

Research Update:

# Kraftringen Energi AB (publ) Downgraded To 'BBB+' On Higher Capex and Cost Pressures; Stable Outlook Affirmed

June 24, 2025

## Rating Action Overview

- Kraftringen Energi's plan to invest Swedish krona (SEK) 2.4 billion (approximately \$250 million) to expand its new combined heat and power (CHP) plant in Örtofta, Sweden, announced June 18, will almost double its capital expenditure (capex) over 2025-2028, leading to weaker financial metrics. Profitability in its district heating operations also remains subdued.
- We expect funds from operations (FFO) to debt to weaken to about 20% by 2027, which is below our threshold of 23% for an 'A-' rating; and we forecast S&P Global Ratings-adjusted debt to rise to about SEK4.4 billion by 2027, from SEK2.4 billion at year-end 2024.
- We therefore lowered our long-term issuer credit rating on Kraftringen to 'BBB+' from 'A-' and affirmed our 'A-2' short-term issuer credit rating and our 'K-1' Nordic regional scale rating on the company's commercial paper program.
- The stable outlook reflects our expectation that Kraftringen will contain the debt buildup from its investment in the new CHP plant, KVV2, resulting in FFO to debt averaging about 20% in the coming years, supported by regulated earnings from its power and gas distribution and district heating businesses, which we regard as a strength for its business risk profile.

## Rating Action Rationale

**S&P Global Ratings expects that Kraftringen's SEK2.4 billion investment will lead to FFO to debt shrinking toward 18%-22% over 2026-2027.** Although we expect FFO to debt to remain above the previous 23% downside threshold for the rating in 2025, the elevated capex to fund the construction of the CHP plant in 2025-2028 will result in metrics quickly falling below the threshold in 2026. The project will result in the company's annual capex almost doubling to SEK1.2 billion-SEK1.7 billion from SEK400 million-SEK600 million. We forecast cash flow to be negative SEK400 million-SEK900 million, leading to debt almost doubling by 2027. Because the investment represents a sizable step up in capex, we will monitor the construction's progress.

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Any deterioration in credit metrics as a result of cost overruns related to the CHP plant investment could relatively quickly put pressure on the ratings, given the magnitude of the investment. That said, we view the technology risk for the new CHP plant as low, since Kraftringen already operates similar plants and is familiar with the technology, and the addition of the new plant is expected to generate synergies with existing operations on the site, reducing marginal costs and adding more flexibility to production. We continue to assess the company's financial measures by using our medial-volatility financial benchmark table, due to its share of lower-risk regulated electricity distribution and district heating operations.

**We expect EBITDA to increase to SEK1.1 billion-SEK1.2 billion by 2027, driven by higher tariffs in district heating (a 13% tariff increase has been announced for 2025).** This EBITDA growth follows underperformance since 2022, primarily because of rising biofuel prices, which the company has been unable to pass on to customers on a timely basis. Adjusted EBITDA totaled SEK762 million in 2024, which was lower than our previous expectations of SEK800 million-SEK900 million. We expect profitability in the district heating segment to gradually rebound; with EBITDA at SEK300 million-SEK400 million annually over 2025-2027. We also expect Kraftringen's distribution system operator (DSO) activities to contribute EBITDA of SEK700 million-SEK800 million per year, up from about SEK600 million in 2024, in line with the level of allowed returns for the current regulatory period.

**Following several divestments of unregulated business segments last year, Kraftringen's EBITDA now stems almost entirely from regulated activities, which support its strong business risk profile.** We expect electricity distribution to remain the largest source of EBITDA in the coming years, followed by district heating and cooling. Together, these segments will represent close to 100% of EBITDA in 2025-2027, which we view as a key strength in the company's business risk profile, since these operations are expected to generate predictable and stable income. This slightly mitigates the pressure from weakening financial metrics in the coming years. The largest divestment made last year was production rights in two Norwegian hydro power plants, which contributed SEK10 million-SEK20 million of EBITDA annually. The production rights were sold in 2024, along with other business segments related to energy services, generating cash flow of SEK300 million-SEK350 million.

**We continue to view Kraftringen's connection to its majority owner, the Municipality of Lund (AAA/Stable/A-1+), as a supportive factor in our overall rating assessment.** Kraftringen is 100% owned by Kraftringen AB (not rated), a holding company owned by the municipalities of Lund (82%), Eslov (12%; not rated), Hörby (4%; not rated), and Lomma (2%; not rated). We see Lund as a strong and stable shareholder with a dominating influence on Kraftringen's strategy and business plans. Kraftringen is important to Lund since it provides critical public services and contributes to Lund's environmental agenda, and we expect the addition of the new CHP plant at Örtofta to help Kraftringen further contribute to the decarbonization of the region and its industries. We note that the owners have set a dividend target of SEK100 million for the investment period 2026-2028, lower than historical levels of about SEK150 million, aimed at alleviating pressure on the company's balance sheet. Our assessment of the company's relationship with Lund results in a two-notch uplift to Kraftringen's stand-alone credit profile, since we continue to see a moderately high likelihood of extraordinary government support.

## 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 and stabilize at 18%-22% through the forecast period.

### Downside scenario

We could lower our ratings if:

- Kraftringen's credit metrics weakened materially against our forecasts, for example if FFO to debt fell and stayed 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 weak project management in relation to the commissioning of KVV2, which could materialize as delays, weakened 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 sustainably 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.

## Company Description

Kraftringen is a Swedish multi-utility company that 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; photovoltaic services; gas, including natural gas and biogas; fiber optic network services such as black fiber, internet, and telephony services; and energy-related services. In 2024, the company's adjusted EBITDA totaled SEK762 million. Its electricity distribution and district heating business account for the majority of EBITDA.

Kraftringen supplies power to approximately 120,000 connections in Skåne, Blekinge, and Småland. Its district heating services provide heat to about 9,000 customers.

## Our Base-Case Scenario

### Assumptions

- Almost all the company's expected EBITDA, forecast at about SEK900 million-SEK1.1 billion annually over 2025-2027, will stem from regulated activities in either electricity and gas distribution or district heating.

- A weighted average cost of capital for DSO activities of 4.53% for the current regulatory period ending in 2027.
- An increase in district heating tariffs of 13% in 2025.
- High capex of about SEK1.4 billion annually over 2025-2027 due to investments in the CHP plant expansion.
- Annual dividends of SEK110 million-SEK140 million in 2025 and SEK80 million-SEK100 million over 2026-2027.
- No acquisitions during the forecast period.

## Key metrics

### Kraftringen Energi AB (public)--Forecast summary

Period ending	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. SEK)	2023a	2024a	2025e	2026f	2027f
EBITDA	783	762	900-1,000	1,000-1,100	1,100-1,200
Funds from operations (FFO)	661	621	800-900	800-900	850-950
Capital expenditure (capex)	669	872	1,300-1,400	1,600-1,700	1,200-1,300
Free operating cash flow (FOCF)	138	(31)	(450)-(550)	(750)-(850)	(250)-(350)
Dividends	61	160	110-140	80-100	80-100
Discretionary cash flow (DCF)	77	(191)	(600)-(700)	(850)-(950)	(350)-(450)
Debt	2,441	2,440	3,000-3,300	3,900-4,200	4,300-4,600
<b>Adjusted ratios</b>					
Debt/EBITDA (x)	3.1	3.2	3.0-3.7	3.5-4.2	3.6-4.2
FFO/debt (%)	27.1	25.5	24-30	19-23	18-22
DCF/debt (%)	3.1	(7.8)	(20)-(21)	(22)-(23)	(8)-(10)

## Liquidity

We view Kraftringen's liquidity position as adequate. We expect that, over the 12 months from March 31, 2025, 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 1.8x. We also expect liquidity sources will exceed uses even if EBITDA declines by 30%. The company has demonstrated in the past that it does not intend to have a liquidity-sources-to-uses ratio that exceeds 1.5x, especially because of the short-term facilities it uses during regulatory periods. Kraftringen is not active on the international bond market but relies on local markets for funding.

### Principal liquidity sources

- Cash of about SEK400 million as of March 31, 2025;
- Cash FFO of SEK800 million-SEK900 million; and

### Principal liquidity uses

- No debt maturities over the 12 months from March 31, 2025, and SEK800 million over the subsequent 12 months;
- Annual capex of SEK1.4 billion; and

- SEK1.5 billion of undrawn bank lines, consisting of two SEK500 million back-up bank facilities maturing in 2027, a revolving credit facility of SEK300 million maturing in December 2026, and a SEK200 million credit facility with the municipality of Lund maturing in 2028.
- Dividends of about SEK110 million-SEK140 million.

## Covenants

We estimate Kraftringen's headroom toward its covenants is adequate. The covenant requires a ratio of equity to total assets of more than 30%. This ratio stood at about 46% at year-end 2024.

## Environmental, Social, And Governance

Environmental factors pose a moderately negative consideration in our credit rating analysis of Kraftringen, primarily due to its reliance on biofuels for incineration activities within its district heating (DH) operations, which contribute approximately 30%-35% of the group's EBITDA. While the company has made efforts to reduce emissions, achieving a 97% decrease in scope 1 and 2 emissions since 2007 and setting a net-zero emissions target for 2030, this commitment will likely necessitate ongoing investments. On an industry level, sustainability issues related to bioenergy have been a significant topic of discussion within the EU taxonomy, highlighting the broader challenges and considerations that impact the sector as a whole. We don't fully exclude future changes to legislation regarding energy from biofuels. Governance factors are also a moderately negative consideration, mainly due to Kraftringen's limited scope and the relatively small size of the company. Management's decision to hedge the Norwegian hydro power production via the Nord Pool system price led to material financial losses in 2022. However, we view the steps taken thereafter to mitigate future negative exposure as evidence of prudent risk management that offsets previous governance shortcomings.

## Rating Component Scores

**Rating Component Scores**

Component	
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 risk
Industry risk	Very low risk
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb
Diversification/portfolio effect	Neutral/undiversified (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)
Stand-alone credit profile	bbb-
Related government rating	AAA
Likelihood of government support	Moderately high (+2 notches)

**Related Criteria**

- [Criteria | Corporates | General: Methodology For Assessing Financing Contributed By Controlling Shareholders](#), May 15, 2025
- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), April 4, 2024
- [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: 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

- [Industry Credit Outlook 2025: EMEA Utilities](#), Jan. 14, 2025
- [Municipality of Lund](#), Sept. 23, 2024

## Ratings List

### Ratings list

#### Downgraded

	To	From
<b><a href="#">Kraftringen Energi AB (publ)</a></b>		
Issuer Credit Rating	BBB+/Stable/A-2	A-/Stable/A-2

#### Ratings Affirmed

<b><a href="#">Kraftringen Energi AB (publ)</a></b>		
Issuer Credit Rating		
Nordic Regional Scale	--/--/K-1	
Commercial Paper	K-1	

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