CREDIT OPINION
26 July 2024

Update

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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.

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Colbun S.A.

Update following rating affirmation

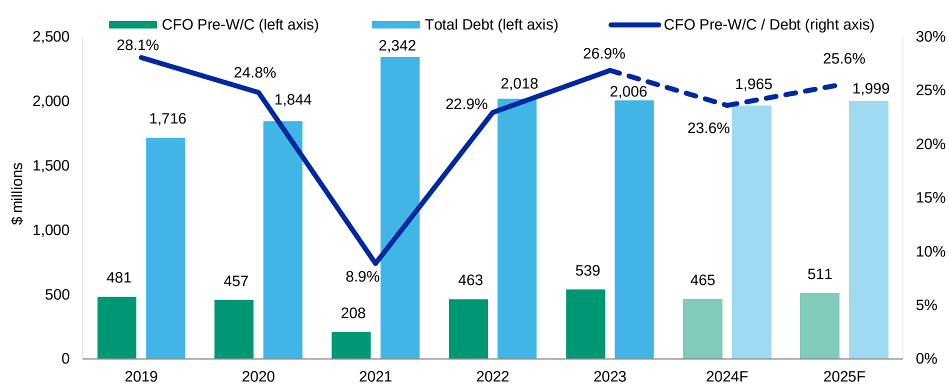
Summary

Colbun S.A.'s (Colbun, Baa2 stable) credit quality reflects that, in spite of the company's growth plans that include but are not limited to the recently announced acquisition of Inversiones Latin America Power SpA ("ILAP", B1 Stable), it will continue to report credit metrics that support its credit profile.

Further supporting the credit profile is the company's active commercial policy that seeks extended contractual terms primarily with new unregulated customers to be supplied from its own generation sources.

Colbun currently presents an adequate energy balance, with a power generation output that matches its contractual PPA obligations. With ILAP's acquisition plus the start of operations of its Horizonte wind project (816MW) expected by early next year, the company will not only further diversify its asset base but also enhance its geographic footprint in Chile. Nevertheless, it still is exposed to carbon transition risks, given it owns coal and gas fired assets that produce the remaining 50% of expected consolidated output.

Exhibit 1
Metrics will remain adequate for the rating level in the next 12-18 months despite higher investments.



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are fiscal year-end unless indicated. Projected figures reflects Moody's Ratings estimates.
Source: Moody's Financial Metrics™

Credit strengths

» Scale and market position in Chile

» Prudent commercial policy

» Equilibrium of its energy balance

» Sound credit metrics

» Low exposure to price-stabilization (PEC)

Credit challenges

» Declining power prices adding pressure to margins

» Exposure to water stress and high fuel prices, mitigated by increased renewable output

» Growth strategy in place that could entail an increase in debt and operational obstacles

Rating outlook

The stable rating outlook incorporates our expectation that Colbun will be able to sustain a ratio of CFO pre WC/Debt above 20%, despite some execution risks pursuant its growth initiatives and higher than historical leverage through 2026.

Factors that could lead to an upgrade

The rating could be upgraded if Colbun extends its contracted position further at price levels that lead to a sustained improvement in its credit metrics, such that its interest coverage is above 8.0x; CFO pre-WC/debt is above 35% retained cash flow (RCF)/debt is above 15%.

The diversification and expansion of operations into other markets that have stable, creditor-friendly regulatory frameworks could also have a positive impact on the rating.

Factors that could lead to a downgrade

A downgrade of Colbun's rating would be triggered if the company is unable to sustain its revenue profile, 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 deteriorates significantly; or we perceive a weakening in the regulatory frameworks where it operates. Quantitatively, downgrade rating pressure would increase if, on a sustained basis, its interest coverage remains below 5.0x; CFO pre-WC/debt remains below 20% and RCF/debt remains below 10%.

Key indicators

Exhibit 2
Colbun S.A.

	2019	2020	2021	2022	2023	LTM Mar-24
CFO Pre-W/C + Interest / Interest	6.8x	7.0x	3.5x	5.8x	6.7x	6.3x
CFO Pre-W/C / Debt	28.1%	24.8%	8.9%	22.9%	26.9%	26.4%
RCF / Debt	8.7%	14.5%	-47.9%	21.0%	9.5%	8.0%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are fiscal year-end unless indicated.
LTM = Last 12 months.
Source: Moody's Financial Metrics™

Profile

Headquartered in Santiago, Chile, Colbun S.A. (Colbun) is an operational holding company engaged in power generation in Chile (86% of consolidated EBITDA in 2023); and Peru (Baa1 negative), through its controlling stake in Fenix Power Peru S.A. As of March 2024, the company had a total combined installed capacity of 4,034 megawatts (MW), of which 54% was thermal and 46% comprised renewable plants.

The company is controlled by the Matte Group, which holds 50% of Colbun's total capital. Matte Group has investments in the energy, financial, forestry, real estate and telecom sectors. The remaining owners are pension funds with 17%, Angelini Group 10% and 23% of shares publicly traded.

Recent developments

» On July 24, 2024, Moody's Ratings affirmed Colbun's Baa2 Issuer and Senior Unsecured Ratings, with a stable outlook. The ratings' affirmation follows the company's announcement that it will acquire ILAP for an amount of $401 million.

» On June 28 2024, Colbun celebrated a contract for the acquisition of two wind farms to ILAP. The transaction will cost approximately $400 million that will be funded with cash available. At the time the acquisition will be completed, ILAP will have no debt outstanding and we estimate it should contribute with an EBITDA of $50 million per year. This acquisition will allow Colbun to continue strengthening its presence in the Atacama region, where it serves several power purchase agreements (PPAs) with mining companies. The transaction is subject to regulatory approvals and is expected to close in the third quarter of 2024.

Detailed credit considerations

Leading market position in Chile

Colbun has a leading position in the Chilean market, where it is within the three largest energy generators and accounted for 16% of the market share as of December 2023 in terms of energy production. Colbun energy generation is behind Enel Generacion Chile, the subsidiary of Enel Chile S.A. (Baa2 stable) and at around the same level than AES Andes S.A. (Baa3 stable). All of Colbun's Chilean assets are located in the south-central region of the country. The company has 3,467 MW of installed capacity in Chile and total energy generation of 13.0 terawatt-hours (TWh) in 2023.

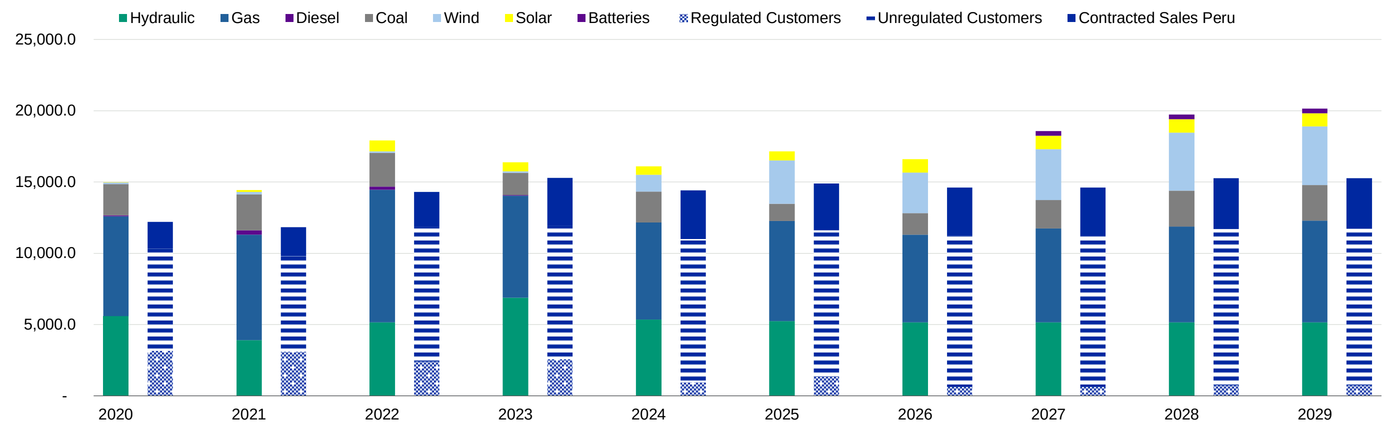
Prudent commercial policy and manageable re-contracting risks supported by a diversified generation fleet

Colbun has an adequate contracted position, currently with an average life of 8 years and at least 14TWh contracted until 2029. We note the company has been shifting away from regulated contracts to PPAs through contracts with unregulated clients, the most recent with mining companies with long tenors (10-15 years). While in 2023 Colbun had commitments with regulated clients for about 27% of its contracted load, this amount will decline significatively to 4% in 2026 increasing its exposure to re-contracting risks.

Colbun has continuously increased its customers' base and successfully renewed maturing contracts. We also acknowledge the diversity of Colbun's customer base (more than 300 unregulated clients), and its ability to negotiate collateral packages to mitigate the counterparty risk. These packages include corporate guarantees and letters of credit from creditworthy shareholders.

The company's commercial policy is further enhanced by its increasingly diversified generation fleet, with an increasing share of less expensive renewable sources of energy to supply its power commitments, particularly with Ilap's acquisition plus the start of operations of its Horizonte wind project (816MW) expected by the beginning on next year. With these additions to the portfolio, Colbun will present a well-diversified generation base, with more than 50% of its output coming from renewables (hydro, wind and solar. Colbun currently presents an adequate energy balance, with a power generation output that generally exceeds or matches its contractual PPA obligations, which we expected to be maintained over the upcoming years.

Exhibit 3
Colbun balance of power generation output and contractual PPAs obligation is adequate.
Amounts in TWh/year

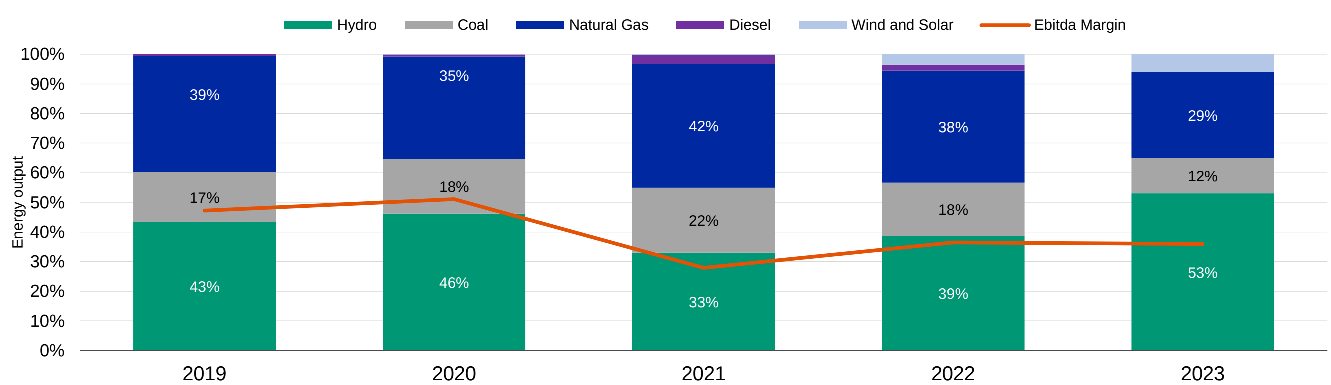


Source: Company reports and Moody's Ratings estimates

Better hydro conditions drove EBITDA improvement in 2023

Colbun's hydro generation in 2023 reached 42% of its total output improving from 33% in 2021, the dryest year in almost a decade, but still below historical average. The drought in 2021 together with higher thermal generation and high and coal and gas prices increased the company's variable costs, contributing to a lower EBITDA margin in 2021 as compared to historical margins. However, in 2022, hydro conditions improved and EBITDA margin grew to 36% from 28% in 2021. Moreover, in 2023 hydro generation contributed 42% of overall generation, natural gas dispatch reached 44% and coal contributed 9% of the energy while other sources provided 1%, with the remaining 4% coming from wind and solar, providing a similar margin than in 2022. The company's prudent commercial policy, in combination with its diversified and efficient energy generation fleet, has helped it cope with continued volatile hydro conditions.

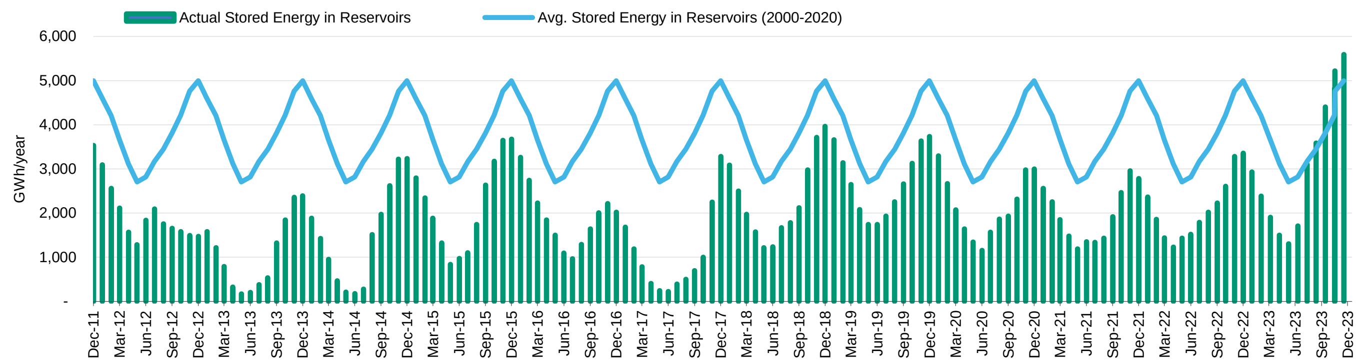
Exhibit 4
Recovered hydro generation and margins in 2023



Source: Systep

Reservoir levels in the national system were at around 112% of the 20-year historical average as of December 2023, increasing from the 67% in December 2022. Hydro conditions improved in 2023 as a result of El Niño conditions which increased Colbun output in the 2023/2024 season resulting in higher profits than in the past two years.

Exhibit 5
Reservoir level was around 112% of the 20-year historical average in 2023



Source: Systep

Credit metrics are expected to remain adequate for the rating level despite the important investment plan

With the exception of the very dry 2021 year, Colbun's historical credit metrics have been strong. In 2021, Colbun recorded weak credit metrics led mainly by the lower hydro generation caused by the drought in Chile coupled with temporary increase in leverage. Hydro generation was replaced by thermal generation, which increased the company's variable costs. However, since 2022 Colbun's metrics recovered and in 2023 cash interest coverage, measured as CFO pre-WC + interest/interest expense, improved to 6.7x from 5.8x in 2022, while CFO pre-WC/ debt improved to 26.9% from 22.9%. As of LTM March 2024 metrics were slightly deteriorated with CFO pre-WC + interest/interest expense, decreasing to 6.3x from 6.7x in 2023, and CFO pre-WC/ debt decreasing to 26.4% from 26.9% in 2023.

We expect the Colbun's credit metrics to remain strong, with its cash interest coverage around 7.3x and 7.9x in 2024 and 2025, respectively and CFO pre-WC/debt around 23%-25% in 2024-25 even as the company implements its capital investment program and distributes 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 to sustain its EBITDA and EBITDA margins despite declining PPA prices. The company's growth plans entail additional debt, which in our view would lead to a transitory peak in leverage to around 4 times debt-to-EBITDA in 2026, but that would revert to the current levels of about 3 times once the planned investments mature and start producing incremental cash flows.

Continued appetite for renewable project development

In addition to maintaining its expansion within the region to countries with stable regulatory environments, the company has realigned its growth strategy to focus on Chile, with a pipeline of over 5 GW of renewables projects in the country (solar, wind and batteries) at different stages of development, plus an additional pipeline of 1.8GW in Peru. The business case is enhanced by the persistent low 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 decarbonization.

We expect the company to continue to pursue new investments at a moderate pace over the next three to four years, increasing its investment budget. Currently, the company has a big project under construction, the Horizonte wind farm (816 MW) with an approved investment of $898 million, which is scheduled to be fully operational in early 2025. The company is also likely to continue its strategy of growing outside Chile and within Latin America, similar to its investment in Fenix Power Peru S.A. in 2015.

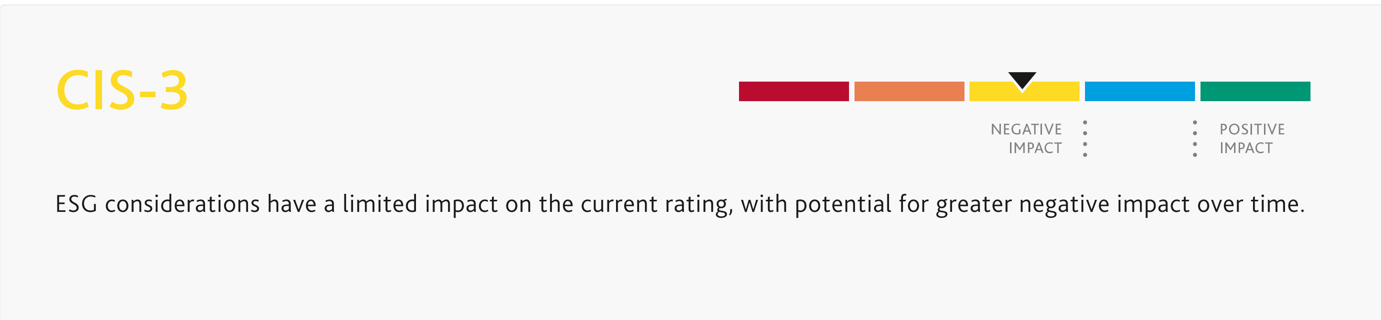
We expect the company to raise modest levels of additional debt to support this investment plan, based on our assumption that it will use a combination of its cash available and internal cash generation to support the plan while keeping distributions at 50% of net income.

ILAP's acquisition is in line with the company's growth strategy. As mentioned before, the acquisiton price will be paid from its cash on hand (approximately $1 billion at the end of March). At the time the acquisition will be completed, ILAP will have no debt outstanding and we estimate it should contribute with an EBITDA of $50 million per year. This acquisition will allow Colbun to continue strengthening its presence in the Atacama region, where it serves several power purchase agreements (PPAs) with mining companies while the acquired assets will continue to benefit from regulated PPAs, contracted at realtively high prices. The transaction is subject to regulatory approvals and is expected to close in the third quarter of 2024.

ESG considerations

Colbun S.A.'s ESG credit impact score is CIS-3

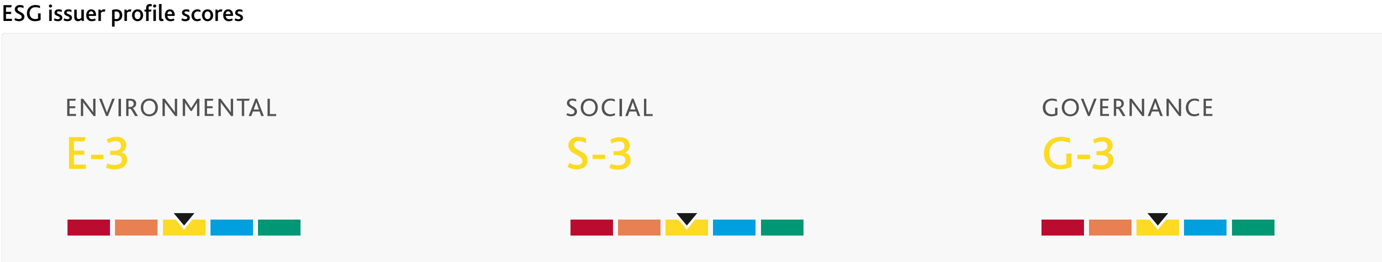
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Colbun's (CIS-3), suggests that ESG considerations currently have a limited impact on the company's credit rating. However, these considerations may have a more significant negative impact over time due to for example an acceleration of decarbonization targets in Chile. The company's investment strategy could potentially provide the company with an opportunity to adapt its operations to more stringent environmental requirements from both regulations and its clients.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Colbun's **E-3** issuer profile score reflects exposure to physical climate risks that are typical for utilities, including the exposure to the resource risks and to commodity prices as well as pollution from its coal operations. The company also faces exposure to carbon transition resulting from more strict environmental regulation in Chile that increases risk for certain coal assets in operation; however, these risks are partially offset by the company's diversified energy portfolio and its ongoing expansion of its renewable capacity.

Social

Colbun's **S-3** issuer profile score reflects moderate risks of adverse regulations due to social pressures or public concern over affordability issues that had recently manifested in Chile and that resulted for example in the temporary suspension of the electricity tariffs indexation.

Governance

Governance risk for Colbun (**G-3** issuer profile score) reflects 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% of the company's shares, which shows some concentration on its shareholding structure.

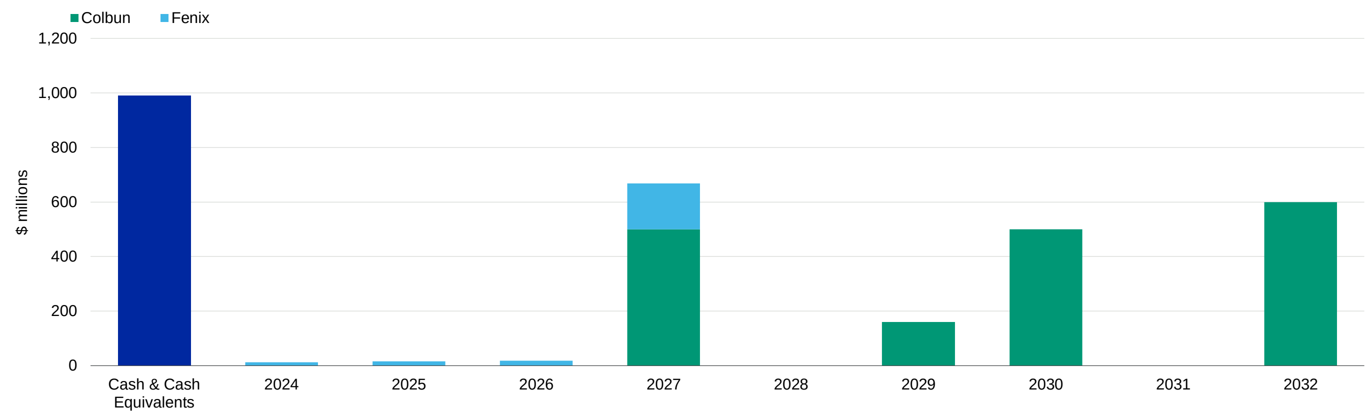
ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Colbun maintains strong liquidity and a comfortable debt maturity profile, with cash and cash equivalents of $990 million as of March 2024 and not significant maturities in the 2024-2026 period. This cash balance will support its investment plan or potential acquisitions in accordance with the company's growth strategy, for example to pay for the ILAP's acquisition price ($401 million). As of March 2024, Colbun's debt had an average life of 5.7 years and average cost of 3.8%. Colbún's debt is 100% US dollar denominated and 92% has a fixed rate. We expect that the cash position will decline as a result of its use to fund the investment plan and ILAP's acquisition, however, we expect that the company will maintain an adequate cash position of at least $300 million. In 2027, Colbun has a $500 million bond maturity that is likely to be refinanced.

Given Colbun's contractual position, with majority of its revenues coming from unregulated customers, its exposure to the stabilized prices (PEC) is limited. As of December 2023, Colbun had an accumulated account receivable of $64 million related to the PEC, a manageable amount that represents slightly more than 10% of the cash flow from operations in the same year.

Exhibit 8
Consolidated debt schedule (as of March 2024)



Source: Company reports

Rating methodology and scorecard factors

The principal methodology we used for Colbun's credit analysis was the Unregulated Utilities and Unregulated Power Companies rating methodology. As depicted in the grid below, Colbun's current scorecard-indicated outcomes is Ba1, two notches below the current rating, explained mainly by the extraordinary dividend distribution in 2021 and the poor results in the same year because of hydro conditions. However, we expect the company to return to a normalized payout ratio of 50% in the coming years and better hydro conditions, supporting the forward-looking scorecard-indicated outcome of Baa2, in line with the assigned rating.

Exhibit 9

Rating factors

Colbun S.A.

Unregulated Utilities and Unregulated Power Companies Industry	Current LTM Mar-24		Moody's 12-18 month forward view	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale ($ billions)	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
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)	5.0x	Baa	7.3x	Baa
b) (CFO Pre-W/C) / Debt (3 Year Avg)	18.1%	Ba	24.6%	Baa
c) RCF / Debt (3 Year Avg)	-7.8%	Caa	14.6%	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba1		Baa2
b) Actual Rating Assigned		Baa2		Baa2

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
LTM = Last 12 months.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Exhibit 10

Peer comparison

Colbun S.A.

	Colbun S.A. Baa2 Stable			Enel Americas S.A. Baa2 Stable			Enel Chile S.A. Baa2 Stable			AES Andes S.A. Baa3 Stable			Empresas Publicas de Medellin E.S.P Baa3 Stable		
(in $ millions)	FY Dec-22	FY Dec-23	LTM Mar-24	FY Dec-22	FY Dec-23	LTM Mar-24	FY Dec-22	FY Dec-23	LTM Mar-24	FY Dec-22	FY Dec-23	LTM Mar-24	FY Dec-22	FY Dec-23	LTM Mar-24
Revenue	1,974	2,004	1,831	14,187	12,888	13,121	5,700	5,227	4,873	2,579	2,742	2,645	7,512	8,629	9,291
EBITDA	720	720	678	4,104	3,573	3,689	1,382	1,359	1,351	792	739	744	2,161	2,130	2,253
CFO Pre-W/C + Interest / Interest	5.8x	6.7x	6.3x	4.3x	4.0x	4.0x	4.8x	4.0x	3.5x	6.5x	2.7x	2.9x	4.4x	4.1x	4.2x
CFO Pre-W/C / Debt	22.9%	26.9%	26.4%	31.2%	24.8%	24.1%	17.6%	14.5%	11.9%	31.0%	15.4%	16.7%	23.5%	26.1%	26.9%
RCF / Debt	21.0%	9.5%	8.0%	24.3%	20.3%	19.9%	13.6%	5.6%	3.7%	28.4%	12.1%	13.5%	16.7%	21.2%	23.4%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted cash flow metrics

Colbun S.A.

(in $ millions)	2019	2020	2021	2022	2023	LTM Mar-24
EBITDA	**701.9**	**689.0**	**401.5**	**720.1**	**720.1**	**677.8**
FFO	**495.0**	**509.2**	**123.6**	**576.7**	**495.3**	**465.2**
- Div	346.3	241.3	1,244.7	151.9	304.9	306.8
RCF	**148.8**	**267.9**	**(1,121.2)**	**424.8**	**190.3**	**158.5**
FFO	495.0	509.2	123.6	576.7	495.3	465.2
+/- ΔWC	2.7	(13.0)	44.1	(64.2)	76.6	87.8
+/- Other	(13.7)	(51.8)	84.6	(113.8)	43.6	59.1
CFO	**484.1**	**444.4**	**252.3**	**398.7**	**615.4**	**612.1**
- Div	346.3	241.3	1,244.7	151.9	304.9	306.8
- Capex	95.7	122.5	258.1	275.7	517.6	436.9
FCF	**42.1**	**80.5**	**(1,250.6)**	**(28.9)**	**(207.1)**	**(131.6)**
Debt / EBITDA	2.4x	2.7x	5.8x	2.8x	2.8x	2.9x
EBITDA / Interest	8.4x	9.1x	4.8x	7.5x	7.7x	6.9x
FFO / Debt	28.9%	27.6%	5.3%	28.6%	24.7%	23.4%
RCF / Debt	8.7%	14.5%	-47.9%	21.0%	9.5%	8.0%
Revenue	1,487.4	1,348.9	1,439.7	1,974.0	2,003.6	1,831.1
Interest Expense	83.4	76.0	83.3	95.5	93.7	98.8
Net Income	275.6	321.4	73.9	287.8	301.5	268.4
Total Assets	6,705.4	6,633.9	6,596.4	6,596.1	6,644.9	6,673.4
Total Liabilities	3,169.1	3,174.4	3,879.8	3,785.9	3,683.2	3,649.8
Total Equity	3,536.3	3,459.5	2,716.6	2,810.2	2,961.7	3,023.6

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LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted debt breakdown

Colbun S.A.

(in $ millions)	2019	2020	2021	2022	2023	LTM Mar-24
As reported debt	1,678.7	1,796.1	2,310.5	1,980.5	1,965.4	1,943.9
Pensions	37.0	47.7	32.0	37.8	40.4	40.4
Moody's – adjusted debt	1,715.7	1,843.7	2,342.5	2,018.3	2,005.8	1,984.2

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
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 Ratings

REPORT NUMBER 1414604

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