

S&P Global Ratings



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ENMAX Corp. Downgraded To 'BBB'; Placed On CreditWatch Negative On Pending Debt-Funded Acquisition

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[Table of Contents](#)

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Calgary-based utility operator ENMAX Corp. (ENMAX) announced plans to issue private debentures to fund its pending highly-leveraged acquisition of Emera Inc.'s subsidiary Emera Maine.

In addition, ENMAX would assume \$350 million (about C\$455 million) of Emera Maine's debt at closing, which is expected by year-end 2019 or early 2020.

We are lowering our issuer credit rating on ENMAX by one notch to 'BBB' from 'BBB+', reflecting a weakening linkage between the ENMAX and its owner, the City of Calgary. We are also lowering our ratings on the unsecured debt at ENMAX to 'BBB' from 'BBB+'.

We have placed our ratings on ENMAX, and its senior unsecured debt on CreditWatch with negative implications. Although the pending acquisition would modestly strengthen the combined company's business risk, this is more than offset by our expectation that the highly leveraged transaction will significantly weaken ENMAX's financial measures, likely resulting in a one-notch downgrade.

We expect to resolve the CreditWatch once ENMAX has received all necessary regulatory approvals, including from the Maine Public Utilities Commission.

TORONTO (S&P Global Ratings) Oct. 3, 2019—S&P Global Ratings today took the rating actions listed above. S&P Global Ratings lowered its issuer credit rating on ENMAX to 'BBB' from 'BBB+' and placed the ratings on CreditWatch with negative implications. The downgrade reflects our revised assessment of the overall reduced likelihood of extraordinary support to ENMAX from Calgary. We no longer expect the city would be as likely to provide extraordinary credit support as ENMAX expands beyond the Alberta region. This is reflected by the city's determination not to provide equity to ENMAX for the Emera Maine transaction. Also, the city's recent decision not to have any representation on ENMAX's board of directors indicates that it is reducing its active involvement in the company, which we view as weakening of its support. Moreover, the relative proportion of debt within ENMAX's reported capital structure issued under the Alberta Capital Finance Authority will decline to about one-third of ENMAX's consolidated debt after the Emera Maine closing. Therefore, the large majority of ENMAX's outstanding debt will not be issued, and on-lent, by the city.

The ratings on ENMAX are on CreditWatch with negative implications, reflecting the prospect for a one-notch downgrade due to our expectation that ENMAX's financial measures will likely deteriorate after using a disproportionate amount of debt to acquire Emera Maine and assuming its debt. Although the pending acquisition would modestly strengthen the combined business risk profile, this is more than offset by our expectation that the highly leveraged transaction will significantly weaken financial measures of the combined entity. Furthermore, we generally expect an acquiring utility to balance its capital structure by utilizing the equity markets. ENMAX's decision to enter into a leveraged transaction without full access to equity markets pressures its credit quality. We expect to resolve the CreditWatch listing by the date of the transaction's close, which could be by year-end 2019 or early 2020.

Related Criteria

General Criteria: Group Rating Methodology (/en_US/web/guest/article/-/view/sourceld/10999747), July 1, 2019

Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments

(/en_US/web/guest/article/-/view/sourceld/10906146), April 1, 2019

Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings

(/en_US/web/guest/article/-/view/sourceld/10486915), March 28, 2018

General Criteria: Rating Government-Related Entities: Methodology And Assumptions

(/en_US/web/guest/article/-/view/sourceld/9032821), March 25, 2015

Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers

(/en_US/web/guest/article/-/view/sourceld/8956570), Dec. 16, 2014

Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry

(/en_US/web/guest/article/-/view/sourceld/8531010), March 28, 2014

General Criteria: Methodology: Industry Risk (/en_US/web/guest/article/-/view/sourceld/8304862), Nov. 19, 2013

General Criteria: Country Risk Assessment Methodology And Assumptions

(/en_US/web/guest/article/-/view/sourceld/8313032), Nov. 19, 2013

Criteria | Corporates | General: Corporate Methodology (/en_US/web/guest/article/-/view/sourceld/8314109), Nov. 19, 2013

Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry

(/en_US/web/guest/article/-/view/sourceld/8339577), Nov. 19, 2013

General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities

(/en_US/web/guest/article/-/view/sourceld/7629699), Nov. 13, 2012

General Criteria: Use Of CreditWatch And Outlooks (/en_US/web/guest/article/-/view/sourceld/5612636), Sept. 14, 2009

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