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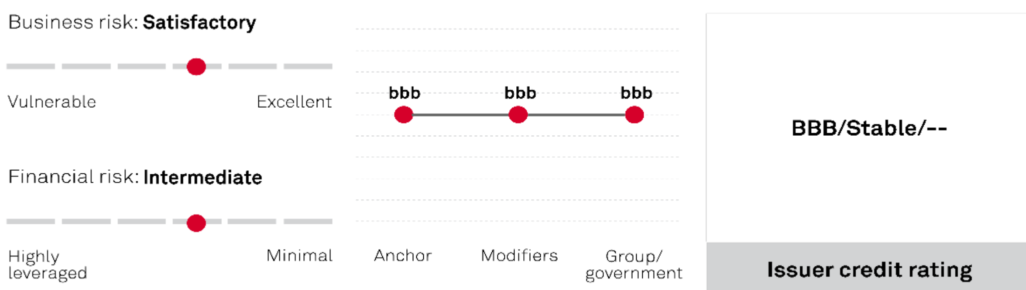
Colbun S.A.

July 29, 2024

Ratings Score Snapshot



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Credit Highlights

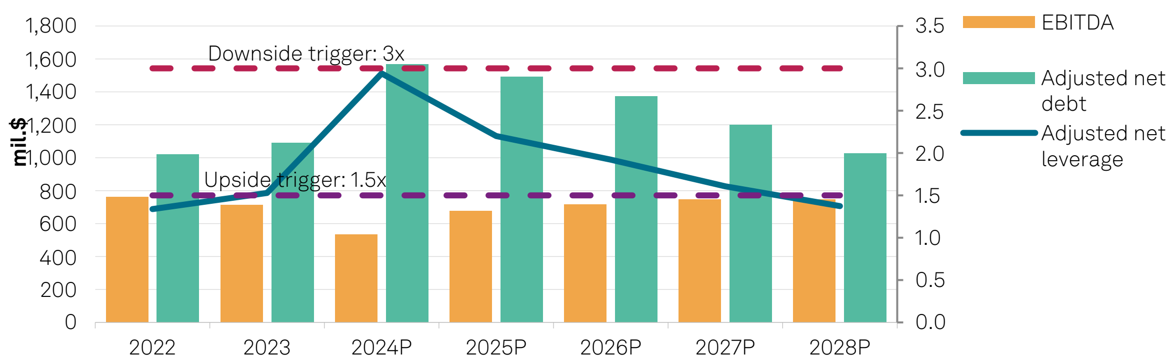
Overview

Key strengths	**Key risks**
A leading power generator in Chile with a 15% market share in terms of generation as of March 2024, and with large offtake agreements mostly with creditworthy unregulated customers averaging eight years that generate stable and predictable cash flows and credit metrics	If Colbun S.A. aggressively develops additional renewable capacity in Chile or embarks in an internationalization phase that requires significant investments, it could harm its current intermediate financial risk profile, specifically if net debt to EBITDA increases to above 3.0x consistently while free operating cash flow (FOCF) to debt is below 15%.
A diversified generation capacity that better positions the company in energy transition than its domestic peers, given that only 17.5% of its generation as of March 2024 is carbon based, compared with other players with more than 50%	Continued exposure to weather conditions, given that 41% of its installed capacity and 50% of its generation comes from hydropower facilities as of March 2024. This is partially mitigated by the prudent commercial strategy undertaken by the company and by the current hydrological conditions that are significantly better than what we observed in the past 5 years.
Significant cash position bolsters liquidity and reduces net debt despite a sizable investment plan ahead	

We expect Colbun S.A. will maintain relatively conservative leverage over the next two to three years despite the significant ongoing investment plan. We expect Colbun's cash flows to slightly fluctuate in the short to medium term stemming from better hydrological conditions that resulted in lower average sale prices in the spot market in Chile and lower sales to unregulated clients due to the indexation factors decrease. However, we still expect Colbun will generate an EBITDA of around $550 million in 2024, which is in line with the company's first-quarter adjusted EBITDA of $147 million.

We also forecast EBITDA to be in the $650 million area in 2025 and 2026, assuming hydro generation of about 5 terawatt hours (TWh) per year (aligned with our base case for 2024), the entrance of new capacity with associated contracts, and declining marginal costs as new renewables enters the system. In this context, we anticipate leverage will remain below 3x in 2024, trending down thereafter to the 2.0x area as investments stabilize by 2027.

We expect net leverage to remain below 3x on average in the next few years

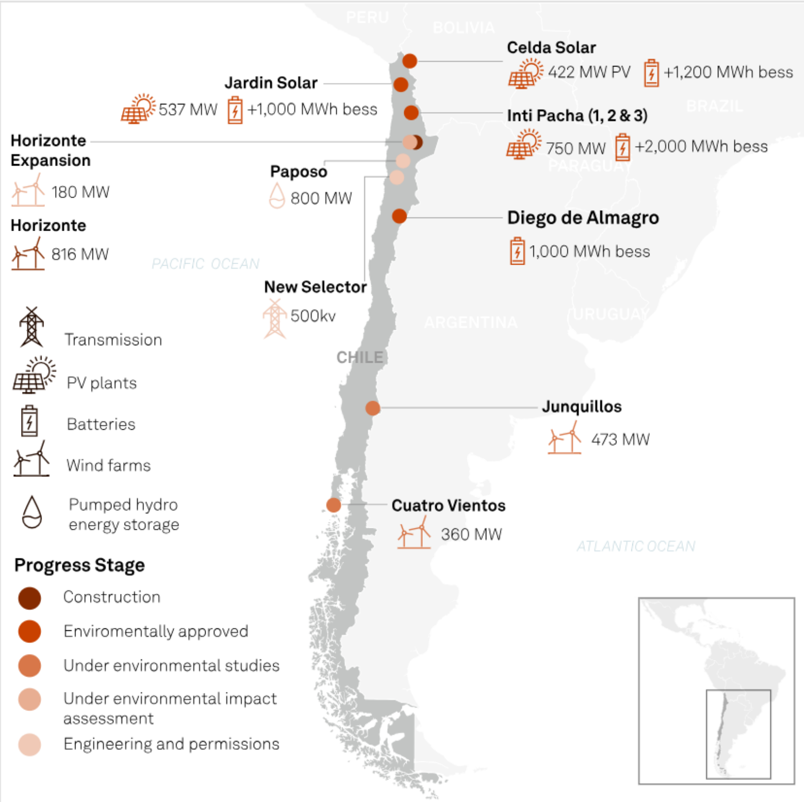


Source: S&P Global Ratings.

Colbun's strategy to expand its renewable energy capacity to near 4,000 megawatts (MW) by 2030 remains on track and aligned to expectations. Colbun is currently increasing its installed capacity by complementing its hydroelectric and thermal capacity with solar energy and storage systems, which will provide a more competitive and sustainable generation matrix. The company aims to add 4,000 MW of renewable capacity by 2030 and has various projects under construction and others under study. The largest project under construction is the Horizonte wind farm, with an installed capacity of approximately 816 MW and an expected annual generation of approximately 2,450 gigawatt hours (GWh). As of June 2024, the project's construction was 87% complete, and commissioning is likely to begin during the fourth quarter of 2024. Moreover, the company announced recently the acquisition of Inversiones Latin America Power SpA (ILAP), which detains ownership in the San Juan and Total wind parks, located in the north region of Chile. Once materialized, we expect Colbun will add 239 MW of new wind capacity to its portfolio. The transaction will be financed with cash.

The company has other projects in the pipeline with environmental permits ready, including the Celda Solar PV and BESS project, the BESS Diego de Almagro, Inti Pacha, and Jardin Solar. On an aggregate basis, we expect these projects to add around 1,700 MW of new capacity and 5,500 MWh in energy storage. There are various other projects under study, although less advanced at this stage. It is worth mentioning that we are only including at this stage in our base case scenario the projects already approved by the Board of Directors and those with a higher probability of execution in the short to medium term. In this context, we expect Colbun will make considerable capital expenditure (capex) disbursements of around $250 million in 2024, mainly influenced by the construction of Horizonte, and to maintain a relatively high level of investment to develop planned projects.

Colbun's growth in renewable capacity in Chile

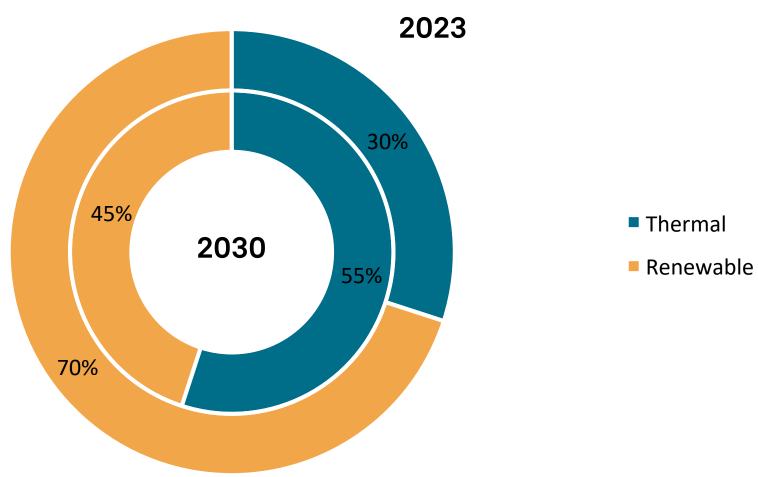


Source: S&P Global Ratings.

Colbun maintains a strong cash position, which we believe would mainly used to finance capacity expansion in Chile or abroad, given the absence of significant debt maturities in the short term. Cash and liquid investments as of March 31, 2024, totaled $990 million, which, along with funds from operations, is more than enough to fund the ongoing investment plan, service debt maturities, finance acquisitions (such as ILAP's) and distribute dividends. In this regard, the company announced that on April 25, 2024, it proposed at the shareholders' meeting to distribute a final dividend of $27 million, which added to the $169.8 million paid in late 2023. This was materialized in May 2024. With this addition, the total reached $198.6 million, which represents the 50% of the previous year's net income. We expect this trend to continue in the upcoming years, which is in line with historical levels, without compromising its strong liquidity position.

We only envision a potential reduction in current liquidity levels if the company embarks in an aggressive international investment plan. Colbun already announced its intention of incorporating new geographies that would allow it to expand its growth potential and diversify its portfolio. We will keep monitoring the characteristics and size of such investments to determine potential effect on our ratings.

Evolution of installed capacity through 2030



Outer ring represents installed capacity as of December 2023 and inner ring projected installed capacity in 2030.
Source: S&P Global Ratings.

Outlook

The stable outlook on Colbun reflects that on its parent, Minera Valparaiso S.A. (Minera; BBB/Stable/--), and our expectation that it will post solid credit metrics in the next two years, with net debt to EBITDA below 3.0x. The outlook also incorporates our expectation that the company won't face early termination of contracts that could jeopardize the stability and predictability of its profitability, while it generates consolidated EBITDA of about $550 million. In addition, we expect Colbun to implement its capex plan with no significant deviations that could put at risk the projects' commercial operations to date.

Downside scenario

In the next two years, we could downgrade the company if its leverage increases such that its net debt to EBITDA rises consistently above 3.0x and its free operating cash flows (FOCF) to debt ratio remains below 15%. Such metrics could stem from a rise in debt that we do not anticipate at this stage but that could result, for example, from a significant acquisition to increase the current portfolio. In addition, weaker metrics could result from a sharp decrease in volume because of economic contraction, lower prices, or a combination of those that could reduce Colbun's EBITDA.

We might also take a negative rating action if the company maintains an aggressive dividend policy in the next 24 months that could pressure its cash position as it expands renewable capacity, weakening its credit metrics. Finally, we could lower the ratings on Colbun if we perceive significant delays in its renewable plan that could jeopardize the signed contracts. We could also downgrade Colbun if we lower our rating on Minera below ‘BBB’, given that we view Colbun as a core subsidiary of the latter.

Upside scenario

An upgrade of Colbun is unlikely in the next two years given its financing of the renewable energy expansion. An upgrade would require a consistent improvement in the company's credit metrics, particularly net debt to EBITDA below 1.5x and FOCF to debt above 40%. In addition, if we were to raise our rating on Minera above ‘BBB’, we would upgrade Colbun to the same level.

Our Base-Case Scenario

Assumptions

Macroeconomic variables that we view as relevant for the unregulated utilities segment include GDP growth, which mainly correlates to demand for electricity, and inflation levels that affect costs over time. For our analysis, we used Chile and Peru's macroeconomic data forecast from our latest credit conditions article, “Economic Outlook Emerging Markets Q3 2024: Growth On Track, Policy Risks Rising," published June 24, 2024. We expect Chile's GDP to grow 2.4% and 2.6% in 2024 and 2025, respectively, and Peru's to expand 2.7% and 3.0%, respectively. We expect inflation to be 3.7% and 3.2% in Chile for 2024 and 2025, and 2.3% per year in Peru during the same period. We expect the following:

- Energy capacity in Chile of about 4,300 MW in 2024, up from 3,500 MW last year due to the entrance of the Horizonte wind farm starts operations in the last quarter of 2024, and capacity increasing up to 5,200 MW with the delivery of the remaining capacity thereafter.
- Less dry conditions in Chile than what we observed in the past four to five years, which would lead to the company's total generation of about 12,500 GWh, mostly to serve contracts. We expect average prices of around $100 per GWh for regulated clients, $80 per GWh for unregulated clients, and $85 per GWh for spot sales. We expect Colbun to have limited exposure to spot-market purchases in a context of better hydrology.
- Average generation of Colbun's Peruvian subsidiary, Fenix, of 4,200 GWh in 2024, of which approximately 70% will be sold under long-term power purchase agreements (PPAs) with prices of approximately $65 per megawatt hour (MWh), while short-term PPA prices should be in the $35 per MWh area.
- Maintenance and expansionary capex totaling $250 million in 2024, mainly due to the additional capacity at Horizonte and decreasing thereafter. As above stated, under our base case forecast we are only including projects already approved by the Board or those for which we see a higher probability of execution in the short term.
- Dividend payments at 50% of the previous year's net income, in line with historical trends.

Key metrics

Colbun S.A.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. US$)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	1,349	1,440	1,974	2,003	1,440	1,738	1,590	1,553
Gross profit	773	668	905	873	634	800	827	855
EBITDA (reported)	682	520	763	713	533	678	715	746

Colbun S.A.--Forecast summary								
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	--	--	--	--	--	--	--	--
EBITDA	682	520	763	713	533	678	715	746
Less: Cash interest paid	(81)	(76)	(83)	(87)	(67)	(66)	(65)	(51)
Less: Cash taxes paid	(99)	(117)	(232)	(21)	(89)	(118)	(133)	(145)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	501	326	447	605	377	494	517	550
EBIT	216	925	507	640	398	504	560	589
Interest expense	77	78	87	88	67	66	65	51
Cash flow from operations (CFO)	444	258	409	631	375	446	528	556
Capital expenditure (capex)	112	254	274	522	250	250	250	200
Free operating cash flow (FOCF)	331	4	134	109	125	196	278	356
Dividends	241	1,244	151	304	202	121	160	180
Share repurchases (reported)	--	--	--	--	--	--	--	--
Discretionary cash flow (DCF)	90	(1,240)	(17)	(195)	(77)	75	118	176
Debt (reported)	1,662	2,223	2,021	1,983	1,960	1,944	1,926	1,253
Plus: Lease liabilities debt	134	126	136	139	140	139	139	139
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(968)	(1,324)	(1,136)	(1,032)	(531)	(590)	(691)	(194)
Plus/(less): Other	--	--	--	--	--	--	--	--
Debt	1,070	1,356	1,021	1,090	1,568	1,493	1,375	1,199
Equity	2,3,585	2,841	2,952	3,097	3,137	3,335	3,537	3,748
FOCF (adjusted for lease capex)	331	4	134	109	125	196	278	356
Interest expense (reported)	77	79	87	88	67	66	65	51
Capex (reported)	112	253	274	521	250	250	250	200
Cash and short-term investments (reported)	969	1,324	1,135	1,032	531	590	691	194
Adjusted ratios								
Debt/EBITDA (x)	1.6	2.6	1.3	1.5	2.9	2.2	1.9	1.6
FFO/debt (%)	46.8	24.1	43.8	55.5	24.0	33.1	37.6	45.8
FFO cash interest coverage (x)	7.2	5.3	6.4	8.0	6.6	8.5	8.9	11.7
EBITDA interest coverage (x)	8.8	6.6	8.8	8.1	8.0	10.2	10.9	14.5
CFO/debt (%)	41.5	19.0	40.0	57.9	23.9	29.9	38.4	46.4
FOCF/debt (%)	31.0	0.3	13.1	10.0	8.0	13.1	20.2	29.7
DCF/debt (%)	8.5	(91.4)	(1.7)	(17.9)	(4.9)	5.0	8.6	14.6
Lease capex-adjusted FOCF/debt (%)	31.0	0.3	13.1	10.0	8.0	13.1	20.2	29.7
Annual revenue growth (%)	(9.3)	6.7	37.1	1.5	(28.1)	20.7	(8.6)	(2.3)
Gross margin (%)	57.3	45.7	45.8	43.6	44.0	46.0	52.0	55.0
EBITDA margin (%)	50.6	36.1	38.7	35.6	37.0	39.0	45.0	48.0

Colbun S.A.--Forecast summary

Return on capital (%)	4.6	20.9	12.4	15.7	8.9	10.6	11.5	11.9
Return on total assets (%)	3.3	14.0	7.7	9.7	6.0	7.5	8.1	8.8
EBITDA/cash interest (x)	8.4	6.8	9.2	8.2	8.0	10.2	10.9	14.5
EBIT interest coverage (x)	2.8	11.7	5.9	7.2	5.9	7.6	8.6	11.4
Debt/debt and equity (%)	23.0	32.3	25.7	26.0	33.3	30.9	28.0	24.2
Debt fixed-charge coverage (x)	8.8	6.6	8.8	8.1	5.9	8.3	8.6	3.4
Debt/debt and undepreciated equity (%)	23.0	32.3	25.7	26.0	33.3	30.9	28.0	24.2

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. CLP--Chilean peso.

Company Description

Colbun generates and sells electricity in Chile and Peru. In Chile, Colbun was the second-largest energy power generator in 2023 with a 16% market share in terms of generation, after Enel Chile S.A. (BBB/Stable/--) with a 30% participation. Colbun operates six hydroelectric power plants, six thermal plants, and three solar farms, with installed capacity totaling 3,419 MW. Colbun primarily serves large companies (mainly manufacturing and mining companies) and to a lesser extent electricity distributors.

Colbun owns Peru-based Fenix, a power generator that contributes about 12% to consolidated EBITDA. Fenix operates a base-load, combined-cycle dual (gas and diesel) plant with a 573 MW gross installed capacity. It's located near the largest demand center in Peru, the capital city of Lima, and consists of two General Electric (GE) gas turbines (190 MW each), one GE steam turbine, a desalinization plant (2,500 cubic meters [m3] per day), an 8-kilometer (km) transmission line operated by Consorcio Transmantaro (a subsidiary of Interconexión Eléctrica S.A. E.S.P.; not rated) and a 3-km gas distribution pipeline operated by Gas Natural de Lima y Callao S.A.

Peer Comparison

We selected as peers other electricity companies that we rate in the region, including AES Andes (BBB-/Stable/--), Engie Energia Chile S.A. (BBB/Stable /--), and Enel Chile S.A., as well as global Enel SpA (BBB/Stable/A-2). From a business perspective, although Colbun’s market share in Chile in terms of generation is considerable at 16%, domestic peers are vertically integrated or participate in the generation and distribution or transmission businesses (in more than one country in most cases), while Colbun operates only the generation segment after the sale of its transmission assets in 2021. While all the Latin American peers have similar business risk characteristics that mainly reflect the contracted nature of their business, we view Colbun as having lesser exposure to the volatility in fuel and energy spot prices, as evidenced in 2022. This is because the company does not have to buy energy in the market to service its PPAs.

On the other hand, we view that Enel SpA has stronger business risk profile. This is mainly because of lower country risk in which it operates and its stronger competitive position that stems from geographic and asset diversity, given operations across several continents through more than 150 assets. Colbun's debt metrics remain comparable with those of Enel Americas and are lower than those of Enel Chile and Engie Chile, as these are more exposed to the increased spot prices and their leverage rose in 2022. Regarding renewable energy capacity, we believe that Colbun is in a better position than Engie Chile or AES Andes because renewables account for close to half of Colbun's total capacity in Chile, while the other two companies have lower renewable capacity of their total assets in Chile. The greater amount of renewable energy installed suggests that Colbun faces a lower re-contracting risk. In addition, Colbun has a higher level of cash, which we believe the company will use to develop its renewables portfolio.

Colbun S.A.--Peer Comparisons

	Colbun S.A.	AES Andes S.A.	Engie Energia Chile S.A.	Enel Chile S.A.	Enel Americas S.A.
Foreign currency issuer credit rating	BBB/Stable/--	BBB-/Stable/--	BBB/Stable/--	BBB/Stable/--	BBB-/Stable/--
Local currency issuer credit rating	BBB/Stable/--	BBB-/Stable/--	BBB/Stable/--	BBB/Stable/--	BBB-/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil. US$	US$	US$	US$	US$	US$
Revenue	2,003	2,741	2,187	4,394	11,910
EBITDA	713	678	362	1,131	3,748
Funds from operations (FFO)	605	145	232	656	2,022
Interest	88	257	121	208	570
Cash interest paid	87	292	98	303	913
Operating cash flow (OCF)	631	673	339	578	1,760
Capital expenditure	522	439	534	739	3,008
Free operating cash flow (FOCF)	109	282	(194)	(65)	(1,192)
Discretionary cash flow (DCF)	(195)	282	(194)	(301)	(1,552)
Cash and short-term investments	1,032	143	313	627	1,654
Gross available cash	1,032	143	313	627	1,654
Debt	1,090	1,747	1,938	3,925	6,498
Equity	3,097	1,743	1,386	5,243	17,020
EBITDA margin (%)	35.6	17.9	16.6	25.8	31.0
Return on capital (%)	15.7	10.8	(10.7)	9.9	11.5
EBITDA interest coverage (x)	8.1	2.0	2.8	3.7	3.8
FFO cash interest coverage (x)	8.0	1.5	3.4	3.2	3.2
Debt/EBITDA (x)	1.5	3.6	5.4	3.5	1.8
FFO/debt (%)	55.5	8.3	12.0	16.7	31.1
OCF/debt (%)	57.9	38.5	17.5	14.7	27.1
FOCF/debt (%)	10.0	17.2	(10.1)	(1.7)	(18.3)
DCF/debt (%)	(17.9)	16.1	(10.1)	(7.7)	(23.9)

Colbun S.A.--Peer Comparisons

	Colbun S.A.	Enel SpA
Foreign currency issuer credit rating	BBB/Stable/--	BBB/Stable/A-2
Local currency issuer credit rating	BBB/Stable/--	BBB/Stable/A-2
Period	Annual	Annual

Colbun S.A.--Peer Comparisons

Period ending	2023-12-31	2023-12-31
Bil.	US$	US$
Revenue	12,003	105,016
EBITDA	713	20,952
Funds from operations (FFO)	605	13,311
Interest	88	4,482
Cash interest paid	87	4,372
Operating cash flow (OCF)	631	16,160
Capital expenditure	522	14,113
Free operating cash flow (FOCF)	109	2,296
Discretionary cash flow (DCF)	(195)	(3,541)
Cash and short-term investments	1,032	7,340
Gross available cash	1,032	7,340
Debt	1,090	79,633
Equity	3,097	46,369
EBITDA margin (%)	35.6	20.0
Return on capital (%)	15.7	9.4
EBITDA interest coverage (x)	8.1	4.7
FFO cash interest coverage (x)	8.0	4.0
Debt/EBITDA (x)	1.5	4.0
FFO/debt (%)	55.5	15.9
OCF/debt (%)	57.9	19.1
FOCF/debt (%)	10.0	2.8
DCF/debt (%)	(17.9)	(4.2)

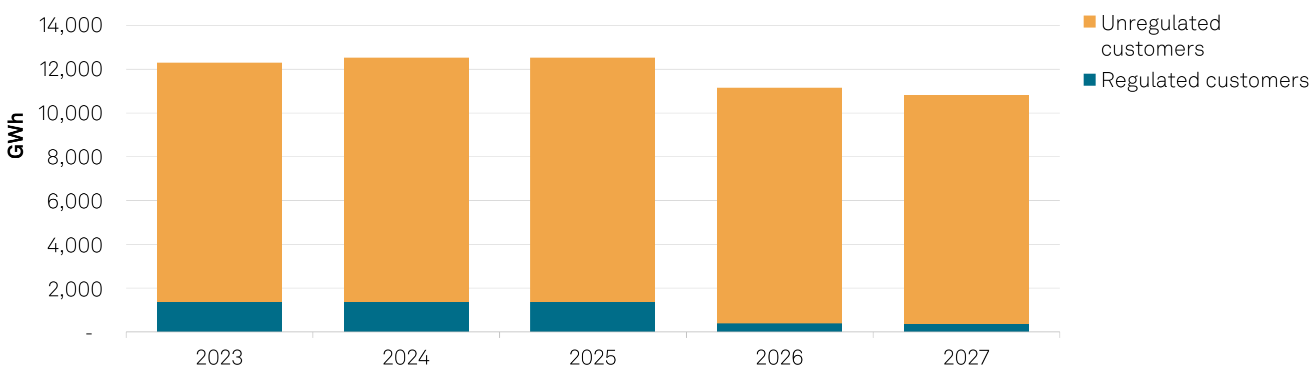
Business Risk

The business risk profile of Colbun reflects its solid competitive position in its energy generation business in Chile and its diversified generation matrix, which we believe should strengthen after the consolidation of the ongoing investment plan. The profile also incorporates our favorable view of the regulatory, legal, and contractual framework in Chile and Peru, where the company operates. The key weaknesses include exposure to drought, given that hydropower represents about 41% of the company's installed capacity as of March 31, 2024, which we expect will decline as new projects come online.

Long-term PPAs will continue providing Colbun with stable and predictable revenues. Most of Colbun's power generation is contracted with creditworthy counterparties, mainly with unregulated customers from the mining and forestry sectors. Contracts incorporate robust clauses that we view as credit strengths, including the absence of, or marginal, exposure to dispatch risk because the plants generate a significant portion of the cash flows from fixed capacity payments, and the inclusion of pass-through provisions that allow the assets to cover fuel and other major costs. In Chile, PPAs have a contracted power supply with an average of around 12 TWh and an average tenor of seven years. During the last year, the company was able to sign new PPAs for 3.5 TWh of new energy with CODELCO, Collahuasi, Aguas Pacifico, and Antofagasta minerals. There is still a small portion of PPAs with regulated customers that will come due in the upcoming two to three years, diminishing the company's exposure to the price stabilization mechanism in place, which we view as positive from a credit standpoint as it eliminates any working capital fluctuation.

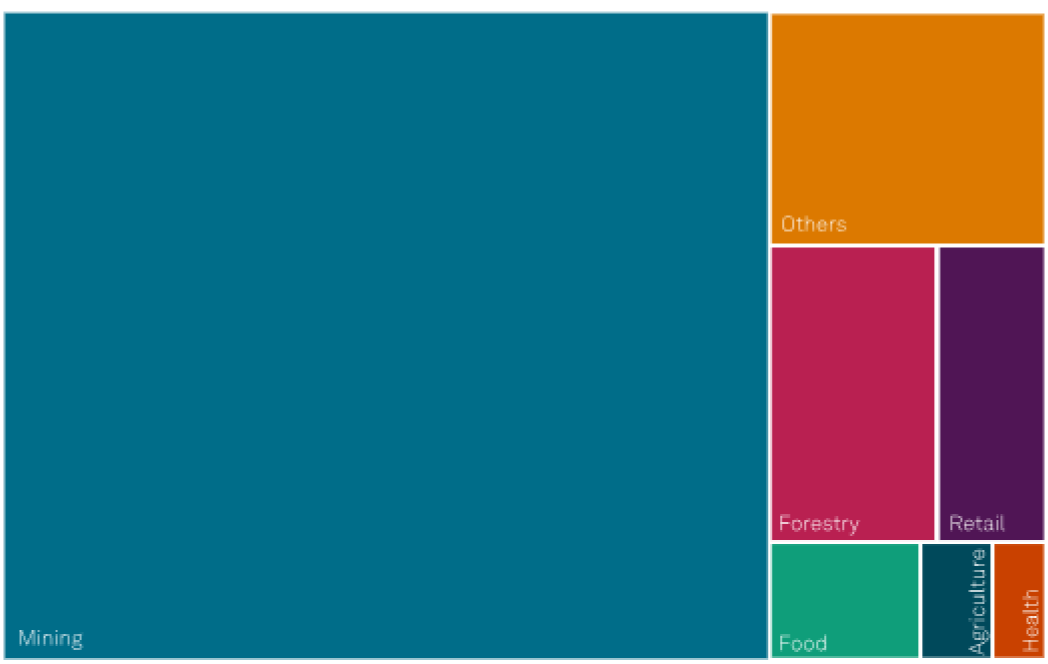
PPAs profile as of March 2024

Contracts have an average life of eight years



Source: S&P Global Ratings.

Segmentation by industry



Source: S&P Global Ratings.

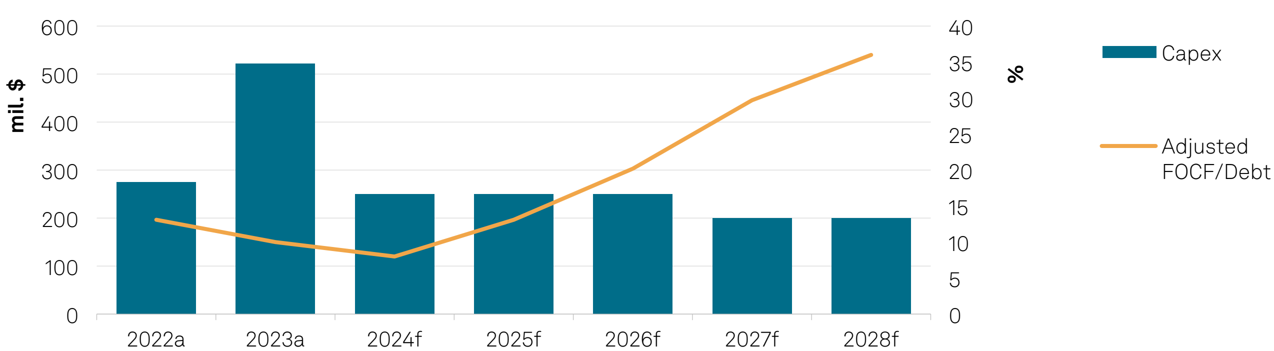
We view the regulatory, legal, and contractual frameworks of Chile and Peru as supportive. Regulations in these countries allow for timely recovery of operating costs and capital. More importantly, both frameworks have a satisfactory track record of rate revisions, and we don't expect significant modifications in any of these jurisdictions in the next few years. Therefore, we consider these frameworks as predictable and transparent, which support the ratings on Colbun.

Once the solar and storage projects are completed, Colbun's vulnerability to drought because of hydropower-based capacity will decline to 32% in 2025 from 41% in 2024. As of December 2023, Colbun had 1,627 MW of hydro-based installed capacity in Chile, 230 MW of solar parks in Chile, and 2,134 MW in thermal power in Peru and Chile. Although exposure to natural resources is high, the company's prudent commercial strategy mitigates this risk. In addition, Colbun continues to develop its carbon-free capacity, consisting of about 816 MW under construction and more than 1,700 MW that gained approval from the environmental study. By 2025, the company expects to sell between 12-15 TWh per year through new contracts largely backed by renewable energy. Of these projects, the most significant in additional capacity and advanced in development is Horizonte. The development of other projects will depend on the closing of new PPAs with attractive margins.

Financial Risk

Colbun's financial risk profile continues to reflect stable and predictable cash flows due to the company's high concentration of long-term contracts that have an average term of eight years. We expect the company to post relatively stable EBITDA of about $550 million in 2024 and to increase to $650 million in 2025 as new projects come online and Colbun continues to sign new contracts. Our rating also incorporates our expectation that Colbun will implement its expansionary capex with no significant deviations that could put at risk the commercial operations date of the projects. Under our base-case scenario, which already contemplates the acquisition of ILAP that demanded an investment of $401 million, we forecast net debt to EBITDA to remain below 3x in 2024 and to trend down from 2025 and thereafter until reaching historical levels in the 2.0x area by 2027.

Free operating cash flow to debt will remain pressured while Colbun executes its capital expenditure plan

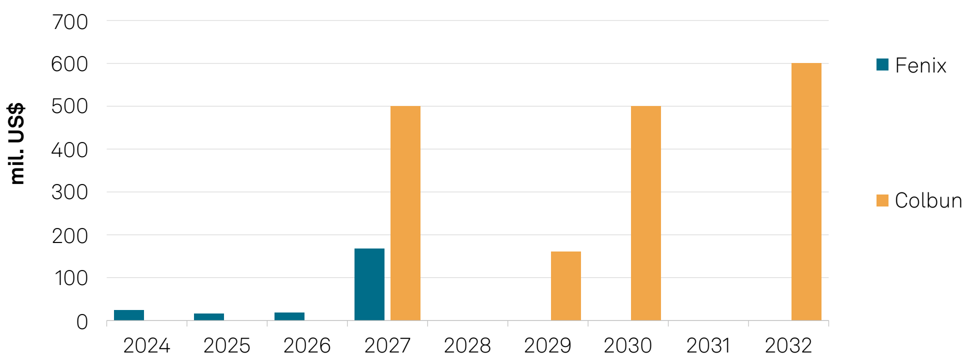


FOCF--Free operating cash flow. a--Actual. F--Forecast. Source: S&P Global Ratings.

Debt maturities

Colbun won't face significant maturities in the next three years that could jeopardize its liquidity. This is because the company's debt has a 5.9 year average maturity, with the first significant repayments coming due in 2027, and the rest in 2029 and beyond.

Amortization structure for US$1.986 trillion of total debt
With average interest rate of 3.8% and 5.9 years average life



Total debt comprises four bonds and one bank loan denominated in US$. Source. S&P Global Ratings.

Colbun S.A.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	US$	US$	US$	US$	US$	US$
Revenues	1,571	1,487	1,349	1,440	1,974	2,003
EBITDA	684	697	682	520	763	713
Funds from operations (FFO)	501	581	501	326	447	605
Interest expense	72	79	77	78	86	88
Cash interest paid	74	80	81	76	83	87
Operating cash flow (OCF)	459	484	444	257	408	631
Capital expenditure	107	87	112	253	274	521
Free operating cash flow (FOCF)	351	396	331	4	134	109
Discretionary cash flow (DCF)	61	50	90	(1,240)	(17)	(195)
Cash and short-term investments	788	799	968	1,324	1,135	1,032
Gross available cash	788	799	968	1,324	1,135	1,032
Debt	1,011	1,080	1,070	1,356	1,021	1,090
Common equity	3,856	3,536	3,459	2,720	2,817	2,973
Adjusted ratios						

Colbun S.A.--Financial Summary

EBITDA margin (%)	43.5	46.9	50.6	36.1	38.7	35.6
Return on capital (%)	8.6	7.6	4.6	20.9	12.4	15.7
EBITDA interest coverage (x)	9.4	8.8	8.8	6.6	8.8	8.1
FFO cash interest coverage (x)	7.7	8.2	7.2	5.3	6.4	8.0
Debt/EBITDA (x)	1.5	1.6	1.6	2.6	1.3	1.5
FFO/debt (%)	49.5	53.8	46.8	24.1	43.8	55.5
OCF/debt (%)	45.4	44.8	41.5	19.0	40.0	57.9
FOCF/debt (%)	34.8	36.7	31.0	0.3	13.1	10.0
DCF/debt (%)	6.1	4.6	8.5	(91.4)	(1.7)	(17.9)

Reconciliation Of Colbun S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. US$)

		Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023										
Company reported amounts		1,984	3,097	2,003	713	508	88	713	631	304	521
Cash taxes paid		-	-	-	-	-	-	(21)	-	-	-
Cash interest paid		-	-	-	-	-	-	(87)	-	-	-
Lease liabilities		139	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments		(1,032)	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)		-	-	-	-	132	-	-	-	-	-
Reclassification of interest and dividend cash flows		-	-	-	-	-	-	-	(87)	-	-
Noncontrolling/ minority interest		-	11	-	-	-	-	-	-	-	-
Total adjustments		(893)	11	-	-	132	-	(108)	(87)	-	-
S&P Global Ratings adjusted		**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
		1,090	3,097	2,003	713	640	88	605	631	304	521

Liquidity

We view Colbun's liquidity as strong, which reflects a ratio of cash sources over uses of more than 1.5x in the next 12 months. We also expect the sources-to-uses ratio to remain positive, even if forecast EBITDA declines 30%. In addition, because Colbun's debt maturities are structured as long term, the company has the ability to absorb high-impact, low-probability events. Finally, our analysis incorporates Colbun's sound relationships with banks, as seen in the pool of loans and bonds currently in its portfolio and in its satisfactory standing in credit markets.

Principal liquidity sources

- Cash and liquid investments of $990 million as of March 31, 2024
- Funds from operations of around $400 million

Principal liquidity uses

- Capex of $250 million
- Acquisition of ILAP $401 million
- Amortization of Fenix's bond of $12 million
- Dividends at 50% of net income in the following and subsequent 12 months, although the company can lower them to 30% of net income--the minimum legal requirement--in case of financial stress or if liquidity is needed for expansionary projects.

Covenant Analysis

Compliance expectations

As of Dec. 31, 2023, the company was in compliance with them, and in our view, it has sufficient headroom for forecasted EBITDA to decline by 50% without breaching the covenant tests.

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Colbun. However, we believe the entity is better positioned to face energy transition risks than other generation companies in Chile. This is because of Colbun's higher share of hydroelectric installed capacity and generation, whereas the country has a large number of fossil fuel-based plants. Colbun's plan to add 4,000 MW in renewable energy by 2030 remains on track and within budget. This strategy should allow Colbun to maintain a competitive and sustainable generation matrix, which is aligned to the country's ambitious decarbonization target.

Group Influence

Minera Valparaiso is a Chile-based conglomerate that controls Colbun. Additionally, it has minority stakes in Chile-based companies Empresas CMPC S.A., Almendral S.A., Molibdenos y Metales S.A., Empresas Copec S.A., and Bicecorp S.A. Minera's business profile is underpinned by its solid competitive position in its energy generation business in Chile and its diversified generation matrix, and the participation in forest products and real estate industries. We continue to view Colbun as a core subsidiary of Minera, given that the former generated near 80% of Minera's consolidated revenue and EBITDA in 2023. Dividends from Minera's minority investments represent the remaining 20% of its EBITDA. Additionally, we don't view the ownership as a ratings constraint.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of March 31, 2024, Colbun's capital structure consisted of about $1.9 billion of senior unsecured gross debt that it and its subsidiary, Fenix, issued. Debt includes Colbun's three international issuances of $1.1 billion ($500 million maturing in 2027, $500 million in 2030, and $600 million in 2032), Fenix's amortizing notes of $226 million due 2027, and bank debt.

Analytical conclusions

Given that debt at the subsidiary's level is below our trigger of 50% of total debt to consider the existence of structural subordination of Colbun's financial debt regarding its subsidiaries, we conclude that there's no structural subordination risk on the senior unsecured debt instruments issued by Colbun. We rate these at 'BBB', which is in line with the issuer credit rating.

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	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb**

Related Criteria

- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

Ratings Detail (as of July 31, 2024)*	
Colbun S.A.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB
Issuer Credit Ratings History	
29-May-2017	BBB/Stable/--
28-May-2015	BBB-/Stable/--
09-Sep-2011	BBB-/Negative/--
Related Entities	
Minera Valparaiso S.A.	
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.