



## RATING ACTION COMMENTARY

# Fitch Revises Enel Colombia's Rating Outlook to Stable; Affirms IDRs at 'BBB'

Wed 23 Mar, 2022 - 17:53 ET

Fitch Ratings - Bogota - 23 Mar 2022: Fitch Ratings has affirmed Enel Colombia S.A. E.S.P.'s (previously Emgesa S.A. E.S.P.) Long-Term Foreign Currency (FC) and Local Currency (LC) Issuer Default Ratings (IDRs) at 'BBB'. The Rating Outlook of the FC IDR has been revised to Stable from Negative and the Rating Outlook of the LC IDR has remained Stable. Fitch has also affirmed the company's National Long-Term and Short-Term ratings at 'AAA(col)' with a Stable Outlook, as well as the ratings on its local issuance program.

Fitch views Enel Colombia's stand-alone credit rating to be 'bbb-', which is capped by the country ceiling of Colombia, its principal operating environment representing 90% of combined EBITDA in 2021. The company's FC and LC IDRs receive a one notch uplift from the stand-alone rating due to cash flows from Panama and Guatemala, which together exceed the company's next 12 months of debt service coverage by more than 1.5x. Per Fitch's 'Non-Financial Corporates Exceeding the Country Ceiling Criteria', cash flows generated from rating environment above and up to three notches below the operating environment, can be applied when assessing the debt service coverage ratio of hard-currency debt obligation for the consolidated entity.

Fitch has withdrawn Codensa S.A. E.S.P.'s National Long-Term and Short-Term ratings as the company no longer exists after being absorbed by Enel Colombia. Codensa's bonds issued

under its bond and commercial paper program in the local market have been assumed by Enel Colombia.

## KEY RATING DRIVERS

**Standalone Credit Profile:** Fitch considers Enel Colombia's standalone credit profile is capped by the country ceiling of Colombia at 'BBB-' as 90% of its 2021 EBITDA was generated in Colombia and local currency, and Enel Colombia's ratings are independent of its majority shareholder, Enel Americas (A-/Stable), as Fitch assesses that the legal incentive, financial contribution, and operational synergies realized by the Enel Colombia from the parent to be weak, under the Parent-Subsidiary linkage criteria. The company's ratings receive a one-notch uplift supported by cash flow generated in Panama and Guatemala, which are estimated to cover the next 12 months of consolidated hard-currency by over 1.5x.

Per Fitch's 'Non-Financial Corporates Exceeding the Country Ceiling Criteria', cash flows generated from rating environment above and up to three notches below the operating environment, can be applied when assessing the debt service coverage ratio of hard-currency debt obligation for the consolidated entity

**Growing Generation Business:** Fitch believes that Enel Colombia's business profile is stronger after the completion of the merger agreement of Emgesa, Codensa and adding renewable generation assets in Colombia and Central America, under Enel Green Power. The company remains the largest generation company in Colombia with 3,503MW of installed capacity, and it is the third largest in electricity generated, serving 17.7% of the country's total demand. In Colombia, it has a well-diversified portfolio composed of one solar, 12 hydro and two thermal plants. The scale and diversity of its asset base give the company higher operational flexibility relative to smaller and less-diversified generation companies, and improves predictability of operating cash flow.

**Conservative Capital Structure:** Fitch believes Enel Colombia will maintain its conservative financial policy of 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, expected to be 90% of annual net income, will pressure the company's FCF. Fitch's base

case assumes capex of COP8.6 trillion and dividend pay-out ratio of 90% over the rating horizon.

**Distribution Business Adds Stability:** Fitch believes Enel Colombia's business profile will be positively affected by the incorporation of the electricity distribution and trading business in Colombia as part of the new structure. Enel Colombia is positioned as the leading distribution company in Colombia, serving approximately 20.7% of the country's total demand with 3.7 million customers as of YE2021. The regulated nature of the distribution business is expected to add stability and predictability to the cash flow generation. On a proforma basis, Fitch estimates the distribution business would make up approximately one-third of the company's EBITDA.

**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 80%-85% 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), Enel Generacion Chile S.A. (A-/Stable), Engie Energia Chile S.A. (BBB+/Stable), Colbun S.A. (BBB+/Stable) and AES Andes 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 Generacion Chile has the largest installed capacity among its peers, with more than 7.5GW distributed among hydroelectric, thermal and wind farms. Additionally, leverage has averaged 1.5x. Enel Americas' ratings reflect strong and sustained credit metrics coupled with a solid business platform, as well as a strong degree of business and geographical diversification across Latin America. Enel Colombia's leverage is expected to average 1.7x, below estimates for Colbun and Engie (2.5x).

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 highest installed capacity and the most conservative capital structure within this group. Fitch projects Isagen and Celsia Colombia's leverage to average 3.3x and 3.0x, respectively, in the medium term. EPM's credit profile benefits from diversification across business sectors and geographies, which contributes to solid and predictable cash flows. EPM's ratings are nevertheless on Rating Watch Negative as a result of continued uncertainty regarding the development of the Ituango project.

## KEY ASSUMPTIONS

- Electricity generation of hydro power plants in Colombia remains around 14,000 gigawatt hours during 2022-2025;
- Commercial policy remains contract sales between 80% and 85% of total volume sales;
- Capex of around COP8.6 trillion during 2022-2025;
- -Equity injection of COP1.5 trillion in 2022 to fund non-conventional renewable projects;
- Dividend pay-out ratio of 90% during 2022-2025.

## 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 FC 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 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 adequate, supported by a healthy cash position, prospective stable cash flow from operations and a manageable debt maturity profile. On a pro-forma basis, Fitch estimates that the company's available cash on hand plus the forecast cash flow from operation will cover more than 2x its short-term maturities. Enel Colombia's debt refinancing risk is low, given its conservative leverage, manageable debt maturity profile and ample access to liquidity sources.

As of December 2021, the company had available uncommitted credit lines of COP4 trillion and USD103 million of a 12-month committed credit line as liquidity support, if necessary. During 2022, the company expects to receive COP1.5 trillion equity injection, additional to COP660 billion received in 2021 by Enel Green Power, to fund the expansion of the non-conventional renewable generation asset base.

## **ISSUER PROFILE**

Enel Colombia is the largest electricity generation company in Colombia with 3.5GW installed capacity and 1.0GW renewable projects under construction. It also has 606MW of generation capacity in Central America and 70MW under construction. Enel Colombia is the leading distribution company in Colombia, serving roughly 21% of the country's electricity demand.

## **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](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Codensa S.A. E.S.P.	Natl LT	WD(col)	Withdrawn	AAA(col) Rating Outlook Stable
	Natl ST	WD(col)	Withdrawn	F1+(col)
senior unsecured	Natl LT	AAA(col)	Affirmed	AAA(col)
senior unsecured	Natl ST	F1+(col)	Affirmed	F1+(col)
Enel Colombia S.A. E.S.P.	LT IDR	BBB Rating Outlook Stable		BBB Rating Outlook Negative
	Affirmed			
	LC LT IDR	BBB Rating Outlook Stable		BBB Rating Outlook Stable
	Affirmed			

	Natl LT	AAA(col)	Rating Outlook Stable	AAA(col) Rating Outlook Stable
		Affirmed		
	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](#)

## FITCH RATINGS ANALYSTS

### Juan David Medellin

Senior Analyst

Primary Rating Analyst

+57 601 443 3565

juandavid.medellin@fitchratings.com

Fitch Ratings Colombia

Calle 69 A No. 9-85 Bogota

### Lincoln Webber, CFA, CAIA

Director

Primary Rating Analyst

+1 646 582 3523

lincoln.webber@fitchratings.com

Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

### Jose Luis Rivas

Director

Secondary Rating Analyst

+57 601 443 3701

joseluis.rivas@fitchratings.com

**Saverio Minervini**

Senior Director

Committee Chairperson

+1 212 908 0364

saverio.minervini@fitchratings.com

**MEDIA CONTACTS****Elizabeth Fogerty**

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

**APPLICABLE CRITERIA**[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)[Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria \(pub. 08 Jan 2021\)](#)[Corporate Rating Criteria \(pub. 15 Oct 2021\) \(including rating assumption sensitivity\)](#)[Parent and Subsidiary Linkage Rating Criteria \(pub. 01 Dec 2021\)](#)**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring &amp; Forecasting Model (COMFORT Model), v8.0.2 (1)

**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)



## Endorsement Policy

### ENDORSEMENT STATUS

Enel Colombia S.A. E.S.P.

EU Endorsed, UK Endorsed

### DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders<sup>1</sup> relevant interests are available at

<https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an

enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the

United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **ENDORSEMENT POLICY**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for

structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

---

Corporate Finance   Utilities and Power   Latin America   Colombia

---