

Research Update:

Engie Energia Chile's Proposed Senior Unsecured Notes Rated 'BBB'; Issuer Credit Rating Affirmed, Outlook Remains Stable

April 8, 2024

Rating Action Overview

- Engie Energia Chile (Engie Chile) intends to issue up to \$500 million senior unsecured notes due 2034. The company will use the proceeds to refinance the \$350 million of senior secured debt due 2025 and for other corporate purposes.
- The transaction will ease liquidity pressures in early 2025 and will improve the weighted average tenor of the debt. Moreover, we anticipate Engie Chile will maintain adjusted leverage around 4.5x in the next two years, in line with our previous forecast.
- We therefore affirmed our 'BBB' ratings on Engie Chile and its existing debt and assigned a 'BBB' issue rating to the proposed \$500 million senior unsecured notes. The company's stand-alone credit profile (SACP) remains 'bb', and we continue to view it as a strategically important subsidiary of Engie S.A. (Engie; BBB+/Stable/A-2).
- The stable outlook on Engie Chile incorporates our view of its importance to its parent, along with our expectations that the company's sources of cash will remain at least 20% higher than the uses in the next 12 months and net debt to EBITDA will remain around 4.5x in 2024 and 2025.

PRIMARY CREDIT ANALYST

Maria Gavito
Buenos Aires
(54) 114-891-2140
maria.gavito
@spglobal.com

SECONDARY CONTACT

Candela Macchi
Buenos Aires
+ 54 11 4891 2110
candela.macchi
@spglobal.com

Rating Action Rationale

We expect Engie Chile's leverage to remain around 4.5x in the coming years amid its investments to phase out coal. The company is investing in new renewable assets to lower its carbon dioxide emissions and to reduce its average supply cost while further diversifying its generation matrix.

Engie Chile's NCRE (nonconventional renewable energy) plan includes the development of 459 megawatts (MW) of capacity in 2024, which we incorporate in our base-case scenario. It consists of a wind park, Lomas del Taltal, with a total capacity of 343 MW and battery energy storage systems (BESS) for Tamaya and Capricornio solar parks totaling 116 MW. These three projects are

expected to be fully operational by the first quarter of 2025 and will require investments of about \$400 million.

The company's investment plan also comprises nearly 700 MW of solar, wind, and battery projects currently under development but not yet approved. They require investments of near \$950 million from 2025 to 2027.

The company has over 120 power purchase agreements (PPAs) with an average of eight years as of December 2023. We forecast Engie Chile's exposure to purchases in the spot market will gradually decrease to about 1.5 terawatt hours (TWh) in non-sun hours in 2024 as new renewable capacity starts operations, replacing the company's coal-based energy production and increasing capacity, which would limit Engie Chile's need to buy energy. This is in line with trends among most power generation companies in Chile, which should also lower the system's marginal costs, raising Engie Chile's profitability margins.

In this context, we expect EBITDA will be \$430 million to \$470 million in the next two years, which leads to net leverage around 4.5x.

Debt refinancing will lengthen Engie Chile's debt maturity profile and improve its liquidity, though it will not affect credit quality. In our view, the company is taking advantage of improved market conditions to extend the tenor of its debt through the proposed senior unsecured bullet note issuance. Engie Chile will use the proceeds to refinance its \$350 million of aggregate principal on the notes due 2025, improving its short-term liquidity ratio.

In addition, the company will use the remaining proceeds for general corporate purposes, including the financing of its expansionary NCRE capital expenditure (capex) plan.

In our view, Engie Chile continues to be a strategically important subsidiary of Engie and will receive financial support from its parent in case of financial distress. Engie owns 59.99% of Engie Chile. The rest is owned by noncontrolling minority shareholders floating on the stock market. In 2023, we saw proof of support through the \$150 million credit line from Engie Chile's controlling entity, Engie Austral (not rated). Engie Chile used this credit line to finance capex and liquified natural gas purchases. Although this line was short term, it allowed Engie Chile to refinance credit lines, alleviating its short-term liquidity pressures.

In addition, we consider Engie Chile as unlikely to be sold and as important for the group's long-term strategy. This strategy includes expanding its operations in Latin America and developing new renewable capacity through its Chilean subsidiary's platform. As a result, we expect the company to continue receiving support from the group in most foreseeable circumstances.

Outlook

The stable outlook incorporates our view that Engie Chile will continue to be a strategically important subsidiary to its parent company, Engie S.A. We expect that the company's sources of cash will remain at least 20% higher than the uses in the next 12 months. We also expect that net debt to EBITDA will remain below 5x in 2024 and 2025 while the company invests in the development of renewable capacity that will reduce its exposure to buying energy in the spot market.

Downside scenario

We could lower the ratings in the next 12 months if the company's cash sources-to-uses ratio deteriorates below 1.2x, which could happen if cash flows diminish because of new delays in the monetization of receivables or volatility in commodity prices.

Moreover, we could lower the ratings if we perceive that the company will present net debt to EBITDA consistently above 5x. Lastly, we could downgrade Engie if we reassess the group status because of, for instance, a deterioration in the ongoing support from the parent.

Upside scenario

We could raise the ratings on Engie Chile if it maintains net debt to EBITDA consistently below 2x, which we view as unlikely in the next few years owing to the sizable investment plan.

Company Description

Engie Chile is one of the leading electricity generators in Chile, with a 7% market share of capacity. It's the fourth-largest player after Enel Chile S.A. (27%; BBB/Stable/--), Colbun S.A. (16%; BBB/Stable/--), and AES Andes S.A. (11%; BBB-/Stable/--). Engie Chile has 2,546 MW of installed capacity as of Dec. 31, 2023, 42% of which comes from coal-based plants, followed by gas-based plants (25%), renewables (31%), and oil/diesel plants (the remainder).

The company is also the third-largest transmission operator in Chile, operating 2,409 kilometers (km) of high- and medium-voltage transmission lines with 37 substations. Engie Chile has a 50% stake in Transmisora Eléctrica del Norte. The company also operates 1,066 km of gas pipelines and the Tocopilla and Andino ports.

In November 2020, the parent increased its stake in Engie Chile to 59.99% from 52.76%. The remaining 40.01% floats on Santiago's stock exchange: local institutions own 17.14%, followed by pension funds (14.70%), foreign institutions (7.80%), and individuals (the rest).

Our Base-Case Scenario

Assumptions

- Engie Chile has limited exposure to the correlation between GDP growth and electricity demand in the spot market because the company sells less than 5% of its total energy on the spot market.
- We factor in inflation's effect on cost over time. We forecast Chile's GDP to grow 2% in 2024 and 2.7% in 2025, and inflation at 3.5% in 2024 and 3.2% in 2025 (see "Economic Outlook Emerging Markets Q2 2024: Growth Divergence Ahead," published March 26, 2024). We expect the U.S. consumer price index (CPI) to be 3.4% in 2024 and 2.5% in 2025 (see "Economic Outlook U.S. Q2 2024: Heading For An Encore," published March 26, 2024).
- We assume coal prices in line with those mentioned in "S&P Global Ratings Makes Modest Changes To Metal Price Assumptions," published Feb. 8, 2024.
- We assume power generation of 6,000 gigawatt hours (GWh)-7,000 GWh. We expect Engie Chile

to continue buying 5,000 GWh-5,500 GWh of its energy needs, of which 3,400 GWh-3,700 GWh will be purchased through long-term PPAs at fixed prices from other generation companies, and the remainder from the spot market.

- Engie Chile sells most of its output through its contracts with regulated and unregulated customers. We expect realized monomic (energy plus capacity) prices to be about \$110 per MWh and \$140 per MWh for unregulated and regulated clients, respectively.
- Energy spot prices will average \$60-\$65 per MWh in 2024 and 2025.
- Other revenue consists of \$5 million from the spot market, gas sales near \$70 million, and transmission revenue and ancillary services close to \$120 million.
- Capex, financed with a combination of cash flows and debt, will total about \$530 million in 2024 and \$385 million in 2025. These investments include maintenance capex of about \$80 million.
- We expect no delays or cost overruns associated with the construction of current projects.
- Dividend distributions will be aligned with the minimum 30% requirement in 2024 and 2025.

Key metrics

- EBITDA of \$430 million to \$470 million in 2024 and 2025.
- Net debt to EBITDA of around 4.5x in 2024 and 2025.

Liquidity

In our view, Engie Chile's cash sources exceed uses by more than 1.2x in the next 12 months, supporting liquidity. In addition, we expect the sources-to-uses ratio to remain positive, even if forecast EBITDA declines by 15%. Our analysis also incorporates Engie Chile's sound relationships with banks, as seen in the pool of loans and bonds currently in its portfolio and satisfactory standing in credit markets.

Principal liquidity sources:

- Cash and liquid investments of \$313.8 million as of Dec. 31, 2023; and
- Funds from operations between \$300 million and \$350 million.

Principal liquidity uses:

- Short-term debt maturities of \$286 million as of Dec. 31, 2023;
- Maintenance capex of about \$80 million in the next 12 months;
- Intra-year working capital peaking at \$80 million; and
- Dividends of 30% of the previous year's net income--the minimum legal requirement--in case of financial stress.

Issue Ratings--Subordination Risk Analysis

We don't see any material structural subordination risk on the senior unsecured debt instruments issued by Engie Chile. We rate the debt 'BBB', in line with the issuer credit rating on the company.

Ratings Score Snapshot

Issuer Credit Rating	BBB/Stable/--
Business risk:	Satisfactory
Country risk	Intermediate
Industry risk	Moderately high
Competitive position	Satisfactory
Financial risk:	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bb

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

New Rating

Engie Energia Chile S.A.

Senior Unsecured BBB

Ratings Affirmed

Engie Energia Chile S.A.

Issuer Credit Rating BBB/Stable/--

Engie Energia Chile S.A.

Senior Unsecured BBB

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