FitchRatings

Tagging Info

Fitch Upgrades Ameren & Ameren Illinois Co.; Affirms Union Electric's Ratings

Ratings Endorsement Policy
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Fitch Ratings-New York-14 March 2014: Fitch Ratings has upgraded the long-term Issuer Default Rating (IDR) of Ameren Corp. (AEE) by one notch to 'BBB+' from 'BBB'. Fitch has also upgraded the long-term IDR of Ameren Illinois Company (AIC) by one notch to 'BBB' from 'BBB-'. Fitch has affirmed the long-term IDR of Union Electric Co. (UE) at 'BBB+'. The Rating Outlook is Stable for all three entities.

Fitch has also upgraded AIC's short-term IDR to 'F2' from 'F3' and affirmed AEE and UE's short-term IDRs at 'F2'. Fitch has upgraded and concurrently withdrawn AIC's CP rating as the program was terminated in 2013.

AEE's ratings upgrade reflects:

--Reduced business risk due to the divestiture of the merchant business;
--Robust financial performance;
--Solid credit profiles of regulated utility subsidiaries UE and AIC;
--Significant capex growth in investments with attractive returns;
--Ample access to liquidity and low parent-only debt.

The ratings upgrade primarily reflects AEE's successful completion of the divestiture of its merchant business. AEE's exit from the volatile merchant operations significantly reduces business risk and allows the company to focus entirely on growing its more stable and predictable utility subsidiaries. The divestiture results in the removal of $825 million of existing merchant debt from AEE's consolidated capital structure and generates interest expense savings of approximately $59 million per year.

AEE will retain some cash flow exposure for up to two years following the divesture in the form of credit support and guarantees for various merchant financial contracts, which are supported by a $25 million guarantee from the acquirer Dynegy. Fitch does not expect AEE to incur any significant cash outflows associated with the guarantees, and Fitch has not factored any related cash flow exposure in its analysis.

The ratings upgrade also recognizes AEE's sustained solid financial performance that results in credit metrics that are above Fitch's prior expectations. As a result, Fitch forecasts that AEE's credit metrics will be more in line with Fitch's benchmark ratios for the 'BBB+' rating category. Fitch forecasts the ratios of Adj. Debt/EBITDAR, FFO-lease adj. leverage, and FFO fixed charge coverage, to average 3.4x, 3.4x, and 5.2x, respectively, over 2014-2016. For the fiscal year ended Dec. 31, 2013, Adj. Debt/EBITDAR, FFO-lease adj. leverage and FFO fixed charge coverage were 3.3x, 2.9x, and 5.1x, respectively.

The key factors driving AEE's projected financial measures include the assumption of balanced regulatory outcomes at the utilities, a continued efficient management of consolidated leverage with opportunistic debt redemptions and associated interest savings, the incremental earnings from projected investments in transmission that receive supportive FERC regulatory treatment, and parent cash flow benefits from existing NOLs that offset the cash flow hit from the expiration of bonus depreciation.

AEE's credit profile reflects the relatively stable and predictable operating cash flows of its regulated utility subsidiaries UE and AIC and the financial support it receives from them in the form of dividends for the payment of corporate expenses, debt service obligations, dividends to common shareholders, and for other business matters. For the fiscal year ended Dec. 31, 2013, UE and AIC represented approximately 67% and 33% of consolidated operating EBITDA, respectively. Fitch forecasts both subsidiaries to display strong credit protection measures for their respective rating category over 2014-2016, with adjusted leverage measures in the low 3xs.

AEE's projected capital spending program is significantly higher than its historical norm over the next five years. AEE plans on spending between $8.1 billion and $8.7 billion of consolidated capex over 2014-2018, compared with approximately $6.41 billion over the previous five historical years. Planned capex includes spending $2.25 billion on FERC-regulated transmission investments via AIC and AEE's transmission subsidiary Ameren Transmission Co. of Illinois (ATXI).

ATXI is building three MISO-approved multi-value projects for a total cost of more than $1.4 billion through 2019. FERC rate design provides for timely recovery of capital investments via annual rate reconciliations and permits inclusion of CWIP into rate base, supporting cash flows during construction phase. AEE's remaining capex is earmarked towards the maintenance and upgrade of utility infrastructure, with a large portion of spend projected in Illinois where the formula-rate plan (FRP) regulatory framework applicable to the electric delivery business mitigates the lag associated with the recovery of those capital investments.

Fitch expects utility capex to be financed in a conservative manner with a balanced mix of internally generated cash flows and long-term debt issuances. Fitch anticipates AEE to fund ATXI's capex requirements via equity contributions of between $350 million and $400 million and via use of inter-company borrowings that Fitch estimates to amount to roughly $400 million over 2014-2016.

Fitch does not consider AEE's committed financial support to ATXI, including a potential uptick in parent-level debt, to be a rating concern, given AEE's favorable cash flow position that management plans to leverage on to support ATXI over the next few years. Robust cash flows rely on the availability of approximately $600 million of consolidated tax benefits, including $450 million at AEE, that management expects to realize into 2016, and the sustained solid financial profile of the utilities that provide steady dividend distributions and will not require any parent equity infusions over the forecast period.

Fitch considers liquidity to be strong. The funding needs of AEE's regulated subsidiaries are supported through the use of available cash, short-term intercompany borrowings, drawings under bank credit facilities, and an inter-company money pool. There is a total of $1 billion of credit capacity available for borrowings under UE's bank credit facility and a total of $1.1 billion of credit capacity available under AIC's bank credit facility. Both credit facilities mature in November 2017. At Dec. 31, 2013, there was $1.74 billion of consolidated available liquidity, including $1.71 billion of unused credit facilities and $30 million of cash and cash equivalents. AEE had $368 million of commercial paper borrowings and $14 million of letters of credit outstanding.

Consolidated long-term debt maturities are considered to be manageable, with $534 million due in 2014, $120 million in 2015, and $395 million due in 2016. Fitch expects AEE and subs to continue to enjoy ample access to the debt capital markets to fund capex and to refinance long-term debt maturities at attractive terms.

The ratings also recognize the low level of parent-only debt and expectations that AEE will continue to manage parent-only leverage in a conservative manner.

AIC

AIC's ratings upgrade reflects:

--Increased regulatory predictability
--Robust financial performance
--Elevated but manageable capex
--Ample access to liquidity

AIC's ratings upgrade is supported by the implementation in May 2013 of new Illinois legislation (S.B.9) that provides increased regulatory predictability and results in a more supportive credit profile at AIC. The new legislation clarified certain formula rate plan (FRP)-related provisions that had been the subject of material disagreement in previous proceedings. The FRP, implemented in October 2011, recognizes forward-looking rate base additions and includes a true-up mechanism minimizing, albeit not eliminating, regulatory lag. Fitch had viewed the first two FRP rate decisions that had resulted in $53 million of total rate reduction as less than favorable, raising concerns that the FRP legislation had not led to an improved Illinois regulatory construct.

AIC's most recent electric rate decision in December 2013 resulted in a net rate reduction of $45 million, effective Jan. 1, 2014, which was in line with AIC's original rate reduction request. In December 2013, AIC also received a gas base rate increase of $32 million, effective Jan. 1, 2014, based on a 2014 test year, a 9.1% ROE, and a 51.7% common equity ratio. New legislation implemented in July 2013 reduces regulatory lag on gas infrastructure investments via a rider mechanism and use of forward-looking test years. AIC's gas business represented approximately 37% of operating revenues for the year ended Dec. 31, 2013.

The ratings upgrade is also supported by AIC's sustained solid financial performance that results in credit metrics that are above Fitch's prior expectations. As a result, Fitch projects credit metrics to be more in line with Fitch's benchmark ratios for the 'BBB' rating category. Fitch forecasts the ratios of
Adj. Debt/EBITDAR, FFO-lease adj. leverage, and FFO fixed charge coverage, to average 3.1x, 3.4x, and 4.5x, respectively, over 2014-2016. Fitch's projections assume that AIC receives timely and adequate recovery of planned capital investments in the context of annual FRP proceedings. For the fiscal year ended Dec. 31, 2013, Adj. Debt/EBITDAR, FFO-lease adj. leverage, and FFO fixed charge coverage were 2.9x, 2.9x and 3.9x, respectively.

Capex is projected to average $3.53 billion over 2014-2018. The elevated capital spending is primarily driven by the Illinois Energy Infrastructure Modernization Act (IEIMA), under which AIC plans on spending an incremental $640 million of capital investments over 10 years, including $265 million on distribution infrastructure upgrades and $375 million on smart-grid and smart meter related projects. The FRP legislation provides for recovery through annual filings.

AIC also plans on spending incremental amounts in its gas business. Fitch expects AIC to recover gas investments via an infrastructure rider. Projected capex also includes approximately $850 million of transmission investments planned over the next five years, which should enjoy credit supportive FERC regulatory treatment.

Fitch expects AIC to finance capex in a conservative manner, using a balanced mix of internally generated funds and long-term debt issuances.

Fitch considers liquidity to be strong. AIC has access to a total of $800 million of credit capacity under a $1.1 billion bank credit facility that expires in Nov. 2017. AIC shares the credit facility with its parent AEE, which has a sub borrowing limit of $300 million. At Dec. 31, 2013, there were no borrowings outstanding under the facility. AIC had $1 million of cash and cash equivalents. There are no long-term debt maturities until $129 million due in 2016 and $250 million due in 2017.

UE

Affirmation of UE's ratings reflects:

--Solid credit metrics
--Balanced regulatory framework despite regulatory lag
--Manageable capex program
--Ample liquidity

The rating affirmation reflects UE's sustained solid financial performance. For the fiscal year ended Dec. 31, 2013, the ratios of Adj. Debt/EBITDAR, FFO-lease adj. leverage, and FFO fixed charge coverage were 2.9x, 2.9x and 5.6x, respectively. New electric base rates effective Jan. 2013 were the primary drivers of UE's solid financial performance. Fitch expects UE's credit metrics to remain strong for the current rating category over the forecast period. Fitch forecasts Adj. Debt/EBITDAR, FFO-lease adj. leverage, and FFO fixed charge coverage, to average 3.0x, 3.0x, and 5.3x, respectively, over 2014-2016.

UE plans on filing a new electric rate case in July 2014 with new rates to be effective in mid-2015. The primary drivers for the rate filing are the recovery of operating costs, including higher net fuel costs, and capital investments associated with the replacement of the nuclear reactor head at the Callaway plant and upgrades to precipitators at the coal-fired Labadie plant. Both projects are scheduled for completion during Q4 2014.

UE has received balanced decisions in its most recent rate cases, including in the company's last rate order in December 2012, where it received approximately 80% of its updated rate request. Fitch has assumed in its Base Case model a rate increase that is relatively in line with prior decisions. Regulatory lag continues to be a credit concern. Nevertheless, Missouri rate design does feature various cost trackers for major operating expenses and a fuel adjustment clause that contributes to earnings predictability and stability.

Fitch estimates capex to average $3.38 billion over 2014-2018. Capital spending is earmarked primarily towards the maintenance and upgrade of UE's generation, transmission, and distribution systems. Capex also includes a modest amount associated with environmental investments, representing approximately 4% of total capex over the next five years.

Fitch expects UE to finance capex in a conservative manner with a balanced mix of internally generated cash flows and long-term debt issuances.

Fitch considers liquidity to be strong. UE has access to a total of $800 million of credit capacity under a $1 billion bank credit facility that matures in November 2017. UE shares the credit facility with parent AEE, which has a sub-borrowing limit of $500 million. At Dec. 31, 2013, there were no borrowings outstanding under the facility. UE had $1 million of cash and cash equivalents. Long-term debt maturities are considered manageable with $109 million due in 2014, $120 million due in 2015, and $266 million due in 2016.

RATING SENSITIVITIES

AEE

Factors that could lead to a positive rating action: no positive rating actions are anticipated in the near term.

Factors that could lead to a negative rating action: Any negative rating actions at the utilities, such as due to adverse rate decisions in rate cases, would likely lead to a negative rating action at AEE, given the strong earnings and cash flow linkage.

AIC

Factors that could lead to a positive rating action: Adj. debt/EBITDAR below 3.5x and FFO lease-adj. leverage below 4x on a sustained basis could lead to positive rating actions.

Factors that could lead to a negative rating action: Inability to timely recover via FRP and FERC proceedings a sizeable $2.27 billion of capex over the forecast period could pressure the ratings.

UE

Factors that could lead to a positive rating action: no positive rating actions are anticipated in the near term.

Factors that could lead to a negative rating action: Unexpected unfavorable rate outcomes could pressure the ratings and lead to negative rating actions. Adj. debt/EBITDAR at or above 3.75x and FFO lease-adj. leverage at or above 4.25x on a sustained basis could lead to negative rating actions.

Fitch has upgraded the following ratings with a Stable Outlook:

AEE
--IDR to 'BBB+' from 'BBB';
--Senior unsecured debt to 'BBB+' from 'BBB'.

AIC
--IDR to 'BBB' from 'BBB-'
--Senior secured debt to 'A-' from 'BBB+';
--Senior unsecured debt to 'BBB+' from 'BBB';
--Preferred stock to 'BBB-' from 'BB+';
--Short-term IDR to 'F2' from 'F3';
--Commercial paper (CP) to 'F2' from 'F3' and concurrently withdrawn.

Fitch has affirmed the following ratings with a Stable Outlook:

AEE
--Short-term IDR and CP at 'F2';

UE
--IDR at 'BBB+';
--Senior secured debt at 'A';
--Senior unsecured debt at 'A-';
--Preferred stock at 'BBB';
--Short-term IDR and CP at 'F2'

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Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 5, 2013);
--'Rating U.S. Utilities, Power and Gas Companies' (March 11, 2014);
--'Recovery Ratings and Notching Criteria for Utilities' (Nov. 19, 2013).

Applicable Criteria and Related Research:
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage
Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors)
Recovery Ratings and Notching Criteria for Utilities

Additional Disclosure
Solicitation Status