FitchRatings

RATING ACTION COMMENTARY

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

Fri 06 Dec, 2024 - 11:00 ET

Fitch Ratings - Rio de Janeiro/Bogota - 06 Dec 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. The Rating Outlook is Stable.

Enel Colombia is a subsidiary of Enel Americas S.A. (BBB+/Stable). Its ratings reflect the parent company's strategic incentives to provide support, if needed. Enel Colombia generates approximately 40% of its parent's EBITDA and is part of the group's assets in Latin America. This results in a bottom-up approach when following Fitch's Parent and Subsidiary Linkage Rating Criteria to assess the relationship between Enel Colombia and its parent. The ratings also reflect the company's low leverage, solid contracted position, and strong liquidity.

KEY RATING DRIVERS

Parent Linkage Assessment: Per Fitch's Parent and Subsidiary Linkage Rating Criteria, there is sufficient control by Enel Americas, owning approximately 57.4% of Enel Colombia, following the stronger parent approach. Strategic incentives remain medium, as Enel Colombia is a strategic subsidiary to its parent's in terms of the financial contribution and growth potential. Enel Colombia is expected to represent approximately 40% 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'.

Country Ceiling: The company is headquartered in Colombia (BB+/Stable), and the operation in this country represented approximately 93% of the consolidate EBITDA accumulated for the LTM as of September 2024. 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 (BB+/Stable), 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.

Solid Leverage Profile: Fitch anticipates Enel Colombia´s EBITDA Leverage will remain below 2.0x over the rating horizon, coupled with EBITDA fixed charge coverage ratios around 5.0x. It maintains a conservative financial policy that mitigates foreign exchange (FX) risk. Fitch expects the company will maintain debt in the same currency as cash flows are generated to reduce FX risk, combined with a manageable debt maturity profile. FCF is expected to remain slightly negative over the rating horizon, due to capex and a dividend pay-out ratio of 90% of the previous year's net income.

Stronger Generation Business: Fitch expects Enel Colombia's generation segment to contribute over 60% of its EBITDA over the rating horizon. As of September 2024 LTM, the segment recorded 24.6TW/h in net energy sales, with Colombia representing 86%. Enel Colombia, the second-largest generator in Colombia, has 3,631MW of installed capacity and 705MW in Central America. Its diverse portfolio includes 12 hydro plants and four solar plants. This scale and diversity enhance operational flexibility and cash flow predictability compared to smaller companies.

Hydrological Risk: Enel Colombia mitigates hydrological risk through geographic diversification, operating one thermal asset and four solar plants, and contractual energy purchases, aiming for 85%-90% contract sales. Diversification ensures stable energy generation during dry seasons. As of September 2024, energy sales were 16.1TW/h, slightly lower compared with 16.5TW/h in September 2023. The current matrix may cause cash flow volatility during adverse hydrology or major plant disruptions, leading to higher spot market energy purchases. Expanding into renewable projects will enhance the 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 16.1TW/h during September 2024 LTM and serving 3.9 million customers. 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. (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.

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.

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, S.A. (BBB+/Stable), market leader in Spain, and is the second-largest power company in Portugal.

KEY ASSUMPTIONS

-Net energy production of about 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 in Colombia between 13,800GWh during 2024 and around 15,000GWh during 2025-2026;

-Solar installed capacity increasing 523MW during 2026, reaching nearly 6.0W;

-Distribution business with energy sales of approximately 15,000GWh annually during 2024-2026;

-Capex of approximately COP7.7 billion between 2024-2026;

-Dividend pay-out ratio of 90% of net income during 2024-2026.

RATING SENSITIVITIES

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.

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.

LIQUIDITY AND DEBT STRUCTURE

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 2024. Debt refinancing risk is low, given conservative leverage, a manageable debt maturity profile and ample access to liquidity sources.

Fitch projects consolidated cash on hand will amount to COP1.7 trillion and CFO will be COP4.3 trillion by YE 2024. FCF will remain negative at, after executing the company's capex plan and paying dividends. The company has available uncommitted credit lines of COP4.0 trillion and COP5.7 trillion 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 3.6GW installed capacity in Colombia and 705MW of installed capacity in Central America (Panama, Costa Rica and Guatemala). In addition, it is the leading distribution company in Colombia.

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

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
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)

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

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)

Metodología de Calificación de Finanzas Corporativas (pub. 22 Dec 2023)

Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 21 June 2024 to 6 December 2024 (pub. 21 Jun 2024)

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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