FitchRatings

FITCH AFFIRMS ELEKTRA NORESTE'S IDRS AT 'BBB'; OUTLOOK STABLE

Fitch Ratings-Chicago-06 August 2013: Fitch Ratings has affirmed Elektra Noreste, S.A.'s (Elektra, also known as ENSA) foreign and local currency Issuer Default Ratings (IDRs) at 'BBB'. The rating action affects approximately USD100 million of debt outstanding due 2021. The Rating Outlook is Stable.

ENSA's ratings are based on its strong financial position, stable cash flow generation and low business risk profile, which is characteristic of electric distribution companies. Cash flow stability is positively incorporated into the rating as it lowers business risk and adds to certainty. ENSA's ratings also incorporate the company's exposure to regulatory risk, which is considered modest, as the Panamanian electricity regulator operates independently from the central government. This has allowed for a regulatory framework that balances the needs of final users with those of the distribution companies.

KEY RATING DRIVERS

SOLID CREDIT METRICS:

ENSA's financial profile is solid with investment-grade credit protection measures. As of the last 12 months (LTM) ended March 31, 2013, the company reported a total debt-to-EBITDA ratio of 2.6x, which is considered in line with the rating category and below the covenant of 3.25x established in its senior debt instruments. ENSA maintains healthy interest coverage, as measured by EBITDA to interest expense, which as of the LTM ended March 2013 was 8.5x.

EBITDA has increased over the past three fiscal years (2010 - 2012) to approximately USD66.3 million on average, as a result of the tariff reset approved on July 1, 2010 in place until June 30, 2014, resulting in an EBITDA generation well above the USD46 million in average during the previous tariff regime.

Additionally, EBITDA generation has benefited from increases in energy demand and gains in operating efficiencies. For the LTM ended March 2013, ENSA reported an EBITDA of USD74.1 million. Fitch expects EBITDA to range around USD75-USD80 million during 2013 - 2014.

The company's liquidity position is considered adequate for the rating category. The company reported cash balances as of March 2013 of USD37.4 million. ENSA's liquidity position and access to financing is also supported by bank credit lines for up to USD135.5 million. The company does not face significant debt amortizations until 2018 when USD20 million come due, USD100 million in 2021 and USD80 million in 2027. Fitch views ENSA's liquidity risk manageable given the company's predictable cash flow generation and its extended debt amortization profile. The company recurrently uses short-term bank debt mainly to finance working capital needs. Fitch expects the leverage ratio to remain around 2.5x as additional EBIDTA is reinvested into the business.

LOW BUSINESS-RISK PROFILE:

ENSA's credit profile is supported by its natural monopoly position. ENSA's concession is exclusive with well-defined boundaries mitigating competitive pressures. The concession has a term of 15 years and expires in October 2013. ENSA is 51% owned by Panama Distribution Group, S.A. (PDG), which, at same time, is owned by Empresas Publicas de Medellin E.S.P. (EPM; rated 'BBB' by Fitch). Since March 2011, EPM owns 51% of ENSA and controls the company, and its intention is to remain as the main shareholder of ENSA.

On October 2012, the Panamanian public services regulator, Autoridad Nacional de Servicios Publicos (ASEP) announced the sale process for the majority of the shares of the three electricity distribution companies in Panama. The announcement took place one year before the concession expiration date in October 2013. This is the first time this process will take place since the restructuring of the Panamanian electricity sector in 1998.

Interest bidders completed a prequalification process last June 2013. ASEP announced on July 4th, 2013 the companies that fulfilled prequalification requirements. PDG was the only party interested on the 51% stake of ENSA. The result of the bid will determine if PDG will continue to retain its concession for another 15-year term, with no requirement to make any payment to the Panamanian Government. The bid process is at the holding company level (PDG); therefore, it does not affect ENSA's operational activity. According to the bid process schedule, economic offers will be received on August 2013, and concession will be granted beginning October 2013. Fitch will continue to monitor the outcome of this bidding process.

ENSA is an efficient electric distribution company with energy losses from both technical and non-technical factors that are reasonable for a non-urban electric distributor in Latin America. ENSA has reported energy losses of 10.1% as of December 2012, showing a consistent reduction in energy losses (2009: 10.6%). Although they may prove to be more challenging as the company becomes more effective, further modest improvements to the company's efficiency over the coming years should benefit margins and earnings.

MODERATE REGULATORY RISK:

ENSA faces moderate regulatory risk associated with tariff adjustments, which can directly affect the company's cash flow generation. The company's distribution tariffs are based on a price-cap methodology with the value added of distribution (VAD) reset every four years. The next tariff reset, which is yet to be announced and will become effective in July 2014.

A moderate VAD tariff reduction could be expected as the VAD is set to allow distribution companies to recover their efficient investments and obtain a reasonable return on their invested capital based on the average yield of the 30-year U.S. Treasury bond in the twelve months preceding the setting of the tariff, plus a risk premium of 8%. Fitch expects the tariff reset to be neutral to the rating given energy demand growth and ENSA's operating efficiencies, which would result in a debt to EBITDA ratio of around 2.5x. A new tariff regime affecting the company's distribution revenues and cash flow generation combined with significant debt and/or dividends distribution increases could put pressure on the company's ratings.

Tariffs are adjusted on a monthly basis to pass-through the effect of fuel price changes and, on a semiannual basis, to reflect changes in the Panamanian consumer price index (CPI). The company is also exposed to receipt of government subsidies and high energy costs, as the latter require additional working capital needs.

The company has been subject to government subsidies, which in general have been timely paid. Since 2003 the fuel component adjustment has not been fully passed through to distribution companies' customers in the form of a tariff increase; the amount not billed to customers has been subsidized by the Panamanian Government through the FET (Fondo de Estabilizacion Tarifaria - Tariff Stabilization Fund), and recently since 2011 also through FACE (Fondo de Compensacion Energetica - Energy Compensation Fund). Subsidies received are significant to the company's cash flow. Total subsidies received from the Panamanian government amounted to USD105.2 million in 2012 (2011: USD 99.8 million, 2010: USD51.5 million). Should the government increase subsidies and/or delay transfers to cover subsidies, the company's working capital needs will increase and its credit quality could be affected.

RATINGS SENSITIVITY

-- With Debt-to-EBITDA around 2.5x, ENSA has modest headroom in the 'BBB' category. Therefore, Fitch does not anticipate positive rating action in the near term.

-- Future developments that may, individually or collectively, lead to a negative rating action include: increased reliance on government subsidies that might result in higher leverage for the company between 3.0x-3.5x on a sustained basis; a new tariff regime that reduces the company's distribution revenues resulting in a significant decrease in cash flow generation for ENSA; tariff reductions combined with significant debt and/or dividends distribution increases; sovereign downgrades reflecting deterioration of macroeconomic conditions.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 8, 2012)

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Corporate Rating Methodology - Effective from 8 August 2012 - 5 August 2013
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=684460