

Research Update:

Icelandic Power Utility Landsvirkjun 'A-/A-2' Ratings Affirmed On Improved Business Profile; Outlook Stable

June 26, 2025

Rating Action Overview

- We consider Landsvirkjun well positioned to take advantage of the rapidly increasing energy demand and capacity bottlenecks in Iceland in the coming years, while benefiting from a very efficient generation fleet.
- We have thus revised our assessment of the company's business risk profile to satisfactory from fair, resulting in an improvement of its stand-alone credit profile (SACP) to 'bbb-' from 'bb+'.
- New investments are projected to total \$1.25 billion over the next few years, so we expect currently significant headroom for the ratings will narrow, with funds from operations (FFO) to debt approaching 30% at the peak of the investment cycle.
- We have affirmed our 'A-/A-2' long- and short-term ratings on Landsvirkjun and our 'A-' issue rating on the company's notes, taking into account our view of a very high likelihood of the company receiving extraordinary support from the Icelandic government.
- The stable outlook mirrors that on the sovereign and reflects our expectation that Landsvirkjun's FFO to debt will remain higher than 30% on average until 2027.

Rating Action Rationale

We expect the group's operational performance will improve in 2025, recovering from challenging weather conditions in 2024. Last year, reservoirs were at their lowest levels in the past 25 years, while high power demand resulted in the activation of curtailment provisions in customer contracts. Nevertheless, the company has indicated it honored all priority power supply agreements to large energy users and wholesale purchasers. We note that Landsvirkjun's credit metrics remained resilient during this period, with leverage below 2x. The group has continued deleveraging, despite the reduction in revenue and EBITDA. We expect

Primary contact

Julien Bernu
London
442071767137
Julien.Bernu
@spglobal.com

Secondary contact

Per Karlsson
Stockholm
46-84-40-5927
per.karlsson
@spglobal.com

2025 to be better operationally for Landsvirkjun, with above-average reservoir levels recorded in the first quarter of the year; we therefore forecast EBITDA to improve to about \$410 million in 2025 from \$392 million in 2024.

We now consider Landsvirkjun's business risk profile to be satisfactory rather than fair. We take into account the strong efficiency of the company's generation fleet coupled with low operating costs and limited maintenance requirements. The company also has a very strong position as Iceland's largest power producer. Availability of electricity is typically high, averaging about 97%. Although hydro-power production is inherently volatile, the risk associated with natural variation of water inflows into reservoirs is balanced by the company's system design, which provides adequate storage and diversification, and its flexible power contracts with curtailment options in dry years, enabling optimal resource use. Hydro-power generation is further supplemented by geothermal units, providing stable and weather-independent generation (9% of the production mix). This diversification will increase with the country's first wind power plant, comprising 28 wind turbines of which the first 14 are expected to be commissioned in the fourth quarter of 2026, with full operations projected by the end of 2027. The high concentration of aluminum smelters among customers (65% of power sales) constrains the company's business risk profile, in our view, given the limited diversification of its counterparties. However, all of Landsvirkjun's energy generation is sold on a contract basis, which for its largest energy-intensive counterparties, are long-dated (weighted average remaining contract life of about 13 years) take-or-pay contracts linked to aluminum prices and the U.S. consumer price index.

Besides this, we expect Landsvirkjun will take advantage of the rapidly increasing energy demand in Iceland in the coming years. Current power supply bottlenecks are the result of the isolation of Iceland's electricity system owing to its geographic location, as well as the already full utilization of Landsvirkjun's generation capacity, due to a large extent to high demand from energy-intensive industries. Moreover, no new capacity has been added to the electricity grid since 2018. As a result, we view the company's business risk profile as stronger than that of peers in the fair category.

The company's new investment cycle has begun. For the rest of the decade, its investment program comprises four projects currently being considered for construction, which would result in growth in installed capacity of 305 megawatts (MW; an increase of about 13%) after they are commissioned. This construction cycle will mark a significant shift in the group's investment profile and capital intensity, with estimated capital expenditure (capex) over 2025-2029 estimated at about \$1.25 billion, considering that for many years capex related to maintenance only (about \$30 million annually), reflecting the typically long asset lives of hydro-power assets.

However, we note that management has tried to ramp up capex for several years and the delivery of the company's investment program is not guaranteed over the announced time frame. The licensing process is cumbersome, for example, and has led to delays in receiving permits. Notably, the company's flagship project, the 740 gigawatt hour (GWh), \$725 million Hvammur hydro-power plant is now expected to be commissioned in 2029-2030, implying a shift in peak capex levels to 2028 from 2026 under our previous base case. This project has already been delayed by about two years because of permit issues. For the time being, our base case includes the company's delivery of four new projects by the end of the decade, with construction starting at the latest by year-end 2025, comprising the Burfell onshore wind farm

(440GWh for \$280 million), as well as expansion of the Sigalda hydro power plant (10GWh for \$120 million) and þeystareykir geothermal unit (150GWh-200GWh for \$85 million).

The company intends to fund these projects primarily via free cash flows and, increasingly, new debt. Because Landsvirkjun's investment cycle will accelerate rapidly for the rest of the decade, we expect it will have to secure new financing on a regular basis. We project new funding requirements will total about \$880 million for 2025-2029, leading to a significant transformation of the company's balance sheet over that period. We expect debt to peak in 2028-2029 at about \$1.1 billion, assuming no further delays in investments, up from \$746 million at year-end 2024. However, we do not expect the company will struggle to access market funding, as illustrated by its multi-tranche issuance in May 2025, backed by significant investor interest. We also note that Landsvirkjun has prepared its balance sheet to ensure it can absorb the impact of investments on its credit metrics, notably with total debt almost halving between 2021 and 2024. In parallel, the group continues to receive the proceeds from the sale of its 64.7% stake in transmission system operator Landsnet to the Icelandic government in 2022 temporarily offsetting some of the impact of its investment cycle on its balance sheet. The sales price was \$305 million, paid with two loan agreements: \$198 million, amortizing with semi-annual instalments until December 2027 and €100 million, which has a bullet maturity in June 2026 and semi-annual interest payments.

Although we expect the company's credit headroom will gradually narrow during the investment cycle, we expect its metrics will remain consistent with current rating thresholds.

However, we consider that Landsvirkjun will start to post negative free cash flows in 2027. Discretionary cash flows (free cash flows available after shareholder remuneration) were negative for the first time in the company's recent history in 2024, amid not only low reservoir levels and reduced revenue but also relatively high dividend payments, and will be deeply negative through 2027, limiting prospects for debt reduction. This is despite our expectation of a relative moderation in dividend distributions compared to those in 2024 and 2025. We understand the dividend payments are relatively flexible and that the company's dividend policy is in the process of being updated.

Landsvirkjun's future dividend distribution profile will be key to our assessment of the company's likelihood of receiving extraordinary support from the Icelandic government, which currently provides a three-notch rating uplift. This is because we understand the company does not benefit from any form of financial support to fund its investment growth. The company is expected to pay dividends, which have been slowly rising and will be three times higher in absolute value than in 2021, well in excess of the company's available free cash flows and financed with debt. We also note that the company will no longer benefit from state guarantees after July 2026, when the last portion of its state-guaranteed debt (amounting to about 10% of outstanding debt) matures. This provides in our view less explicit evidence of a tighter link with the government and incentive to support the company. However, it also illustrates the strengthening of the company's balance sheet and reduced need for support from the government. Our likelihood of extraordinary support from the Icelandic government is currently very high and continues to reflect the company's very important role and very strong link with the Icelandic government.

Outlook

The stable outlook mirrors that on the sovereign. It also reflects our expectation that Landsvirkjun will maintain credit metrics commensurate with the current rating and SACP of 'bbb-'. We anticipate FFO to debt higher than 30% over the next two years, with very negative DCF due to increased investments, and the ability to execute its large investment program in a timely and cost-efficient manner while maintaining adequate liquidity.

Downside scenario

We could lower the rating if we were to revise downward our assessment of Landsvirkjun's SACP to 'bb'. That said, a revision of the SACP to 'bb' is currently unlikely in the next 24 months, and could result from a combination of increased challenges with reservoirs levels, leading to materially lower-than-anticipated cash flow; as well as significant construction delays or cost overruns during the investment period. FFO to debt staying below 30% on a consistent basis could therefore lead to rating pressure, notably if dividend distributions were not lowered in line with the group's financial policy and free cash flows.

We could also lower the rating if we thought the likelihood of extraordinary support from the Icelandic government had diminished, notably if we were to assess Landsvirkjun's link with the government as significantly weaker than historically, for instance through the lack of an adjustment in dividend distributions despite the company's autonomous funding of a significant investment program.

Upside scenario

An upgrade of Landsvirkjun would require either a similar rating action on Iceland or an upward revision of the company's SACP to 'bbb' from 'bbb-'. We consider the latter as unlikely in the upcoming 24 months given the challenges related to the execution of the group's investment program and reduced financial headroom over this period.

Company Description

Landsvirkjun is fully owned by the Icelandic government and has a 100% renewable energy generation portfolio. It meets 73% of Iceland's power needs at a low marginal cost, with hydroelectricity contributing 91% and geothermal energy 9%. The company operates 18 power stations (15 hydroelectric and three geothermal) and two wind turbines across Iceland, with an installed capacity of about 2,150 MW and annual electricity generation of about 15.0 terawatt hours. Electricity generation totaled 14.1 terawatt hours in 2024. Landsvirkjun sells approximately 85% of its electricity to power-intensive corporations, primarily aluminum smelters, and 15% on the wholesale market. Landsvirkjun sold its 64.7% subsidiary Landsnet, the national power transmission system, to the Icelandic government at year-end 2022.

Our Base-Case Scenario

Assumptions

- Real GDP growth in Iceland of 2% in 2025 and 2.5% in 2026, with consumer price inflation close to 3.6% in 2025 and about 2.8% in 2026.
- Revenue growth in the low single digits annually for 2025-2026.

- Stable EBITDA margins of approximately 70% in 2025-2027.
- Incoming payments from the \$305 million sale of Landsnet in 2022 of \$40 million in 2025, \$144 million in 2026, and \$40 million in 2027.
- Development capex of about \$215 million in 2025, increasing to about \$270 million in 2026, and peaking at about \$380 million in 2028; we include the delivery of all four projects in our forecast.
- Aluminum prices averaging \$2,350 per metric ton for the remainder of 2025, \$2,450 for 2026, and \$2,500 in 2027.
- Dividends of \$195 million in 2025 paid semi-annually, decreasing to about \$150 million for the rest of the investment phase.
- No mergers or acquisitions over 2025-2027.

Key metrics

Period ending	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. \$)	2024a	2025e	2026f	2027f
EBITDA	392	380-430	400-450	420-470
Funds from operations (FFO)	243	265-315	290-340	290-340
Capital expenditure (capex)	47	210-220	260-270	300-310
Dividends	220	195	140-160	140-160
Discretionary cash flow (DCF)	(16)	(120)-(140)	(110)-(130)	(170)-(190)
Debt	701	760-810	730-780	870-920
Adjusted ratios				
Debt/EBITDA (x)	1.8	1.7-2.2	1.6-2.1	1.8-2.3
FFO/debt (%)	34.6	35-40	40-45	33-38

All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast

Liquidity

We view Landsvirkjun's liquidity as adequate. We project that available liquidity sources will exceed our forecast of near-term cash outflows by about 1.3x over the next 12 months. We also expect that liquidity sources will exceed liquidity uses even if EBITDA declines by 15%. In addition, we consider that the company benefits from a generally high standing in the credit markets and prudent risk management.

Furthermore, as a critical infrastructure operator and government-owned entity, Landsvirkjun has a strong relationship with local and international banks. Near-term debt maturities amount to less than \$125 million, which the company will likely be able to meet. We note however that the company's acceleration of its investment program and upcoming maturities will require it to increase funding sources on a regular basis to ensure it can meet our thresholds for an adequate liquidity assessment, a prerequisite for an SACP of 'bbb-' or higher.

Principal liquidity sources

Our estimates of Landsvirkjun's as of March 31, 2025, include:

- Cash of about \$89 million, to which we add the proceeds from a \$150 million green bond private placement in May 2025;
- Committed facility of \$125 million, expiring in July 2026;
- \$40 million principal payment from the Icelandic government from the sale of Landsnet; and
- FFO of about \$280 million.

Principal liquidity uses

Our estimate as of the same date include:

- Debt maturities of about \$123 million;
- Capex of about \$228 million; and
- Annual dividends of about \$195 million.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	A-/Stable/A-2
Local currency issuer credit rating	A-/Stable/A-2
Business risk	Satisfactory
Country risk	Low risk
Industry risk	Moderately high risk
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate (standard volatility table)
Anchor	bbb-
Diversification/portfolio effect	Neutral
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb-

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), April 4, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024

- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [General Criteria: Guarantee Criteria](#), Oct. 21, 2016
- [General Criteria: Rating Government-Related Entities: Methodology And Assumptions](#), March 25, 2015
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011
- [General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating](#), Oct. 1, 2010

Related Research

- [Industry Credit Outlook 2025: EMEA Utilities](#), Jan. 14, 2025
- [Research Update: Landsvirkjun Ratings Affirmed At 'A-'; Outlook Stable](#), Sept. 23, 2024

Ratings List

Ratings list

Ratings Affirmed

Landsvirkjun

Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2025 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.

Some of the Content may have been created with the assistance of an artificial intelligence (AI) tool. Published Content created or processed using AI is composed, reviewed, edited, and approved by S&P personnel.

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. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

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.spglobal.com/ratings (free of charge), and www.ratingsdirect.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.spglobal.com/usratingsfees.

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