



RATING ACTION COMMENTARY

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

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Fitch has withdrawn Codensa S.A. E.S.P.'s National Long-Term and Short-Term ratings as the company no longer exists after being absorbed by Enel Colombia.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

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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.

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](#)

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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 & Forecasting Model \(COMFORT Model\), v8.0.2 \(1\)](#)

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

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