FITCH RATES CELEO REDES OPERACION CHILE'S SENIOR SECURED NOTES 'BBB-'

Fitch Ratings-Chicago-10 May 2017: Fitch Ratings has assigned a 'BBB-' rating to the senior secured notes of Celeo Redes Operacion Chile S.A. (Celeo) for up to USD379 million, due in 2047. The Rating Outlook is Stable.

Final pricing for the USD notes was a coupon of 5.2%, lower than what was assumed in Fitch's expected cases. The total issuance amount of USD379 million was higher than previously anticipated, slightly elevating leverage metrics. DSCR coverage in Fitch's rating case remains identical. Breakeven analysis results are also in-line with the analysis at the time the expected rating was assigned.

The notes are supported by the cash flow generation of three electric transmission line decrees. The international notes will coexist in a pari-passu basis with the UF5.4 million, 3.35% coupon Chilean local senior secured notes (rated 'A+(cl)'/Outlook Stable), that were issued above par raising proceeds for UF5.65 million and with an ultimate yield of 2.99%.

KEY RATING DRIVERS

Summary: The rating reflects Celeo's mixed revenue profile, which is predominantly availability-based and with a strong pool of off-takers with fixed prices during the first 20 years of two decrees, followed by a second phase of regulated tariffs. These are recalculated every four years, somewhat exposing the transaction to price risk. Off-take risk is favorably viewed as a systemic risk and commensurate with Chile's sovereign rating ('A+/Outlook Negative). Operations are performed by an experienced operator, while cost is highly predictable and represents a relatively small portion of revenues. All-cost breakeven, expressed as a multiple of a minimum realistic outside cost (ROC) of 5% (applied to stronger projects in the absence of detailed analysis by the Technical Advisor) is 34x, deemed very strong for this type of project. Fitch's Rating Case shows stable debt coverages, with minimum and average Debt Service Coverage Ratios (DSCR) of 1.19x and 1.25x, respectively. These metrics, when considered in light of the project's hybrid revenue profile, are consistent with Fitch's applicable criteria. Breakeven runs with respect to the underlying assumptions which will drive the calculation of future readjusted tariffs show that the project can withstand significant stresses in future investment values, providing additional comfort to the ratings.

Completion Risk Not a Significant Concern [Completion Risk: Stronger]: The construction of Charrua Transmisora de Energia S.A. (CHATE), the only one out of the three transmission lines that is not yet operational, is currently 95% complete, with mostly construction and installation activities of the line remaining. The Independent Engineer opines that the current expected COD of September 2017 is reasonable and does not expect further delays or budget overruns. Fitch's believes the EPC contractor is unlikely to stop operations within this timeframe, which alleviates concerns with respect to the EPC contractor's unknown credit quality. Additional comfort is provided by available liquidity within the project.

Mixed Revenue Profile, Strong Counterparty [Revenue Risk: Midrange]: Alto Jahuel Transmisora de Energia S.A. Circuit 1 (AJTE C1) and CHATE benefit from 20 years of fixed prices and tariffs indexed to inflation until 2036 and mid-2037, respectively. Afterwards, they will join Alto Jahuel Transmisora de Energia S.A. Circuit 2 (AJTE C2) into a tariff readjustment mechanism, where the tariff values will be reset every four years according to the results of an independent Trunk

Transmission Study. At every reset date, tariffs will be set according to the estimated costs of building and operating a new transmission line in that point-in-time. Although some price risk is present, the calculation of future tariffs will depend mostly on inflation-linked components and, on a more limited basis, on volatile commodity prices. Off-takers comprise a large pool of generators and distributors in the Chilean energy market. Off-take risk is favorably viewed as a systemic risk, commensurate with Chile's sovereign risk.

Cost Risk - Stronger: Cost risk was assessed as 'Stronger' based on the following cost-risk sub-factors:

Low Complexity Operations (Scope Risk: Stronger): The level of complexity of operations is considered low, with mostly minor maintenance and simple operational activities. Similarly, life-cycle Costs (LCC) are expected to be low and evenly spread throughout the debt's term, given the assets' estimated long life.

Experienced Operator (Cost Predictability: Stronger): The operator has a successful track record in the development, construction, and operation of transmission lines. The Independent Engineer (IE), Black & Veatch, provided a detailed cost analysis report, including adequate benchmark and replacement analysis.

Fixed-Price O&M Contract (Cost Volatility and Structural Protections: Midrange): Operating expenses are managed through a fixed-price O&M contract, with inflation-linked fees and limited deduction pass-through. The structure provides additional protection through a three month O&M reserve.

Mostly Flat DSCRs [Debt Structure: Midrange]: Notes are senior, fully amortizing and benefit from robust lock up requirements, that accelerate deleveraging of the project in a downside tariff reset scenario. Issuance comprises two different notes, one denominated in USD and the other in Unidades de Fomento (UF). High visibility of revenues and operating expenses allow for each instrument to be sized according to expected denomination proportions of Cash Available for Debt Service (CFADS). Notes benefit from a six-month Debt Service Reserve Account (DSRA). A tailored amortization schedule yields mostly flat DSCRs, slightly decreasing in the last 10 years as consequence of the severe stress applied to regulated tariffs.

Metrics: Fitch's Rating Case shows minimum and average DSCRs of 1.19x and 1.25x, respectively. Although metrics could be in line with a higher rating according to applicable criteria, the rating is constrained to 'BBB-' due to the transaction's exposure to tariff resets.

PEER GROUP

There are no local transactions rated by Fitch that are comparable to Celeo. Celeo's closest peer in the region is ABY Transmision Sur (ABYTS), a Peruvian transmission line rated 'BBB+'/Outlook Stable. Celeo's rating case average DSCR of 1.25x is weaker than ABYTS's 1.44x. Both projects have midrange assessments for revenue risk, although ABYTS revenue profile is more predictable. Celeo has a stronger Cost risk profile, while ABYTS's debt structure is stronger than Celeo's.

RATING SENSITIVITIES

Positive ration action could occur if there is a reduction in Fitch's perception of risk associated with future tariff readjustments.

Negative rating action could result from underperformance due to unavailability penalties or costs overruns, causing DSCR coverage levels below Base Case projections.

TRANSACTION SUMMARY

Celeo Redes, S.L. (Sponsor) is the platform through which Elecnor S.A. owns and operates its transmission systems. Celeo Redes, S.L. has been active in Brazil and Chile for 14 and six years, respectively.

The purpose of the issuance is mainly to refinance Celeo's existing debt at the project levels of a portfolio of transmission line assets, which will extend its maturity profile and support future transmission investments. The transaction includes protections that are typically seen in project finance, including excess cash flow distribution restrictions and also restrictions on additional indebtedness.

The portfolio consists of 454 km of regulated trunk transmission lines located in the Central Interconnected System (SIC) of Chile. The assets were part of awarded Decrees, designed to provide stable, regulated, inflation-adjusted cash flows, to facilitate and ensure the construction and operation of a critical component of the electricity sector.

Celeo is based in Chile and owns three subsidiaries: AJTE C1 and AJTE C2, CHATE, and Diego de Almagro Transmisora de Energia SA (DATE), through two different formats (restricted and unrestricted subsidiaries). Only the restricted subsidiaries (AJTE and CHATE) are part of the Security Package for the rated notes. AJTE C1 and AJTE C2 are already in operational stage, while CHATE has its first circuit currently in advanced stage of completion (95%) and is expected to reach COD in September 2017.

Since DATE is an unrestricted subsidiary with the purpose of protecting the structure from additional construction risks, it is currently not included in the security package. Once DATE starts operations (possibly in 2019) it could be converted to a restricted subsidiary and incorporated into the package. Additional cash flows from DATE could support additional debt, subject to certain conditions including the affirmation of existing ratings by Fitch.

Fitch Cases

Fitch's Base Case assumes Chilean inflation at 2.9% in 2017 and 3.00% onwards, and U.S. inflation at 2.30% in 2017, 2.40% in 2018, and 2.50% onwards, throughout the life of the senior secured notes. It also considers Opex as proposed in Celeo's model. Additionally, it assumes an 8% stress applied to sponsor's investment values used to project regulated tariff levels, as well as no unavailability penalties nor a delay in CHATE's construction. The results of Fitch's Base Case show minimum and average DSCRs of 1.22x and 1.28x, respectively, and a LLCR of 1.27x.

Fitch's Rating Case assumes the same inflation levels as the Base Case. It considers Opex as proposed in Celeo's model, plus a 5% stress, assumed as ROC. Additionally, it assumes a 15% stress applied to sponsor's investment values used to project regulated tariff levels, as well as 1% of unavailability penalties, and no delay in CHATE's construction. The results of Fitch's Base Case show minimum and average DSCRs of 1.19x and 1.25x, respectively, and a LLCR of 1.23x.

Fitch's Breakeven Scenarios show an all-cost breakeven of 169%, reflecting strong resilience to cost increases. The structure can also withstand, in independent scenarios, 16 months of delay in CHATE's construction, 21% of unavailability penalties per year, and a stress of 24% stress applied to sponsor's investment values used to project regulated the tariff levels. Overall, the structure is strong enough to withstand significant stresses to key variables.

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Applicable Criteria
Rating Criteria for Availability-Based Projects (pub. 21 Jul 2016)
https://www.fitchratings.com/site/re/884538
Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016)
https://www.fitchratings.com/site/re/882594

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