



Fitch Affirms Isagen's Ratings at 'BBB'; Outlook Stable

Fitch Ratings-New York-23 April 2019: Fitch Ratings has affirmed Isagen S.A. ESP's (Isagen) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BBB'. The Rating Outlook is Stable. In addition, Fitch has affirmed Isagen's Long-term National Scale rating at 'AAA(col)'/Stable Outlook and Short-term National Scale rating at 'F1+(col)'. Finally, Fitch has affirmed the ratings assigned to Isagen local bond issuances at 'AAA(col)' and the local bond and commercial paper program at 'AAA(col)' and 'F1+(col)'. A full list of rating actions follows at the end of the press release.

Isagen's ratings reflect its solid business position in the Colombian electricity generation market and strong portfolio of diversified generation assets. The ratings are also supported by the company's predictable EBITDA pattern and moderate financial metrics. The company continues to develop a commercial strategy that limits exposure of its results derived from the volatility spot electricity prices. Fitch expects Isagen to maintain moderate financial metrics and adequate liquidity levels in the medium term, supported by strong and predictable EBITDA generation, although the company's cash flow generation performance will be driven by discretionary dividends and other shareholder distributions.

KEY RATING DRIVERS

Solid Business Position: Isagen's ratings reflect its solid competitive position in the Colombian electricity generation sector, reinforced by its scale and the low marginal costs of its portfolio of generation assets. These factors effectively offset risk posed by a highly competitive market historically exposed to energy and fuel price volatility, as well as some structural risks that emphasize contractual portfolios with relatively short tenors compared to other gencos outside Colombia. The company has been able to extend contract tenors with customers in the non-regulated market as a way to mitigate these risks. Isagen is the third largest electricity generation company in Colombia with 3,032MW of installed capacity. During 2018, the company generated 13,987Gwh, the third largest generation in the country.

Adequate Leverage Metrics: Isagen's ratings factor the expectations that the company's leverage metrics would be in the 3x range over the medium term. At end of 2018, Isagen's leverage was 3x, in line with Fitch expectations, and fostered by strengthening EBITDA for the year. Fitch does not consider Isagen's shareholder loan (SHL) as financial debt for its leverage calculation, as the SHL is a subordinated obligation, with interest payment optionally paid in kind (PIK), subject only to Isagen's request. Moreover, the lender cannot take any action to accelerate or enforce any of its rights or exercise any of its remedies to collect this loan.

Low Business Risk Profile: Isagen continues to deploy a conservative commercial strategy that links its contract sales with its firm energy of hydroelectric assets. This strategy allows the company to limit its exposure to the spot market as a buyer since hydroelectric generation should be able to cover contract sales amid hydrological stressed conditions. In 2018, the company recorded an increase in electricity purchases in the spot market, but this was related to Isagen's water reservoir management in which it seized the low spot prices during the first quarters of the year and displaced its hydroelectric generation to capture higher spot prices recorded in late 2018 and the beginning of 2019.

Positive EBITDA Performance: Fitch expects Isagen to continue reporting moderate growth in EBITDA over the rating horizon, driven by its proven commercial policy and its recent cost efficiency initiatives. Moreover, limited capex requirement should positively contribute to FCF generation. The company has a portfolio of 497MW of expansion plants, of which only 24MW already have all the environmental licenses granted. Isagen has not disclosed when they plan to execute these projects, but internal cash flow generation should allow Isagen to easily meet these Capex.

Cash Generation Depends on SHL Payments: Isagen's future cash generation performance would mostly be dependent on the company's distributions to its shareholder, Brookfield, which could take place as interest payments and prepayments on the shareholder loan or as dividends. During 2018, Isagen prepaid COP 1.36 trillion of the subordinated SHL; this obligation closed at COP 4.88 billion at the end of 2018. Ratings factor in the expectations that, in absence of sizable capex, Isagen's positive FCF will be distributed to shareholder. Nevertheless, it is expected that leverage ratios continues around 3x, the target established by the company.

DERIVATION SUMMARY

Isagen's credit profile is commensurate with the investment-grade electric generation companies in the region, such as Emgesa S.A. E.S.P. (BBB/Stable), Enel Generacion Chile S.A. (BBB+/Positive), Enel Americas S.A. (BBB+/Stable), Engie Energia Chile S.A. (BBB/Stable), Colbun S.A. (BBB/Stable), and AES Gener 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 within this peer, with more than 6,000MW distributed among hydroelectric, thermal electric and wind plants. In addition, leverage levels have been consistently at or below 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 geographic diversification across Latin America.

Fitch expects Isagen to maintain leverage levels between 2.5x and 3x, in line with projections for Colbun and above the estimations from Engie (below 2x). The Chilean companies benefit from a longer-term contractual position, which mitigates re-contracting risk. Colombian generation companies are structurally more exposed to this risk, as around two thirds of Colombian electricity demand comes from electricity distribution companies, whose typical contract terms are less than three years.

In addition, Isagen is well positioned in regards to peers with national ratings in the electricity generation market, namely Emgesa, Empresas Publicas de Medellin E.S.P (EPM) and Empresa de Energia del Pacifico S.A. (EPSA), all rated 'AAA(col)'. Isagen is the third largest electricity generation company in Colombia, behind Emgesa and EPM. Its conservative commercial exposure mitigates its exposure to results volatility stemming from the structural characteristic of the Colombian market, which is heavily concentrated in hydroelectric assets.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Its Rating Case for the Issuer

- Isagen's electricity generation reaches around 14,000 Gwh per year;
- Isagen maintains a contracting policy of around 70% of total electricity sales on average;
- The company's shareholder distribution policy does not deteriorate Isagen's credit performance in the medium term, which results in a gross leverage level in the 2.5x to 3x range.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Fitch considers a positive rating action unlikely in the near term, given business and geographic concentration in electricity generation in Colombia, as well as leverage expectations;

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- A steep decrease in electricity prices, coupled with low generation and poor electricity demand;

- Sustained leverage of more than 3.5x;

- A change in company strategy that weakens cash flow from operations (CFFO) performance or results in a more aggressive plan in terms of leverage and capex.

LIQUIDITY

Adequate Liquidity Position: Isagen maintains adequate liquidity levels, supported by prospects for strong and predictable EBITDA generation. The company has the flexibility to capitalize interest payments on its SHL, which reached COP 737 billion during 2018, and can retain CFO generation if necessary. Fitch anticipates that Isagen will maintain relatively low cash balance levels and refinance most of debt obligation, since the company plans to maintain leverage levels around 3x, and any cash excess will be distributed to shareholders in the form of dividends or serving its SHL loan.

At the end of 2018, the company reported COP4.4 trillion of financial debt. Isagen's financial debt is comprised of 45% local bond issuances (about COP 2 trillion), 53% for credit loans (about COP2.35 trillion) and the balance in financial leases. Financial debt is 94% concentrated in local currency, which matches cash flow generation and limits volatility of results stemming from FX volatility. Isagen has scheduled debt amortization of around COP632 billion in 2019, which is expected to be refinanced. Fitch consider Isagen refinancing risk as manageable, given its moderate leverage levels and ample access to local capital markets and bank loans, both locally and abroad. During 2018, Isagen refinanced around COP 2 trillion in bank loans, extending maturities up to 2030 and reducing financial costs.

FULL LIST OF RATING ACTIONS

Isagen S.A. E.S.P.

- Long-term Foreign-Currency IDR at 'BBB'; Outlook Stable;
- Long-term Local-Currency IDR at 'BBB'; Outlook Stable;
- National Long-term rating at 'AAA(col)'; Outlook Stable;
- National Short-term rating at 'F1+(col)';
- Local bond issuances at 'AAA(col)';
- Local bond and commercial paper program at 'AAA(col)' and 'F1+(col)'.

Contact:

Primary Analyst

John Wiske

Associate Director

+1-212-908-9195

Fitch Ratings, Inc.

33 Whitehall St

New York, NY 10004

Secondary Analyst

Jorge Yanes

Director

+57 1 484 6770 Ext 1170

Committee Chairperson
Lucas Aristizabal
Senior Director
+1-312-368-3260

Media Relations: Elizabeth Fogerty, New York, Tel: +1 212 908 0526, Email:
elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Corporate Rating Criteria (pub. 19 Feb 2019)

National Scale Ratings Criteria (pub. 18 Jul 2018)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be

accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. [Learn more.](#)