S&P Global
Ratings

RatingsDirect®

Research Update:

GrandBridge Energy Inc. Assigned 'A' Issuer Credit Rating, Outlook Stable; Senior Unsecured Debt Rated 'A'

May 2, 2022

PRIMARY CREDIT ANALYST

Mayur Deval
Toronto
(1) 416-507-3271
mayur.deval
@spglobal.com

SECONDARY CONTACTS

Matthew L O'Neill
New York
+ 1 (212) 438 4295
matthew.oneill
@spglobal.com

Minni Zhang
New York
+1 2124381953
minni.zhang
@spglobal.com

Rating Action Overview

- Cambridge and North Dumfries Energy Plus Inc. and Brantford Energy Corp. merged, forming GrandBridge Corp. (GBC) , which is the parent of GrandBridge Energy Inc. (GBE).
- GBE is a rate-regulated utility that is regulated by the Ontario Energy Board (OEB) and consists of the former Brantford Power Inc. and Energy+ Inc.
- We assigned our 'A' issuer credit rating to GBE. The issue-level rating on GBE's senior unsecured debt is 'A'. The outlook is stable.
- The stable outlook reflects our assessment of the utility's stable and consistent cash flow. The stable outlook also reflects our expectation that parent company GBC will maintain consolidated funds from operation (FFO) of about 16%-19% throughout the forecast period.

Rating Action Rationale

Our ratings reflect our assessment of GBE's business risks as excellent. This largely reflects GBE's very low-risk electricity distribution operations and effective management of regulatory risk. GBE delivers electricity to 109,000 customers in Brantford, Cambridge, Brant County, and North Dumfries. We expect that the company will continue to operate in a credit-supportive regulatory environment. The OEB is the provincial regulator that provides a generally transparent, consistent, and independently operated regulatory framework that supports a stable and predictable cash flow model, which we view as a key credit strength. In addition, local distribution companies in Ontario, including GBE, have no obligation to ensure an adequate supply of electricity and are not exposed to the procurement process, including power purchase agreements (PPAs), which reduces operating risk. Furthermore, GBE has limited exposure to commodity risk because it fully passes its electricity cost through to its ratepayers.

Also supporting the company's business risk profile is its stable customer base, which largely comprises residential, small business, municipality, university, school board, and hospital customers, which we view as less sensitive to macroeconomic stresses and business cycles. However, the strengths of the company's business risk profile are marginally offset by its relatively small customer size, limited geographic footprint, and lack of regulatory diversity. In addition, our assessment takes into account GBC's non-utility exposure (about 5% of consolidated EBITDA). These businesses include solar assets, telecom services, street lighting, and home comfort products. We view these businesses as having more risk than regulated utilities. However, our expectation is that the company will not materially grow these businesses in relation to the overall consolidated company

We assess GBE's financial risk profiles (FRP) as intermediate. This reflects our expectation that GBC and GBE will maintain funds from operations (FFO) to debt of about 16%-19% throughout our forecast period. Our forecast assumes capital spending of about $25 million to $30 million annually and GBC annual dividends averaging about $6 million.

We assess the financial risk profile using our low-volatility financial benchmark table, which reflects its mostly lower-risk regulated electric distribution operations and effective management of regulatory risk. Our assessment further reflects GBC and GBE's generally steady cash flow and rate-regulated utility operations with highly supportive cost recovery.

We assess GBE as a core subsidiary of GBC. GBE's core group status reflects our expectations that GBE is highly unlikely to be sold, is integral to the GBC's overall strategy, has a strong long-term commitment from the senior management, and is closely linked to GBC's name and reputation. As such, our issuer credit rating on GBE is in-line with GBC's group credit profile.

Outlook

The stable outlook on GBE reflects our expectation for predictable and stable cash flows from the utility's low-risk, regulated distribution business over the next two years. We expect that management will remain focused on its core regulated business and do not assume any adverse regulatory decisions occurring during our two-year outlook horizon. In our base-case scenario, we expect GBC's consolidated S&P Global Ratings-adjusted FFO to debt to be about 16%-19% throughout the forecast period.

Downside scenario

We could lower our rating on GBE over the next 12 to 24 months if:

- GBC's financial measures weaken such that FFO to debt consistently weakens to less than 15%;
- GBE experiences a material adverse regulatory ruling;
- OEB's regulatory construct weakens; or
- GBC's non-utility business increases to greater than 10% of consolidated EBITDA.

Upside scenario

We could raise our rating on GBE over the next 12 to 24 months if:

- GBC improves its financial measures, such that FFO to debt is consistently above 21% without a weakening of its business risk profile.

Liquidity

We view GBE's liquidity as adequate. We expect the company's sources will cover uses by more than 1.1x over the next 12 months. We also expect that in the event of a 10% EBITDA decline, funds would still exceed uses and the company would not breach its covenant limits. In our view, GBE has sound relationships with its banks and generally prudent financial risk management. In the unlikely event of unexpected financial stress, we believe GBE would scale back on its capex. We also believe it has the flexibility to suspend its dividend payments to preserve its credit metrics.

Principal liquidity sources

- About C$25 million of cash and cash equivalents;
- Credit facility availability of C$70 million; and
- Cash FFO of about C$22 million.

Principal liquidity uses

- Capital spending of about C$25 million; and
- Dividend payments of about C$4 million.

Environmental, Social, And Governance

ESG credit indicators: E-2, S-2, G-2

ESG factors have no material influence on our credit rating analysis of GrandBridge Energy Inc.

Group Influence

Under our group rating methodology criteria, we assess the group credit profile (GCP) based on GrandBridge Corp. (GBC), the ultimate parent of the group, which we do not rate. We view GBE as a core subsidiary of GBC, reflecting our view that GBE is highly unlikely to be sold, is integral to the group's strategy, and GBC has a strong, long-term commitment to GBE.

Government Influence

We believe there is a low likelihood that GBE's municipal owners, the City of Cambridge and the City of Brantford, would provide it with timely and extraordinary support during periods of financial distress. The utility is important to the cities because it is the monopoly owner and operator of the electricity distribution networks in Cambridge and Brantford. However, the province, not the city, handles the oversight of its electricity regulation, including tariff setting. In addition, an investor-owned entity can undertake GBE's role, if necessary. Furthermore, the cities have no formal policy or track record of providing financial relief or support to the utility. This assessment does not affect our rating on GBE.

Issue Ratings - Subordination Risk Analysis

Capital structure

GBE has about C$142 million of senior unsecured debt

Analytical conclusions

We rate GBE's senior unsecured debt 'A', the same as the issuer credit rating on GBE, because the debt is issued by a qualifying investment-grade utility.

Ratings Score Snapshot

Issuer credit rating: A/Stable/--

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: Neutral (no impact)

Stand-alone credit profile: a

- Group credit profile: a
- Entity status within group: Core (no impact)
- Likelihood of government support: Low (no impact)

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- 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
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

New Rating	
GrandBridge Energy Inc.	
Issuer Credit Rating	A/Stable/--
Issue-Level Ratings	
GrandBridge Energy Inc.	
Senior Unsecured	
C$50 mil series A debenture due 2045	A
C$55 mil series B debenture due 2060	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 www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2022 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. 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, ***.standardandpoors.com (free of charge), and ***.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 ***.standardandpoors.com/usratingsfees.

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