distribution revenues CAGR of 5% between 2024 and 2028

- Fitch-defined EBITDA increasing towards EUR500 million in 2028, from about EUR400 million in 2024, mostly driven by distribution and renewables businesses

- Effective interest rate averaging 6%

- Neutral working capital

- Average net capex close to EUR400 million a year across 2025-2028

- Total distributions below EUR150 million during 2025-2028

- Hybrid securities receiving 50% equity credit

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Weaker links with the Estonian state

- Multi-notch downgrade of Estonia

- FFO net leverage persistently higher than 4.5x, due for example to negative market or regulatory developments and/or a more aggressive-than-expected financial policy, which could be negative for the SCP but not for the IDR

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- FFO net leverage falling below 3.5x on a sustained basis, alongside improved visibility on the evolution of the business profile and earnings, which would be positive for the SCP and the IDR.

- Further tangible government support to Eesti, such as state guarantees for Eesti's debt, or cash injections, which would link Eesti's credit profile more closely to Estonia's stronger credit profile

- Upgrade of Estonia's IDR

LIQUIDITY AND DEBT STRUCTURE

At end-December 2024, Eesti had EUR469 million cash on the balance sheet and EUR320 million of committed facilities, EUR120 million of which matured beyond 2025. Available liquidity is sufficient to cover short-term maturities and forecast deeply negative FCF after acquisitions and divestitures of close to EUR300 million, in 2025. We expect Eesti to actively engage in liability management and to extend committed facilities on an ongoing basis. It has good access to several funding options, including a diversified banking pool, supranational lenders, hybrid issuance and, more recently, senior unsecured issuance.

Most of the debt is at Eesti's level but a material portion of the consolidated debt is under Enefit Green, its subsidiary focused on operating renewable generation assets.

ISSUER PROFILE

Eesti is Estonia's state-owned integrated energy utility. It is the largest energy producer in the country and is involved in electricity production, distribution, and sales, alongside shale mining and processing.

DATE OF RELEVANT COMMITTEE

26 June 2025

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		
Eesti Energia AS	LT IDR	BBB- Rating Outlook Stable	New Rating

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Renata Dobrzynska, PhD
Director
Primary Rating Analyst
+48 22 103 3035
renata.dobrzynska@fitchratings.com
Fitch Ratings Ireland Limited spolka z ograniczona odpowiedzialnoscia oddzial w Polsce
Marszalkowska 107, 00-110 Warsaw

Manuel Meneses Pereira, CFA
Associate Director
Secondary Rating Analyst
+34 93 492 9511
manuel.menesespereira@fitchratings.com

Antonio Totaro
Senior Director
Committee Chairperson
+39 02 9475 8280
antonio.totaro@fitchratings.com

MEDIA CONTACTS

Tahmina Pinnington-Mannan
London
+44 20 3530 1128
tahmina.pinnington-mannan@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Government-Related Entities Rating Criteria - Effective from 9 July 2024 to 18 July 2025 (pub. 09 Jul 2024)

Corporate Rating Criteria - Effective from 6 December 2024 to 27 June 2025 (pub. 06 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 6 December 2024 to 27 June 2025 (pub. 06 Dec 2024)

Corporate Hybrids Treatment and Notching Criteria (pub. 08 Apr 2025)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (08 Apr 2025, 06 Dec 2024)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Eesti Energia AS	EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch's solicitation status policy can be found at www.fitchratings.com/ethics.

ENDORSEMENT POLICY

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.