SPECTRUM
Asset Management

EDF Risks

July 19, 2022

After several months of deliberation, today the French State announced plans to take over the minority stake it does not already own in the struggling 84% state-owned nuclear operator and utility, Electricite de France (EDF) for just under EUR 10 billion including convertible bonds. The buyout deal represents a meaningful premium to EDF's prior equity trading price.

France has a history of nationalizing entities, and today's actions underscore the importance of low carbon, nuclear power and the state's energy independence. While France is advantaged by less dependence on Russian gas than Germany, for example, it still must contend with EDF's outages, short power, capex-cost overruns and financial challenges. Full ownership could give France greater control by using taxpayer money to recap EDF's bloated balance sheet, while advancing its energy agenda.

We believe the non-payment of EDF's junior subordinated instruments is remote, though hybrid interest payments remain a meaningful outlay constraining EDF's cash flow needs. And existing financial support measures for EDF, *e.g.,* a just announced rights issue, are small relative to the Company's large funding shortfalls. We note that while S&P's stand-alone credit profile for EDF is BB, the company's senior debt is investment grade due to state support. Hybrids receive no such support and are rated in single-B territory.

We do not view nationalization as favorable for junior creditors. President Macron is leading a minority government which leaves the possibility of populist party dissension regarding taxpayer funding and payments to junior debt holders. **We do not own any EDF hybrids.**

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