Fitch Ratings

Fitch Affirms Celeo Redes Operacion Chile's Sr Secured Notes at 'BBB-'; Outlook Stable

Fitch Ratings has affirmed its 'BBB-' rating of Celeo Redes Operacion Chile S.A.'s (Celeo) USD379 million senior secured notes due in 2047. Fitch has also affirmed the 'A+(cl)' national scale ratings of the UF5.4 million local senior secured notes maturing in 2047 and the bond programme for up to UF8 million. The Rating Outlook for all ratings is Stable.

The rated notes are supported by the cash flow generation of three electric transmission line decrees, with the international notes coexisting in a pari passu basis with Chilean local senior secured notes.

KEY RATING DRIVERS

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 favourably viewed as a systemic risk and commensurate with Chile's sovereign rating ('A'/Stable). 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% (indicated to stronger projects under the applicable criteria) is 29.2x, 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 1.12x and 1.20x, 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.

Mixed Revenue Profile, Strong Counterparty [Revenue Risk: Midrange]:
Alto Jahuel Transmisora de Energia S.A. Circuit 1 (AJTE C1) and Charrua Transmisora de Energia S.A. (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 favourably 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 1.12x and 1.20x, respectively. Although metrics could be in line with a higher rating according to applicable criteria, the rating is constrained to 'BBB-' and 'A+(cl)' 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 1.20x is weaker than ABYTS's 1.39x. 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
Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

--A reduction in Fitch's perception of risk associated with future tariff readjustments.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

--Underperformance due to unavailability penalties or costs overruns, causing DSCR coverage levels to be consistently below Base Case projections.

CREDIT UPDATE

During 2018, revenues from operations were USD49.8 million, slightly above Fitch's base case expectations of USD48.7 million, given an appreciation of the CLP/USD exchange rate, which is used to update tariffs. The project also received a USD5.7 million Value Added Tax (VAT) reimbursement related to CHATE's construction expenses and the issuer estimates to receive a remaining amount of USD297 thousand in 2019. Fitch expected this reimbursement to be fully received in 2018 for USD8.1 million. However, Fitch sees the distortion is irrelevant given the non-recurrent nature of this cash inflow coupled with its small size relative to the project's cash flows. Furthermore, the project had USD722 thousand of interest income, not considered under Fitch's assumptions.

Availability during 2018 reached 99.99%, as such, no availability deductions were triggered for AJTE or CHATE.

Operational expenses (Opex) in 2018 were USD7.1 million, which were slightly higher than Fitch's base case projection (USD6.7 million), partially given the aforementioned appreciation of the Chilean peso, but also because the project paid a new liability insurance policy for Celeo's executives and a payment to Banco de Chile in connection to its role as Guarantee Agent. As per the sponsor, these expenses will be recurrent.

As of December 31, 2018, the Operation and Maintenance Reserve Account (OMRA) and the Debt Service Reserve Account (DSRA) were properly funded. The higher-than-expected Opex has resulted in a 12-month, ending in December 2018, DSCR of 1.27x, compared with the 1.30x expected by Fitch under its rating case.

Fitch Cases
Fitch's Base Case assumes Chilean inflation at 3.0% in 2019 and 3.0% onwards, and US inflation at 2.3% in 2019, 2.4% in 2020 and 2.0% onwards, throughout the life of the senior secured notes. It also considers Opex as proposed by the issuer including the aforementioned additional costs on insurance and financial expenses. Additionally, it assumes an 8% stress applied to sponsor´s investment values used to project regulated tariff levels, as well as no unavailability penalties. The results of Fitch's Base Case show minimum and average DSCRs of 1.19x (in 2036) and 1.23x, respectively.

Fitch's Rating Case assumes the same inflation levels as in the Base Case. It considers Opex as proposed by the issuer 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. The results of Fitch's Base Case show minimum and average DSCRs of 1.12x (in 2036, 2038 and 2039) and 1.20x, respectively.

Fitch's Breakeven Scenarios show an all-cost breakeven of 146%, reflecting strong resilience to cost increases. This yields a multiple of ROC of 29.2x. Overall, the structure is strong enough to withstand, in independent scenarios, significant stresses to key variables such as unavailability penalties and investment values used to project the regulated tariff levels.

Contact:

Primary Analyst
Alfredo Saucedo
Director
+52-(81)-8399-9163
Fitch Ratings México
Prol. Alfonso Reyes 2612 Col. Del Paseo Residencial
Monterrey N.L. México, 64920

Secondary Analyst
Jose Luis Castilla
Associate Director
+52-(55)-5955-1604

Committee Chairperson
Astra Castillo
Senior Director
+52-(81)-8399-9146