

09 JAN 2024

Fitch Rates Liberty Utilities Co.'s Senior Unsecured Notes 'BBB+'

Fitch Ratings - New York - 09 Jan 2024: Fitch Ratings has assigned a 'BBB+' instrument rating to Liberty Utilities Co.'s (LUCo) proposed benchmark issuance of senior unsecured notes. Proceeds from the issuance will be used to repay short-term borrowings and for other general corporate purposes. As of Sept. 30, 2023, LUCo had about \$316 million of draws on its revolving credit facilities, \$610 million outstanding on its delayed draw term loan and about \$368 million of commercial paper outstanding.

LUCo's Long-Term Issuer Default Rating (IDR) is 'BBB'. The Rating Outlook is Stable. The rating primarily reflects the company's low-risk regulated electric, natural gas, water and wastewater utility operations and adequate financial profile.

Key Rating Drivers

Diversified Portfolio of Utilities: LUCo's rating reflects the company's low-risk regulated electric, natural gas, water and wastewater utility operations and adequate financial profile. LUCo benefits from its diversified portfolio of regulated utility operations across 13 states. This asset diversification mitigates the company's exposure to any regional or state-specific shocks that could affect cash flows.

LUCo was built up through several acquisitions, most significantly of The Empire District Electric Company in 2017. Empire District, which operates in Missouri, accounts for roughly half of LUCo's EBITDA. Historically, LUCo has been acquisitive, primarily looking for smaller utility systems that could benefit from operational efficiencies. Fitch does not expect any material acquisitions over the forecast period following the termination of the Kentucky Power acquisition earlier this year.

Adequate Financial Metrics: LUCo's financial profile is supported by stable and predictable earnings from regulated utility operations. Fitch calculates 2022 FFO leverage at 4.5x and LTM as of June 30, 2023 at 4.6x and expects LUCo's FFO leverage to remain in line with the ratings over the forecast period. LUCo's overall regulatory environment is considered balanced, although it has recently been affected by inflationary pressures and rate case delays.

Liberty Utilities Finance GP1 (Liberty Finance) is a financing vehicle for LUCo and until now has been used to issue long-term senior unsecured debt for LUCo. With the proposed issuance and going forward LUCo is planning to issue senior unsecured debt only at LUCo. All remaining outstanding debt of Liberty Finance is fully and unconditionally guaranteed by LUCo and ranks pari passu with LUCo's senior unsecured debt. Liberty Finance senior unsecured debt rating is 'BBB+'. The senior unsecured ratings for operating utilities receive a one notch uplift relative to the IDR as per Fitch's criteria

Parent/Subsidiary Linkage: Parent and subsidiary linkage exists between Algonquin Power & Utilities Corp. (APUC; BBB/Stable) and LUCo and is determined by Fitch's "Parent and Subsidiary Linkage Rating Criteria". Fitch determines APUC's standalone credit profile (SCP) based on consolidated financial metrics; a bottom-up approach is used in determining the SCP of LUCo. APUC centrally manages the treasury function for its subsidiaries and is the sole source of equity; however, LUCo has been issuing long-term debt through Liberty Finance and is planning to issue long-term debt directly through LUCo going forward.

LUCo is rated the same as APUC. If Fitch were to consider LUCo's SCP to be stronger than APUC's, the linkage would follow a weak parent/strong subsidiary approach. Emphasis would be placed on the utilities' low-risk regulated operations in U.S. The legal ring-fencing factor would be considered "open" due to APUC's control over LUCo's financial policy; the access & control factor would be considered "porous." Fitch considers LUCo to be strategically important to APUC, accounting for a majority of APUC's consolidated EBITDA. Fitch would not rate APUC's Long-Term IDR higher than LUCo's; however, LUCo's Long-Term IDR could be up to one notch higher than APUC's.

Derivation Summary

LUCo benefits from significant geographic and regulatory diversification. The company consists of electric, natural gas, and water and wastewater utilities in 13 states. This portfolio compares favorably with larger single-state utilities from a diversification perspective, although its larger peers may benefit more from efficiencies of scale. A significant amount of LUCo's EBITDA is exposed to Missouri, which historically has had a somewhat challenging regulatory environment, although it became more balanced in recent years.

Peer Southwestern Public Service Company (SPS; BBB/Stable) is an integrated electric utility that operates in two states, Texas and New Mexico, with challenging regulatory environments. SPS lacks the diversification of LUCo, but it is a larger utility that also benefits from being a subsidiary of higher-rated Xcel Energy Inc. (BBB+/Stable), a much larger and fully regulated utility family. LUCo's financial metrics are weaker than those of SPS. Fitch forecasts LUCo's FFO leverage to remain in line with the ratings through 2025. Fitch expects SPS's FFO leverage to average around 4.0x over the forecast period.

Key Assumptions

--Normal weather;

--Capex in line with management's guidance;

--Securitization debt and related revenue to serve the debt is excluded from the FFO leverage calculation.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--FFO leverage expected to remain below 4.5x on a sustained basis.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--FFO leverage expected to exceed 5.7x on a sustained basis;

--Adverse regulatory decisions that result in less-timely cost recovery or significantly weaker financial metrics;

--A two-notch downgrade of parent Algonquin Power & Utilities Corp.'s (BBB/Stable) Long-Term IDR would result in a downgrade of LUCo's Long-Term IDR.

Liquidity and Debt Structure

Adequate Liquidity: Fitch considers LUCo's liquidity to be adequate. LUCo primarily meets its short-term liquidity needs through the issuance of CP under its \$500 million CP program. LUCo also has a \$1 billion senior unsecured revolving credit facility (RCF) that matures April 29, 2027 and a \$500 million short-term senior unsecured RCF that matures Oct. 25, 2025. LUCo requires modest cash on hand to fund its operations. Long-term debt maturities over the next five years are manageable.

Issuer Profile

Liberty Utilities Co. (LUCo) is the largest subsidiary of APUC's Regulated Services Group. LUCo owns regulated natural gas, electric, water and wastewater utilities that serve approximately 950,000 customers in 13 states in the U.S.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Liberty Utilities Co.			
• senior unsecured ^{LT}	BBB+		New Rating

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◇
NEGATIVE	⊖	◇
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Corporate Hybrids Treatment and Notching Criteria \(pub.12 Nov 2020\)](#)

[Corporate Rating Criteria \(pub.03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.13 Oct 2023\) \(including rating assumption sensitivity\)](#)

Parent and Subsidiary Linkage Rating Criteria (pub.16 Jun 2023)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Liberty Utilities Co. EU Endorsed, UK Endorsed

Liberty Utilities Finance GP1 EU Endorsed, UK Endorsed

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