
Ciudad de Panamá, Panamá
12 de abril de 2024

Señor
Julio Javier Justiniani
Superintendente
Superintendencia de Mercado de Valores
Ciudad

Asunto: Fitch rebaja calificación a BB+

Distinguido Señor Justiniani:

Por medio de la presente comunicación y en cumplimiento con las reglas establecidas por la Superintendencia del Mercado de Valores con respecto a los hechos relevantes, les comunicamos que el día 10 de abril de 2024, 4:21 PM ET la calificadora de riesgo, Fitch Ratings publicó informe de la baja de calificación del grado a BB+ de AES Panama Generation Holdings, S.R.L. (en adelante AESPGH), empresa que cotizada en esta bolsa. El reporte está anexo a esta misiva.

En resumen, esta baja de calificación es impulsada por la deuda soberana y el entorno operativo en deterioro (OE, evaluado en 'bb+') como consecuencia de la baja de la calificación del Gobierno de Panamá de BBB- a BB+, el pasado 28 de marzo del presente año. Esta baja de calificación no tiene implicaciones significativas para AESPGH bajo sus actuales contratos de crédito.

Agradecemos su atención a este asunto y estamos disponibles para cualquier pregunta o aclaración adicional que puedan necesitar.

Atentamente,



Miguel Bolinaga
Apoderado General
AES PANAMA GENERATION HOLDINGS, S.R.L.

10 APR 2024

Fitch Downgrades Three Panamanian Corporates to 'BB+'; Outlooks Stable

Fitch Ratings - New York - 10 Apr 2024: Fitch Ratings has downgraded Empresa de Transmision Electrica S.A.'s (ETESA) Elektra Noreste, S.A.'s (ENSA) and AES Panama Generation Holdings, S.R.L.'s (AESP GH) Long-Term Local and Foreign Currency Issuer Default Ratings (IDR) to 'BB+' from 'BBB-'. The Outlooks are Stable. A full list of rating actions is below.

The rating actions follow Fitch's downgrade of Panama's sovereign IDR to 'BB+' from 'BBB-' on March 28 2024. The sovereign downgrade reflected evolving governance challenges, large fiscal deficits and revenue underperformance resulting in increased government debt/GDP and higher interest/revenues.

Key Rating Drivers

Sovereign-Driven Downgrades: The downgrades reflect Fitch's view of stronger linkages between each company's credit profile and the sovereign rating amid a deteriorating operating environment (OE, assessed at 'bb+') as well as either full or partial corporate government ownership or the systemic receipt of government subsidies and financial support.

Panama's 'bb+' OE provides a key asymmetric rating consideration for regulated utilities in Latin America, and weighs particularly heavily on companies with direct exposure to a host government and through wholly domestic operations. Fitch expects that further deterioration in Panama's OE or further downgrade of the IDR would likely result in further corporate downgrades.

ETESA's Ratings Downgraded: ETESA's ratings reflect its strong linkage with Panama due to the government's 100% ownership of the company and history of financial support through direct lending and not extracting dividends. As per Fitch's government-related entities (GRE) criteria, the agency views the decision making and oversight and precedents of support as very strong, and the preservation of provision of public service or sovereignty or strategic assets and contagion risk as strong.

These combined factors result in a GRE assessment score of 40 (45 being the highest achievable), indicating that ETESA's rating is capped by that of the sovereign. Fitch has also revised the company's Standalone Credit Profile down to 'bb+' from 'bbb-'. However, even if to the SCP is further reduced, the ratings would still be equalized with the sovereign rating up to a maximum four-notch differential.

ENSA's Ratings Downgraded: ENSA is one of Panama's three electricity distributor companies and distributes a material 40% of average annual electricity to 41% of total customers. The company's ratings reflect strong linkage to Panama's credit quality as it is a regulated utility with entirely domestic

cash flows supported, in part, by structural government subsidies (5% of ongoing revenues). ENSA is 51% owned by Empresas Publicas Medellin (EPM, BB+/Rating Watch Negative) and 49% by the government of Panama.

Fitch rates ENSA on a standalone basis from its controlling parent due to ENSA's relative financial and operational independence from EPM. However, their IDRs are now equalized, in part, due to the 100% blended ownership structure of 'BB+'-rated credit quality of both major shareholders.

Fitch does not currently anticipate changes to the country's regulatory structure that governs ENSA's tariff-driven revenue regime, led by independent regulator Autoridad Nacional de los Servicios Publicos. However, the company is highly exposed to potential adverse changes that could weaken this structure or dilute the rate of subsidy receipts in favor of other priorities. As a distribution company and front-lines service provider, ENSA is exposed to shifts in customer consumption and payment rates, which could weaken amid Fitch's perceived deteriorating OE. Fitch nonetheless estimates yoy improved EBITDA and reduced leverage attributable to higher consumption from hot weather and a higher rate of value added from distribution tariff compensation, currently authorized through 2026.

AESPGH's Ratings Downgraded: AESPGH is the country's largest energy producer, yielding an annual average almost 40% of national generation volumes through a diversified and balanced mix of generation resources. Fitch views exposure to direct governmental control as heightened amid the sovereign downgrade, given the government's 51% ownership stake in operating company AES Panama S.R.L. (hydroelectric assets). Fitch estimates this ownership amounts to oversight of 20% of company-wide decision making that affects roughly 58% of revenues (including intercompany sales to Changuinola) through the government's ability to perform certain corporate processes.

Per Fitch's understanding, major decisions, such as changes to AES Panama SRL's articles of association, amendments to by-laws, approval of mergers, asset sales, and dividend payments, among others, require unanimous approval from the board, where the government controls two (of five) board seats. Though AESPGH (through Global Power Holdings) is a minority shareholder of 49.1% of Panama SRL, it nonetheless controls three board seats.

Fitch also views inherent linkage to Panama's sovereign credit quality based on AESGPH's position as a regulated generation company with domestic cash flows, market dominance and essentiality and an upstream exposure to government subsidies received by regulated distribution company off-takers, which account for 79% of AES Panama and 59% of AES Colon sales.

The company is Panama's sole liquid natural gas (LNG) supplier, and EBITDA from the growing business of storage, transportation and sales of LNG account for a strong average 45% portion of the company's financial structure. LNG customers are largely domestic clients, but also include vessels and exports.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer Include

ETESA:

- 30-year Treasury rate will be 3.4% from 2023-2026;
- Fourth transmission line will be built and operated by a third party and enter into service in 2025;
- 30% annual tax rate;
- Debt issuances post-2022 priced at interest rates of between 8.5% and 9.0%;
- Negative free cash flow (FCF) in every forecast year due to heavy average annual capex of USD121 million;
- Year-end cash balances averaging USD78 million annually and no dividends paid to government through the rating horizon
- Service interruption payments stable at USD3 million per year.

ENSA:

- Energy sales volumes grow at an average of 2.9% between 2023 and 2026, or between 3,600 to 3,900 GWh per year;
- 100% of previous year's net income paid in dividends, with year-end cash averaging around USD7 million;
- A new tariff effective 2H23-1H26 (delayed one year but retroactive from 1H22) increases the VAD by a net impact of 18.6%, including government subsidies;
- All near-term maturing short- and long-term debt will be refinanced prior to maturity;
- Government subsidies will comprise around 5% of annual revenues;
- Capex of USD200 million between 2024 and 2026, concentrated in 2024-2025.

AESPGH:

- Monomic contract prices through 2026 for each company are USD100/MWh for AES Panama SRL; USD114/MWh for AES Changuinola; and USD108/MWh for AES Colon;
- Long-term hydro and renewable purchased power agreement (PPA) prices have fixed prices where some adjust with inflation and prices for capacity are fixed with no change over the life of the contract;
- Expiring large user hydro PPAs will be renewed with similar terms;
- Thermal PPA prices adjust based on the cost of fuel and capacity prices are fixed;
- Spot prices to approximate USD100/MWh in 2023 then gradually step down yoy as new system capacity is added with the onset of the natural-gas fired Generadora Gatun plant;

--Generadora Gatun, a 670MW LNG fired plant, enters operation in 2H24 and contracts LNG storage with Costa Norte. AESPGH will purchase energy from the spot market at projected costs to offset the step-down in production at the AES Colon plant;

--No significant asset sales occur during the rating horizon without corresponding debt rebalancing;

--Debt amortizes for the AESPGH bond and a USD50 million Costa Norte term loan;

--Year-end cash estimated approximating USD65 million;

--Net dividends (less shareholder contributions) average USD175 million through 2027. Dividends to government as 51% shareholder in operating company AES Panama SRL average USD39 million per year, or an approximate 23% of total company net dividends.

RATING SENSITIVITIES

ETESA

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

--Due to the company's close relationship with the Panamanian government, positive sovereign rating action could result in positive action on the company's rating.

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

--Due to the company's close relationship with the Panamanian government, negative sovereign rating action could put downward pressure on the company's rating;

--A deterioration of the SCP to four notches or more below the sovereign.

ENSA

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

--Improvement of gross leverage to less than 2.5x on a sustained basis.

--Upgrade of Panama's sovereign rating or greater disassociation from the government.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Weakening of gross leverage to above 3.5x on a sustained basis;

--Adverse government intervention in the sector that weakens the regulatory framework;

--Increased reliance on government subsidies coupled with a downgrade of the sovereign.

AESPGH

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

--Sustained gross leverage below 3.0x over the medium term.

--A conservative contracting strategy that promotes cash flow stability and the ability to withstand hydrological shocks to the system.

--Continued evidence of sustainable spot price stabilization as a result of asset diversification in the Panamanian electricity matrix.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Sustained gross leverage above 4.0x and net leverage above 3.5x over the medium term.

--Adverse government intervention in the sector that weakens the regulatory framework.

--A downgrade of the sovereign rating.

--Deterioration in the company's ability to mitigate spot-market risk.

--Payment of dividends coupled with high leverage levels.

Liquidity and Debt Structure

ETESA

Solid Liquidity: The company reported 3Q23 cash balance of USD133.5 million. It has a comfortable debt maturity profile, with its first major debt maturity of USD75 million coming due in 2026.

ENSA

Well-Managed Liquidity: ENSA's relatively low minimum annual cash balance of around USD5 million-USD10 million per year is supplemented by access to over USD300 million in uncommitted credit lines from multiple financial institutions. At any given time, the company utilizes only up to around 36% of its available credit.

Long-term financial obligations include a USD80 million bond due 2027, a USD100 million bond due in 2036, and a USD50 million variable rate loan to the International Development Bank due in July 2025. Fitch expects the company to refinance all long-term debt well before maturity and based on optimal market conditions. The company's USD200 million in short-term debt is broken into individual loans that will similarly be rolled into either new short-term or long-term debt pending optimal interest rates. ENSA pays the majority of its net income in dividends.

AESPGH

Solid Liquidity: Fitch expects the combined company to generate strong free cash flow (FCF) of an average annual USD55 million in years 2023-2025, after capex and conservative dividend distribution

assumptions. FCF will be nearly sufficient to support ongoing near-term annual debt amortizations, and remain supportive of an overall solid yoy liquidity position that Fitch assumes should be sustained at around USD65 million or above per year. The combined companies held a robust USD152 million in readily-available cash and equivalents as of Sept. 30, 2023. The majority of the company's debt is long term, with just over USD1.2 billion due in 2030.

Issuer Profile

ETESA is a 100% state-owned electricity transmission company with a monopoly on the transmission, dispatch, control and demand planning for Panama's interconnected electricity generation system. ETESA is responsible for processing and awarding bids for energy purchases on behalf of the electricity distributors.

ENSA is one of Panama's three electricity distribution companies. Its concession area covers 39% of the country, spanning parts of Panama City and the provinces north and east of the capital. It serves 41% of the country's customers and commands 40% of total national annual energy sales.

AESPGH is indirectly owned by The AES Corporation to finance operations in Panama and is the issuer of USD1.38 billion amortizing notes. AESPGH owns and operates the largest portfolio of electricity generation and LNG assets in Panama. Its operating assets include AES Panama S.R.L., Changuinola S.R.L and AES Colon, comprised of Gas Natural Atlantico and Costa Norte LNG Terminal S.R.L.

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.

ESG Considerations

ETESA, ENSA and AESPGH each have an ESG risk score of '4' for Governance Structure, due to their partial and/or majority government-owned corporate structure, and the inherent governance risk that arises with a material or dominant state shareholder, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

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>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
AES Panama Generation Holdings, S.R.L.	LT IDR	BB+ ●	Downgrade	BBB- ●
	LC LT IDR	BB+ ●	Downgrade	BBB- ●
• senior secured	LT	BB+	Downgrade	BBB-
Elektra Noreste, S.A.	LT IDR	BB+ ●	Downgrade	BBB- ●
	LC LT IDR	BB+ ●	Downgrade	BBB- ●
• senior	LT	BB+	Downgrade	BBB-

ENTITY/DEBT	RATING	RECOVERY	PRIOR
unsecured			
Empresa de Transmision Electrica S.A.	LT IDR	BB+ 	Downgrade
	LC LT IDR	BB+ 	Downgrade
• senior unsecured	LT	BB+	Downgrade
			BBB- 
			BBB- 
			BBB-

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Corporate Rating Criteria \(pub.03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub.16 Jun 2023\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub.03 Nov 2023\)](#)

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

Solicitation Status

Endorsement Status

AES Panama Generation Holdings, S.R.L. EU Endorsed, UK Endorsed

Elektra Noreste, S.A. EU Endorsed, UK Endorsed

Empresa de Transmision Electrica S.A. EU Endorsed, UK Endorsed

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