

## RATING ACTION COMMENTARY

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

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Fitch Ratings - Rio de Janeiro/Bogota - 12 Mar 2024: Fitch Ratings has affirmed Enel Colombia S.A. E.S.P.'s (Enel Colombia) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB'. Fitch has also affirmed the company's National Long and Short-Term ratings at 'AAA(col)' and 'F1+(col)', respectively, as well as the ratings on its local issuance programs. Rating Outlook is Stable.

Enel Colombia's ratings reflect Fitch's view on the strategic incentive that Enel Americas S.A. (BBB+/Stable) has to support its subsidiary. Enel Colombia will represent approximately 30% of its parent EBITDA generation, remaining within the perimeter of the group's assets in Latin America, resulting in a bottom up approach following Fitch's Parent and Subsidiary Linkage Rating Criteria revised approach between Enel Colombia and its parent. The ratings also reflect the company's low leverage, solid contracted position, combined with strong liquidity.

## KEY RATING DRIVERS

**Revised PSL Assessment:** Per Fitch's Parent and Subsidiary Linkage Rating Criteria, there is sufficient control by Enel Americas, owning approximately 57.4% of Enel Colombia. Strategic Incentives has been revised to medium from weak, as Enel Colombia is view as a strategic subsidiary to its parent's global in terms of the financial contribution and growth potential. Upon completion of Enel Americas' divestment plan, with the exit of Peru and Argentina, Enel Colombia will represent approximately 30% of Enel Americas consolidated EBITDA.

Legal incentives remain weak, as there are no guarantees in place from the parent or cross-default clauses. Operational incentives are low, both entities have the same core business, and there is some material common management, operational benefits to the parent are not material. All these factors combined, Enel Colombia's ratings result in a 'bottom up plus one' approach to an IDR of 'BBB', from the previous standalone approach.

**Country Ceiling:** The company is headquartered in Colombia (BB+/Stable), and the operation in this country represented approximately 93% of the consolidated EBITDA during 2023. Fitch caps Enel Colombia's standalone credit profile at Colombia's 'bbb-' given the substantial cash flow generation coming from this country. Cash flows from the operations in Panama (BBB-/Negative), Guatemala (BB/Stable) and Costa Rica (BB/Stable), exceed the company's next 12 months of hard currency debt service coverage by more than 1.5x.

**Strong Leverage Profile:** Fitch anticipates Enel Colombia's EBITDA Leverage will remain below 2.0x over the rated horizon, coupled with EBITDA fixed charge coverage ratios around 5.0x. Furthermore, the company maintains a conservative financial policy mitigating foreign exchange (FX) risk. Fitch expects the company will maintain debt in the same currency as cash flows are generated reducing FX risk, combined with a manageable debt maturity profile.

**Stronger Generation Business:** Fitch anticipates the generation segment will contribute more than 60% of the company's consolidated EBITDA over the rating horizon. Enel Colombia's business profile has continued to strengthened after the merger of Emgesa and Codensa, and the inclusion of renewable generation assets from Central America. The company's generation business registered roughly 25TW/h of total net energy sales during 2023, with Colombia representing 87%. In terms of installed capacity, ranks as the second largest generation company in Colombia with 3,390MW, while Central America adds 705MW of installed capacity.

In Colombia, the company has a well-diversified portfolio mostly concentrated in renewable sources of 12 hydro plants and four solar plants in a testing period. 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.

**Mitigated Hydrological Risk:** Enel Colombia mitigates this risk through geographic diversification of its generation matrix, operation of one thermal asset and contractual energy purchases. The diversification in different basins allows the company to maintain stability in energy generation amid severely dry seasons. During 2023, the country suffered drier conditions, the company's total net production reached 16TW/h annually, 17% higher compared with the previous year, as Enel Colombia's commercial policy aims to maintain contract sales at 85%-90% of its sales mix.

The 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, forcing the company to purchase energy in the spot market at higher prices to

fulfil contractual obligations. The expansion towards renewable projects will allow the company to complement its energy matrix.

**Distribution Business Adds Stability:** Fitch estimates the distribution business will represent approximately 40% of the company's EBITDA over the rating horizon. 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, providing more than 15TW/h annually and serving 3.9 million customers as of YE 2023. The regulated nature of the distribution business adds stability and predictability to the cash flow generation.

## DERIVATION SUMMARY

Enel Colombia is well positioned relative to regional investment-grade electric company peers, including Isagen S.A. E.S.P. (Isagen; BBB-/Stable), AES Andes S.A. (BBB-/Stable), Engie Energia Chile S.A. (Enel Generacion Chile; BBB/Stable), Enel Chile S.A. (Enel Chile; BBB+/Stable) and Enel Generacion 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 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 similar to Enel Generacion Chile and lower compared to Enel Chile and Isagen 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 3.390MW. 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.

Enel Colombia has lower scale of operations and EBITDA generation compared to its ultimate parent Enel SpA (BBB+/Stable). Enel is one of the largest integrated utilities in the world, based in Italy, with a leading position in renewables, distribution and supply.

In addition, Enel SpA consolidates Endesa, market leader in Spain and is the second-largest power company in Portugal.

## KEY ASSUMPTIONS

- Net Energy production around 16,000 gigawatt-hours (GWh) in Colombia per year during 2024-2026;
- Commercial policy contract sales remain between 85% and 90% of total volume sales.
- Annual hydrological production between 13,000GWh and 14,000GWh during 2024-2026;
- Distribution business with energy sales of approximately 15,000GWh annually during 2024-2026;
- Capex of approximately COP7.4 billion between 2024-2026;
- Dividend payout ratio of 90% of net income during 2024-2026.

## 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

- A downgrade of Colombia's Sovereign Rating or a Negative Outlook;
- A change in financial strategy resulting in an increase in hard-currency debt;
- A sustained increase in leverage above 3.5x.

## LIQUIDITY AND DEBT STRUCTURE

**Strong Liquidity:** Enel Colombia's credit profile is supported by ample consolidated liquidity, as the company's cash position reached COP1,204 million (roughly USD280 million) at Sept. 30, 2023. Enel Colombia's liquidity is robust, supported by a healthy cash position, prospective stable CFO and a manageable debt maturity profile. Fitch estimates available cash on hand plus forecast CFO will cover more than 4x short-term maturities as of YE 2023. Debt refinancing risk is low, given conservative leverage, a manageable debt maturity profile and ample access to liquidity sources.

Liquidity is further buoyed by COP3.5 trillion undrawn uncommitted revolving credit facility and COP5.7 trillion available from its local program issue, which provides additional flexibility if required.

## ISSUER PROFILE

Enel Colombia is the second largest electricity generation company in Colombia with 3.4 GW of installed capacity and 0.8 GW of renewable projects under construction. It also has 644MW of generation capacity in Central America and 60MW under construction. Enel Colombia is the main distribution company in Colombia, serving approximately 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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ↕

RATING ↕

PRIOR ↕

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Enel Colombia S.A. E.S.P.	LT IDR	BBB Rating Outlook Stable		BBB Rating Outlook Stable
		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
		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 \(pub. 22 Dec 2020\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Chilean Equity Rating Criteria \(pub. 10 Aug 2021\)](#)

[Metodología de Clasificación de Acciones en Chile \(pub. 10 Aug 2021\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub. 16 Jun 2023\)](#)

[Metodología de Vínculo de Calificación entre Matriz y Subsidiaria \(pub. 13 Jul 2023\)](#)

[Corporate Rating Criteria - Effective 3 November 2023 to 6 December 2024 \(pub. 03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 3 November 2023 to 21 June 2024 \(pub. 03 Nov 2023\)](#)

## **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**

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

EU Endorsed, UK Endorsed

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