



## RATING ACTION COMMENTARY

# Fitch Affirms Isagen's IDR at 'BBB-'; Outlook Stable

Wed 20 Mar, 2024 - 4:22 PM ET

Fitch Ratings - Austin/Bogota - 20 Mar 2024: Fitch Ratings has affirmed Isagen S.A. E.S.P.'s (Isagen) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB-' and 'BBB', respectively. The Rating Outlook is Stable. Fitch has also affirmed Isagen's Long-Term National Scale Rating at 'AAA(col)'/Stable, and Isagen's Short-Term National Scale Rating at 'F1+(col)'.

Isagen's ratings reflect its leading position in the Colombian electricity generation market and portfolio of diversified generation assets. Additionally, the ratings are supported by the predictability and stability of Isagen's EBITDA, underpinned by long-term contractual agreements, coupled with moderate leverage metrics that Fitch projects will remain close to 3.3x.

Isagen's Long-Term Foreign Currency IDR is constrained by Colombia's Country Ceiling of 'BBB-', as the company operates entirely within Colombia, and does not have substantial offshore cash or EBITDA from other countries rated above the Country Ceiling.

## KEY RATING DRIVERS

**Solid Business Position:** Isagen's ratings reflect its strong competitive position in the Colombian electricity generation sector. The company is the third-largest electricity generation company in Colombia as of December 2023, with 3,042MW of installed capacity and the second largest in terms of energy generated with 14,854 gigawatt hours (GWh). The company owns and operates 15 hydroelectric plants, as well as two wind and five solar farms, and another 100MW solar project is under construction. The scale and low marginal costs of Isagen's assets give the company operational flexibility to weather the highly competitive Colombian market.

**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. This strategy allows the company to limit its exposure to spot market purchases, as its hydroelectric generation should be sufficient to meet contracted demand during low hydrological conditions. In 2023, the company recorded an increase in electricity purchases in the spot market as part of its water reservoir management strategy, aimed at both fulfilling Isagen's commercial obligations and guaranteeing availability of hydro resources in anticipation of challenging hydrological conditions in 2024 due to the El Niño phenomenon.

**Strong EBITDA Performance:** Fitch's rating case expects EBITDA will be close to COP3.2 trillion during 2023 (2022: COP3,3 trillion). Additionally, lower hydro generation due to drier conditions is anticipated to have been offset by higher prices. Fitch projects an EBITDA of close to COP3.1 trillion and COP3.2 trillion in 2024 and 2025, respectively. This considers an additional 160 MW of non-conventional renewal generation capacity and a lower hydrological conditions in 2024 followed by a return in 2025 to hydro generation in line with historical norms (historical factor plant average: 59%).

Under a conservative scenario, the company should be able to continue to generate positive FCF over the rating horizon absent any significant capital investments.

**Moderate Leverage:** Fitch expects Isagen's gross leverage, defined as total debt to EBITDA, to average 3.3x over the rating horizon, which is consistent with the 'BBB' rating category. 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 distributions to its shareholders, which could take place as interest payments and prepayments on the SHL or as dividends, would mostly depend on future cash generation performance of the company. The ratings factor in the expectation that Isagen's positive FCF will be distributed to shareholders. During the first nine months of 2023, the company repaid COP288 billion to its shareholders and distributed COP1.0 trillion in dividends.

Additionally, the company extended a COP2 trillion seven-year loan to BRE Colombia Hydro Finance during 2022, as a result of a temporary excess in liquidity and until investment options materialize. The balance of the SHL was roughly COP2.2 trillion as of Sept. 30, 2023.

## DERIVATION SUMMARY

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 Generacion Chile S.A. (BBB+/Stable) and Colbun S.A. (BBB+/Stable). All of these companies benefit from predictable cash flow from operations (CFFO), stemming from robust contracted positions and conservative capital structures.

Differences in specific rating levels are largely a function of the asset base size and diversity, which may influence price competitiveness and provide operational flexibility. Isagen is well positioned relative to Kallpa, with 3.0 GW of installed capacity distributed among 15 hydro, two wind, and five solar plants, compared to Kallpa's current installed capacity of 1,075MW (two natural gas-fired power plants and one hydro plant). Enel Generación Chile's and Colbun's installed capacity are both greater than Isagen's and evenly distributed between hydro and thermal.

In terms of credit metrics, Latin American peers have strong capital structures, commensurate with the 'BBB' rating category. Isagen's leverage, measured as total debt to EBITDA, is expected to remain close to 3.3x and below Kallpa's which is expected at 3.5x for YE2023. Enel Generación Chile (1.3x) and Colbun (2.8x) have stronger capital structures which allow them to be rated one notch higher at 'BBB+'.

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. Its conservative commercial policy helps mitigate financial metric volatility stemming from the structural characteristics of the Colombian market, which is heavily concentrated in hydroelectric assets.

## KEY ASSUMPTIONS

--Average electricity generation of 15,100 GWh per year in 2024 and 15,600 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 COP342/kWh over the forecast horizon.

## **RATING SENSITIVITIES**

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 in electricity generation in Colombia, and leverage expectations.

-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 CFFO performance or results in a more aggressive plan in terms of leverage and capex.

## **LIQUIDITY AND DEBT STRUCTURE**

**Adequate Liquidity Position:** 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 CFFO generation, if necessary. Fitch anticipates Isagen will maintain relatively low cash balance levels and refinance most of its debt obligations. 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 COP10.3 trillion of financial debt as of Sept. 30, 2023, comprised of 42% local bond issuances and 58% credit loans. Approximately 98% 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 2.5x as of Sept. 30, 2023. The company has available credit lines with local and international banks for roughly COP2.3 trillion.

## ISSUER PROFILE

Isagen is the third-largest electricity generation company in Colombia with 3,042MW of installed capacity and second largest with 14,854GWh/year of produced energy during 2023.

## 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.

## 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- 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
		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)

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## **APPLICABLE CRITERIA**

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

Metodología de Calificación de Finanzas Corporativas (pub. 22 Dec 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**

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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