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Celeo Redes Operacion Chile S.A.

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Credit Rating(s)	
Senior Secured	
US$379 mil 5.20% nts ser A due 06/22/2047	
Foreign Currency	BBB/Stable
Senior Secured	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.

Project Description

Celeo Redes Operacion Chile S.A. (Celeo Redes or the project) owns two trunk transmission lines located in Chile's power grid. The assets benefit from perpetual concessions granted by the Ministry of Energy in which revenues under the contractual agreement are not subject to any demand risk and are not based on utilization rate of the lines. The project's assets consist of:

- Alto Jahuel Transmisora de Energía, S.A. (AJTE): A 256- kilometer (km) 500 kilovolts (kV) transmission line, consisting of two circuits. AJTE circuit 1, which is entitled to receive fixed availability payments until 2035. AJTE circuit 2 that receives same type of payments until 2020. AJTE circuit 1 is operational since September 2015 and AJTE circuit 2 since January 2016.
- Charrúa Transmisora de Energía, S.A. (CHATE): A single 198-km circuit that started commercial operations in December 2017 and is entitled to receive fixed availability payments until 2038.

Credit Highlights

Key Strengths	Key Risks
Revenue base dependent on lines' availability levels, eliminating market risk and providing stable cash flow.	Exposure to fixed-rate recalculation before the notes' maturity in 2047.
Relatively low operational complexity with proven technology.	A sustained decrease in U.S. inflation in the long term, given its direct impact on revenues.
No exposure to counterparty risk given that payments come from the electric system.	Although unlikely, a natural disaster--usually an earthquake in Chile--could damage the project's transmission lines.

Tariff revision for 2020-2023 period postponed until 2021. The study, which would have set the rate revision for 2020-2023 should been completed by December 2019 with the new rates taking effect January 2020, was delayed. Due to errors found at an advanced stage of the valuation study, the National Energy Commission (CNE) determined to redo the study from its preliminary version, delaying the process by approximately one year. As a result, transmission companies will provisionally receive the rates in effect during the previous four-year period, while differences in amounts will be settled once the final rates are published. In our view, about 20% of the company's assets are affected by the delay, which should be compensated next year. Therefore, we have reduced the forecasted cash flow available for debt service (CFADS) for 2020 with no impact to our estimates for minimum debt service coverage ratio (DSCR).

Celeo Redes' operational and financial performance benefits from favorable concession agreement. The project's annual revenue is based on the lines' availability, eliminating market risk and providing predictable and solid revenue flow. We expect a minimum DSCR of about 1.30x and an average of 1.40x during the term of the notes maturing in June 2047.

No exposure to counterparty risk because payments come from the electric system. The project benefits from 20-year fixed rates since COD of AJTE and CHATE that are regularly adjusted to U.S. and Chilean inflation, and revised by the regulator. Furthermore, these availability compensations are provided by the electricity system; therefore, any particular delay in the payment chain wouldn't hurt the project's CFADS.

Outlook

The stable outlook reflects our view of stable cash flow generation during the next 12-24 months, resulting in DSCR metrics of 1.31x-1.39x, given Celeo Redes' long-term concession contracts at fixed prices and availability levels above the minimum regulatory requirement of 99.85%.

Downside scenario

A downgrade in the next two years is possible if the project's revenues are lower than expected, for instance, if annual U.S. inflation decreases consistently below 1.8% in the long term or if costs or income taxes are higher than our projections, resulting in a minimum DSCR below 1.25x.

Upside scenario

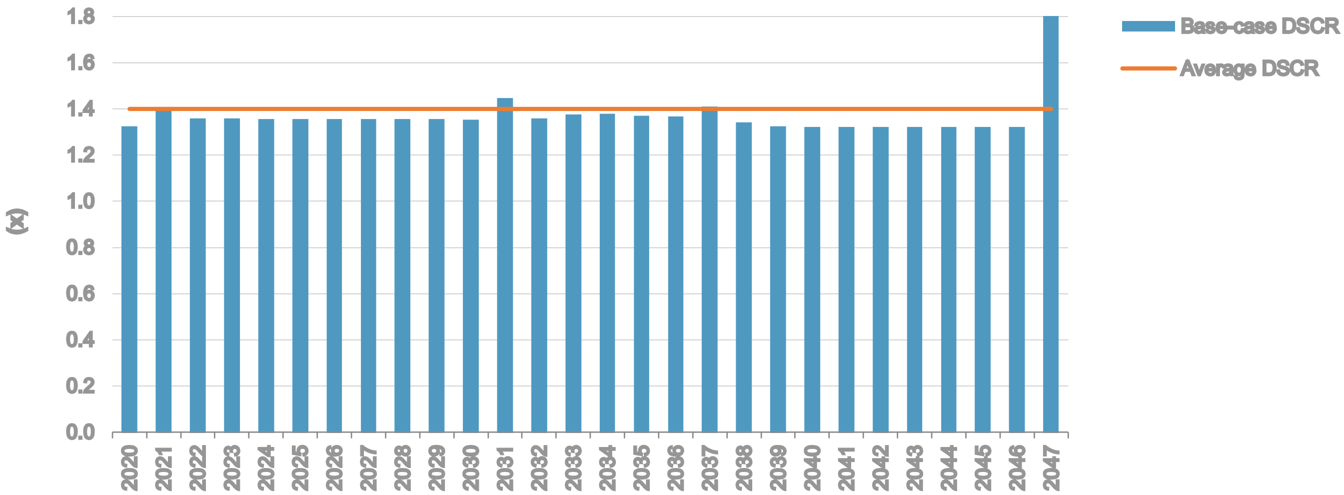
Although unlikely, we could upgrade Celeo Redes if its resilience to a downside-case scenario increases, while maintaining a minimum DSCR of about 1.30x.

Performance Update

In June 2019, shareholders agreed to transfer Celeo Redes' shares in Diego de Almagro Transmisora de Energía S.A. (DATE) to its parent company, Celeo Redes Chile Ltda. As a result, Celeo Redes ceased to consolidate DATE's assets, liabilities, income, and expenses into its results. This subsidiary wasn't a guarantor of the project's issuance; therefore, the asset was not considered in our projections. As of December 2019, Celeo Redes reported R$42.8 million in CFADS and $33.3 million in debt service, reflecting a consolidated DSCR of 1.28x. In addition, Celeo Redes' availability levels were about 99.9%, in line with the minimum required under the technical rule.

Chart 1

S&P Global Ratings' Base-Case DSCR



Source: S&P Global Ratings.

Base Case

Assumptions	Key Metrics
• We are considering key macroeconomic variables, particularly inflation in the U.S. and Chile, and exchange rate. We expect CPI for Chile of 3% in 2020 and afterwards; CPI for the U.S. of 1.9% in 2020 and 2% afterwards; and average exchange rate of Chilean peso (CLP) 743 per $1 in 2020 and 2021, and CLP745 per $1 in 2022. • Fixed rates adjusted to inflation in Chile and/or the U.S., depending on the asset. After the initial fixed-rate period, the regulator will recalculate the asset remuneration, incorporating the asset's replacement value and an after-tax return on investment that will range from 7% to 10%. We calculate the new rate, incorporating an after-tax return of 8%, a depreciable life of transmission lines of 50 years, and the abovementioned macroeconomic variables. • Operations and maintenance (O&M) agreements	Under these assumptions, we expect a minimum DSCR of 1.32x in 2020 and an average DSCR of 1.40x during the notes' term.

with Celeo Redes Chile Limitada Ltda, totaling about UF47,000 per year for AJTE's two circuits and about UF31,000 per year for CHATE, adjusted to Chilean inflation. The agreements include an automatic renewal clause unless either party chooses to terminate them.

- No penalties due to unavailability of the assets, given the transmission lines' and the operator's solid track records.

Downside Case

Assumptions	Key Metrics
• We stress both U.S. inflation and foreign exchange, because U.S. inflation has a positive effect on the project's revenues. We assume a 50 basis point (bps) decrease in the U.S. rate from our base-case scenario and a 15% appreciation of the Chilean peso for a five-year period starting in 2019, the project's most vulnerable phase. This would weaken its financial performance, given that the project's costs are denominated in domestic currency. • After the initial regulated period, we calculated the new rate based on a 7% after-tax return, the stressed macroeconomic variables, and a depreciable life for transmission lines of 50 years. In addition, we incorporate a two-month delay in payment from the largest generator for a five-year period starting in 2019. • Operational expenses 12% higher than in our base-case scenario. • Penalties ranging from $1.4 million to $1.7 million for a five-year period starting from the weakest phase of the project due to a 3% unavailability.	We expect a minimum DSCR of 1.05x and average DSCR above 1.0x during the notes' term, but any shortfall will be covered with the reserve accounts' funds.

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019

- Criteria - Corporates - Project Finance: Key Credit Factors For Power Project Financings, Sept. 16, 2014
- Criteria - Corporates - Project Finance: Project Finance Framework Methodology, Sept. 16, 2014
- Criteria - Corporates - Project Finance: Project Finance Operations Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Transaction Structure Methodology, Sept. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Project Finance: Project Finance Construction And Operations Counterparty Methodology, Dec. 20, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009