FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Enel Colombia's IDR at 'BBB'; Outlook Stable

Thu 16 Mar, 2023 - 12:00 ET

Fitch Ratings - New York/Bogota - 16 Mar 2023: Fitch Ratings has affirmed Enel Colombia S.A. E.S.P.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB'. The Rating Outlook is Stable. In addition, Fitch has affirmed the company's National Long and Short-Term ratings at 'AAA(col)'/Stable Outlook and 'F1+(col)', respectively, as well as the ratings on its local issuance programs.

Fitch caps Enel Colombia's stand-alone credit rating at Colombia's 'bbb-' country ceiling, as it originates more than 90% of its combined EBITDA from this country. The company's Foreign Currency IDR receives a one notch uplift from the stand-alone rating due to cash flows from Panama, Guatemala and Costa Rica, which together exceed the company's next 12 months of debt service coverage by more than 1.5x.

Per Fitch's "Corporates Exceeding the Country Ceiling Criteria," cash flows generated from countries with Country Ceiling ratings above and up to three notches below the applicable Country Ceiling, can be applied when assessing the debt service coverage ratio of hard-currency debt obligation for the consolidated entity.

KEY RATING DRIVERS

Standalone Credit Profile: Fitch caps Enel Colombia's standalone credit profile at Colombia's 'bbb-' country ceiling as more than 90% of its 2022 EBITDA was originated in Colombia and local currency. Enel Colombia's ratings are independent of its majority shareholder, Enel Americas (BBB+/Stable), as Fitch assesses the legal, strategic and operational incentives from the parent to support Enel Colombia as weak, under Fitch's "Parent-Subsidiary Linkage Criteria. The company's Foreign Currency IDR receives a one-notch uplift supported by cash flow generated in Panama, Guatemala and Costa Rica, which are estimated to cover more than 1.5x the consolidated hard-currency debt service over the next 12 months.

Stronger Generation Business: Enel Colombia's business profile strengthened after the completion of the merger with Emgesa, Codensa and the adding of renewable generation assets in Colombia and Central America, under Enel Green Power. The company ranks as the second largest generation company in Colombia with 3,570MW of installed capacity, and the third largest in electricity generated, serving 17.8% of the country's total demand.

In Colombia, the company has a well-diversified portfolio of 12 hydro, two thermal and one solar power plant. The scale and diversity of its asset base gives the company higher operational flexibility relative to smaller and less-diversified generation companies, and improves predictability of operating cash flow.

Distribution Business Adds Stability: Enel Colombia's business profile benefits from the electricity distribution and commercialization business in Colombia as part of the new structure. The company is positioned as the leading distribution company in Colombia, serving approximately 20.7% of the country's total demand with roughly 3.8million customers as of YE 2022. The regulated nature of the distribution business adds stability and predictability to the cash flow generation. Fitch estimates the distribution business would make up approximately one-third of the company's EBITDA over the rating horizon.

Conservative Capital Structure: Enel Colombia maintains a conservative financial policy based on low leverage and mitigating FX risk. Fitch expects the company will maintain debt in the same currency as cash flow are generated mitigating FX risk. On a proforma basis, the new entity is expected to maintain low leverage metrics (total debt/EBITDA) and manageable debt maturity profile. The company's leverage is forecast to remain below 2.0x over the rating horizon, which is consistent with a higher rating category.

The company's required capital investments and a more demanding dividend policy will pressure the company's FCF. Fitch's base case assumes capex of COP7.1 trillion during 2023-2025 and dividend pay-out ratio of 90% over the rating horizon.

Exposure to Hydrological Risk: Enel Colombia mitigates this risk through geographic diversification of its generation matrix, operation of thermal assets and contractual energy purchases. The diversification in different basins allows the company to maintain stability in energy generation amid severely dry seasons. The company's commercial policy aims to maintain contract sales at 85%-90% of its sales mix.

Enel Colombia 's current generation matrix could expose it to some cash flow volatility under scenarios of adverse hydrology conditions or major disruptions to one of its larger plants, which could force the company to purchase energy in the spot market at higher prices to fulfil contractual obligations. The expansion towards non-conventional renewable projects will allow the company to complement its energy matrix.

DERIVATION SUMMARY

Enel Colombia is well positioned relative to regional investment-grade electric company peers, including Isagen S.A. E.S.P. (BBB-/Stable), AES Andes S.A. (BBB-/Stable), Engie Energia Chile S.A. (BBB/Stable) and Enel Chile S.A. (BBB+/Stable). All of these companies benefit from predictable cash flow from operations, stemming from robust business profiles and conservative capital structures.

Differences in specific rating levels are largely a function of revenue mix, both geographically and by business, along with asset base diversification and the presence of long-term contract sales. Enel Colombia's business profile is similar to other integrated utilities such as Engie Energia Chile and Enel Chile, and lower than pure generation companies such as Isagen. Enel Colombia's benefits from a stronger financial profile relative to peers, with leverage expected to remain below 2.0x over the rating horizon. This is lower than Enel Chile's and Engie Energia Chile's leverage of below 3.5x, Isagen below 3.3x and AES Andes at 3.0x.

Enel Colombia also compares well with electricity generation peers that have national ratings, namely Isagen, Empresas Publicas de Medellin E.S.P. (EPM) and Celsia Colombia S.A. E.S.P., all rated 'AAA(col)'. Enel Colombia has the second largest installed capacity and the most conservative capital structure within this group with 3.570MW. Fitch projects Isagen and Celsia Colombia's leverage to average 3.3x and 3.0x, respectively.

EPM benefits from business and geographical diversification, which contributes to solid and predictable cash flows. Leverage is expected to average 3.5x over the rating horizon. EPM's ratings are on Rating Watch Negative as a result of continued uncertainty regarding the development of the Ituango project.

KEY ASSUMPTIONS

--Commercial policy remains contract sales between 80% and 85% of total volume sales;

--Capex of around COP7.1 trillion during 2023-2025;

--Dividend pay-out ratio of 90% during 2023-2026.

RATING SENSITIVITIES

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

--A wider business and geographic diversification in investment grade countries that strengthens the company's cash flow generation;

--A strengthening of the linkage with its parent Enel Americas through the existence of legal ties.

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

--The Foreign Currency IDR will be downgraded in the event EBITDA from Panama and Guatemala collectively do not cover 12 months of debt service coverage by 1.5x;

--Downgrade of Colombia's Sovereign Rating or Negative Outlook;

--Change in financial strategy resulting in an increase in hard-currency debt;

--Sustained increase in leverage above 3.5x.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity: Enel Colombia's liquidity is robust, supported by a healthy cash position, prospective stable cash flow from operations and a manageable debt maturity profile. Fitch estimates that the company's available cash on hand plus the forecast cash flow from operation will cover more than 4x its short-term maturities as of YE 2022. Enel Colombia's debt refinancing risk is low, given its conservative leverage, manageable debt maturity profile and ample access to liquidity sources.

Fitch projects consolidated cash on hand and CFO will amount to roughly COP1.2 trillion and COP4.1 trillion by YE 2022, respectively. FCF will remain negative at COP2.4 trillion, after executing COP3 trillion in capex and paying COP3.5 trillion in dividends. Maturities are expected to range between COP1.2 trillion and 1.4 trillion in 2023 and 2024. The company has available uncommitted credit lines of COP4 trillion and COP5.7 trillion from its local program issue which give them additional flexibility if required.

ISSUER PROFILE

Enel Colombia is the second largest electricity generation company in Colombia with 3.6GW installed capacity and 1.0GW renewable projects under construction. It also has 644MW of generation capacity in Central America and 60MW under construction. Enel Colombia is the leading distribution company in Colombia.

SUMMARY OF FINANCIAL ADJUSTMENTS

N/A.

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	PRIOR ⬍

Enel Colombia S.A. E.S.P.	LT IDR	BBB Rating Outlook Stable Affirmed	BBB Rating Outlook Stable
	LC LT IDR	BBB Rating Outlook Stable Affirmed	BBB Rating Outlook Stable
	Natl LT	AAA(col) Rating Outlook Stable Affirmed	AAA(col) Rating Outlook Stable
	Natl ST	F1+(col) Affirmed	F1+(col)
senior unsecured	Natl LT	AAA(col) Affirmed	AAA(col)
senior unsecured	Natl ST	F1+(col) Affirmed	F1+(col)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 01 Dec 2021)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

Corporates Exceeding the Country Ceiling Criteria (pub. 08 Dec 2022) (including rating assumption sensitivity)

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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Enel Colombia S.A. E.S.P.	EU Endorsed, UK Endorsed

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