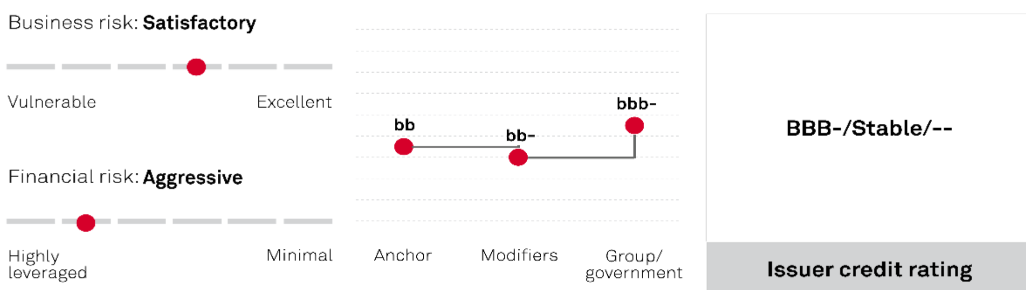
Orano SA

November 1, 2023

Ratings Score Snapshot



Primary contact

Lena Liacopoulou Staad
Paris
33-14-420-6739
lena.liacopoulou@spglobal.com

Secondary contact

Elad Jelasko, CPA
London
44-20-7176-7013
elad.jelasko@spglobal.com

Credit Highlights

Overview

Key strengths	Key risks
Top-three market position in all its key activities, and a high-quality asset base comprising modern facilities, mining sites, and reserves.	Inherent safety and security risk related to nuclear lifecycle activities.
Sizable, long-term order backlog of about €26 billion (equivalent to more than six years of revenue).	Gradually improving credit metrics will be driven by stronger profitability while a reduction in absolute debt will be delayed, reflecting high capital expenditure (capex) in the coming years.
Some geographical diversification, with about half of revenue generated in France.	
After an impressive spike in prices (uranium, enrichment and conversion prices) some softening is expected, but remaining high in the absence of Russian supply and energy self-sufficiency.	Limited presence in fast-growing markets such as China.

We expect elevated prices will support Orano's performance in 2023, while a one-off contract for the back-end division should lead to record profitability in 2024. Higher prices in all divisions, favorable backlog volumes, and a progressive volume recovery for the backend segment should offset inflationary pressures on operations, pointing to a full-year S&P Global Ratings-adjusted EBITDA of around €1.2 billion in 2023, compared with €1.0 billion in 2022. In 2024 we forecast continued revenue growth, primarily driven by the implementation of a one-off contract in the recycling division (back-end segment), leading to improved S&P Global Ratings-adjusted EBITDA above €1.5 billion. Moreover, we note that Orano has renegotiated its contract with EDF for 2024-2026 on more balanced terms, so the required renovations to the back-end facilities can go ahead thereby securing their future.

Consequently, higher EBITDA and working capital inflows are expected to support S&P Global Ratings-adjusted free operating cash flow (FOCF) of about €150 million-€300 million in 2023 (€104 million in 2022).

The renewed appetite for nuclear will support Orano's prospects from 2024, reflected in an increasing backlog. We expect global nuclear installed capacity to have increased by 10%-20% by 2040 (we previously assumed a more than 30% decline).

Orano is about to embark on a new investment cycle to meet strong demand and to seize new market opportunities well into the next decade. Over 2023-2032, we expect Orano will focus on the following projects:

- Mining: Accelerating the development of mines in Mongolia, Uzbekistan, and potentially in Imouraren, Niger (subject to the evolution of the political situation in the country). This would support incremental production at the end of the decade.
- Front end: Extension of enrichment facility Georges-Besse II for over €1.7 billion. This would benefit front-end volumes.
- Back end: Restoring production at the recycling plants and for specific sustainability projects (mainly at the La Hague site).
- Other projects:
- Orano Med business (particularly investment in an Advanced Thorium Extraction Facility).
- Manufacturing of P-CAM and CAM (precursors and active cathode materials); and
- Battery recycling operation.

These projects add up to an anticipated substantial increase in capex to €1.2 billion-€1.4 billion annually from 2024 onward (compared with about €500 million -€700 million historically).

We expect Orano to maintain a prudent financial policy despite embarking on sizable investments and, from 2025 onward, potential dividend payments. We anticipate the company to maintain headroom under its leverage ratio in the coming years, with S&P Global Ratings-adjusted debt to EBITDA of about 2.0x-2.5x in 2023-2024, well below the 3.0x-4.0x threshold that is commensurate with the 'BBB-' rating. However, we expect S&P Global Ratings-adjusted FOCF generation to be weakened by the increased capex, which the company could mitigate through an equity injection from its majority shareholder, the French state, and so avoid any incremental new debt issuance. That said, over 50% of the new enrichment capacity investments are secured by long-term contracts covering 2030-2040, guaranteeing future profitability and cash-flows. Therefore, we understand that, despite the fact that the company could curtail some projects if needed, it is unlikely to do so considering the importance of starting investments to its core business now in order to secure the next decade's production and time to market.

The recent military coup in Niger will have no discernable impact on Orano's credit metrics, but the future of its operations there is uncertain. The coup, which took place in July, is expected to influence the company's strategy regarding its mining assets. Operations in the country represent less than 5% of the EBITDA.

Outlook

The stable outlook reflects our expectation for robust results in the next 12-18 months on the back of a more balanced ATR contract that was renegotiated with EDF and overall positive momentum in the nuclear industry, which could become even more pronounced if the current energy crisis in Europe lasts for an extended period.

Under our base case, we project EBITDA of about €1.2 billion in 2023 and over €1.5 billion in 2024, while we expect positive FOCF . Based on the current capital structure (chiefly, no changes in the provisions), we expect our adjusted debt-to-EBITDA ratio to be well below 3x-4x, which we consider commensurate with the current stand-alone credit profile (SACP) of 'bb-' and the 'BBB-' rating. In fact, we expect the company to maintain some headroom under its leverage ratio to mitigate any greater-than-expected cash outflows emanating from the new investment cycle.

Our rating assumes no changes to the company's ownership structure.

Downside scenario

We view downside pressure as remote in the coming 12-24 months. The two drivers that could trigger pressure on the rating are:

- Major operational disruptions; and
- Diversion from the existing financial policy--increasing reported net debt to EBITDA, by being more aggressive with debt-funded acquisitions or due to a significant increase in the capex budget or distribution to shareholders, leading to substantially negative discretionary cash flow.

Upside scenario

In our view, the current positive momentum in the nuclear industry, which has already translated into higher prices (for uranium, separative work units [SWU], and other services), would support higher profitability in the medium term, and later, higher demand for the company's services. As a result, we may see some positive pressure on the rating.

Some of the triggers that could support this include:

- Maintaining projected profitability, cash conversion, and credit metrics; EBITDA of €1.0 billion-€1.2 billion, positive FOCF of €100 million or more, and adjusted debt to EBITDA of 3x-4x. Given that the credit metrics could be subject to changes in our sizable adjustments, we will continue to monitor the company's ability to meet the objectives on a multiyear average basis.

- The company's ability to meet important milestones with its two plants (La Hague and Melox) in the recycling business, respectively in 2024 and 2025. We understand that the projects are expected to be fully completed in 2024.
- Medium-term growth strategy progressing as planned, including embarking on new capacity increases, medical applications, battery recycling, and others.

Our Base-Case Scenario

Assumptions

- Revenues to grow above 10% in 2023 owing to price revisions (on indexed contracts) and inflation. We expect a significant contribution from a one-off contract to boost revenue generation in 2024.
- Orano's backlog to increase gradually, impacting EBITDA in the years beyond our rating horizon.
- The mining division's performance to be driven by higher prices and full resumption of production at KATCO in 2025.
- Front end division's results to be supported by price effects in enrichment and conversion, largely offset by cost inflation in electricity prices, reagents, and salaries among others.
- Back-end division's results to improve because of better cost absorption, increased ATR contract price with EDF, and a one-off contract in 2024 relating to the recycling business.
- Working capital inflows are expected in 2023 owing to destocking in the mining segment and a reduction in SWU inventory in the front-end segment. That said, in 2024 we anticipate lower working capital inflows due to the phasing out effect from the one-off recycling contract.
- Capex needs of €850 million-€1,000 million in 2023 as Orano enters a new investment cycle. From 2024 we expect capex to increase to €1.1 billion-€1.3 billion annually. The new investment cycle aims at expanding Orano’s existing operations, especially the front-end, while growing in some new areas (medical applications, battery recycling).
- The company is envisaging paying dividends at the earliest in 2025, assuming net leverage remains below 3x.

Key metrics

Orano - Key Metrics

	2022a	2023e	Normalized year
Uranium price ($/lb)	46	53	58
Euro per U.S. Dollar (€/$)	0.95	0.92	0.90
Revenues (mil. €)	4,237	4,700-4,900	4,800-5,000

Adjusted EBITDA (mil. €)*	1,042	1,100-1,200	1,200-1,300
• Mining EBITDA (mil. €)	491	400-450	380-420
• Front end EBITDA (mil. €)	470	450-500	480-520
• Back end EBITDA (mil. €)	154	300-350	380-420
Capex (mil. €)	704	800-1,000	1,000-1,200
Change in working capital (mil. €)	274	250-450	250-400
Free operating cash flow (mil. €)	104	150-300	0-100
Free operating cash flow excl. end-of-lifecycle expenses (mil. €)	c.300	c.400	200-300
Dividends to minority shareholders (mil. €)	44	50-100	50-100
Adjusted debt (mil. €)	3,124	c.3,000	3,000-3,300
Cash (mil. €)	879	700-1,000	400-700
Adjusted debt/EBITDA (x)	3.0	2.0-2.5	2.0-2.5
Net debt/EBITDA (x)**	1.9	1.5-2.0	1.5-2.0

a--Actual. e--Estimate. FFO--Funds from operations. mt--metric ton. *S&P Global Ratings-adjusted EBITDA includes provisions and other costs related to end-of-lifecycle operations. ** Based on reported net debt and underlying EBITDA.

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--ranging from mining to decommissioning and including conversion, enrichment, recycling, logistics, and engineering--contribute to the production of low-carbon electricity. The company has about 17,000 employees worldwide as of Dec. 31, 2022.

At year-end 2022, Orano's revenues totaled €4.2 billion, with adjusted EBITDA of €1.0 billion. As of first half of 2023, Orano generated revenue of €2.3 million and adjusted EBITDA of €482 million.

Orano operates mainly through three business divisions:

- Mining (32% of sales and 44% of EBITDA in 2022): This operates through three uranium mines in Canada, Niger, and Kazakhstan. The mineral reserves in Orano's deposits amounted to 191,178 metric tons as of Dec. 31, 2022 (Orano's equity share).
- Front end (26% of sales and 42% of EBITDA in 2022): 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 (42% of sales and 14% of EBITDA in 2022): 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 main peers for both the mining and front-end divisions are the China National Nuclear Corp.; Cameco Corp.; and, for mining only, Kazatomprom and front-end only Urenco.

Business Risk

Orano is one of the major global players in the nuclear industry. Its leading position is supported by a high-quality asset base with mining sites and reserves, modern facilities, and asset and geographic diversification (about 45% of revenue came from outside France in 2022). The sector's high capital intensity, plus Orano's long-term customer relationships, technological know-how, and security and safety considerations create important barriers to entry.

Relationships between Orano and its customers are usually formalized under long-term agreements, providing excellent visibility. As of June 30, 2023, Orano had a backlog of about €25.7 billion, covering more than 10 years of revenue at the current level, with excellent visibility over the next few years, and decreasing visibility further out.

Financial Risk

Orano’s financial risk profile reflects its high adjusted debt comprising bond debt adjusted for asset-retirement obligations, pension obligations, lease liabilities and accessible cash (which is used to offset the debt). We expect Orano’s S&P Global Ratings-adjusted debt to EBITDA to decline to about 2.5x in 2023 and about 2.0x-2.5x in 2024 (3.0x in 2022). This deleveraging reflects our expectations of improved EBITDA generation.

That said, we foresee some uncertainty regarding the S&P Global Ratings-adjusted FOCF because of higher capex needed in the new investment cycle and any contributions to end-of-lifecycle provisions. We also expect Orano to commence dividend distributions from 2025, also straining cash flows. We therefore expect it to maintain sufficient headroom under the rating, while posting positive FOCF at all times. Any mitigation measures would further strengthen the company's credit profile, in our view.

Orano--Financial Summary

Period ending	**Dec-31-2017**	**Dec-31-2018**	**Dec-31-2019**	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	3,931	3,623	3,787	3,684	4,726	4,237
EBITDA	1,025	714	1,012	721	1,356	1,042
Funds from operations (FFO)	504	508	742	536	1,124	809
Interest expense	246	198	238	169	142	142
Cash interest paid	212	208	160	135	142	180
Operating cash flow (OCF)	325	675	849	682	1,099	808
Capital expenditure	490	460	564	532	592	704
Free operating cash flow (FOCF)	(165)	215	285	150	507	104
Discretionary cash flow (DCF)	(188)	153	282	75	502	60
Cash and short-term investments	1,950	2,027	1,492	1,554	1,232	879
Gross available cash	1,950	2,027	1,931	1,998	1,532	1,109
Debt	5,023	4,781	4,171	4,132	3,474	3,124
Common equity	952	724	1,249	1,089	1,858	1,648
Adjusted ratios						
EBITDA margin (%)	26.1	19.7	26.7	19.6	28.7	24.6
Return on capital (%)	1.1	7.1	12.4	5.1	16.3	11.6

Orano--Financial Summary

EBITDA interest coverage (x)	4.2	3.6	4.3	4.3	9.5	7.3
FFO cash interest coverage (x)	3.4	3.4	5.6	5.0	8.9	5.5
Debt/EBITDA (x)	4.9	6.7	4.1	5.7	2.6	3.0
FFO/debt (%)	10.0	10.6	17.8	13.0	32.4	25.9
OCF/debt (%)	6.5	14.1	20.4	16.5	31.6	25.9
FOCF/debt (%)	(3.3)	4.5	6.8	3.6	14.6	3.3
DCF/debt (%)	(3.7)	3.2	6.8	1.8	14.5	1.9

Reconciliation Of Orano Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year Dec-31-2022										
Company reported amounts	2,757	1,591	4,237	1,040	508	133	1,042	808	44	704
Cash taxes paid	-	-	-	-	-	-	(53)	-	-	-
Cash interest paid	-	-	-	-	-	-	(180)	-	-	-
Lease liabilities	81	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	472	-	-	-	-	9	-	-	-	-
Accessible cash and liquid investments	(869)	-	-	-	-	-	-	-	-	-
Dividends from equity investments	-	-	-	12	-	-	-	-	-	-
Asset-retirement obligations	683	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	87	-	-	-	-	-
Noncontrolling/ minority interest	-	57	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(10)	(10)	-	-	-	-	-
Total adjustments	367	57	-	2	77	9	(233)	-	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	3,124	1,648	4,237	1,042	585	142	809	808	44	704

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 1.5x in the 12 months and 1.0x in the subsequent 12 months started July 1, 2023. We also factor in the company's prudent liquidity management and solid relationship with banks.

Principal liquidity sources

Orano's sources of liquidity in the 12 months started July 1, 2023, include:

- Our estimate of about €869 million of unrestricted cash on the balance sheet;
- €880 million available under a syndicated credit revolving facility maturing in May 2028;
- Cash FFO of about €1.2 billion-€1.3 billion; and
- Working capital inflows of about €200 million.

Principal liquidity uses

These sources compare with the following uses of liquidity:

- No debt maturities (the next major one is the €750 million bond maturing in September 2024);
- Capex of €1.0 billion-€1.1 billion;
- Some moderate intrayear working capital swings that we don't expect will exceed €200 million; and
- Dividend payments to minorities of about €75 million

Under certain circumstances, the company may be required to use its cash to balance its end-of-cycle liabilities deficit, which was about €175 million on July 30, 2023 (on a regulatory basis).

Covenant Analysis

Requirements

There are no covenants in the debt documentation.

Environmental, Social, And Governance

Business prospects for Orano in particular, and the nuclear industry in general, are directly affected by a global mix of environmental policies and concerns. On the one hand, we have seen a reduction in demand for uranium after the major Fukushima accident, when a number of countries decided to reduce the share of nuclear power in their energy mix. On the other hand, nuclear energy remains an important tool to limit global CO_2 emissions, in spite of intrinsic nuclear-waste challenges. According to the International Energy Agency, for example, CO_2 reduction targets cannot be met without continued reliance on nuclear power.

With nuclear energy's admission into the EU taxonomy, Orano's business prospects are strengthened. Recently, Orano's key market, France, reversed its earlier decision to reduce nuclear's share of electricity generation to 50% by 2035, and is going ahead with plans to build six new reactors, with decisions pending on a further eight, by 2050.

Radiation containment and employees' and others' safety are key considerations for the industry. Orano is principally supervised by the French Nuclear Safety Authority. We see the company's safety record over recent years as neutral for the rating. The company reported a frequency rate of 0.9 for lost time due to accidents, excluding commuting accidents, down from previous years (1.3-1.8), one fatal accident in 2020, and no significant radiation leaks.

Government Influence

The French government's influence remains critical for Orano's creditworthiness. We continue to believe the government would be highly likely to support Orano, which we reflect in our three-notch uplift to the company's stand-alone credit profile to derive the rating. We consider Orano to be a government-related entity (GRE). The French government owns 90% of Orano, both directly and indirectly. We view the government as committed to ensuring that any potential liquidity pressure would be addressed in a timely manner, as demonstrated by its past commitment to provide new equity and intermediate funding to Orano.

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 also has to provide its analysis of events and answer questions from specific parliamentary committees.

Issue Ratings--Subordination Risk Analysis

Capital structure

- €2.5 billion senior unsecured notes
- Fully undrawn RCF of €880 million, which is unsecured and ranks pari passu with the unsecured notes.
- About €280 million of secured debt

Analytical conclusions

We rate the unsecured notes '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.

Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/--
Local currency issuer credit rating	BBB-/Stable/--
Business risk	Satisfactory
Country risk	Low
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	bb-

Related Criteria

- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

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Ratings Detail (as of November 01, 2023)*

Orano

Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-
Issuer Credit Ratings History	
19-Sep-2022	BBB-/Stable/--
16-Mar-2020	BB+/Stable/--
11-Mar-2019	BB+/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.