Institute for Energy Economics and Financial Analysis

KEPCO’s clean energy transition hangs in the balance

Greenwashing risks of KEPCO’s green bond and K-Taxonomy

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About IEEFA

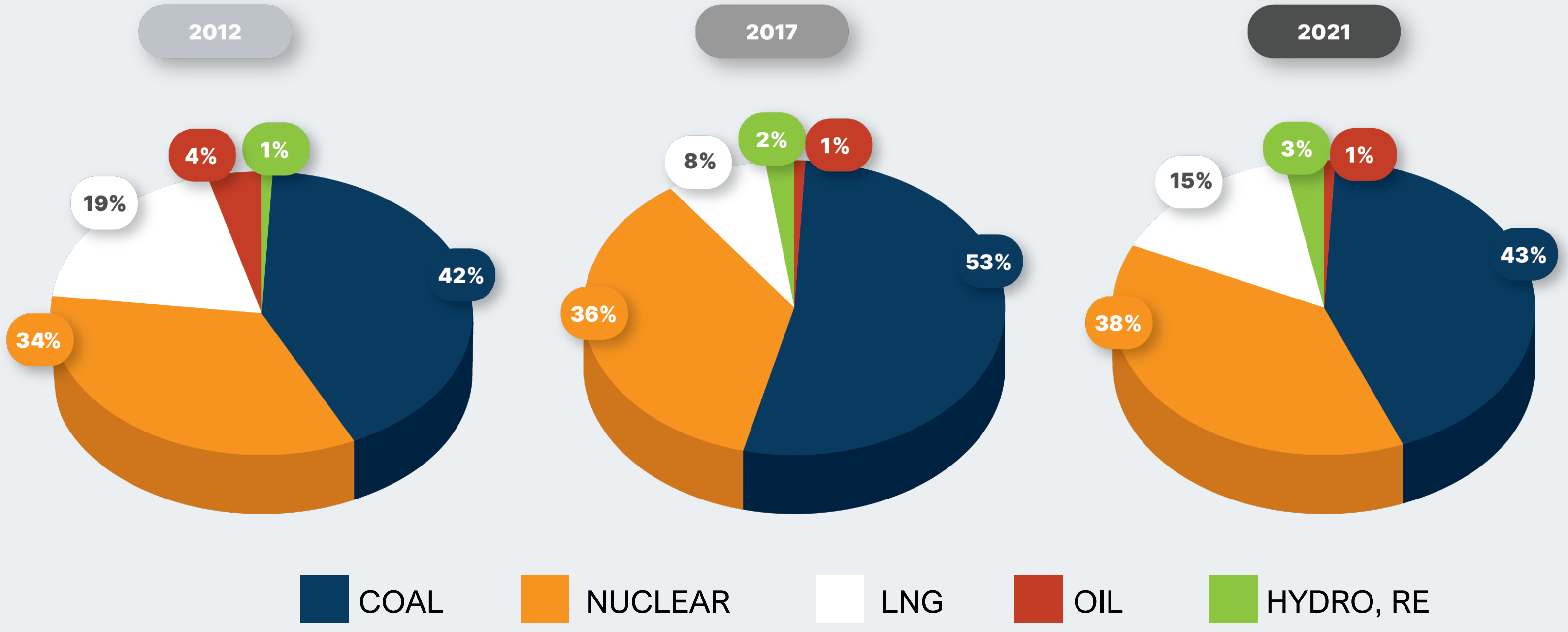
- An independent energy finance think tank.
- Examines issues related to energy markets, trends and policies.
- Solely funded by philanthropy who have no material input into our work strategy. No paid consultancies nor government funding.

Research aims

- How KEPCO got into this situation?
- What are the potential risks to debt investors and of its transition plans?

Questionable investment choices

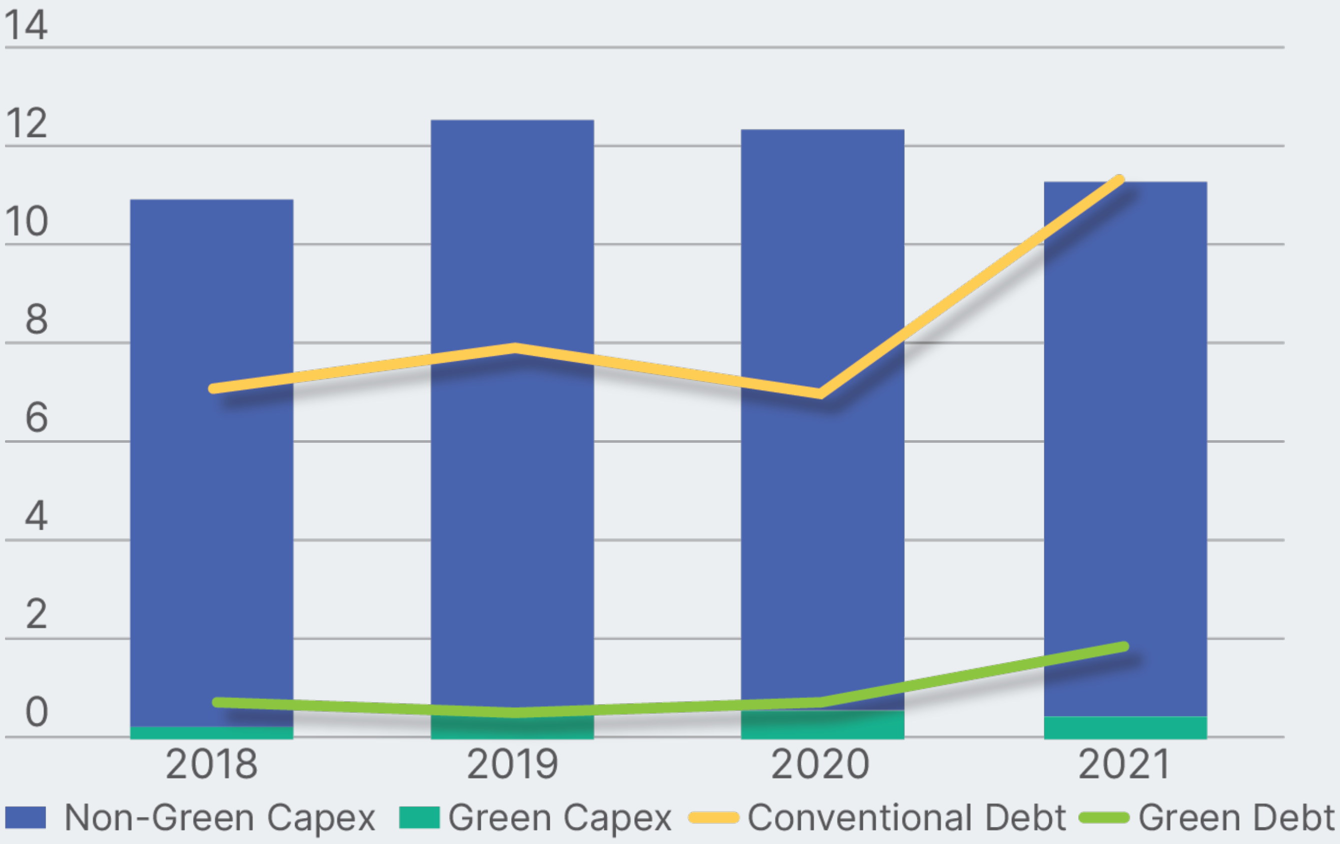
KEPCO was still investing in large new coal and gas projects overseas in as recently as 2020.



Source: KEPCO Investor Presentations

Green investments remain insignificant to KEPCO's spending

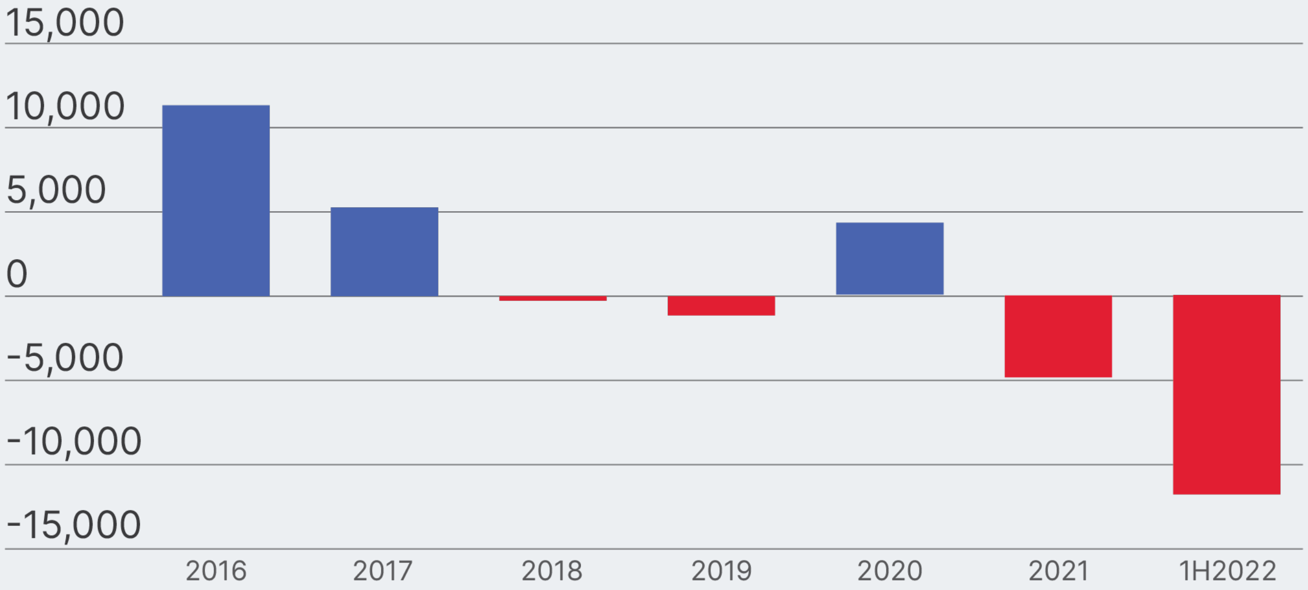
KEPCO's Bond Issuance and Capital Expenditure (USD Bil)



Source: KEPCO Investor Presentations and Thomson Reuters IEEFA

Operationally loss making

Operating Profit before interest and tax 2016 to 1H 2022 (USD Mil)



Source: Thomson Reuters

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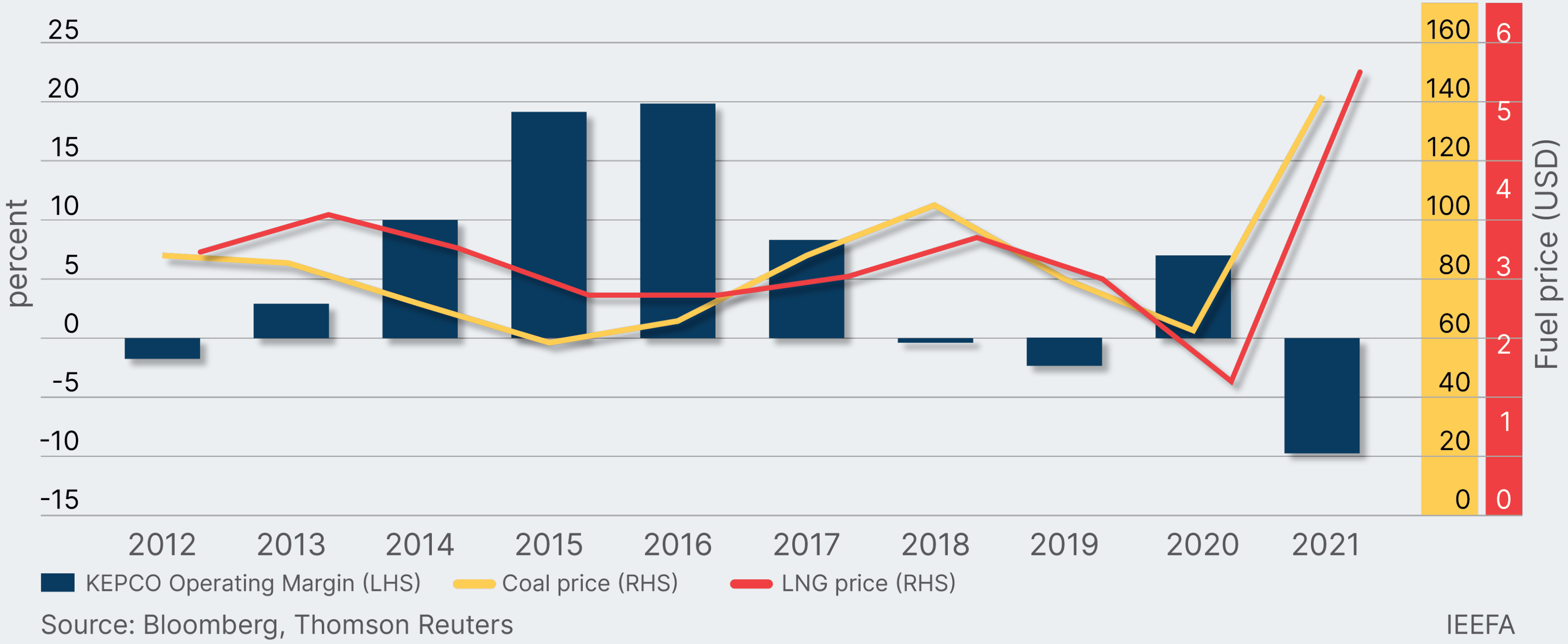
KEPCO's earnings were hit and have been on a downward trend in the last six years.

Operating margins largely influenced by volatile coal and LNG

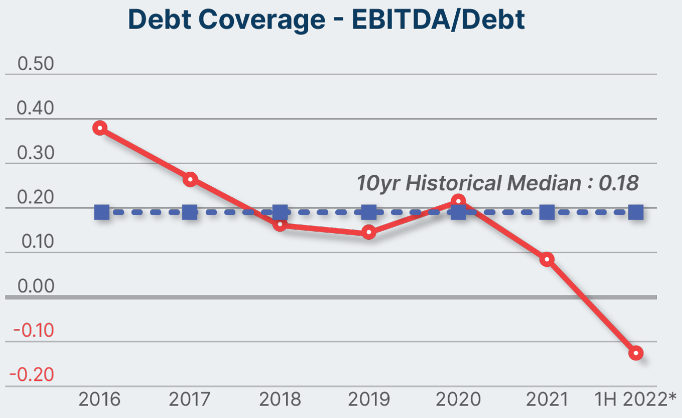


KEPCO failed to correct its questionable investment choices despite the need being reflected in its earnings.

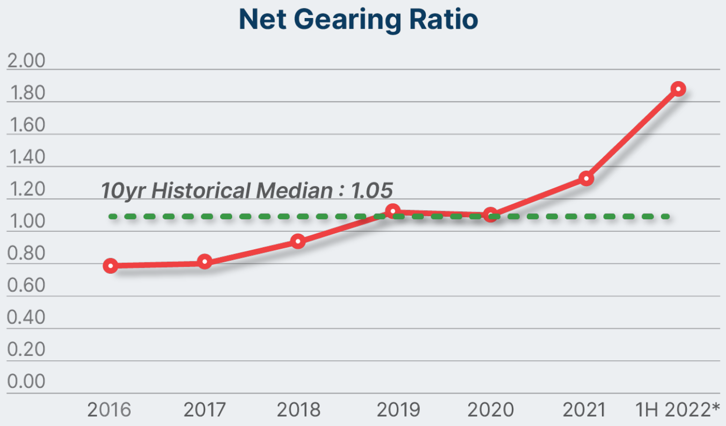
Overleveraged, yet debt issuance increased

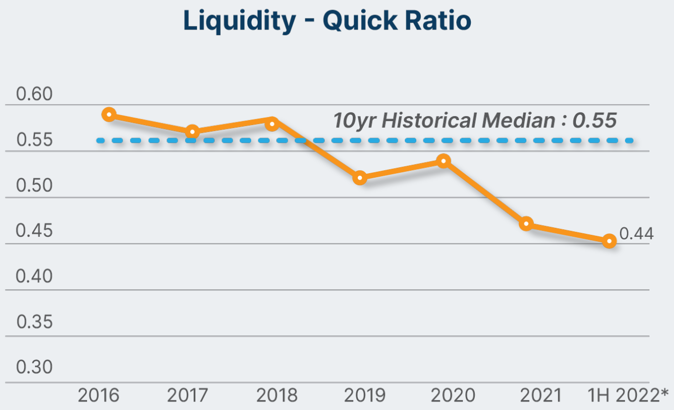
KEPCO's ability to service its debt has been weakening.

This has put KEPCO's short-term obligations and investment plans at risk.



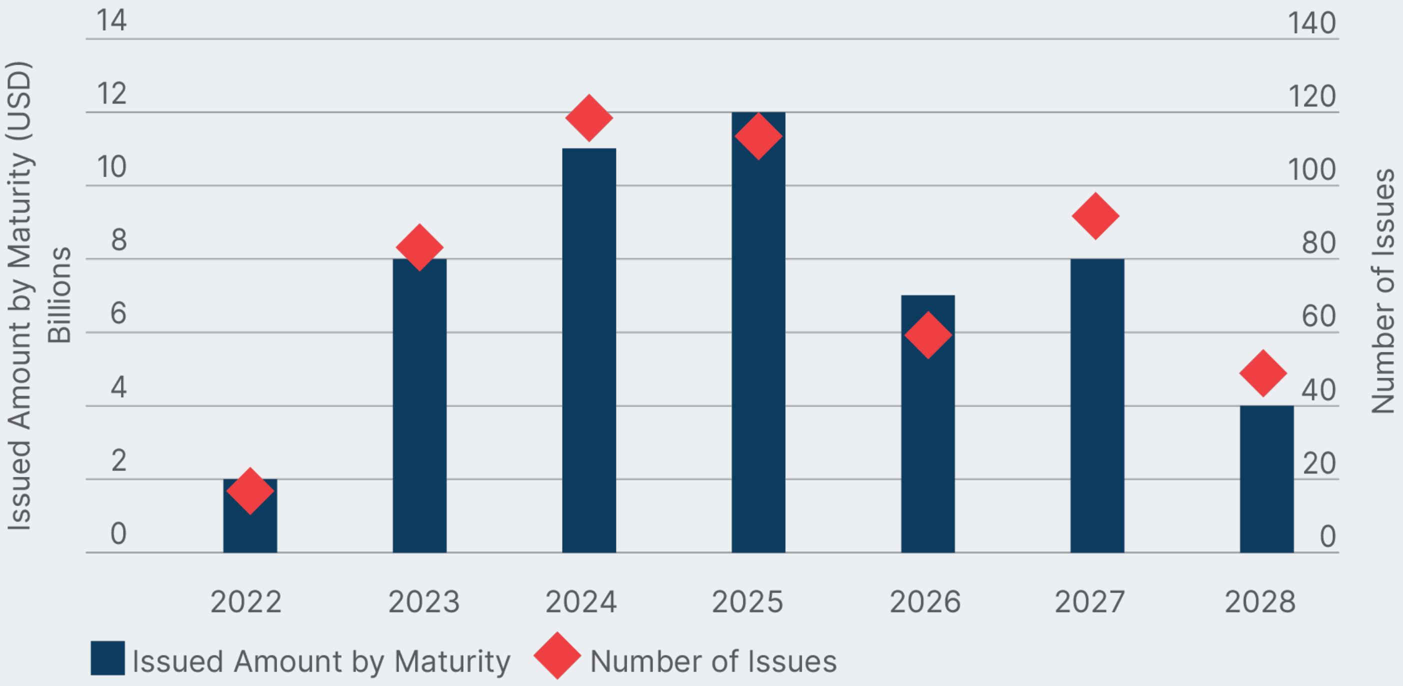
*Annualised EBITDA





Source: Thomson Reuters

KEPCO's bond maturity yet to hit its peak



Source: Thomson Reuters

If KEPCO takes on more debt, the worst of its problems is yet to come.

High credit ratings underplay risks

KEPCO's final rating was reliant on a government "bailout" and not its own business fundamentals or a strong income, which is counterintuitive of a high credit rating issuer.

	Baseline credit assessment	Final credit rating	Notches upgrade
Moody's	Baa2	Aa2	+6 notches
Fitch	BBB-	AA-	+6 notches
S&P	BB+	AA	+8 notches

Source: Respective credit rating agencies, 2022

Conclusion: how did KEPCO get here

KEPCO failed to anticipate surging coal and LNG purchase prices, despite their impact on KEPCO's earnings and overall market trends.

KEPCO took its time with renewable buildout.

Investing in unproven technologies takes on additional risks for KEPCO's investors and the South Korean market.

Examples are CCUS and blue hydrogen: KEPCO lacks the expertise and business fundamentals to support.

Fixation with fossil fuels led KEPCO to take on more debt.

It has not hit its peak bond maturity and is expected to take on more debt given its capital expenditure plans and modest operating cashflow.

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Conclusion: what this means

KEPCO's mismanagement weighed on profitability and business viability.

Overconfidence with government bailout and raises the issue of its governance.

KEPCO's inability to service debt fundamentally warrants it not bankable.

At risk of default in the absence of government intervention.

Bond holders are financing KEPCO's emissions.

KEPCO's negligible renewable generation assets and questionable future generation mix suggest that its green bond issuances were merely tokenism.

KEPCO's green bond holders at risk of greenwashing.

KEPCO's capability to decarbonize uncertain.

KEPCO needs reforms that involve a complete change in management and board, and significant capital injection or government intervention.

Thank you

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