

Research Update:

Enel Colombia S.A E.S.P. 'BBB-' Rating Affirmed On Completion Of Merger; Outlook Remains Stable

May 4, 2022

Rating Action Overview

- Colombia's Superintendence of Companies recently approved the merger of power generator Emgesa S.A. E.S.P., energy distributor Codensa S.A. E.S.P. (not rated), and renewable energy generators Enel Green Power Colombia S.A. E.S.P. (EGP; not rated) and ESSA2 SpA (not rated). As part of this transaction, Emgesa changed its name to Enel Colombia S.A. E.S.P.
- We view the merger as credit neutral because the ratings continue to incorporate our view of the company as a core subsidiary of Enel Americas S.A. (BBB-/Stable/--) that should receive parent support under any foreseeable circumstances. Due to these factors, we equalize ratings on both entities. On a stand-alone basis, Enel Colombia now has more geographic diversification, and its leverage remains prudent, illustrated by its net debt to EBITDA below 2x and funds from operations (FFO) to debt close to 40% expected in the next two years. Moreover, we think the contribution from the regulated business will add stability and predictability to cash flow.
- On May 4, 2022, S&P Global Ratings affirmed its 'BBB-' issuer credit rating on Enel Colombia. The company's stand-alone credit profile (SACP) remains 'bbb'.
- The stable outlook on Enel Colombia reflects our expectation that in the next 24 months, the company will remain a core subsidiary of Enel Americas and that its parent will support it even in a hypothetical scenario of sovereign stress.

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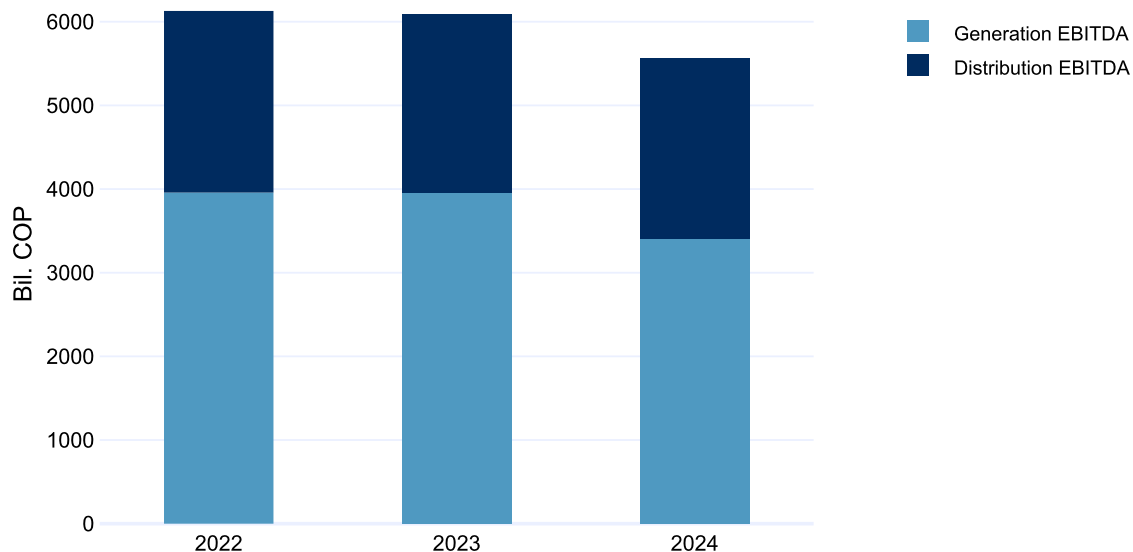
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Rating Action Rationale

On a stand-alone basis, we think the merger strengthens Enel Colombia's competitive position, but not enough to improve its SACP. This is mainly due to the company's larger scale and broader business and geographic diversification, with operations in countries besides Colombia such as Panama, Costa Rica, and Guatemala. In addition, the new entity will have an increasing focus on renewables to address the challenges of the energy transition; which we view positively. As of Dec. 31, 2021, most of Enel Colombia's 3,503 megawatts (MW) of installed capacity is hydro-based, but the incorporation of Enel Green Power will add nonconventional renewable capacity that will reach more than 5,000 MW by 2024.

With the new structure, Enel Colombia will add the low-risk distribution business. Codensa was a leading electric energy distribution company in the country, serving more than 3.7 million customers as of Dec. 31, 2021, in Bogotá, capital of Colombia, and its metropolitan area, which is the wealthiest and most populous region in the country. We view the regulatory framework under which the company operates as one of the strongest in the region, considering its stability and transparency that includes clear tariff adjustment mechanisms supported by the Energy and Gas Regulatory Commission (CREG) and no record of delays or disruptions. According to our updated base-case scenario, the distribution business will contribute to 35%-40% of Enel Colombia's EBITDA in the next two years.

EBITDA Breakdown by Business



Source: S&P Global Ratings.

We expect that Enel Colombia's leverage will remain prudent. This is supported by our forecast debt-to-EBITDA ratio of 1.3x-1.5x in 2022 and 1.5x-2.0x from 2023 onward. Annual EBITDA should be about COP6 trillion in 2022 and 2023, with 65% coming from the generation business and 35% from distribution. Although we expect EBITDA to dip slightly to COP5.5 trillion in 2024, mainly due to the tariff revision in the distribution segment and the signing of new generation contracts at lower prices, we view the integrated company as more stable than the former purely hydro generation business that was more dependent on climate conditions that are out of the company management's control.

Enel Colombia plans to invest COP3.0 trillion-COP3.5 trillion in 2022 and COP1.8 trillion-COP2.0 trillion in 2023, mainly to develop nonconventional renewable energy and for distribution maintenance. We also forecast a dividend payout ratio of 90% for 2022-2024. In addition,

shareholders established Enel Colombia's distribution of extraordinary dividends amid the company's retained profit from 2016 to 2020 for a total of COP1 trillion to be paid in August 2022. This is part of the agreement reached with the minority shareholder, Grupo Energia Bogota (GEB, not rated), for a total COP2.05 trillion (50% already paid in December 2021).

The company will cover those investing and financing needs with internal cash flow, new debt, and a COP1.5 trillion capital contribution from Enel Americas (half is already received and the rest will be available in the second half of 2022).

Outlook

The stable outlook on Enel Colombia reflects our expectation that in the next 24 months, the company will remain a core subsidiary of Enel Americas and that its parent will support it even in a hypothetical scenario of sovereign stress.

Downside scenario

We could downgrade Enel Colombia if we downgrade Enel Americas, which could happen if we downgrade Colombia, or if we think that the latter has lower incentives to support the subsidiary. This could happen if, for example, Enel Americas dilutes its voting stake or if we perceive Enel Colombia has become less strategic from a business perspective.

We could revise Enel Colombia's SACP downward if its financial risk profile worsens due to, for example, a more aggressive commercial strategy amid worsening hydrology conditions or a more aggressive expansion plan, leading to a debt-to-EBITDA ratio of over 3.0x, consistently. We could also revise Enel Colombia's SACP downward if sources over uses of cash ratio drops below 1.2x, which could happen if the company's EBITDA falls by more than 15% in the next 12 months.

Upside scenario

A positive rating action on Enel Americas could lead us to upgrade Enel Colombia. Additionally, we could revise Enel Colombia's SACP upward if we see its financial ratios consistently improving after the merger, which could happen following a combination of lower dividend payouts and lower investments, leading to debt to EBITDA consistently below 1.0x and FFO to debt above 50%.

Company Description

Enel Colombia generates, purchases, transports and distributes, and sells electric power in Colombia. Enel Colombia is the result of the merger that was approved in March 2022 between Emgesa S.A. E.S.P., Codensa S.A. E.S.P., Enel Green Power Colombia S.A. E.S.P., and ESSA2 SpA. As of Dec. 31, 2021, Emgesa is the largest electric power generation company in Colombia by capacity and Codensa is the largest electric energy distributor in Colombia. Enel Colombia also generates electricity in Panamá, Costa Rica, and Guatemala. Enel Colombia is 57.345% owned by Enel Americas, 42.515% owned by GEB, and 0.14% owned by minority shareholders.

Our Base-Case Scenario

Assumptions

- Macroeconomic assumptions of Colombia in line with our article, "Economic Outlook Latin America Q2 2022: Conflict Abroad Amplifies Domestic Risks," published on March 28, 2022. Our forecast for Colombia's GDP growth is 4.6% in 2022, 3.0% in 2023, and 3.2% in 2024. We expect inflation of 7.1% in 2022, 3.4% in 2023, and 3.1% in 2024.
- Normal hydrology, increasing energy capacity in 2022-2024 due to the incorporation of EGP, and no nonrecurrent disruptions in plant operations. This would lead to net power generation of about 15,400 gigawatt hours (GWh) in 2022, 16,400 GWh in 2023, and 17,400 GWh in 2024.
- Growth in the distribution revenues in line with Colombia's projected GDP growth, and no tariff revision until 2024.
- Costs increasing in line with inflation.
- Generation EBITDA margins of 70%-75% and distribution EBITDA margins of 30%-35%.
- Capex of COP3.0 trillion-COP3.5 trillion in 2022, COP1.8 trillion-COP2.0 trillion in 2023, and COP1.7 trillion-COP1.9 trillion in 2024. The company will use most of the capex to develop nonconventional renewable capacity and for distribution business.
- Dividend payout ratio of 90% annually for 2022-2024. In addition, shareholders established Emgesa and Codensa's distribution of extraordinary dividends amid the company's retained profit from 2016 to 2020, which totals COP1.0 trillion to be paid in August 2022. This is part of the agreement reached with the minority shareholder GEB for a total COP2.05 trillion (50% already paid in December 2021).
- Capital increase of COP1.5 trillion in 2022 from the parent. As of May 2022, the company has already received half of the capital contribution and the other half will be available in August and December.

Key metrics

	2022e	2023f	2024f
EBITDA (Bil. COP)	6,000-6,200	5,900-6,100	5,400-5,600
EBITDA margin (%)	49-51	49-51	47-49
Debt to EBITDA (x)	1.3-1.5	1.5-1.7	1.8-2.0
EBITDA interest coverage (x)	14-16	8-10	7-9
FFO to debt (%)	40-50	35-45	25-35

e--Estimated. f--Forecast.

Liquidity

We continue to view Enel Colombia's liquidity as adequate because we expect its consolidated liquidity sources to exceed uses by at least 1.2x in the next two years, which provides protection against adverse events. We also expect sources to exceed uses even if EBITDA declines by 15%. We believe that Enel Colombia has adequate financial flexibility with proven access to the capital

markets and banks, which in our view is enhanced by its controlling ownership. In addition, Enel Colombia isn't subject to financial covenants on its outstanding bonds.

Principal liquidity sources:

- Cash and cash equivalents of COP866 billion as of Dec. 31, 2021;
- Cash FFO of COP3.9 trillion-COP4.1 trillion expected for 2022; and
- Capital injection of COP1.5 trillion in 2022 to fund nonconventional renewable projects.

Principal liquidity uses:

- Short-term debt maturities of about COP1.5 trillion as of Dec. 31, 2021;
- Maintenance capex of COP1.2 trillion-COP1.4 trillion expected for 2022; and
- Total dividends disbursements of COP2.3 trillion-COP2.5 trillion expected for 2022, which includes dividends of COP1.3 trillion-COP1.4 trillion from fiscal year 2021 and COP1.0 trillion of extraordinary dividends from retained income in 2016-2020. For the liquidity analysis, we test a 50% dividend payout from the net income of the previous year (which is in line with the company's dividends policy), although in our projections we expect Enel Colombia to distribute 90%.

Environmental, Social, And Governance

ESG credit indicators: To E-2, S-2, G-2; From E-3, S-2, G-2

Environmental factors have an overall neutral influence on our credit rating analysis of Enel Colombia. We see as positive the recent incorporation of the distribution segment that allowed Enel Colombia to transition to an integrated business focused on renewables. As a result, we revised positively the environmental score to E2 from E3.

As of the date of this report, close to 40% of the group's EBITDA comes from distribution, and the remaining 60% from power generation. In addition, the incorporation of EGP will continue to enlarge and diversify Enel Colombia's generation capacity, which will reach 5,000 MW in 2024.

Group Influence

We consider Enel Colombia to be a core subsidiary of Enel Americas, its controlling shareholder. We expect the parent to have the ability and willingness to provide sufficient support even during a potential sovereign default. Specifically, we believe that the recent transaction enhanced Enel Americas' relevance to its parent (considering that in 2022 we expect the EBITDA coming from Enel Colombia to represent close to 30% of the group's EBITDA, versus 20% in 2021). In addition, we see the approved COP1.5 trillion capital increase as evidence of such support.

This view allows us to rate Enel Colombia above our ratings on Colombia (foreign currency: BB+/Stable/B), and also provides downside protection in case Enel Colombia's credit quality worsens on a stand-alone basis.

Ratings Score Snapshot

Issuer credit rating: BBB-/Stable/--

Business risk: Satisfactory

- Country risk: Moderately High
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Financial policy: Neutral
- Liquidity: Adequate
- Management and governance: Satisfactory
- Comparable rating analysis: Neutral

Stand-alone credit profile: bbb

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

Enel Colombia S.A E.S.P.

Issuer Credit Rating BBB-/Stable/--

Analytical Factors bbb

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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