S&P Global
Ratings

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Orano

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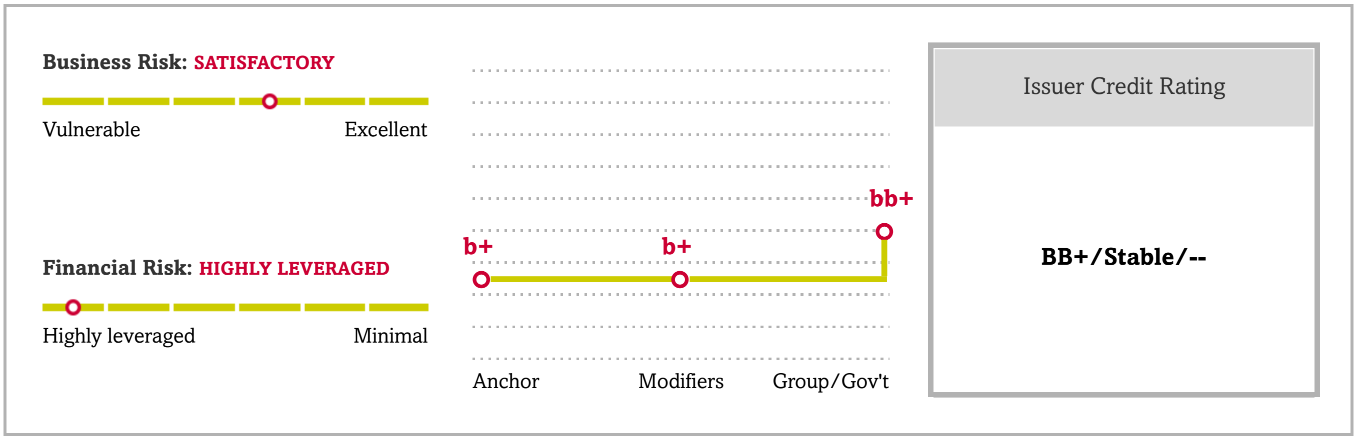

Credit Highlights

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.	Despite the recent recovery in the price of uranium and other related products, and the slightly positive trajectory, prices are still relatively low.
Sizable, long-term order backlog of about €27 billion (equivalent to more than seven years of revenue).	Inherent safety and security risk related to the nuclear lifecycle activities.
Strong liquidity position with a comfortable debt maturity profile.	Unfavorable financial risk profile, with elevated credit metrics, relatively high capital expenditure (capex) although partly financed by customers, and limited free cash flows in the coming years.
Some geographical diversification, with about half of the revenue generated in France.	Flat demand for enriched uranium in most developed markets, notably the U.S. and Europe, with some nuclear policy uncertainty. Limited presence in fast-growth markets such as China.

We forecast flat EBITDA of €0.9 billion-€1.0 billion in 2021. Despite the recent recovery in uranium prices and the general global economic recovery, we do not expect material changes in Orano's results compared with 2020. This is mainly explained by limited production levels in its mining division. For example, uranium is currently trading at $31 per pound (/lb), compared with $30/lb in 2020 and $22/lb in 2017, which is seen as the bottom of the cycle. We see similar trends for enrichment and conversion prices. If the positive momentum continues, we can expect improved results in the company's front- and back-end divisions in the medium term.

Orano's sizable debt and lack of improvement in its cash flow capacity will lead to an extended period of unfavorable credit metrics. As of Dec. 31, 2020, Orano had S&P Global Ratings-adjusted debt of about €4.0 billion, including reported net debt of €2.7 billion and a material adjustment for pensions and asset-retirement obligations. By our calculations, with EBITDA of about €1.0 billion a year and very high capex of €650 million-€700 million, Orano will generate free operating cash flow (FOCF) of up to €80 million a year (excluding changes in working capital), supporting the current level of debt. However, the company expects a working capital inflow of several hundred million euros in the coming year, which should help reduce debt to €2.3 billion by the end of 2022. As a result, we expect the company's debt to EBITDA to be around 4.5x, which is within the 4x-5x range for the current rating.

The EU's taxonomy for sustainable finance could lead to a rating change. We understand that the EU is about to conclude its first round of deliberations around the inclusion of nuclear energy and natural gas in its taxonomy for sustainable finance. The exclusion of the nuclear industry would have a negative impact on Orano, as it conducts most of its business in Europe.

Outlook: Stable

The stable outlook reflects Orano's ability to generate material FOCF in the coming years, supporting a reduction in debt and ultimately, better credit metrics, thereby building some headroom under the rating over time. Under our base case, we project underlying EBITDA of €0.9 billion-€1.0 billion in 2021. Thanks to a sizable working capital inflow, we assume positive FOCF of about €200 million-€220 million. We continue to view adjusted debt to EBITDA of 4x-5x as commensurate with the 'BB+' rating, in addition to positive FOCF (excluding changes in working capital). Orano is likely to meet both targets in 2021.

Downside scenario

In our view, a negative rating action could follow one or more of the following:

- Lower EBITDA and FOCF than we expect, for example, as a result of a continued weak market environment or major operational disruption, leading adjusted debt to EBITDA to rise above 5x without any imminent recovery prospects.
- A permanent increase in the company's asset-retirement or pension obligations.

Upside scenario

We do not expect to take a positive rating action in the next 12 months. Such a rating action would hinge on the company's ability to achieve positive FOCF (excluding changes in working capital) of at least €200 million, equivalent to adjusted EBITDA of about €1.1 billion-€1.2 billion. Other supportive factors for an upgrade include:

- Adjusted debt to EBITDA of about 4x.
- A further recovery in the prices of uranium and related services.
- No material changes in the EU's energy policy with regard to the nuclear industry.
- No change in government support.

Our Base-Case Scenario

Under our current base case, we project adjusted EBITDA of about €850 million-€900 million in 2021, equivalent to underlying EBITDA of about €950 million-€1 billion. Orano's recent public guidance points to underlying EBITDA of about €850 million-€960 million. Looking beyond 2021, we expect the company's EBITDA to soften gradually, reflecting structural changes in the industry, with lower demand for its services somewhat mitigated by improving prices.

Assumptions

- A gradual improvement in the spot market prices for uranium and the enrichment and conversion of uranium over the next few years.
- A further decline in the company's backlog as the order-to-book ratios remain below 1.0x.
- EBITDA in the mining division will decrease owing to older contracts quoting less favorable uranium prices and lower volumes.
- EBITDA in the front-end division will improve due to higher production levels, specifically in enrichment, leading to better fixed-cost absorption.
- Higher volumes in all activities, additional export contracts in recycling, and better cost absorption, all of which will drive EBITDA in the back-end division.
- An uptick in capex due to a catch-up effect after Orano minimized spending during the COVID-19 pandemic. The mining division will also invest in new field development in Kazakhstan over 2021-2022.
- Higher positive working capital movements in 2021 compared to 2020, mainly relating to a negative nonrecurring impact in 2020. In 2021, more favorable customer payments thanks to the phasing of sales will boost the inflow.
- No changes in the company's provisions, including decommission and pension liabilities.

Key metrics

Orano--Key Metrics

	2019a	2020a	2021e
Backlog (bil. €)	30	27	25
Uranium price ($/lb)	26	30	35
Euro per U.S. dollar (€/$)	0.85	0.88	0.84
Revenue (bil. €)	3.8	3.7	3.7-3.9
Underlying EBITDA (mil. €)	901	931	950-1,000
Adjusted EBITDA (mil. €)*	1.012	721	850-900
Mining EBITDA (mil. €)	634	502	420-470
Front end EBITDA (mil. €)	249	317	350-400
Back end EBITDA(mil. €)	112	146	200-250
Capex (mil. €)	564	532	650-700
Change in working capital (mil. €)	356	191	250-300
Dividends (mil. €)	3	75	50-70
Free cash flow (mil. €)	285	150	250-300
Adjusted debt (bil. €)	4.2	4.0	3.5-4.0
Cash (bil. €)	1.5	1.6	0.7-0.9
Adjusted debt/EBITDA (x)§	4.1	5.7	4.2-4.8
Net debt/EBITDA (x)†	2.4	2.3	2.5-3.0

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 (in 2020 the adjustment includes one-off provision related to ARO of €150 million). §--Adjusted debt to EBITDA in 2020 would be 4.7x when adding one-off provisions. †Based on reported net debt and underlying EBITDA.

Orano's liquidity remains strong. Our liquidity assessment is supported by €2.0 billion of cash and a sizable revolving credit facility (RCF), despite some €900 million of debt maturing in 2021. This is based on a ratio of liquidity sources to uses of more than 2.0x in the 24 months from April 1, 2021. It is also supported by qualitative factors, such as the company's prudent liquidity management and strong banking relationships, as demonstrated by its €940 million RCF (maturing in July 2023) not carrying any covenants.

Orano's sizable €1.5 billion of adjustments are becoming slightly less volatile than in the past. Changes in regulations and the company's proactive approach to funding mismatches between its liabilities and assets should support lower the volatility of its end-of-lifecycle commitments in the future compared to previous years. For example, in 2020, our main adjustments--end-of-lifecycle commitments of about €540 million and pension liabilities of about €1 billion--remained fairly flat compared to 2019. Nevertheless, the sum of these future liabilities affects our adjusted metrics significantly, leading to adjusted debt to EBITDA of 5.6x in 2020 (or 4.7x when adding back to EBITDA €150 million of one-off provisions related to asset retirement obligations), compared to net reported debt to EBITDA of 2.3x. We assume no changes in the magnitude of those adjustments in the coming 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--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 16,500 employees worldwide. At year-end 2020, Orano's revenues totaled €3.7 billion, with adjusted EBITDA of €0.7 billion.

Orano operates mainly through three business divisions:

- Mining (29% of sales and 54% of EBITDA in 2020): This operates through three uranium mines in Canada, Niger, and Kazakhstan. The mineral reserves in Orano's deposits amounted to 199,141 metric tons as of Dec. 31, 2020 (Orano's equity share).
- Front end (27% of sales and 34% of EBITDA in 2020): 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 (43% of sales and 16% of EBITDA in 2020): 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 Rosatom State Atomic Energy Corp.; China National Nuclear Corp.; Cameco Corp.; and, for mining only, Kazatomprom.

Financial summary

Table 1

Orano--Financial Summary

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Revenue	3,684.0	3,787.0	3,623.0	3,931.0	4,404.0
Adj. EBITDA	721.0	1,012.0	713.5	1,025.0	1,342.5

Table 1

Orano--Financial Summary (cont.)					
	--Fiscal year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Underlying EBITDA	931.0	900.0	821.0	892.0	1,338.0
Funds from operations (FFO)	536.0	742.0	508.1	503.7	999.8
EBIT	269.0	677.0	405.4	71.3	626.2
Interest expense	169.0	238.0	198.4	246.3	264.2
Cash interest paid	135.0	160.0	208.4	212.3	137.2
Working capital changes	191.0	356.0	157.0	20.0	(132.0)
Cash flow from operations	682.0	849.0	675.1	324.7	780.8
Capital expenditure	532.0	564.0	460.0	490.0	542.0
Free operating cash flow (FOCF)	150.0	285.0	215.1	(165.3)	238.8
Dividends paid	75.0	3.0	62.0	23.0	110.0
Discretionary cash flow (DCF)	75.0	282.0	153.1	(188.3)	(890.2)
Cash and short-term investments	1,554.0	1,492.0	2,027.0	1,950.0	1,434.0
Gross available cash	1,998.0	1,931.0	2,027.0	1,950.0	1,434.0
Debt	4,132.0	4,171.5	4,781.1	5,022.9	8,374.7
Equity	1,089.0	1,249.0	724.0	952.0	(1,057.0)
Debt and equity	5,221.0	5,420.5	5,505.1	5,974.9	7,317.7
Adjusted ratios					
Annual revenue growth (%)	(2.7)	4.5	(7.8)	(10.7)	(5.5)
EBITDA margin (%)	19.6	26.7	19.7	26.1	30.5
EBIT margin (%)	7.3	17.9	11.2	1.8	14.2
Return on capital (%)	5.1	12.4	7.1	1.1	9.2
EBITDA interest coverage (x)	4.3	4.3	3.6	4.2	5.1
EBITDA cash interest coverage (x)	5.3	6.3	3.4	4.8	9.8
FFO cash interest coverage (x)	5.0	5.6	3.4	3.4	8.3
Debt/EBITDA (x)	5.7	4.1	6.7	4.9	6.2
FFO/debt (%)	13.0	17.8	10.6	10.0	11.9
Cash flow from operations/debt (%)	16.5	20.4	14.1	6.5	9.3
FOCF/debt (%)	3.6	6.8	4.5	(3.3)	2.9
DCF/debt (%)	1.8	6.8	3.2	(3.7)	(10.6)

Reconciliation

Table 2

Orano--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts						
	--Fiscal year ended Dec. 31, 2020--					
Orano reported amounts						
(Mil. €)	**Debt**	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**
Reported	4,125.0	1,164.0	822.0	340.0	163.0	721.0

Table 2

Orano--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

S&P Global Ratings' adjustments

Cash taxes paid	--	--	--	--	--	(50.0)
Cash interest paid	--	--	--	--	--	(135.0)
Reported lease liabilities	96.0	--	--	--	--	--
Postemployment benefit obligations/deferred compensation	1,057.0	--	(95.0)	(95.0)	6.0	--
Accessible cash and liquid investments	(1,777.0)	--	--	--	--	--
Dividends received from equity investments	--	--	4.0	--	--	--
Asset-retirement obligations	631.0	--	--	--	--	--
Nonoperating income (expense)	--	--	--	34.0	--	--
Noncontrolling interest/minority interest	--	(75.0)	--	--	--	--
EBITDA: Gain (loss) on disposals of PP&E	--	--	(10.0)	(10.0)	--	--
Total adjustments	7.0	(75.0)	(101.0)	(71.0)	6.0	(185.0)

S&P Global Ratings' adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations
Adjusted	4,132.0	1,089.0	721.0	269.0	169.0	536.0

PP&E--Property, plant, and equipment.

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 as 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 CO2 emissions, in spite of intrinsic nuclear-waste challenges. According to the International Energy Agency, for example, CO2 reduction targets cannot be met without continued reliance on nuclear power.

Nevertheless, we see the current exclusion of nuclear energy from the EU taxonomy for sustainable finance as a key concern, as it does not qualify for support from the EU's economic growth funds, potentially compromising long-term growth for the sector in Europe. In France, which is Orano's key market, the proposed energy plan, Programmation Pluriannuelle de l'Energie (PPE), envisages reducing nuclear in the energy mix to 50% by 2035, from about 75% today. However, there are no preset closures of nuclear power plants before 2027, and therefore demand for Orano's products and services should be relatively stable until then. A decision on nuclear in its future energy mix is unlikely before the presidential elections in 2022.

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 1.3 for lost time due to accidents, excluding commuting accidents, down from previous years (1.5-1.8), 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 is reflected in a 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 75% 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.

We do not factor in any impact in our base case from the proposed French multi-year energy plan, PPE, which notably sets out a roadmap for ambitious growth in renewables and a reduction of nuclear energy in the energy mix to 50% by 2035 from about 75% today. While this might hurt Orano's activities and financial performance over time, we think the implications would be very long term, and the plan is flexible, allowing for security of supply and the integration of neighboring countries' evolving energy mixes, with no preset closures of nuclear power plants due before 2027.

Issue Ratings - Recovery Analysis

Key analytical factors

- We rate Orano's various senior unsecured obligations at 'BB+'.
- We cap the recovery rating at '3' according to our methodology for the unsecured financial instruments of companies rated in the 'BB' category. This is because we assume, based on empirical analysis, that the size and ranking of debt and nondebt claims will change before the hypothetical default for companies at this rating level.
- The ratings are supported by the company's robust asset base and minor prior-ranking debt claims, but constrained by the substantial amount of pari passu unsecured debt.
- Under our hypothetical default scenario for Orano, we assume a combination of a loss of key customers and a prolonged downturn in the industry, leading to lower pricing and operational issues.
- We value Orano as a going concern, given its market-leading position and diversified product offering.
- In our calculations, we exclude any end-of-lifecycle obligations.

Simulated default assumptions

- Year of default: 2026
- Jurisdiction: France

Simplified waterfall

- Gross recovery value: €4.7 billion
- Net recovery value after admin. expenses (5%): €4.5 billion
- Senior unsecured debt claims: €4.0 billion*
- --Recovery range: 65%**
- --Recovery rating: 3

*All debt amounts include six months of prepetition interest and assume some refinancing of the debt. **While the recovery values exceed the liabilities, we cap the recovery range at 65% due to the nature of the instruments.

Ratings Score Snapshot

Issuer Credit Rating

BB+/Stable/--

Business risk: Satisfactory

- **Country risk:** Low
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

Financial risk: Highly leveraged

- **Cash flow/leverage:** Highly leveraged

Anchor: b+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (+1 notch)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Stand-alone credit profile : b+

- **Related government rating:** AA
- **Likelihood of government support:** High (+3 notches from SACP)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- 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

- ARCHIVE | Criteria | Corporates | Industrials: Key Credit Factors For The Engineering And Construction Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	Significant	Aggressive	**Highly leveraged**
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	**b+**
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of June 15, 2021)*

Orano	
Issuer Credit Rating	BB+/Stable/--
Senior Unsecured	BB+
Issuer Credit Ratings History	
16-Mar-2020	BB+/Stable/--
11-Mar-2019	BB+/Negative/--
05-Apr-2018	BB+/Stable/--
31-Jul-2017	BB/Positive/--
06-Jul-2017	B+/Watch Pos/--
18-Jan-2017	B/Developing/--
24-Nov-2016	B+/Developing/--

*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.

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