RATING ACTION COMMENTARY

Fitch Affirms Colbun's IDRs at 'BBB+'; Outlook Stable

Mon 27 Jan, 2025 - 5:13 p. m. ET

Fitch Ratings - New York - 27 Jan 2025: Fitch Ratings has affirmed Colbun S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB+'. In addition, Fitch has affirmed Colbun's Long-Term National Scale Rating at 'AA(cl)' and its National Equity Rating at 'Primera Clase Nivel 1(cl)'. The Rating Outlook is Stable.

Colbun S.A.'s ratings reflect its strong credit profile based on its solid capital structure and ample liquidity. Fitch expects EBITDA leverage will average 3.1x in 2024-2027, coupled with EBITDA interest coverage above 8.0x. The ratings also reflect the company's solid contracted position, with an average life of seven years for its power purchase agreements (PPAs).

KEY RATING DRIVERS

Strong Credit Profile: Fitch's base case anticipates EBITDA leverage on average slightly above 3.0x during 2024-2027, combined with strong EBITDA interest coverage above 8.0x over the rated horizon to cover its consolidated contracted position between 16 and 17 terawatts per year during 2024-2027.

The company's robust credit profile is enhanced by strong financial flexibility with ample liquidity, a well spread debt maturity schedule and a debt service coverage ratio (DSCR) historically exceeding 2.0x, and above 5.0x over the rated horizon. This robust financial metric is supported by stable and predictable cash flows generated from long-term power purchase agreements (PPAs) and a diversified energy generation portfolio.

Diversified Asset Base: Fitch believes that Colbun's balanced portfolio of assets is expected to further improve as the company expands into renewables. This expansion will help offset the company's existing exposure to hydrology risk, as 40%-50% of the company's total power generation is sourced from hydro plants. Fitch's base case assumes hydro production of around 5,500 gigawatt hours (GWh) per year during 2025-2028, a more conservative scenario compared with the expected 7,200 GW coming from hydro in 2024, that benefited from an improvement in hydrological conditions.

The company's commercial strategy incorporates flexible natural gas supply to its efficient combined-cycle units with third-party agreements to purchase the fuel at competitive prices, aiming to reduce the risk of spot-market exposure. Colbun is expected to increase the dispatch of its thermal assets in the event of a severe drought to fulfill its contracts.

Solid Contractual Position: Colbun has a strong contracted profile; it has long-term PPAs with an average life of eight years in Chile and six years in Perú. Fitch expects the company to maintain a significant portion of its capacity contracted in the long term, maintaining an exposure to PPAs with non-regulated customers, as it gradually incorporates new PPAs with industrial customers. The ratings reflect Colbun's major plants operating under constructive regulatory environments in Chile and Peru, and has shown recontracting prospects with similar contractual terms.

Manageable Renewable Capex: Colbun's renewable expansion is expected to affect cash flows in the medium term, but the investment will strengthen its diversified asset base. FCF will remain negative through 2024-2027, as the company implements its expansion plan in renewables that is tied to a conservative commercial strategy keeping a balance position. Over the rated horizon, Fitch's base case assumes a dividend policy of 50% from previous year net income, combined with no additional debt, as the company can finance its expansion with internal cash flow generation and its ample liquidity.

National Equity Rating: Fitch rates Colbun's National Equity at 'Primera Clase Nivel 1(cl)' based on the company's solid solvency position and consolidated stock history. As of January 2025, Colbun had a market capitalization of USD2.3 billion with an average volume traded in the last month of USD2,100,000. The stock is part of the Indice de Precio Selectivo de Acciones and has a free float of 40.5% between pension funds and other shareholders.

DERIVATION SUMMARY

Colbun's business profile and solid contractual position with PPAs is slightly lower than that of Engie Energia Chile S.A. (BBB/Stable) and AES Andes S.A. (BBB-/Stable). These companies have PPAs averaging more than 10 years. Colbun has a generation mix evenly distributed between hydro and thermal, similar to Enel Generacion Chile S.A. (BBB+/Stable). Both have adequate indexing mechanisms that closely match their generation mix and contracts, which mitigate exposure to fuel price volatility and reduces business risk consistent with the rating category.

AES Andes and Engie Chile are mainly concentrated on coal-based units and have less exposure to hydroelectricity generation in Chile. Enel Chile S.A. (BBB+/Stable) has slightly less business risk than its peers due to the integration provided by the generation business under Enel Generacion Chile, the renewable business from Enel Green Power and distribution business under Enel Distribution. Colbun's credit profile is among the country's strongest, with EBITDA leverage around 3.1x and DSCR above 4x.

Colbun has lower scale of operations compared with RWE AG (BBB+/Stable), a large European generation company based in Germany, with a total installed capacity of 34GW, well-diversified asset base and global footprint exposure across western Europe and the U.S.

KEY ASSUMPTIONS

-- Energy sales around 16,000 GWh during 2024-2026 between Chile and Peru, and up to 17,000GWh by 2027;

-- Hydro generation above7,000 GWh in Chile for 2024 and above of 5,000GWh per year during 2025-2028;

-- Thermal coal (Australia Newcastle) at USD125 per ton in 2024, USD100 per ton in 2025, USD90 per ton in 2026 and 2027, and USD75 in the long term;

-- Henry Hub gas prices of USD2.25 per thousand cubic feet (mcf) in 2024, USD3.0 per mcf in 2025, and USD2.75 from 2027 onward;

-- Horizonte project connected during 2025;

-- Expected capex for the period from 2024 to 2028 of about USD1,325 million;

-- Annual maintenance capex of USD83 million in 2024 and above USD94 million during 2025-2028;

-- Dividend payout ratio of 50% in 2024-2028.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- A change in Colbun's commercial policy that results in an imbalanced long-term contracted position;

-- Pressure from shareholders that could result in a significant increase in dividend payments beyond the company's plan;

-- EBITDA leverage consistently above 3.0x, combined with EBITDA interest coverage below 4.5x and debt service coverage ratio (DSCR) consistently above 2.0x;

-- Inability to re-contract a significant portion of expiring contracts;

-- Debt-financed acquisitions that would cause the company's credit metrics to deteriorate.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- Although unlikely in the short term, a positive rating action is possible should the company maintain gross debt/EBITDA consistently below 2.0x, maintaining robust liquidity indicators consistent with the past. Fitch would view Colbun's ability to maintain a long-term contracted position positively.

LIQUIDITY AND DEBT STRUCTURE

Colbun has a solid liquidity position, with USD947 million of cash and cash equivalents as of September 2024, compared with USD73 million of short-term debt. Fitch expects Colbun will maintain strong liquidity driven by cash generation. Liquidity is buoyed by uncommitted credit lines of approximately USD150 million and an unwithdrawn committed line for USD100 million with BBVA and Bank of America.

Colbun's debt consists almost entirely of international notes of approximately USD2.0 billion, including USD227 million outstanding notes from Fenix Power Peru S.A. In November 2024, Colbun issued an additional green loan of USD200 million maturing in 2029. The company has no significant maturities until 2027, which the agency expects will be refinanced during 2025.

ISSUER PROFILE

Colbun is a Chilean electric generation company with an installed capacity of 4,207MW and 16% market share in Chile. It owns 59% of Fenix Power Peru S.A., a 573MW combined cycle unit with 7% of market share in Peru.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Colbun S.A.	LT IDR Affirmed	BBB+ Rating Outlook Stable	BBB+ Rating Outlook Stable
	LC LT IDR Affirmed	BBB+ Rating Outlook Stable	BBB+ Rating Outlook Stable

	Natl LT AA(cl) Rating Outlook Stable Affirmed	AA(cl) Rating Outlook Stable
	Nat Equity Rating Primera Clase Nivel 1 Affirmed	Primera Clase Nivel 1
senior unsecured	LT BBB+ Affirmed	BBB+
senior unsecured	Natl LT AA(cl) Rating Outlook Stable Affirmed	AA(cl) Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Metodología de Vínculo de Calificación entre Matriz y Subsidiaria (pub. 13 Jul 2023)

Metodología de Calificación de Finanzas Corporativas (pub. 22 Dec 2023)

Metodología de Clasificación de Acciones en Chile (pub. 19 Jul 2024)

Chilean Equity Rating Criteria (pub. 22 Jul 2024)

Corporate Rating Criteria (pub. 06 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 06 Dec 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Colbun S.A.	EU Endorsed, UK Endorsed

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