



Climate change case study: E.ON

By the Nikko AM Green Bond Team
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In the transition to net zero, the focus is on impact and engagement. We are actively engaged in the global fixed income markets, and support green and sustainable investments in the transition towards overall sustainability in order to meet net zero targets. We are particularly trying to focus on those companies with ambitious targets for net zero and carbon reduction.

E. ON, one of the largest pan-European integrated utility and energy retailers, is an example of a company that is actively facilitating the EU energy transition. As an issuer, it has developed a leading Sustainable and climate strategy, with credible and ambitious climate targets. It has set up clear and transparent medium and long-term absolute emissions reduction targets across its entire value chain, covering scopes 1 to 3, which have been positively reviewed by independent organisations like the Science-Based Target initiative (SBTi), Climate Action 100 (CA100) and the CDP. In 2022, 80% of E. ON's total investments were into activities aligned with the EU taxonomy classification for contributing to environmental objectives.

Further, E. ON has developed a Green Bond framework that enables it to issue Green Bonds to fund its transition process. The proceeds from these bonds are allocated to the development of electricity networks, renewable energy, and clean transportation, thereby contributing to a sustainable future.

To ensure the effective allocation of proceeds, E. ON has a committee consisting of members from different business lines who select assets and projects based on the pre-established eligibility criteria set out in the framework (Eligible Green Portfolio). It reports on the impact generated by these investments on an annual basis, providing transparency and accountability to its stakeholders.

Since 2019, E. ON has issued a total of 10 Green Bonds (EUR 7.65bn total outstanding) under this framework. A large majority of proceeds has been allocated towards Electricity Networks (97% of E. ON's Eligible Green portfolio) and more specifically Grid connections for renewable energy and Installation of Smart Grid components. As E. ON gradually expands its network, it is integrating smart grid technology to efficiently incorporate renewable capacity and ensure a secure supply of energy. The company is also investing in EV charging stations and implementing electro-mobility, including a pilot project with BMW that explores the use of EV batteries for household electricity storage.

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Assessing the company's fundamentals

Our dynamic credit model, in combination with the views of our analysts, allows us to assess the medium-term default risks and portfolio eligibility of this investment, with a focus on business risk, key risk, financial metrics, and credit view. In terms of business risk, we noted that 85% of E.ON's earnings before interest, taxes, depreciation and amortisation (EBITDA) came from its operations in well-developed and transparently regulated utility regimes in Germany, Sweden and the Czech Republic. However, under key risks, we identified a couple of potential issues beyond the company's status as a competitive retail supply business. For example, an energy crisis could lead to an increase in bad debt provisions, while a complex asset swap undertaken with German multinational energy company RWE AG could weaken the company's leverage and returns could be impacted by energy transition challenges. Despite these challenges, E.ON's financial metrics look healthy, and our assessment of its credit fundamentals and credit quality is equivalent to a four-star rating, with a positive credit outlook. As a result, we believe E.ON's strong credit quality will provide sufficient downside protection for our position and support its current official credit rating of BBB+/Baa1/A- (as of September 2023).

Conclusion

With plans to invest EUR 33 billion over the next four years, E.ON has committed EUR 26 billion to its distribution business (energy networks) and EUR 6 billion to its customer solutions business (retailing). E.ON is a key player in the it strives to integrate renewables, connect producers and consumers, and manage complex energy flows as part of the energy transition. By issuing Green Bonds and following a transparent and accountable process, E.ON is actively supporting the EU energy transition and contributing to a more sustainable future.

To learn more about sustainable fixed income investing, read Nikko AM's investment guide [here](#).

If you have any questions on this report, please contact:

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