Tear Sheet:

Kraftringen Energi AB (publ)

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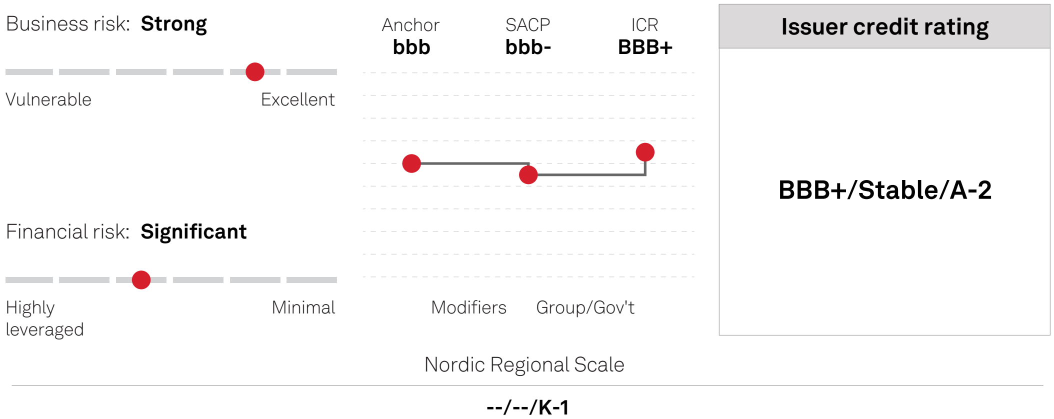
This report does not constitute a rating action.

We anticipate leverage to shrink as the company executes a Swedish krona (SEK) 3.9 billion investment program until 2028, which is expected to reduce funds from operations (FFO) to debt to 18%-23%. A significant driver of this trend is the SEK2.3 billion expansion of the KVV2 combined heat and power (CHP) plant in Ortofta, which the company took the final investment decision on in June 2025. We estimate this project will nearly double Kraftringen's total debt by 2028 weakening financial metrics, alongside subdued profitability in district heating operations. That said, the company reported a healthy S&P Global Ratings-adjusted FFO-to-debt ratio of 29% in 2025, which was at the upper range of our previous forecast of 24%-30%. While mild weather at the start of the year resulted in lower heating volumes--a trend mirrored by national peers--the company's core metrics remained resilient.

With a dominating share of earnings from regulated activities, we expect Kraftringen's cash flow to be predictable while exposure to regulatory frameworks is an important rating factor. Through the divestment of Billinge Energi (2025) and Kraftringen Service AB (January 2026), the company has further reduced its share of unregulated operations. Consequently, we expect more than 95% of EBITDA to be derived from regulated electricity distribution system operator (DSO) activities and district heating over 2026-2028, with an EBITDA split of approximately 70/30 between the two business areas. The regulatory framework for Swedish electricity DSOs is slated for a reset in 2028. While the specific impact on operators remains unconfirmed, we are closely monitoring the forthcoming methodology alongside fluctuations in district heating fuel prices and evolving regulatory landscapes--specifically regarding the potential inclusion of waste incineration within the EU Emissions Trading System.

Kraftringen's relationship with its majority owner, the Municipality of Lund (AAA/Stable/A-1+), leads us to apply a two-notch uplift to its stand-alone credit profile to derive the issuer credit rating, driven by a moderately high likelihood of extraordinary government support. Kraftringen remains central to the municipality's essential public services and is advancing Lund's environmental objectives, a role expected to strengthen with the commissioning of the new Ortofta CHP plant, which will bolster regional decarbonization efforts. To preserve balance sheet flexibility during the construction of the plant, the owners have temporarily revised their dividend policy; the annual dividend target for the 2026-2028 investment period has been set at SEK100 million, a notable reduction from the 2024-2025 historical average of approximately SEK175 million.

Ratings Score Snapshot



ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Recent Research

- Industry Credit Outlook 2026: EMEA Utilities, Jan. 14, 2026
- Greening Up Without Blackouts: Boosting European Power Grids' Resilience May Dent Credit Quality, July 2, 2025
- Research Update: Kraftringen Energi AB (publ) Downgraded To 'BBB+' On Higher Capex and Cost Pressures; Stable Outlook Affirmed, June 24, 2025

Company Description

Swedish multi-utility company Kraftringen is majority owned by the Municipality of Lund, where the company is headquartered. The company generates, distributes, and sells electricity. It also provides district heating and cooling services; gas, including natural gas and biogas; fiber optic network services such as black fiber; and energy-related services. In 2025, the company's adjusted EBITDA totaled SEK969 million. Its electricity distribution and district heating business account for the majority of EBITDA. The company supplies power to approximately 125,000 connections in Skane, Blekinge, and Smaland. Its district heating services provide heat to about 9,000 customers.

Kraftringen is 100% owned by Kraftringen AB (not rated), a holding company owned by the municipalities of Lund (82%), Eslov (12%; not rated), Horby (4%; not rated), and Lomma (2%; not rated).

Outlook

The stable outlook reflects our view that Kraftringen's regulated activities, including its electricity and gas distribution business and district heating operations, will support cash flow and account for most of the company's EBITDA in the future. Due to the increase in investments over 2025-2028, we expect FFO to debt to fall in 2026 but to stabilize within 18%-22% through the forecast period.

Downside scenario

We could lower our ratings if:

- Kraftringen's credit metrics weaken materially against our forecasts, for example if FFO to debt falls and stays below 18% on average. This would likely stem from capex over-runs, operational underperformance, or a failure to implement cost-mitigation strategies; or
- We observe poor project management in relation to the commissioning of KVV2, which could materialize as delays, lower profitability expectations, or cost over-runs.

We could also downgrade Kraftringen if the assumed support from Lund--whose likelihood of extraordinary support is an important element of our rating--weakened due to the municipality significantly reducing its stake in the company. Because the rating on Lund is 'AAA', a one-notch downgrade of the municipality would not immediately trigger a downgrade of Kraftringen.

Upside scenario

We could upgrade the company if we observed a recovery of financial metrics beyond our current expectations, with FFO to debt remaining above 23%, and operational performance in the district heating operations recovering as a result of normalized fuel prices and improved cost pass-through. We could also take positive rating action if Kraftringen's relationship with Lund strengthened.

Key Metrics

Kraftringen Energi AB (publ)--Forecast summary

Period ending	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. SEK)	2024a	2025a	2026e	2027f	2028f
EBITDA	762	969	1000-1100	1,050-1150	1000-1100
Funds from operations (FFO)	621	857	850-950	900-1000	800-900
Capital expenditure (capex)	872	1,428	1,650-1,750	1,250-1,350	850-950
Free operating cash flow (FOCF)	(31)	(383)	(800)-(900)	(300)-(400)	(0)-(100)
Dividends	160	191	100	100	100
Discretionary cash flow (DCF)	(191)	(574)	(900)-(1,000)	(400)-(500)	(100)-(200)
Debt	2,440	2,956	3,800-4,100	4,200-4,500	4,400-4,700
Adjusted ratios					
Debt/EBITDA (x)	3.2	3.1	3.5-4.1	3.7-4.3	4.0-4.7
FFO/debt (%)	25.5	29.0	20.7-25.0	20.0-23.8	17.0-20.5
DCF/debt (%)	(7.8)	(19.4)	(22.0)-(24.4)	(9.5)-(11.1)	(2.3)-(4.3)

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. SEK--Swedish krona.

Financial Summary

Kraftringen Energi AB (publ)--Financial Summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
Reporting period	2020a	2021a	2022a	2023a	2024a	2025a
Display currency (mil.)	SEK	SEK	SEK	SEK	SEK	SEK

Kraftringen Energi AB (publ)--Financial Summary

Revenues	3,214	4,032	5,058	4,519	4,223	4,081
EBITDA	832	823	540	783	762	969
Funds from operations (FFO)	755	757	414	661	621	857
Interest expense	62	53	65	128	124	118
Cash interest paid	62	53	65	115	112	107
Operating cash flow (OCF)	772	759	156	807	841	1,045
Capital expenditure	366	421	638	669	872	1,428
Free operating cash flow (FOCF)	406	338	(482)	138	(31)	(383)
Discretionary cash flow (DCF)	254	196	(637)	77	(191)	(574)
Cash and short-term investments	109	337	812	329	190	174
Gross available cash	109	337	812	329	190	174
Debt	2,083	1,855	2,517	2,441	2,440	2,956
Common equity	3,494	3,765	3,763	3,948	4,128	4,307
Adjusted ratios						
EBITDA margin (%)	25.9	20.4	10.7	17.3	18.0	23.7
Return on capital (%)	8.3	9.0	4.2	7.5	6.2	8.6
EBITDA interest coverage (x)	13.3	15.4	8.3	6.1	6.2	8.2
FFO cash interest coverage (x)	13.1	15.2	7.3	6.8	6.5	9.0
Debt/EBITDA (x)	2.5	2.3	4.7	3.1	3.2	3.1
FFO/debt (%)	36.2	40.8	16.4	27.1	25.5	29.0
OCF/debt (%)	37.0	40.9	6.2	33.1	34.5	35.4
FOCF/debt (%)	19.5	18.2	(19.1)	5.7	(1.3)	(12.9)
DCF/debt (%)	12.2	10.6	(25.3)	3.1	(7.8)	(19.4)

Peer Comparison

Kraftringen Energi AB (publ)--Peer Comparisons

	Kraftringen Energi AB (publ)	Tekniska verken i Linkoping AB	Stockholm Exergi Holding AB (publ)
Foreign currency issuer credit rating	BBB+/Stable/A-2	A+/Positive/A-1	BBB/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	A+/Positive/A-1	BBB/Stable/A-2
Period	Annual	Annual	Annual
Period ending	2025-12-31	2025-12-31	2025-12-31
Mil.	SEK	SEK	SEK
Revenue	4,081	8,580	8,630
EBITDA	969	1,681	3,136
Funds from operations (FFO)	857	1,594	2,302
Interest	118	84	522
Cash interest paid	107	83	559
Operating cash flow (OCF)	1,045	2,207	2,445
Capital expenditure	1,428	1,458	3,310
Free operating cash flow (FOCF)	(383)	749	(865)
Discretionary cash flow (DCF)	(574)	508	(1,224)

Kraftringen Energi AB (publ)--Peer Comparisons

Cash and short-term investments	174	394	829
Gross available cash	174	394	829
Debt	2,956	2,778	16,114
Equity	4,307	8,206	11,818
EBITDA margin (%)	23.7	19.6	36.3
Return on capital (%)	8.6	8.0	5.2
EBITDA interest coverage (x)	8.2	20.1	6.0
FFO cash interest coverage (x)	9.0	20.3	5.1
Debt/EBITDA (x)	3.1	1.7	5.1
FFO/debt (%)	29.0	57.4	14.3
OCF/debt (%)	35.4	79.5	15.2
FOCF/debt (%)	(12.9)	27.0	(5.4)
DCF/debt (%)	(19.4)	18.3	(7.6)

Liquidity

We view Kraftringen's liquidity position as adequate. We expect that, over the 12 months from March 31, 2026, available liquidity sources in terms of cash, committed credit facilities, and operating cash flow will exceed near-term cash outflows, such as debt repayments, capex, and dividends, by 1.3x. We also expect liquidity sources will exceed uses even if EBITDA declines by 30%. Kraftringen is not active on the international bond market but relies on local markets for funding and issues SEK bonds under its green financing framework. The next larger refinancing need is expected for 2027, with a SEK500 million bond maturing in June that year, and a SEK300 million bond maturing in October. The majority of the undrawn bank lines are not due until 2029, with SEK700 million maturing in 2028.

Principal liquidity sources	Principal liquidity uses
• Cash of about SEK18 million; • Cash FFO of SEK865 million-SEK870 million; and • SEK1.65 billion of undrawn bank lines maturing beyond the next 12 months.	• Debt maturities of SEK300 million over the next 12 months, and SEK800 million over the subsequent 12 months; • Capex of SEK1.6 billion; and • Dividends of SEK100 million.

Rating Component Scores	
Foreign currency issuer credit rating	**BBB+/Stable/A-2**
Local currency issuer credit rating	**BBB+/Stable/A-2**
Business risk	**Strong**
Country risk	Very Low
Industry risk	Very Low
Competitive position	Satisfactory
Financial risk	**Significant (medial volatility table)**
Cash flow/leverage	Significant
Anchor	**bbb**
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Likelihood of gov. support	Moderately High (+2 notches)
Stand-alone credit profile	**bbb-**

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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