Research Update:

French Nuclear Services Provider Orano Outlook To Positive On Improved Business Prospects; 'BBB-' Rating Affirmed

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Rating Action Overview

- Improving business prospects across in the nuclear industry should help Orano to grow its revenue and EBITDA by more than we previously expected in our base case over the next few years.
- We now expect a rise in Orano's operating cash flow, improving its ability to fund the substantial capital expenditure (capex) planned for 2026-2027 without a substantial increase in leverage.
- Consequently, we revised our outlook on Orano to positive from stable, and affirmed our 'BBB-' ratings on the company and its senior unsecured debt.
- The positive outlook indicates that we could upgrade Orano if we expect it to keep S&P Global Ratings-adjusted leverage at or below 3x in 2025-2026 while also funding and executing on its medium-term projects.

Rating Action Rationale

Our outlook revision is based on Orano's stronger-than-expected credit measures, which we attribute to the ongoing favorable industry conditions. The conflict in Ukraine has brought energy security implications to the fore, thus accelerating prospects for the nuclear power industry. Orano's backlog of €31 billion at half-year 2024 represents over six years of revenue, and has increased from €30.8 billion in 2023 and €26.1 billion in 2022. We anticipate that further growth will be supported by additional nuclear initiatives, including government commitments in several countries beyond France. These will accelerate projects to increase nuclear capacity and extend reactor lifetimes to ensure global energy supply.

The restriction on the export of enriched uranium produced in Russia has had long-lasting effects on demand in key regions including Northern America, Europe, and Japan. Combined with global energy needs for carbon-free energy, this has increased the demand and pricing for Orano's products and services across the company's three main segments. We anticipate that the company's profitability will benefit as these trends continue for the next few years. The company is also delivering on its key projects while asset retirement obligations for the end-of-life cycle at existing plants are set to be contained for the next couple of years.

Orano announced on Nov. 29, 2024, that it had signed contracts with Japanese utilities to undertake key recycling projects. As a result, the company has revised upward its guidance for 2024 and our revised base case now forecasts that Orano's adjusted leverage will be at or slightly below 2x in 2024-2025 (compared with 2.4x in 2023 and 3.0x in 2022). This highlights the company's strong performance at the current rating level. We consider leverage of 3x-4x to be commensurate with a stand-alone credit profile of 'bb-'.

Nevertheless, any upgrade depends on Orano's capacity to maintain metrics at these levels, even while investing heavily in capital projects from 2025 onward. Under our base case, we expect Orano's various investment projects to create a sharp increase in cash needs. Annual capex in 2025 is likely to exceed €1.5 billion, and to rise to €2 billion a year in 2026 and 2027 (compared with about €700 million in 2022 and about €825 million in 2023). As a result, from 2025 onward we predict that FOCF, including end-of-life cycle expenses otherwise financed by earmarked assets, will turn negative, and adjusted leverage could deteriorate to about 3x.

In particular, over the next three years the company plans to consolidate its uranium mining portfolio. We assume in our base-case scenario that the company will self-fund its long-term investment plans. Orano issued €300 million in shares with preferential subscription rights in October 2024; the issuance was fully subscribed and paid up in cash by the French state, which now owns 90.3% of Orano's capital. This demonstrates the French state's willingness to offer Orano regular support in undertaking its strategic initiatives, and specifically, to support capacity extension at the Georges Besse II enrichment plant in southeast France. Although we do not assume additional equity support in our forecasts, Orano has a track record of benefiting from such actions, especially when undertaking large and costly investments that are considered essential, not only for Orano but for the whole nuclear value chain, in France and beyond.

Outlook

The positive outlook indicates that we could upgrade Orano if we expect it to maintain adjusted leverage at or below 3x in 2025-2026 while also funding and executing on its medium-term projects.

Under our base case, we project that EBITDA will surge to over €1 billion in the coming years, although this will not be sufficient to cover the company's large capex and other cash flow needs. Based on the current capital structure, and assuming no changes to the end-of-life provisions, we anticipate that adjusted debt to EBITDA will average about 2x in 2024-2025 and rise to closer to 3x in 2026. This is well below the 3x-4x that we see as commensurate with the current rating. In fact, we expect the company to maintain some headroom under its leverage ratio to mitigate the risk that cash outflows from its investment cycle will be larger than expected.

Our rating analysis assumes that the company's ownership structure will not change.

Downside scenario

We view downside pressure as remote in the coming 12-24 months. That said, we could revise the outlook to stable if Orano:

- Experiences major operational disruptions; and
- Changes its existing financial policy in a way that would increase reported net debt to EBITDA, for example, pursuing more-aggressive debt-funded acquisitions or significantly increasing the capex budget or distributions to shareholders so that discretionary cash flow is substantially negative.

Upside scenario

We could upgrade the rating in the next 12-24 months if we consider that the company can maintain adjusted debt to EBITDA of 2x-3x throughout the cycle, even under less-favorable pricing conditions for uranium ore or separate works units (SWUs) and heavy capex requirements. This would require some visibility on the company's ability to raise new equity or external funding and execute its key projects, which essential for future growth.

We will continue to monitor the company's ability to meet its objectives, averaged over multiple years.

Company Description

France-headquartered Orano is a spinoff of former nuclear services provider Areva. Orano offers products and services for the entire nuclear fuel cycle, from raw materials to waste processing. Its activities contribute to the production of low-carbon electricity and encompass mining, decommissioning, conversion, enrichment, recycling, logistics, and engineering. The company has about 17,500 employees worldwide.

At year-end 2023, Orano's revenue totaled €4.8 billion, and adjusted EBITDA was €1.1 billion.

Orano mainly operates through three business divisions:

- Mining (28% of sales and 34% of EBITDA in 2023): This comprises three uranium mines in Canada, Niger, and Kazakhstan. The mineral reserves in Orano's deposits amounted to 199,317 metric tons as of Dec. 31, 2023 (Orano's equity share).
- Front end (27% of sales and 36% of EBITDA in 2023): This combines all the operations required to convert natural uranium into enriched uranium to be used in nuclear fuel assemblies designed to generate electricity. Customers are primarily nuclear power plant operators.
- Back end (45% of sales and 32% of EBITDA in 2023): This includes treating and recycling used fuel for reuse in the reactor, developing storage systems, organizing the transportation of radioactive materials, and cleaning up and dismantling nuclear facilities. Orano is the main global player in this space.

The company's main peers in mining are the China National Nuclear Corp., Cameco Corp., and Kazatomprom. Its main peers for the front-end division are the China National Nuclear Corp., Cameco Corp., and Urenco.

Our Base-Case Scenario

Assumptions

- Revenue to grow to close to €5.8 billion in 2024, up by 15%-20% compared with 2023, owing to higher prices and the exceptional contribution of the recently announced one-off recycling contract for Japanese utilities, before normalizing from 2025 onward.
- Capex needs of about €1 billion in 2024, over €1.5 billion a year in 2025, and over €2 billion in 2026, as the company increases investment to expand its existing operations, especially in mining, while also growing in newer areas such as medical applications and battery recycling.
- The company does not expect to pay dividends until 2025, and only if net leverage remains below 3x.
- We assume no further cash burn from the operational exit of Niger in 2025, after the adjustments already made in the first half of 2024.
- FOCF to be even more negative, by €900 million-€1 billion, from 2026 because of increased capex.
- Adjusted debt to increase to €3.5 billion-€4.0 billion in 2026, while adjusted debt to EBITDA rises to close to 3x.

Key metrics

Orano--Key metrics*

(Mil. €)	2023a	2024f-2025f
Revenue	4,775	5,000- 5,500
Adjusted EBITDA(1)	1,093	1,200-1,500
Capital expenditure	823	1,300-1,400
Free operating cash flow	281	(200)-(300)
Adjusted debt	2,625	About 2,500
Adjusted debt/EBITDA (x)	2.4	1.75– 2.0
Reported net debt/EBITDA (x)(2)	1.6	1.0– 1.5

All adjusted figures use S&P Global Ratings adjustments, unless otherwise stated. Our forecasts for 2024 and 2025 have been averaged. a--Actual. f--forecast. (1)Includes provisions and other costs related to end of life cycle operations. (2)Based on reported net debt and underlying EBITDA.

Liquidity

We assess Orano's liquidity as strong. This is supported by our estimate that the company's liquidity sources will cover uses by more than 2x for the 12 months from Oct. 1, 2024, and 1.0x for the subsequent 12 months. We also factor in the company's prudent liquidity management and solid relationships with banks. The next major debt maturity is a €750 million bond maturing in April 2026.

Principal liquidity sources for the 12 months from Oct. 1, 2024, include:

- Our estimate of about €1.4 million of unrestricted cash on the balance sheet, including about €300 million of highly liquid marketable securities;
- €880 million available under a syndicated credit revolving facility maturing in May 2029; and
- Cash FFO of €1.1 billion-€1.2 billion.

Principal liquidity uses in the same period:

- No debt maturities;
- Capex of €1.4 billion-€1.5 billion;
- Moderate intrayear working capital swings that are unlikely to exceed €200 million; and
- Dividend payments to minorities of about €50 million.

Under certain circumstances, the company may be required to use its cash to balance its end-of-cycle liabilities deficit, which was about €250 million on July 30, 2024 (on a regulatory basis).

Government Influence

The French government's influence is critical to our view of Orano's creditworthiness and we assess Orano as a government-related entity (GRE). The French government owns 90.3% of Orano, both directly and indirectly. Because we consider the government highly likely to support Orano if needed, we apply a three-notch uplift to the company's stand-alone credit profile when deriving the rating. In our view, the government is committed to ensuring that any potential liquidity pressure is addressed in a timely manner, which it has demonstrated in the past through its commitment to providing new equity (most recently in October 2024) and to providing Orano with intermediate funding.

We view Orano as a GRE with a high likelihood of receiving government support because of its:

- Important role as France's leading nuclear services provider to the country's largest power producer. Orano ensures supplies of uranium and enriched uranium for France, which generates about 70% of its electricity from nuclear plants;
- Very strong link with the French government. The company's ties with the government are reinforced by the politically sensitive nature of its enrichment and back-end recycling activities; and
- Its strategic importance to France's energy policies. As a commercial enterprise, Orano operates autonomously. The French government closely follows Orano's performance and must authorize strategic investments and acquisitions. Orano is also required to provide its analysis of events to specific parliamentary committees and answer their questions when asked.

Issue Ratings - Subordination Risk Analysis

Capital structure

- €2.25 billion senior unsecured notes and bonds;

- Fully undrawn revolving credit facility (RCF) of €880 million, which is unsecured and ranks pari passu with the unsecured notes; and
- About €250 million of secured debt.

Analytical conclusions

We rate the unsecured notes at 'BBB-', the same level as our long-term issuer credit rating on Orano, because, in our view, no significant elements of structural or contractual subordination risks are present in the capital structure.

Ratings Score Snapshot

Issuer Credit Rating	**BBB-/Positive/--**
Business risk	Satisfactory
Country risk	Low
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Liquidity	Strong (no impact)
Financial policy	Neutral (no impact)
Management and governance	Fair (no impact)
Cash flow/leverage	Negative (-1 notch)
Stand-alone credit profile (SACP)	bb-
Related government rating	AA-
Likelihood of government support	High (3 notches from SACP)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, 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
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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

Related Research

- France 'AA-/A-1+' Ratings Affirmed; Outlook Stable, Nov. 29, 2024

Ratings List

Outlook Action; Ratings Affirmed

	To	From
Orano		
Issuer Credit Rating	BBB-/Positive/--	BBB-/Stable/--
Senior Unsecured	BBB-	BBB-