

# RatingsDirect®

---

## Summary:

# Union Electric Co. d/b/a Ameren Missouri

### Primary Credit Analyst:

Gerrit W Jepsen, CFA, New York (1) 212-438-2529; gerrit.jepsen@spglobal.com

### Secondary Contact:

William Hernandez, New York 212-438-9132; william.hernandez@spglobal.com

### Research Contributor:

Mayur Deval, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

## Table Of Contents

---

Rationale

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Other Credit Considerations

Group Influence

Ratings Score Snapshot

Issue Ratings

Recovery Analysis

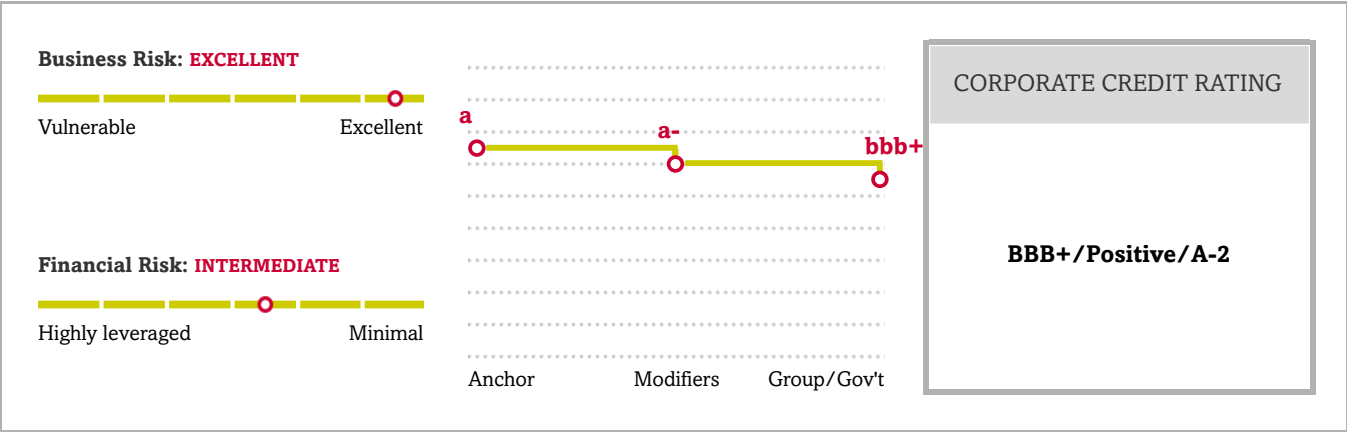
## Table Of Contents (cont.)

---

Related Criteria

Summary:

Union Electric Co. d/b/a Ameren Missouri



Rationale

Business Risk: Excellent	Financial Risk: Intermediate
<ul style="list-style-type: none"><li>Fully rate-regulated, lower-risk electric and gas utility operations;</li><li>Relatively stable operating cash flow;</li><li>Economic growth in the service territory; and</li><li>Higher operational risk from owning a single nuclear plant.</li></ul>	<ul style="list-style-type: none"><li>Core credit ratios support a significant financial risk profile assessment using relaxed financial benchmarks;</li><li>Timely cost recovery through regulatory mechanisms;</li><li>Annual capital spending averaging about \$800 million; and</li><li>Negative discretionary cash flow indicates external funding needs.</li></ul>

**Outlook: Positive**

The positive outlook on Union Electric Co. d/b/a Ameren Missouri (AM) and parent Ameren Corp. reflects the potential for higher ratings over the next year if the company can maintain its robust financial performance. The positive outlook also incorporates S&P Global Ratings' expectation that management will maintain its strategy of remaining only a regulated utility.

Under our base-case scenario, we expect Ameren would maintain adjusted funds from operations (FFO) to debt of about 20% over the next few years.

**Downside scenario**

We could affirm the ratings on Ameren and AM and revise the outlook to stable if Ameren's financial risk profile weakens such that FFO to debt is consistently below 20% or if the business risk profile does not strengthen. This could occur if the company does not receive sufficient and timely cost recovery through the regulatory process or if the capital structure weakens.

**Upside scenario**

We could raise the ratings on Ameren and AM over the next year if Ameren's business risk profile continues to strengthen. We could also raise the ratings if its financial performance remains robust from ongoing prudent capital structure management and from higher operating cash flow, supporting a FFO to debt ratio consistently at or above 20% over the next few years.

**Our Base-Case Scenario**

Assumptions	Key Metrics				
<ul style="list-style-type: none"><li>• Effective management of regulatory risk and continued cost management, enabling the regulated operations to earn their allowed return on equity;</li><li>• Capital spending between \$800 million and about \$900 million per year through 2018; and</li><li>• All debt maturities are refinanced.</li></ul>	LTM 9/30/2017		2018E	2019E	
	FFO to debt (%)		25.9	23-25	23-25
	Debt to EBITDA (x)		2.9	3-3.4	3-3.4
	OCF to debt (%)		25.7	21.5-23.5	21.5-23.5
LTM--Last 12 months. E--Estimate. FFO--Funds from operations. OCF--Operating cash flow.					

**Company Description**

AM operates in central and eastern Missouri, including the St. Louis metropolitan area, as a vertically integrated electric utility with 1.2 million customers and a natural gas distribution utility with 120,000 customers.

## Business Risk: Excellent

Our assessment of AM's business risk profile reflects on the utility's very low risk, rate-regulated electric and natural gas distribution operations that provide essential services. It has a diverse customer base throughout Missouri of about 1.2 million electric customers and 120,000 natural gas distribution customers in portions of central and eastern Missouri, including the St. Louis metropolitan area. We expect ongoing good operational performance and supportive cost recovery through the regulatory process. The utility has an electricity generation fleet that includes low-cost coal-fired assets that are subject to rising air emissions rules and higher operating risk from owning the Callaway nuclear power plant. After factoring in these components, the business risk profile is within the excellent category, but at the comparatively weaker end of the classification.

## Financial Risk: Intermediate

Our stand-alone base-case scenario includes adjusted FFO to debt averaging around 24%, at the weaker end of the benchmark range. Adjusted operating cash flow to debt supports this determination because in our base-case scenario we expect this measure to average over 22% through 2019. We expect debt leverage, as measured by total debt to EBITDA, in the 3x-3.5x range, well inside the benchmark range for the financial risk profile assessment. In our base-case forecast, we expect discretionary cash flow to remain negative after taking into account the utility's capital spending and dividend payments leading to need for external funding. AM benefits from various rate mechanisms that allow for the timely recovery of costs and support more stable operating cash flows. We expect AM will continue to fund its investments in a manner that preserves credit quality. We base our financial risk assessment on our more relaxed financial ratio benchmarks, reflecting the company's steady cash flows from its low-risk, rate-regulated electric and gas utility operations and regulatory risk management.

## Liquidity: Adequate

We assess AM's liquidity as adequate because we believe its liquidity sources are likely to cover uses by more than 1.1x over the next 12 months and meet cash outflows even with a 10% decline in EBITDA. Our assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> <li>Estimated cash FFO of about \$1.1 billion; and</li> <li>Estimated \$1 billion credit facility availability.</li> </ul>	<ul style="list-style-type: none"> <li>Capital spending of about \$800 million;</li> <li>Dividends to parent of about \$350 million;</li> <li>Working capital outflows of roughly \$20 million; and</li> <li>Debt maturities, including outstanding commercial paper, of roughly \$380 million.</li> </ul>

## Other Credit Considerations

The stand-alone credit profile on AM incorporates a one-notch negative adjustment based on our expectation that its financial measures will be near the lower end of the indicative range for an intermediate financial risk profile.

## Group Influence

Under our group rating methodology, we assess AM to be a core subsidiary of Ameren Corp., reflecting our view that AM is highly unlikely to be sold and has a strong long-term commitment from senior management. There are no meaningful insulation measures in place that protect AM from its parent and therefore, our issuer credit rating on AM is in line with Ameren's group credit profile of 'bbb+'.

## Ratings Score Snapshot

### Corporate Credit Rating

BBB+/Positive/A-2

### Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

### Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a

### Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

### Stand-alone credit profile : a-

- **Group credit profile:** bbb+
- **Entity status within group:** Core (-1 notch from SACP)

## Issue Ratings

- The 'A-2' short-term rating on AM is based on our issuer credit rating of 'BBB+'.
- We rate the preferred stock two notches below the issuer credit rating to reflect the discretionary nature of the dividend and the deeply subordinated claim if a bankruptcy occurs.

## Recovery Analysis

- AM's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.

## Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

### Business And Financial Risk Matrix

Business Risk Profile	Financial 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-

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.