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DBRS Confirms Alectra Inc. at “A” and R-1 (low), Stable Trends

Bloomberg: DBRS Confirms Alectra Inc. at A and R-1 (low), Stable

Industry Group: Corporate Finance

Sub-Industry: Utilities & Independent Power

Region: Canada

DBRS Limited (DBRS) confirmed the Issuer Rating and Senior Unsecured Debentures rating of Alectra Inc. (Alectra or the Company) at “A” and the Commercial Paper rating at R-1 (low), all with Stable trends. The confirmations reflect Alectra’s stable business risk profile following the merger with Guelph Hydro in January 2019 and its solid credit metrics. The stability and low risk of the Company’s electricity distribution business (around 96% of earnings in 2018) is underpinned by a reasonable and supportive regulatory regime in Ontario, which is regulated by the Ontario Energy Board. The Stable trends incorporate DBRS’s expectation that the Company’s key credit metrics will likely remain in line with the current ratings.

On January 1, 2019, Alectra merged with Guelph Hydro Electric Systems Inc. (Guelph Hydro; the Merger). With the Merger, the City of Guelph received an approximate 4.6% ownership stake in the merged entity (being Alectra) and one permanent seat on the Board of Directors. DBRS does not anticipate that the Merger will have a material impact on Alectra’s credit profile, as (1) Guelph Hydro operates under the same regulatory framework as the Horizon, Brampton, Enersource and PowerStream rate zones; (2) no incremental debt was issued for the Merger; and (3) Guelph Hydro’s financial risk profile was in line with Alectra’s. DBRS expects the integration risk to be manageable, as the Company is already in the process of merging the systems of the four predecessor utilities, following which Guelph Hydro will adopt Alectra’s systems and processes.

Alectra’s financial profile remained consistent with the current ratings. The Company maintained solid credit metrics for 2018 and the last 12 months to March 31, 2019 (LTM 2019), despite the 70% debt financing for the acquisition of Hydro One Brampton Networks Inc. (HOBNI) in 2017. Since the HOBNI acquisition, the Company’s credit ratios have been supported by strong cash flow through its solid financial performance and earlier-than-expected synergy realization.

Capex for 2019 is expected to be approximately \$272 million (net of contributions). A majority of capex will be spent on system renewal and system access projects. The Company is expected to finance capex through debt and cash flow surplus (after dividends), as equity injection from the owners is unlikely. In 2017 and 2018, significant cash flow surplus was retained, as the dividend payout as a percentage of cash flow was relatively low, which is expected to continue. As a result, DBRS expects Alectra’s credit metrics to remain stable and supportive of the current ratings over the medium term. However, a negative rating action could occur if the cash flow-to-debt and debt-to-capital ratios weaken to below 12.5% and above 65.0%, respectively, on a sustained basis. DBRS considers this scenario unlikely.

Notes:

All figures are in Canadian dollars unless otherwise noted.



The principal methodology is Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry; and DBRS Criteria: Commercial Paper Liquidity Support for Non-Bank Issuers, which can found on dbrs.com under Methodologies & Criteria.

The related regulatory disclosures pursuant to the National Instrument 25-101 *Designated Rating Organizations* are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrs.com.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

For more information on this credit or on this industry, visit www.dbrs.com.

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Issuer	Debt Rated	Rating Action	Rating	Trend
Alectra Inc.	Issuer Rating	Confirmed	A	Stable
Alectra Inc.	Senior Unsecured Debentures	Confirmed	A	Stable
Alectra Inc.	Commercial Paper	Confirmed	R-1 (low)	Stable

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