# Engie Energia Chile S.A.

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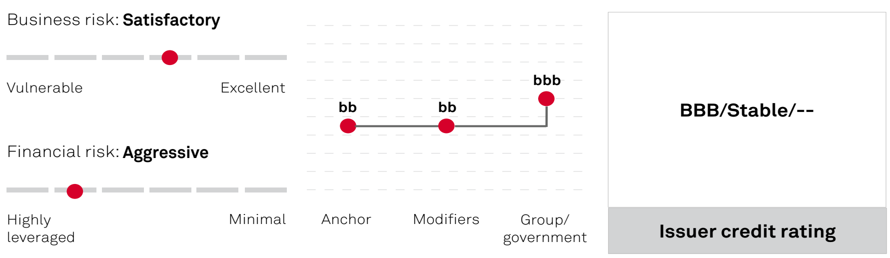
## Ratings Score Snapshot



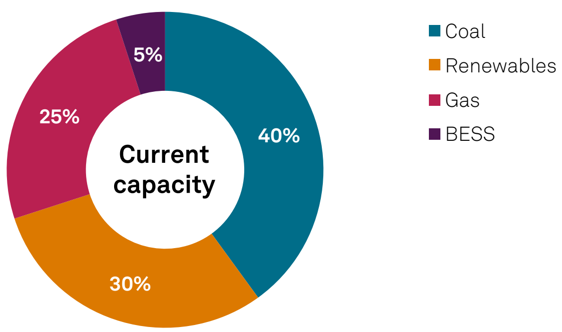

## Credit Highlights

**Overview**

| Key Strengths | Key Risks |
|---|---|
| Support from parent company, Engie S.A., if necessary, given that the subsidiary is one of the parent's vehicles to expand operations in Latin America and a source of dividend upstream. Support materialized in 2023. | A large investment plan in place that reduces financial flexibility, and which has increased reliance on external funding. We expect negative free operating cash flows in 2025-2026. |
| Predictable cash flow thanks to the long-term, highly contracted strategy with an average tenor of seven years. | Although reducing in the medium term, the company remains a net buyer of energy and is exposed to international fuel price volatility and spot price fluctuations. |

**Engie Energía Chile is undergoing a transformative investment strategy that will reshape its portfolio**. By 2027, its current capacity, which is still mostly reliant on coal and gas, will shift toward renewables/BESS (battery energy storage system). This will comprise 66% of the portfolio and gas will make up the remaining 34%. This transition is supported by a robust pipeline of investments, with 0.9 GW of new capacity built between 2019 and 2023, 0.5 GW in 2024, and 1.1 GW under construction with commercial operation date (COD) between 2025 and 2027. As a result, the company will increase its capacity to 3.5 GW by 2027 from 2.2 GW in 2019, including the decommissioning of all coal-based generation, which should foster operating margins and lower dependence on coal commodity prices. The regulator has not yet requested to maintain any of the coal plants as back up. These investments will facilitate entering new contracts by offering clean energy, instead of contaminating coal-based technology

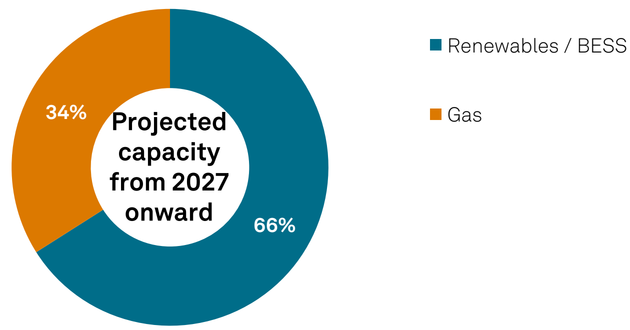
**Engie Energía Chile**




Source: S&P Global Ratings.



**Engie Energía Chile**




Source: S&P Global Ratings.



**The company's investment plan has increased reliance on external financing**. Its financial strategy focuses on securing funding for capital expenditures (capex) and debt rollovers, intending to maintain an average maturity of approximately five years. Capex financing has been through own cash flow generation and debt issuances as seen in April and August last year, when the company took advantage of market conditions to meet both debts rollover needs and capex requirements. In this context, we expect EBITDA to be around $600 million in the next two years, which will lead to net leverage around 4.0x-4.5x and a projected capex of $850 million for 2025 and $450 million in 2026. Even so, expected net leverage is lower than the past two years when the company faced a combination of negative effects like higher spot prices due to drought and higher commodity prices, in addition to the price stabilization law, affecting working capital and liquidity.

**As a net buyer in the spot market, the company is exposed to commodity price volatility.** However, long-term power purchase agreements (PPAs) and the gradual decommissioning of coal generation will moderate such exposure. Engie's reliance on coal and natural gas for generation makes it vulnerable to fluctuations in Henry Hub prices, which could increase operational costs tied to its long-term gas supply contracts. Additionally, rising Henry Hub prices exert upward pressure on Chilean spot prices, affecting operating margins and working capital due to the lag of about six months to be put passed through.

Acknowledging this, the company has around 120 PPAs with a remaining average life of seven years for free clients and five years for regulated clients as of December 2024. Engie Chile's reduced its exposure to purchases in the spot market to around 1 terawatt hours (TWh) in non-sun hours in 2024 as new renewable capacity began operations. This transition will replace the company's coal-based energy production and increase overall capacity, thereby limiting 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. Although this should enhance Engie Chile's profitability margins in the medium term, it could also result in some erosion of PPA prices in the long term, as the country's energy matrix system moves towards renewables.

In parallel, the company has increased its backup PPAs, which have been already reflected in the increase to 3.86 TWh/y in 2024 from 2.3 TWh/y in 2023. This initiative further contributes to reducing its exposure to spot market fluctuations. In all, Engie's strategy seeks to manage and reduce its exposure to the spot, and as PPAs come due and are renewed (next material maturity in December2026), new PPAs should be supported by own generation  or backup PPAs, thus limiting the need to purchase energy in the spot market.

**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 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. This is relevant in our rating composition because it currently provides a three-notch uplift from the stand-alone credit profile (SACP) of 'bb'" to the final rating of "BBB".

# Outlook

The stable outlook incorporates S&P Global Ratings' view that Engie Chile will continue to be a strategically important subsidiary to its parent company. We expect liquidity to remain adequate, with company's sources of cash about 20% higher than the uses in the next 12 months. We also expect that net debt to EBITDA will remain below 5x in 2025 and 2026 while the company continues investing in the development of renewable capacity that we expect will reduce its net buyer position and hence its exposure to the spot market, reducing margins volatility.

## 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 capex accelerates beyond expectations (including costs overruns) or if there is high volatility in commodity prices affecting cash flows. Moreover, we could lower the ratings if we perceive that the company will present net debt to EBITDA consistently above 5x, which could occur, for instance, due to excessive capex, cost overruns, or delays in the execution. Lastly, we could downgrade Engie if we reassess the group status because of a deterioration in the support from the parent or if we downgrade the parent.

## Upside scenario

Under the current group status assessment, 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 two years owing to the sizable investment plan.

# 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 (please see "Economic Outlook Emerging Markets Q2 2025: Trade Policy Unknowns Dampen Investment," March 25, 2025. We forecast Chile's GDP to grow 2.2% in 2025, 2.3% in 2026, and 2.4% in 2027. We expect the consumer price index (CPI) to grow 4.5% in 2025, 3.4% in 2026, and 3.0% in 2027. In addition, we expect U.S. consumer price index (CPI) to be 3% in 2025, 2.6% in 2026, and 2.2% in 2027 (see "Growth Prospects Strained After The U.S. Takes The Tariff Plunge," March 6, 2025). (For coal price assumptions, see "S&P Global Ratings Metal Price Assumptions: Prices Hold Steady Despite Headwinds," Oct. 16, 2024.)
- For our oil and gas price assumptions, see "S&P Global Ratings Revises Oil And Gas Price Assumptions On Uncertain Geopolitics And Market Fundamentals," on March 6, 2025.
- We assume power generation of 5,500 gigawatt hours (GWh) to 6,000 GWh, and Engie Chile to continue buying about 3,500 GWh in the open market with PPAs with other generation companies of about 3,800 GW.
- 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 $112 per megawatt hour (MWh) and $149 per MWh for unregulated and regulated clients, respectively.
- We assume spot prices around $60-$70 per MWh in 2025 and 2026.
- We expect other revenue from gas sales near $60 million for the next two years, and transmission revenue and ancillary services close to $140 million.
- We assume capex of about $850 million for 2025 and $450 million in 2026, and maintenance capex of about $50 million.
- We foresee no delays or cost overruns associated with the construction of the current projects.
- We don't expect the company to raise new debt in 2025
- We see dividends aligned with the minimum of 30% of previous year net income in 2025-2026 (about $60 million per year).

## Key metrics

- EBITDA around $550 million in 2025 and 2026, resulting in a margin of about 29%-30%
- Net debt to EBITDA of around 4.0x – 4.5x
- EBITDA interest coverage between 4.x-5.0x

# 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/--). The company's installed capacity is composed of coal accounting (40%), renewables (30%), gas (25%), and BESS (5%).

The company is also the third-largest transmission operator in Chile, operating 2,128 kilometers (km) of high- and medium-voltage transmission lines with 40 substations. Engie Chile has a 50% stake in Transmisora Eléctrica del Norte that operates a 600 km double circuit 500 kV national transmission system. 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 18.02%, followed by pension funds (15.65%), foreign institutions (6.01 %), and individuals (the rest).

# Peer Comparison

We view other Chilean power generators including Colbun, AES Andes, and Enel Chile as Engie's peers.

From a business perspective, the peers' main characteristics are that they own and operate a diverse portfolio of assets, are vertically integrated, and in some cases operate in the generation and transmission segments in more than one country. In addition, peers have satisfactory business profiles, in our view, reflecting certain country risks, adequate competitive positions, and geographic and asset diversity. As of December 2024, Enel Chile had the largest market share by generation (28%), followed by Colbun (14%), AES Andes (6%), and Engie Chile (6%). These companies control more than 50% of the Chilean market.

Although the Engie group operates in various Latin American countries, Engie Chile operates only in one country. Colbun operates in Chile and Peru through its subsidiary Fenix Power Peru S.A. (BBB-/Stable/--).

All Chilean peers have been investing significantly in transitioning to renewable energy. Therefore, from a financial perspective, leverage ratios in the sample have increased to 4x-5x, resulting in relatively aggressive metrics while companies, including Engie, continue to execute their capex strategies.

Finally, the ratings on Engie incorporate our view of parent support, given that the company is an important subsidiary and benefits from technical and management support from its parent. Engie S.A. has provided financial support to other subsidiaries in Chile and would support Engie if needed.

**Engie Energia Chile S. A.--Peer Comparisons**

| | Engie Energia Chile S.A. | Colbun S.A. | AES Andes S.A. | Enel Chile S.A. |
|---|---|---|---|---|
| Foreign currency issuer credit rating | BBB/Stable/-- | BBB/Stable/-- | BBB-/Stable/-- | BBB/Stable/-- |
| Local currency issuer credit rating | BBB/Stable/-- | BBB/Stable/-- | BBB-/Stable/-- | BBB/Stable/-- |
| Period | Annual | Annual | Annual | Annual |
| Period ending | 2024-12-31 | 2024-12-31 | 2024-12-31 | 2024-12-31 |
| Bil. | CLP | CLP | CLP | CLP |
| Revenue | 1,825 | 1,566 | 2,328 | 3,987 |
| EBITDA | 507 | 638 | 355 | 725 |
| Funds from operations (FFO) | 363 | 413 | 57 | 239 |
| Interest | 130 | 87 | 153 | 306 |
| Cash interest paid | 116 | 87 | 211 | 291 |
| Operating cash flow (OCF) | 554 | 376 | 546 | 1,261 |
| Capital expenditure | 651 | 235 | 421 | 599 |
| Free operating cash flow (FOCF) | (97) | 141 | 125 | 662 |
| Discretionary cash flow (DCF) | (97) | 7 | 125 | 317 |
| Cash and short-term investments | 496 | 770 | 186 | 403 |
| Gross available cash | 496 | 770 | 186 | 403 |
| Debt | 2,020 | 1,515 | 2,081 | 3,556 |
| Equity | 1,555 | 3,210 | 1,482 | 5,326 |

**Engie Energia Chile S. A.--Peer Comparisons**

| | | | | |
|---|---|---|---|---|
| EBITDA margin (%) | 27.8 | 40.8 | 15.2 | 18.2 |
| Return on capital (%) | 13.1 | 9.3 | 8.6 | 5.5 |
| EBITDA interest coverage (x) | 3.9 | 7.3 | 2.3 | 2.4 |
| FFO cash interest coverage (x) | 4.1 | 5.8 | 1.3 | 1.8 |
| Debt/EBITDA (x) | 4.0 | 2.4 | 5.9 | 4.9 |
| FFO/debt (%) | 18.0 | 27.3 | 2.7 | 6.7 |
| OCF/debt (%) | 27.4 | 24.8 | 26.2 | 35.5 |
| FOCF/debt (%) | (4.8) | 9.3 | 6.0 | 18.6 |
| DCF/debt (%) | (4.8) | 0.5 | 6.0 | 8.9 |

# Business Risk

Our view of Engie's business risk profile as satisfactory incorporates its transformation to a power generator with a more attractive asset generation matrix, stemming from its development of clean energies that are gradually replacing its carbon-based capacity. Its capacity is largely contracted, with little to no sales coming from the spot market.

Engie expanded its renewable capacity by 0.5 GW in 2024 and has another 1.1 GW under construction between 2025 and 2027. As a result of its asset rotation program, Engie will be able to increase its total installed capacity to about 3.5 GW by year-end 2026 or first-quarter 2027. Even if Engie's capacity increases, we don't expect significant changes in its market share, given that competitors are also implementing investments to adhere to Chile's clean power plans.

We expect Engie to continue to ensure its profitability through long-term PPAs with regulated and unregulated clients, while managing and reducing its exposure to the more volatile spot market.

From a different angle, the recent revision of our assessment of Chile's regulatory framework currently is neutral for our rating on Engie Chile. Our perception of regulatory risk in Chile has increased (see "Latin American Electric Utility Regulatory Framework: Signs Of Increased Political Interference," Jan. 9, 2025). This assessment also incorporates the frozen rates for generators between 2019 and 2024. Although compensated through the Mecanismo de Protección al Cliente Final (MPC) securities, there were delays in implementation that eroded the company's working capital temporarily. As a result, we revised our regulatory assessment for utilities in Chile, which is now in line with those of their Brazilian and Mexican peers.

# Financial Risk

Our forecast includes the execution of capex on new renewable capacity totaling $850 million in 2025 and $450 million in 2026. Simultaneously, we are projecting that the company will phase out coal by 2026. Also, we have incorporated the possibility of issuing additional debt in the future, if necessary, to continue funding capex.

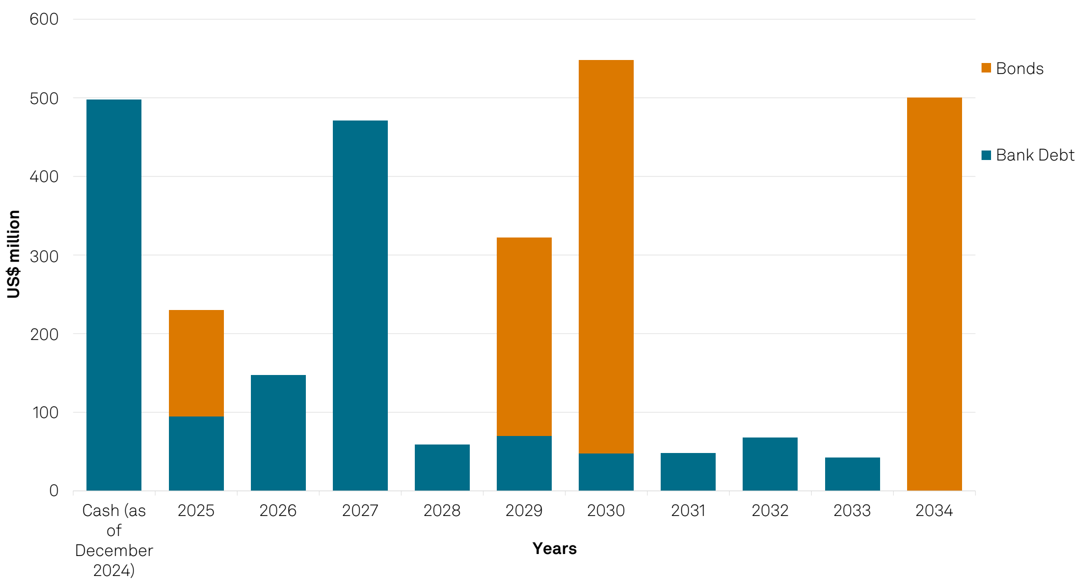
Our base-case scenario assumes that Engie Chile will generate about $600 million in annual EBITDA and maintain net debt to EBITDA around 4.0x-4.5x and funds from operation (FFO) to debt of about 15%. We also expect the company to pay dividends for 30% of net income in 2025 and 2026, reaching about $50 million in both years.

## Debt maturities

We believe that the company has manageable debt maturities over the next two years. In April and August 2024, Engie capitalized on favorable market conditions to extend the tenor of its debt, issuing a $500 million bond that partially refinanced $215 million of its $350 million principal due in 2025, thereby enhancing its short-term liquidity ratio. In January 2025, with the proceeds from the Precio Estabilizado al Cliente (PEC, Stabilized Price To Clients-), Engie successfully paid off the remaining debt. As of December 2024, the company had a solid $499 million cash position, fueled by the monetization of receivables (PEC) during 2024.

**Debt maturity schedule**

As of December 2024




Source: S&P Global Ratings.



**Engie Energia Chile S. A.--Financial Summary**

| Period ending | Dec-31-2019 | Dec-31-2020 | Dec-31-2021 | Dec-31-2022 | Dec-31-2023 | Dec-31-2024 |
|---|---|---|---|---|---|---|
| Reporting period | 2019a | 2020a | 2021a | 2022a | 2023a | 2024a |
| Display currency (bil. ) | USD | USD | USD | USD | USD | USD |
| Revenues | 1,094 | 960 | 1,260 | 1,631 | 1,918 | 1,825 |
| EBITDA | 395 | 316 | 267 | 152 | 317 | 507 |
| Funds from operations (FFO) | 337 | 233 | 202 | 95 | 203 | 363 |
| Interest expense | 28 | 42 | 76 | 64 | 112 | 130 |
| Cash interest paid | 16 | 40 | 65 | 47 | 86 | 116 |
| Operating cash flow (OCF) | 361 | 166 | 113 | (363) | 298 | 554 |
| Capital expenditure | 116 | 132 | 178 | 168 | 469 | 651 |
| Free operating cash flow (FOCF) | 245 | 34 | (65) | (531) | (171) | (97) |
| Discretionary cash flow (DCF) | 156 | (12) | (173) | (531) | (171) | (97) |
| Cash and short-term investments | 180 | 167 | 184 | 128 | 275 | 496 |

| Engie Energia Chile S. A.--Financial Summary | | | | | | |
|---|---|---|---|---|---|---|
| Gross available cash | 180 | 167 | 184 | 128 | 275 | 496 |
| Debt | 470 | 528 | 843 | 1,501 | 1,699 | 2,020 |
| Common equity | 1,597 | 1,540 | 1,850 | 1,541 | 1,215 | 1,555 |
| **Adjusted ratios** | | | | | | |
| EBITDA margin (%) | 36.1 | 32.9 | 21.2 | 9.3 | 16.6 | 27.8 |
| Return on capital (%) | 13.7 | 9.6 | 4.2 | (11.9) | (10.7) | 13.1 |
| EBITDA interest coverage (x) | 13.9 | 7.5 | 3.5 | 2.4 | 2.8 | 3.9 |
| FFO cash interest coverage (x) | 21.9 | 6.9 | 4.1 | 3.0 | 3.4 | 4.1 |
| Debt/EBITDA (x) | 1.2 | 1.7 | 3.2 | 9.9 | 5.4 | 4.0 |
| FFO/debt (%) | 71.8 | 44.1 | 23.9 | 6.3 | 12.0 | 18.0 |
| OCF/debt (%) | 76.9 | 31.4 | 13.4 | (24.2) | 17.5 | 27.4 |
| FOCF/debt (%) | 52.2 | 6.5 | (7.7) | (35.4) | (10.1) | (4.8) |
| DCF/debt (%) | 33.2 | (2.2) | (20.5) | (35.4) | (10.1) | (4.8) |

# Liquidity

In our view, Engie Chile's cash sources exceed uses by more than 1.2x in the next 12 months, supporting adequate 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. From a more qualitative standpoint, we take note of the support received in the past from its parent under the form of short-term facilities to support liquidity.

## Principal liquidity sources

- As of Dec. 31, 2024, $511 million in cash and liquid investments
- Expected FFO around $450 million
- No new PECs considered, other than the $112 million effectively received in April 2025

## Principal liquidity uses

- Short-term debt payments of $292 million
- Maintenance capex of $50 million to $60 million in the next 12 months
- Working capital outflows reaching about $20 million to $30 million
- Dividend distributions calculated as 30% of previous year´s net income

# Covenant Analysis

## Requirements

The existing debt doesn't have financial covenants, but rather mainly reporting requirements (including the presentation of financial statements) and certain limitations and restrictions to pledge assets. Other obligations apply, like certain minimums of installed generating capacity to be maintained and PPAs during the term of the loans.

## Environmental, Social, And Governance

In our view, environmental factors are a moderately negative consideration in our credit rating analysis of Engie Chile because its carbon footprint represents about 58% of generation. However, we expect the company to reduce this ratio by 2026-2027 through renewable energy investments. In addition, we believe Engie Chile's renewable strategy follows that of its parent, which has resulted in a relatively low carbon footprint for the latter.

To eliminate emissions by 2045 across all scopes, the group plans to reduce its carbon intensity to 158 of carbon dioxide equivalent per kilowatt hour ($CO_2$ eq./kWh) in 2030 from 230g/KWh in 2025, and its greenhouse gas emissions from energy production to 43 million tons of carbon dioxide ($MtCO_2$) equivalent in 2030 from 52 $MtCO_2$ equivalent in 2023. The group's phaseout of coal-based generation and the increasing share of renewables in the mix should help reach these targets.

## Group Influence

Engie Energía Chile S.A. is a subsidiary of Engie S.A., which owns 59.99% of the company. The rest is owned by noncontrolling minority shareholders floating in the stock market. We consider Engie strategically important to the group's long-term strategy, particularly for expanding its operations in Latin America, and the subsidiary is likely to receive support if necessary. Therefore, the SACP adjusted for Group Rating Methodology considerations is three notches above the entity's SACP. Recently, in 2023 we saw proof of support through short-term credit lines, which Engie Chile used for capex and working capital needs (liquified natural gas purchases). This support was also instrumental to refinance other credit lines alleviating liquidity.

| Rating Component Scores | |
|---|---|
| **Foreign currency issuer credit rating** | **BBB/Stable/--** |
| **Local currency 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** |
| Diversification/portfolio effect | Neutral (no impact) |
| Capital structure | Neutral (no impact) |
| Financial policy | Neutral (no impact) |
| Liquidity | Adequate (no impact) |
| Management and governance | Neutral (no impact) |
| Comparable rating analysis | Neutral (no impact) |
| **Stand-alone credit profile** | **bb** |

# Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- 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: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

| Ratings Detail (as of April 25, 2025)* | |
|---|---|
| **Engie Energia Chile S.A.** | |
| Issuer Credit Rating | BBB/Stable/-- |
| Senior Unsecured | BBB |
| **Issuer Credit Ratings History** | |
| 11-Sep-2023 | BBB/Stable/-- |
| 31-Mar-2023 | BBB/Watch Neg/-- |
| 11-Dec-2013 | BBB/Stable/-- |
| **Related Entities** | |
| **Engie S.A.** | |
| Issuer Credit Rating | BBB+/Stable/A-2 |
| Commercial Paper | A-2 |
| Junior Subordinated | BBB- |
| Senior Unsecured | BBB+ |
| **GIE ENGIE Alliance** | |
| Issuer Credit Rating | BBB+/Stable/-- |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.