



Fitch Downgrades EDP's Senior Unsecured Rating to 'A-', on RWN Ratings
25 Mar 2011 10:08 AM (EDT)

Fitch Ratings-London/Milan-25 March 2011: Fitch Ratings has downgraded EDP - Energias de Portugal, S.A.'s (EDP) and EDP Finance B.V.'s senior unsecured ratings to 'A-' from 'A' and placed them on Rating Watch Negative (RWN). The agency has also placed the companies' Long-term Issuer Default Ratings (IDR) of 'A-' and Short-term IDRs of 'F2' on RWN. The 'BBB+(exp)' rating on EDP's proposed hybrid subordinated notes has been withdrawn because the issue process was cancelled.

The rating actions follow the downgrade of Portugal's sovereign rating to 'A-/RWN' (see 'Fitch Downgrades Portugal to 'A-'; On RWN' dated 24 March 2011 on www.fitchratings.com).

Fitch considers the direct impact of the rationale for the sovereign rating downgrade to be limited for EDP's business profile. However, the company's access to capital markets, if needed, is likely to become more expensive. EDP had solid liquidity of EUR5.8bn at end-February 2011, including cash and available bank lines. This largely covers the company's refinancing needs for the EUR3.0bn bonds maturing in the next 24 months (including the EUR0.7bn March 2011 bond) and expected negative free cash flow in 2011.

Fitch rates EDP on a standalone basis. However, because EDP is partly state-owned and has an entrenched position in the Portuguese market, its IDR is unlikely to be above that of the sovereign. The Portuguese government is EDP's largest shareholder with a 25.75% stake through Participacoes Publicas, SGPS, S.A. and Caixa Geral de Depositos, S.A. Although the government is considering asset sales in light of its deficit and public debt issues, the likelihood of it disposing of its total stake in EDP is considered to be small in the near future given energy security issues. Furthermore, EDP still generates about 45% of its annual EBITDA from domestic operations.

EDP's senior unsecured rating is now constrained at 'A-' by the rating of Portugal and therefore does not benefit from the one-notch uplift from the IDR typically awarded to integrated and regulated utilities on the basis of above-average recovery prospects. This is consistent with Fitch's criteria, which typically constrains the unsecured debt ratings of sovereign-owned utilities at a maximum of the respective sovereign's debt ratings.

The RWN indicates a heightened probability of a downgrade over the next three to six months. A downgrade could be a result of a sovereign rating downgrade or deterioration of EDP's standalone credit profile.

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Additional information is available on www.fitchratings.com.
Applicable criteria, 'Corporate Rating Methodology', dated 13 August 2010, is available at www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology

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