MOODY'S
INVESTORS SERVICE

CREDIT OPINION
22 July 2022

Update

Send Your Feedback

Colbun S.A.

Update to credit analysis

Summary

Colbun S.A.'s (Colbun, Baa2 stable) credit quality reflects the company's size and importance within the power generation market in Chile (A1 negative); prudent commercial policy and adequate credit metrics despite the recent volatility stemming from adverse hydro conditions in Chile; and strong liquidity. The company is seeking to further diversify its fuel resource base, which will decrease its operating costs, helping preserve its margins amid declining power prices, and reduce its exposure to carbon transition risks.

Our credit view incorporates our expectation of improved credit metrics over the next 2 years from current low levels, despite the recent volatility in the power market in Chile, and as the company moves forward with its investment plan in wind and solar projects amid the transition from legacy regulated power purchase agreements (PPAs) to a largely unregulated contracted base. We expect Colbun's debt/EBITDA to stay around 4x and cash flow from operations pre-working capital (CFO pre-WC)/debt around 20% in 2022-23 and slightly improve thereafter. We expect the company to continue to develop its expansion plans without incurring more debt, supported by its strong cash position and cash generation, as well as a lower dividend payout ratio of 50% compared with recent years.

RATINGS

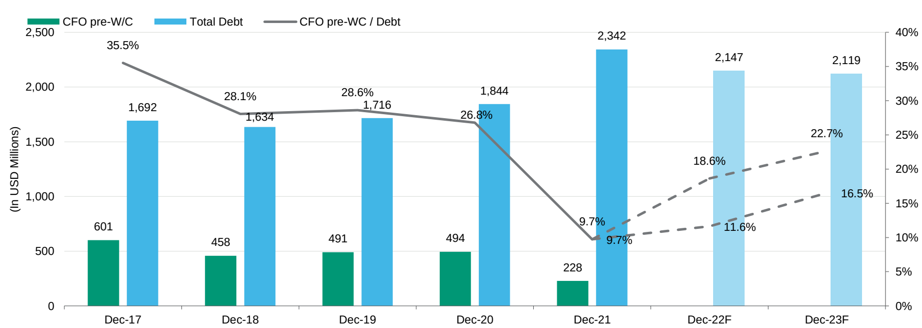
Colbun S.A.

Domicile	Santiago, Chile
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Exhibit 1

Improving credit metrics from lower than historical levels in 2021-22Metrics for 2022-23 show current expectations for their minimum and maximum



Source: Moody's Investors Service

Contacts

Daniela Cuan +54.11.5129.2617
VP-Senior Analyst
daniela.cuan@moodys.com

Philipp Toculescu +54.11.5129.2644
Analyst
philipp.toculescu@moodys.com

Cristiane Spercel +55.11.3043.7333
Senior Vice President/Manager
cristiane.spercel@moodys.com

» Contacts continued on last page

Credit strengths

- Scale and market position in Chile, as the third-largest energy generator
- Prudent commercial policy, with sales largely addressed by own generation
- Strong liquidity

Credit challenges

- Increasing exposure to unregulated customers in its contracted base
- Tariff stabilization and government affordability concerns, which create uncertainty around the predictability of the regulatory framework
- Exposure to water stress and high fuel prices which increased the company's variable costs and contributed to a lower EBITDA margin for 2021

Rating outlook

The stable rating outlook reflects our expectation that Colbun will continue to successfully execute its financial and commercial policy by focusing on extending its contracted position and managing its investment program prudently. The outlook also reflects our assumption of good cash flow visibility, with a seven-year remaining weighted average life of contracts and robust terms that support a recovery in Colbun's financial metrics over the next 18 months.

Factors that could lead to an upgrade

We could upgrade Colbun's rating if the company diversifies its operating profile further by expanding into other markets that have stable, creditor-friendly regulatory frameworks. The rating could also be upgraded if Colbun extends its contracted position further at price levels that lead to an improvement in its credit metrics on a sustained basis, such that its:

- interest coverage is above 8.0x
- CFO pre-WC/debt is above 35%
- retained cash flow (RCF)/debt is above 15%

Factors that could lead to a downgrade

A downgrade of Colbun's rating would be triggered if the company is unable to renew its PPAs, leading to a shorter-than-expected weighted average contracted life and limited cash flow visibility; it were to undertake large, debt-funded acquisitions; its liquidity significantly deteriorates; or we perceive a weakening in the regulatory framework. In addition, we could downgrade the company's ratings upon a more persistent deterioration in Chile's operating environment or if the credit metrics do not improve as anticipated. Quantitatively, downgrade rating pressure would increase if:

- interest coverage remains below 5.0x on a sustained basis
- CFO pre-WC/debt remains below 20% on a sustained basis
- RCF/debt remains below 10% on a sustained basis

Key indicators

Exhibit 2
Colbun S.A.

	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	LTM Mar-22
CFO pre-WC + Interest / Interest	8.7x	7.2x	6.9x	7.5x	3.7x	3.3x
CFO pre-WC / Debt	35.5%	28.1%	28.6%	26.8%	9.7%	9.7%
RCF / Debt	18.2%	13.6%	5.2%	7.7%	-14.7%	-15.1%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Profile

Headquartered in Santiago, Chile, Colbun S.A. is an operational holding company engaged in power generation in Chile (A1 negative) and Peru (Baa1 stable), the latter through its controlling stake in Fenix Power Peru S.A. As of June 2022, the company had a total combined installed capacity of 4,010 megawatts (MW), of which 53% was thermal and 47% renewable plants (mainly hydro). In 2021, the company reported gross profit and EBITDA of $1,439 million and $508 million, respectively. The business in Chile represented more than 80% of 2021 EBITDA.

The company is controlled by the Matte Group, which holds 49.96% of Colbun's total capital. Matte Group has investments in the energy, financial, forestry, real estate and telecom sectors.

Recent developments

» On January 24, 2022, Colbun prepaid its bonds in the local market for an amount of $180 million.

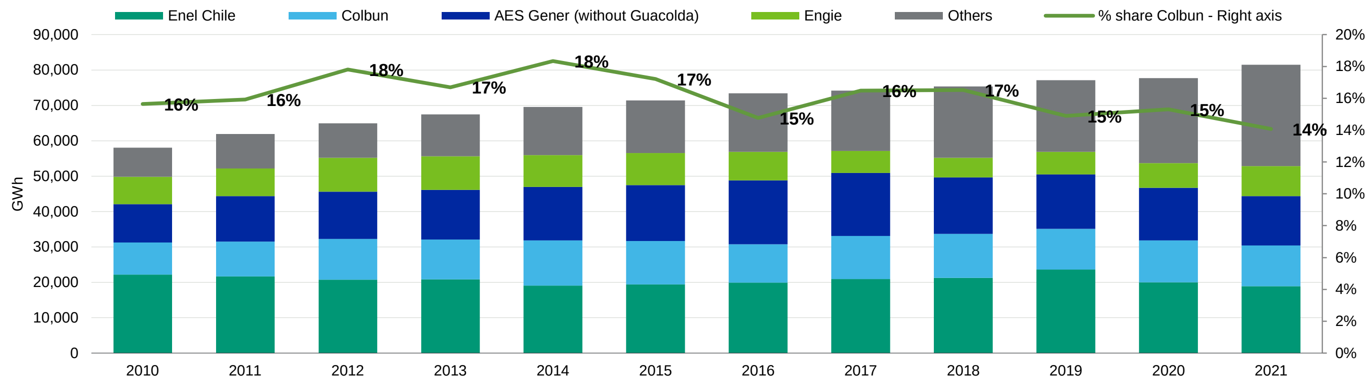
» The sale of Colbún Transmisión S.A. to Alfa Desarrollo SpA. took place on October 1, 2021, for $1,185 million. The sale was approved by the Fiscalía Nacional Económica on August 3, 2021, after an agreement signed between both entities on March 30, 2021. The proceeds were distributed to shareholders.

Detailed credit considerations

Leading market position in Chile

Colbun has a leading position in the Chilean market, where it is the third-largest energy generator and accounted for 14% of the market share as of December 2021. The company has a large scale, with 3,222 MW of installed capacity in Chile and total energy generation of 11.4 terawatt-hours (TWh) in 2021. On a national scale, Colbun is only behind Enel Generacion Chile, the subsidiary of Enel Chile S.A. (Baa2 stable) and AES Andes S.A. (Baa3 stable) in terms of energy generation. All of Colbun's Chilean assets are located in the south-central region of the country.

Exhibit 3
Colbun is the third-largest power generation company in Chile



Source: Systep

Prudent commercial policy and manageable re-contracting risks

Colbun has an adequate contracted position but some exposure to re-contracting risks. In 2021, Colbun re-contracted 27 contracts of energy supply to have 304 unregulated clients and 20 regulated clients, compared with 285 and 20, respectively, in 2020. Nonetheless, Colbun's physical sales decreased by 9% because of lower sales to regulated clients, lower sales to unregulated clients because of contract expiration with Anglo American, and lower spot market sales because of lower generation in the year.

The company has signed contracts for the delivery of a maximum volume of 12 TWh per year until 2026, which is above its average historical position. While these contracts contain fixed and variable volume commitments, they provide for fixed real prices, adjusted for inflation and the cost of fuel. The recent margin erosion is explained by the company's below-average hydro generation (4 TWh in 2021 compared with 6 TWh in 2021) and, therefore, the use of more costly generation sources. The company remains focused on enhancing its contracted position, particularly through non-regulated customers, while it continues to invest in renewables.

At present, around 68% of Colbun's sales are with unregulated customers, which exposes its cash flow to counterparty risk. However, we acknowledge the diversity of Colbun's customer base, and its ability to negotiate collateral packages mitigates the counterparty risk. These packages include corporate guarantees and letters of credit from creditworthy shareholders.

Tariff stabilization raised concerns over the regulatory regime

Following the tariff stabilization mechanism introduced in Chile in late 2019, a new proposal to avoid power price increases for regulated customers is currently under discussion in Congress. While the latest proposal intends to be credit-neutral for power companies and we do not expect a negative impact on Colbun's cash flow if the legislation is approved, persistent high fuel prices, high inflation and depreciation of the Chilean peso will continue to strain energy prices and raise concerns about the potential for government interference in tariff-setting mechanisms.

On October 30, 2019, Chile's Congress approved a bill (Law No 21,185) to retract the previously approved 9.2% hike in electricity tariffs through a mechanism that sets PPA prices for customers in the regulated utilities sector at the same level as those applied in the first half of 2019 (Regulated Customer Stabilized Price, PEC). Under this mechanism, the distribution companies continued to pay power generators in Chilean pesos the same prices they had paid in H1 2019. The difference between the final prices applied to PPAs and the actual energy costs was accrued as receivables, and would be repaid to generators by distribution companies once cheaper PPAs start to kick in, smoothening out the effect of lower long-term power prices. In the mean time, the effect of this arrangement on the cash flows of power companies was mitigated by the securitization of those receivables.

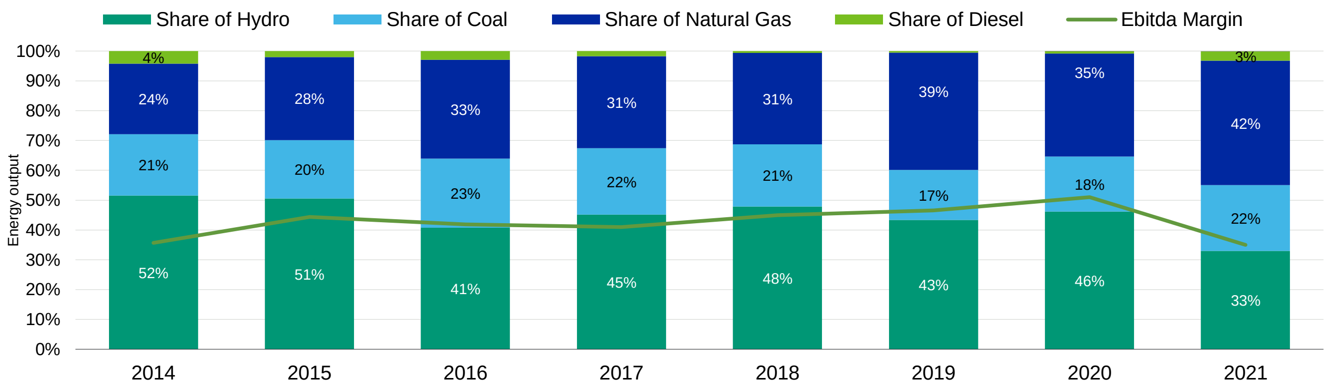
The PEC was set in a way that the maximum deferred amount until 2023 would be $1.3 billion; however, because of higher than anticipated inflation and local-currency devaluation, this amount was reached earlier than anticipated (in April 2022), which caused the government to create a new compensation mechanism (mecanismo de proteccion al cliente or MPC) that was recently approved by Congress. Under this new initiative, power companies will continue to collect payments from distribution companies at the stabilized price, and the difference (PPA price) will be made up from an emergency fund funded by certain charges to clients and by contributions from the government.

Drought affected Colbun's EBITDA in 2021

The company's prudent commercial policy, in combination with its diversified and efficient energy generation fleet, has helped it cope with continued hydro shortages while maintaining its generation margins. In 2021, however, natural gas dispatch reached 42% of overall generation — 22% was derived from coal and hydro generation contributed only 33%, with the remaining 3% coming from solar energy. The drought in 2021 caused lower hydro generation compared with previous years and, together with higher thermal generation that increased the variable costs of the company, contributed to a lower EBITDA margin of 35% in 2021, compared to 51% in 2020.

Exhibit 4

Lower hydro generation weakened the EBITDA margin in 2021

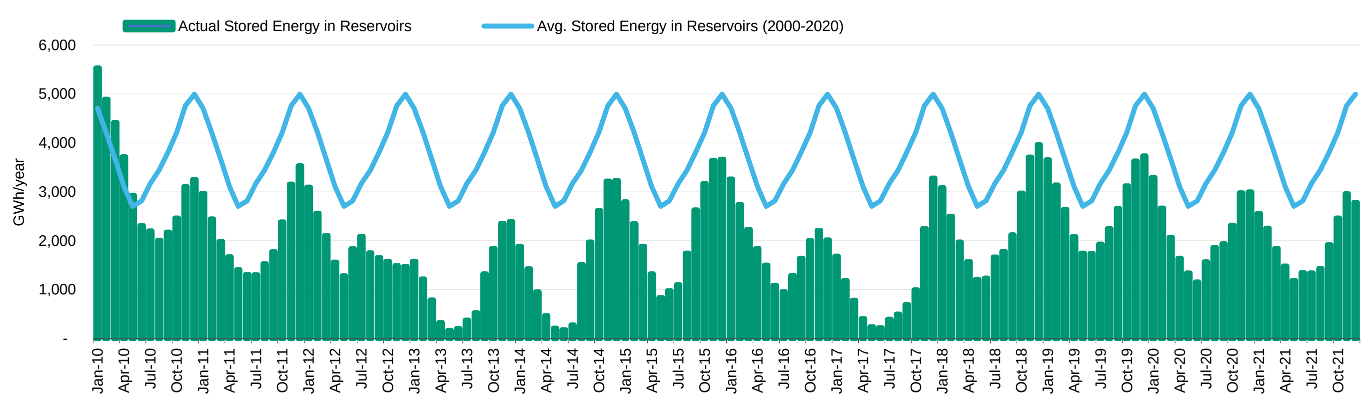


Source: Systep

Reservoir levels in the national system were at around 56% of the 20-year historical average as of December 2021, a significant decrease from the 75% in December 2019. Because of better planning by the electric coordinator in managing water reservoirs along with more rainfall and snow accumulation, we expect hydro conditions (and therefore hydro generation for Colbun) to improve in 2022. Nonetheless, EBITDA margin will likely remain constrained in 2022, improving only in 2023 and 2024 when new capacity of alternative renewables reaches COD.

Exhibit 5

Reservoir level was around 60% of the 20-year historical average in 2021



Source: Systep

Continued appetite for renewable project development

In addition to continued interest in expanding within the region to countries with stable regulatory environments, the company has now refocused its growth strategy on Chile, with a pipeline of 2,813 MW of installed capacity in wind and solar projects with estimated commissioning between 2022 and 2025. The business case is enhanced by the continued decline in development costs and increasing technological efficiencies, which are likely to increase generation output per installed capacity, and a broader generation policy direction on the part of the government tied to carbon regulation.

In June 2020, Colbun's board approved the construction of the Diego de Almagro Sur I and II photovoltaic projects in Atacama (Chile), with a combined capacity of 230 MW. The total investment is $147 million, and the delivery will likely happen in Q2 2022. In addition, it approved the Machicura photovoltaic project in Maule (Chile), with a capacity of 9 MW. The investment amount was $7 million, and it has been supplying energy to the system since Q4 2021.

We expect the company to continue to pursue new investments over the next three to four years, increasing its investment budget. Currently, there are two projects under construction: Horizonte wind project (778 MW) with an approved investment of $850 million, which is scheduled to start operations in Q4 2024; and installation of batteries at the Diego Almagro project with a capacity of 8 MW for four hours with an investment of $11 million. Additionally, there are two environmentally approved solar projects with estimated installed capacity of 486 MW (Inti Pacha solar project) and 537 MW (Jardín Solar project). We expect the company to raise modest levels of additional debt to support this investment plan, based on our assumption that it will reduce dividend distributions from 2022 onward (50% of net income) below the payout of 100% or higher from recent years.

The company also continues its strategy of growing outside Chile and within Latin America, similar to its investment in Fenix Power Peru S.A., in which it acquired a 51% share in 2015. In September 2020, Colbun announced the acquisition of Efizity, a company focused on energy services in the Chilean market, in line with the strategy of improving the competitiveness of its customers by promoting energy efficiency through innovative solutions.

Lower-than-historical credit metrics in 2021 will recover towards 2023

Colbun's historical credit metrics have been strong. However, in 2021, despite the economy's reactivation, Colbun presented weak credit metrics driven mainly by the lower hydro generation caused by the drought in Chile that was replaced by thermal generation, which increased the company's variable costs. Additionally, there was an international bond issuance in October 2021 for $600 million, which was partially used to finance the construction of renewable energy projects. As a consequence, cash interest coverage, measured as CFO pre-WC + interest/interest expense dropped to 3.7x from 7.5x in 2020, while CFO pre-WC/ debt dropped to 9.7% from 26.8%.

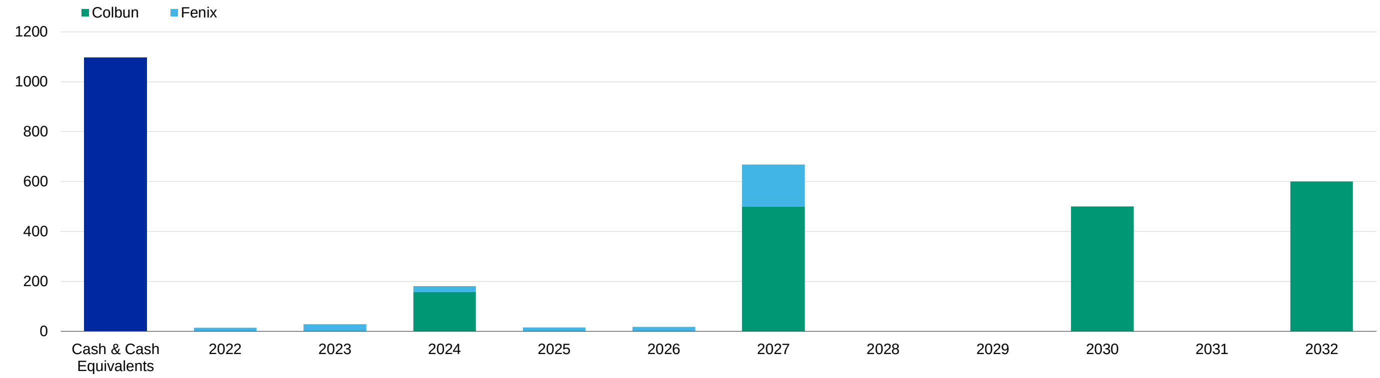
We expect a recovery in cash flow generation in 2022-23 that will bring cash interest coverage to the 5.0x-6.0x range and CFO pre-WC/debt around 18%-20% even as the company implements its capital investment program and distribute dividends to shareholders in accordance with its stated policy of 50% of net income. Colbun currently has a solid cash balance, and its investment plan is focused on a more diversified and cheaper-to-operate fuel resource base, which will help improve its EBITDA and EBITDA margins despite declining PPA prices.

Liquidity analysis

Colbun maintains very strong liquidity, with a cash balance of $1,098 million as of March 2022 and short-term financial obligations around $80 million. This cash balance will support its investment plan or potential acquisitions in accordance with the company's growth strategy. As of March 2022, Colbun's debt had an average life of 6.9 years and average cost of 3.5%, and was 100% fixed rate.

Exhibit 6

Consolidated debt schedule (as of March 2022)USD Million

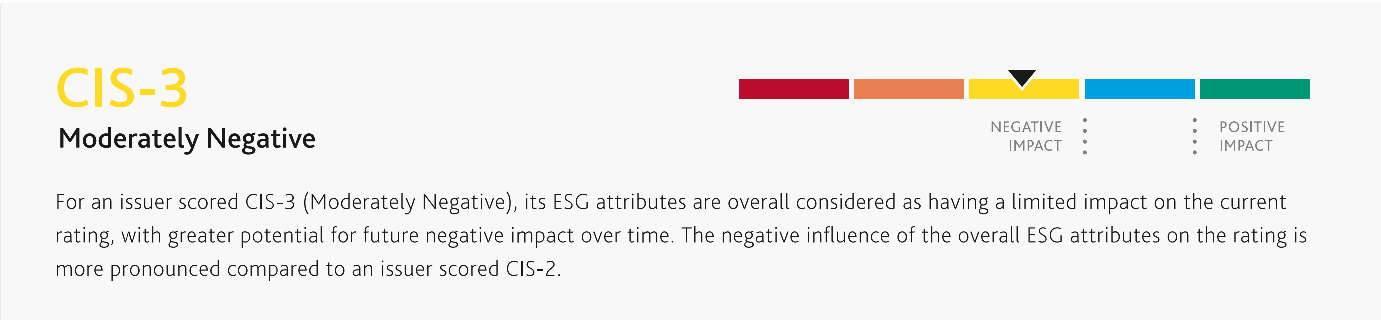


Source: Colbun

ESG considerations

COLBUN S.A.'s ESG Credit Impact Score is Moderately Negative CIS-3

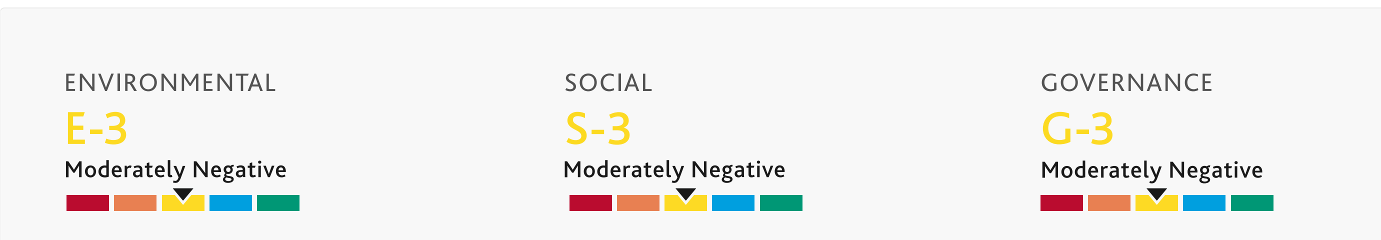
Exhibit 7
ESG Credit Impact Score



Source: Moody's Investors Service

Colbun ESG Credit Impact Score is moderately negative (**CIS-3**), reflecting moderately negative environmental, social and governance (ESG) risks.

Exhibit 8
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental
Colbun's moderately negative environmental risk exposure (**E-3** Issuer Profile score) mainly reflects the moderately negative exposure to physical climate risks that are typical for utilities, including the exposure to resource risks and commodity prices, as well as to pollution from its coal operations. The company also faces a moderately negative exposure to carbon transition resulting from more strict environmental regulation in Chile that increases the risk for certain operational assets; however, these risks are partially offset by the company's diversified energy portfolio and planned expansion of its renewable capacity. Our score also incorporates neutral to low exposure to water management and natural capital.

Social
Colbun's moderately negative social risk exposure (**S-3** Issuer Profile score) reflects moderate risks of adverse regulations because of social pressures or public concern over affordability issues that had recently been manifested in Chile and resulted in the temporary suspension of the electricity tariff indexation. These risks are balanced by low-to-medium exposure to loss of clients or limited access to capital because of ESG-related concerns, and the company's strong standards in terms of health and safety of its employees.

Governance
Governance risk exposure for Colbun is moderately negative (**G-3** Issuer Profile score), reflecting the company's prudent financial profile and management track record. Colbun is a publicly traded company, and its stock is listed on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. The company is controlled by the Matte Group, which owns 49.96% of the company's shares, illustrating some concentration in its shareholding structure.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on www.moodys.com. To view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Methodology and scorecard

The principal methodology we used for Colbun's credit analysis was Unregulated Utilities and Unregulated Power Companies rating methodology, published in May 2017. As depicted in the grid below, Colbun's both current and forward-looking scorecard-indicated outcomes are Baa3, one notch below the current rating, explained mainly by the extraordinary dividend distribution in 2021. We expect the company to return to a normalized payout ratio of 50% in the coming years. In addition, poor hydro conditions in 2021-22, coupled with volatile prices, will drive lower-than-historical credit metrics, which we expect to recover towards 2023.

Exhibit 9

Rating factors

Colbun S.A.

Unregulated Utilities and Unregulated Power Companies Industry [1][2]	Current LTM 3/31/2022		Moody's 12-18 Month Forward View As of 6/2/2022 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (USD Billion)	Baa	Baa	Baa	Baa
Factor 2 : Business Profile (35%)				
a) Market Diversification	Ba	Ba	Ba	Ba
b) Hedging and Integration Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa
c) Market Framework & Positioning	Baa	Baa	Baa	Baa
d) Capital Requirements and Operational Performance	Baa	Baa	Baa	Baa
e) Business Mix Impact on Cash Flow Predictability		NA		
Factor 3 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	5.9x	Baa	5-6x	Baa
b) (CFO Pre-W/C) / Debt (3 Year Avg)	21.0%	Baa	12-15%	Ba
c) RCF / Debt (3 Year Avg)	-2.1%	Caa	8-10%	Ba
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa3
b) Actual Rating Assigned				Baa2

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 03/31/2022. [3] This represents Moody's forward view, not the view of the issuer, and incorporates the sale of the transmission assets.

Sources: Colbun, Moody's Financial Metrics™ and Moody's Investors Service estimates

Exhibit 10

Cash flow and credit metrics [1]

Colbun S.A.

(In USD Millions)	Dec-18	Dec-19	Dec-20	Dec-21	LTM Mar-22
As Adjusted					
EBITDA	**683**	**693**	**689**	**509**	**550**
FFO	**514**	**436**	**384**	**901**	**917**
- Div	291	346	241	1,245	1,242
RCF	**223**	**89**	**143**	**(344)**	**(325)**
FFO	514	436	384	901	917
+/- Other	(0)	0	0	(1)	(1)
CFO Pre-WC	**458**	**491**	**494**	**228**	**210**
+/- ΔWC	(17)	(7)	(50)	24	(18)
CFO	**442**	**484**	**444**	**252**	**192**
- Div	291	346	241	1,245	1,242
- Capex	108	96	123	258	292
FCF	**43**	**42**	**81**	**(1,251)**	**(1,342)**
Debt / EBITDA	2.4x	2.5x	2.7x	4.6x	3.9x
Revenue	1,529	1,487	1,349	1,440	1,521
Interest Expense	74	83	76	83	90
Net Income	279	276	321	144	241
Total Assets	6,778	6,705	6,634	6,596	6,484
Total Liabilities	3,122	3,169	3,174	3,880	3,695
Total Equity	3,657	3,536	3,459	2,717	2,790

[1] All figures & ratios calculated using Moody's estimates & standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 11

Peer comparison

	Colbun S.A. Baa2 stable			AES Andes S.A. Baa3 stable			Enel Chile S.A. Baa2 stable			Enel Americas S.A. Baa2 stable			Empresas Publicas de Medellin E.S.P Baa3 stable		
	FYE Dec-20	FYE Dec-21	LTM Mar-22	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-20	FYE Dec-21	LTM Mar-22	FYE Dec-20	FYE Dec-21	LTM Mar-22	FYE Dec-19	FYE Dec-20	FYE Dec-21
Revenue (in USD millions)	1,349	1,440	1,521	2,412	2,507	2,771	3,273	3,771	4,050	11,484	16,192	16,573	5,429	5,250	6,643
EBITDA (in USD millions)	689	509	550	839	1,025	1,104	1,183	690	675	3,324	4,238	4,623	1,960	1,931	1,856
CFO pre-WC + Interest / Interest	7.5x	3.7x	3.3x	6.3x	7.5x	8.3x	4.3x	2.5x	2.8x	5.1x	4.4x	4.2x	3.5x	3.8x	3.8x
CFO pre-WC / Debt	26.8%	9.7%	9.7%	20.8%	20.8%	37.5%	15.3%	5.9%	7.9%	27.8%	29.6%	25.8%	18.3%	15.6%	18.4%
RCF / Debt	7.7%	-14.7%	-15.1%	11.6%	8.6%	31.1%	13.8%	-1.3%	-1.2%	17.7%	27.7%	28.9%	11.5%	9.5%	14.3%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last 12 Months.
Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted debt breakdown

Colbun S.A.

(In USD Millions)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	LTM Mar-22
As Reported Debt	**1,659**	**1,601**	**1,679**	**1,796**	**2,311**	**2,129**
Pensions	33	33	37	48	32	32
Moody's - Adjusted Debt	**1,692**	**1,634**	**1,716**	**1,844**	**2,342**	**2,161**

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last 12 Months.

Source: Moody's Financial Metrics™

Ratings

Exhibit 13

Category	Moody's Rating
COLBUN S.A.	
Outlook	Stable
Issuer Rating -Dom Curr	Baa2
Senior Unsecured	Baa2

Source: Moody's Investors Service

REPORT NUMBER 1328547

Contacts

Daniela Cuan +54.11.5129.2617
VP-Senior Analyst
daniela.cuan@moodys.com

Guillermo Guiran Rosaldo +52.55.1253.5743
Associate Analyst
guillermo.guiran@moodys.com

Philipp Toculescu +54.11.5129.2644
Analyst
philipp.toculescu@moodys.com