S&P Global Ratings

Utilities

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Renewables facing higher volatility in pricing and volume

This report does not constitute a rating action.

What do we expect over the next 12 months?

Demand will grow at mid-single-digit in line with economic growth; declining fuel costs will support earnings and margins.

Large spending on renewables (including grid and storage) and coal-fired capacity (for energy security) will keep leverage high.

The rating bias remains positive reflecting a recovery in volumes, accelerated capacity expansion, and declining fuel cost pressures.

What are the key risks around the baseline?

Geopolitical conflicts continue. This may lead to spikes in fuel costs, reversing the trend of margin recovery. As such, the effectiveness of cost passthroughs will be key to support cash flows. Companies may still have to factor in supply-chain risks in budgeting and capital expenditure (capex) delivery processes.

Inflation and high interest rates to bite. Fuel cost passthrough is in place in some markets but may not be even across all entities. High interest rates in most markets could alter funding options and costs for most entities, except in a few countries (such as China) that face less pressure on this front.

Accelerated new investments and funding needs. We view excessive debt funding of new developments, adverse regulatory reforms or interventions, and grid constraints as risks. Capex will focus mainly on renewables, integrated hybrid projects, grid and energy storage, and the acquisition of renewables.

What do they mean for the sector?

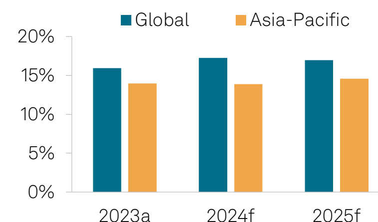
Rapid new capacity addition could weigh on utilization. Accelerated expansion of renewables without sufficient grid or storage facilities could heighten the risk of curtailment and increase volatility of contract pricing and volume. This risk is rising in China and is apparent in some Asia-Pacific markets such as Australia, due to a lack of contractual protection.

High working capital needs due to electricity-price volatility in some markets. In China, power tariffs will moderate as marketized reform continues. Any fuel cost spike due to the disruption of energy supply could hurt profitability in some markets.

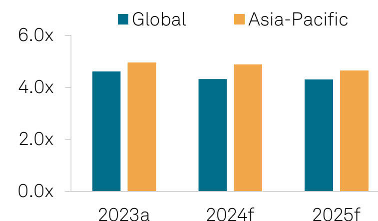
Constrains in funding could increase interest costs and lead to capex reviews. Higher funding costs will require closer capex reviews, except for Chinese SOEs benefiting from robust domestic financing support.

Rating Metrics

FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



Source: S&P Global Ratings.
All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.