

## RATING ACTION COMMENTARY

# Fitch Revises Isagen's Outlook to Negative; Affirms IDR at 'BBB-'

Fri 14 Mar, 2025 - 3:48 p. m. ET

Fitch Ratings - New York/Bogota - 14 Mar 2025: Fitch Ratings has revised Isagen S.A. E.S.P.'s Rating Outlook to Negative from Stable for its Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) and has affirmed the ratings at 'BBB-' and 'BBB', respectively. Fitch has also affirmed Isagen's Long-Term National Scale Rating at 'AAA(col)'/Stable, and Short-Term National Scale Rating at 'F1+(col)'.

The Outlook revision reflects the recent revision of Colombia's IDR to Negative. A deterioration of Colombia's operating environment and potential downgrade of its sovereign rating could lead to a downgrade of its Country Ceiling, impacting Isagen's rating.

Isagen's ratings reflect its leading position in the Colombian electricity generation market and portfolio of diversified generation assets. Incremental capex for the next years will result in negative free cash flow (FCF), along with moderate leverage metrics that Fitch projects will remain close to 3.3x.

## KEY RATING DRIVERS

**Low Business Risk Profile:** Isagen continues to deploy a conservative commercial strategy that ties its contract sales to the firm energy of its hydroelectric plants. Contracts have an average life of eight years with a diversified pool of high quality off-takers. Despite facing a 12% decrease in energy generation in 2024 due to prolonged dry conditions, resulting in a total generation of 13,038 GWh, Isagen's strategic approach enabled the company to effectively manage these challenges.

By minimizing energy purchases in the spot market at elevated prices and securing a higher proportion of contracts tied to actual energy generation, Isagen successfully navigated the adverse hydrological conditions. As hydrology normalizes, Fitch anticipates Isagen will

continue to demonstrate stable operational performance, with an estimated energy generation of over 16,000GWh by 2026.

**Incremental Capex in Renewables:** As of December 2024, Isagen ranks as the third-largest electricity generation company in Colombia, with an installed capacity of 3,142 MW, primarily from hydroelectric sources, complemented by solar and wind energy. In terms of energy generation, it also holds the third position nationally.

The company has revised its investment plan to expand its renewable energy capacity by an additional 520MW, with a capital expenditure of approximately USD500 million over the next four years. The scale and low marginal costs of Isagen's assets provide the company with the operational flexibility needed to navigate the competitive Colombian market effectively.

**Moderate Leverage:** Isagen is expected to maintain a moderate leverage profile, with EBITDA leverage projected to be around 3.3x over the rated horizon. For 2024, Fitch anticipates a slight increase in leverage to approximately 3.5x due to additional debt and an EBITDA of about COP3.1 trillion, influenced by drought conditions. Fitch's base case scenario projects that EBITDA will rise to COP3.6 trillion by 2027, driven by increased generation from expanded installed capacity. EBITDA interest coverage will average 2.4x over the rating horizon.

**Shareholder Loan Provides Flexibility:** Fitch does not consider Isagen's shareholder loan (SHL) as financial debt, as the SHL is a subordinated obligation, with interest payments optionally paid-in-kind, subject only to Isagen's request. The lender of the SHL cannot accelerate or enforce any of its rights or exercise any of its remedies to collect the principal of the loan. The structure of the SHL gives the company additional flexibility to carry out its growth strategy, if necessary, without affecting its capital structure.

**SHL Payments Depend on Cash Generation:** Isagen's shareholder distributions, via SHL interest payments, prepayments or dividends, depend on future cash generation. Ratings expect distributions to hinge on excess cash. In 2024, Isagen paid around COP756 billion in dividends. With increased capex, Fitch anticipates negative FCF during the rating horizon to be covered by Isagen's financing plan. As of Dec. 31, 2024, the SHL balance was approximately COP2.6 trillion, maturing in 2049.

**Moderate Regulatory Risk:** Fitch considers Isagen's exposure to regulatory risk moderate following president Petro's attempt to control regulations of the country's public services. Fitch considers the company's risk exposure moderate due to Isagen's concentration in

regulated businesses. All regulatory changes must provide all market players with financial stability to operate properly and may not impose undue hardship.

## **PEER ANALYSIS**

Isagen's credit profile is commensurate with investment-grade electric generation companies (gencos) in the region, such as Kallpa Generación S.A. (BBB-/Stable), Enel Generación Chile S.A. (BBB+/Stable) and Colbun S.A. (BBB+/Stable). These companies benefit from predictable CFO, due to robust contracted positions and conservative capital structures.

Rating differences mainly stem from asset base size and diversity, affecting price competitiveness and operational flexibility. Isagen, with 3.1GW of hydro, wind and solar capacity, is well-positioned compared to Kallpa's 1.8GW capacity. Enel Generación Chile and Colbun have larger capacities than Isagen, evenly split between hydro and thermal.

Latin American peers generally have strong capital structures aligning with the 'BBB' rating. Isagen's leverage ratio, total debt to EBITDA, is projected to stay near 3.3x, lower than Kallpa's expected 4.0x. Enel Generación Chile (below 1.0x) and Colbun (3.0x) boast stronger capital structures, supporting their 'BBB+' rating.

Isagen also compares well with electricity generation peers that have national ratings, namely Enel Colombia S.A. E.S.P., Empresas Publicas de Medellin E.S.P. (EPM) and Celsia Colombia S.A. E.S.P., all rated 'AAA(col)'. Isagen is the third-largest electricity generation company in Colombia in terms of installed capacity, trailing Enel Colombia and EPM.

## **KEY ASSUMPTIONS**

- Average electricity generation of 16,00 GWh in 2025 and 16,130 GWh thereafter;
- Contracting policy at 70% of total electricity sales on average;
- Shareholder distribution is contingent on excess cash;
- Total debt/EBITDA consistently below 3.5x;
- Average monomic prices of COP400/kWh over the forecast horizon.

## **RATING SENSITIVITIES**

## **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--A downgrade of Colombia's Country Ceiling;

--Sustained leverage of more than 3.5x;

--A change in company strategy that weakens CFO performance or results in a more aggressive plan in terms of leverage and capex.

## **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Fitch considers a positive rating action unlikely in the near term, given business and geographical concentration of electricity generation in Colombia, and leverage expectations.

## **LIQUIDITY AND DEBT STRUCTURE**

Isagen maintains adequate liquidity, supported by prospects for strong and predictable EBITDA generation. The company has the flexibility to capitalize interest payments on its SHL, and can retain CFO generation, if necessary. Fitch anticipates Isagen will maintain moderate cash balance levels and refinance most of its debt obligations, with notable amortizations in 2027 (COP1.2 trillion) and 2028 (COP1.1 trillion). Any excess cash is expected to be distributed to shareholders in the form of dividends or used to service its SHL loan.

The company reported COP10.7 trillion of financial debt as of Dec. 31, 2024, comprised of 36% local bond issuances and 64% credit loans. Approximately 99% of Isagen's debt was COP-denominated, which matches its cash flow generation and limits FX risk. Isagen does not have immediate liquidity concerns as cash on hand plus CFO covered short-term maturities by over 1x as of Sept. 30, 2024. The company's debt currently has an average life of 6.4 years.

## **ISSUER PROFILE**

Isagen is Colombia's third-largest electricity generation company with 3,142MW of installed capacity, and third largest in energy generation at 13,038GWh generated in 2024. Isagen operates 27 generation plants: 15 hydroelectric plants (2,913MW), two wind farms (32MW), and 10 solar farms (197MW).

## SUMMARY OF FINANCIAL ADJUSTMENTS

Shareholder loan treated as equity-like.

## 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 ↕
Isagen S.A. E.S.P.	LT IDR	BBB-	Affirmed	BBB-
	LC LT IDR	BBB	Affirmed	BBB

	Natl LT	AAA(col)	Affirmed	AAA(col)
	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)

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

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## **APPLICABLE CRITERIA**

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

[Corporate Rating Criteria \(pub. 06 Dec 2024\) \(including rating assumption sensitivity\)](#)

[Metodología de Calificación de Finanzas Corporativas \(pub. 14 Feb 2025\)](#)

## **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](#)**ENDORSEMENT STATUS**

Isagen S.A. E.S.P.

EU Endorsed, UK Endorsed

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