FITCH AFFIRMS ELEKTRA NORESTE, S.A. AT 'BBB'; OUTLOOK STABLE

Fitch Ratings-New York-31 July 2015: Fitch Ratings has affirmed Elektra Noreste, S.A.'s (ENSA) foreign and local currency IDRs at 'BBB'. The rating action affects approximately US$100 million of outstanding debt due in 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. The ratings also incorporate ENSA's exposure to regulatory risk, which is considered moderate.

KEY RATING DRIVERS

SOLID CREDIT METRICS
ENSA's financial profile is solid with investment-grade credit protection measures. The company has historically maintained moderate indebtedness, adequate liquidity and sound cash flow generation capacity. ENSA reported a total debt-to-EBITDA ratio of 2.3x for the LTM ended March 31, 2015. ENSA maintains healthy interest coverage, measured as EBITDA to interest expense, which as of the LTM ended March 2015 was 6.9x. Fitch expects ENSA's leverage ratio to be below 3.5x in the long term, as the company deploys investments in its network coverage in the future years.

The company's distribution tariffs are based on a price-cap methodology with value-added distribution (VAD) reset every four years, which provides an incentive for efficient operations. The new tariff reset for the period July, 2014- June 2018 was approved and became effective in January 2015. Fitch forecast an annual EBITDA average of USD94 million during 2015-2018, up from USD77 million average 2011-2014. The capex program recognized in the tariff reset amounts USD270 million, higher than last tariff review requirement of USD160 million.

ENSA's liquidity position is supported by its stable cash flow generation and flexible debt amortization schedule. The company does not face significant debt amortizations until 2018 when USD20 million come due, USD100 million in 2021 and USD80 million in 2027. Additionally, ENSA maintains working capital facilities for up to USD172 million, which can be used to finance purchases of energy. Fitch views ENSA's liquidity risk as manageable given the company's predictable cash flow generation and its debt amortization profile.

FCF IMPACTED BY CAPEX AND DIVIDENS:

ENSA has recorded negative free cash flow (FC) in the last four years mainly as a consequence of its dividend policy and capex program. ENSA pays dividends for up to 100% of the net income of the previous year subject to cash flow availability. Capex will reach approximately USD270 million in next four years, on a cumulative basis. ENSA is committed to expand its distribution network coverage in 5,000 meters from the existing network at the beginning of the term contract and to improve service reliability under the request of the new concession contract, and the tariffs approved for July 2014 to June 2018.

LOW BUSINESS-RISK PROFILE:

ENSA's credit profile is supported by its natural monopoly position. ENSA's concession area is exclusive and has well-defined boundaries. The concession is permanent but the concession contract is reviewed every 15 years (the current contract expires in October 2028). ENSA is 51% owned by Panama Distribution Group, S.A. (PDG), a subsidiary of Empresas Publicas de Medellin E.S.P. (EPM; rated 'BBB+', Stable Outlook by Fitch), and 48.25% by Panama's government.

By regulation, the majority of the shares of the three electricity distribution companies are auctioned in public bidding process one year before the end of the concessions contracts. The last bidding process was conducted in August 2013, and PDG was the only bidder on the 51% stake of ENSA. PDG retained its majority stake with no requirement to make any payment to the Panamanian Government. The bid process is held at the holding company level, and therefore did not affect ENSA's operations.

ENSA is an efficient electric distribution company with energy losses from both technical and non-technical factors that are reasonable for an electric distributor in Latin America. ENSA reported energy losses of 10.1% in 2014 (2013: 10.1%, 2012: 10%). 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. ENSA's distribution tariffs are based on a price-cap methodology with the value added of distribution (VAD) reset every four years. The net present value of VAD approved for the period July 2014-June 2018 is US$636.7 million (vs. US$442.2 million for the period July 2010-June 2014). 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 government subsidizes electric consumption in Panama. Since 2003 the fuel component adjustment has not been fully passed through to final users in the form of tariff increases; the amount not billed to customers has been subsidized by the Panamanian Government through the FET (Fondo de Estabilizacion Tarifaria - Tariff Stabilization Fund), and through FACE (Fondo de Compensacion Energetica - Energy Compensation Fund). Subsidies 2014 accounted for USD139.5 million, which comprised FACE subsidy (USD90.2 million), FET subsidy (USD39.9 million), other adjustments (USD9.4 million). Total subsidy amount is expected to decrease in 2015 due to low energy prices and the gradual FET subsidy reduction in place since 2012. 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.

KEY ASSUMPTIONS

--Annual Energy sales growth (GWh) of 5% from 2015-2018;
--15 year concession contract starting on November 2013 remains in place.
--Government subsidies continue to be paid in a timely manner;
--Capital expenditures in line with the company's annual business plan;
--Debt-to-EBITDA below 3.5x.

RATING SENSITIVITIES
--With Debt-to-EBITDA at or above 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; weakening of leverage to a range above 3.5x on a sustained basis; tariff adjustments that reduce significantly cash flow generation; increases in debt and/or dividends distribution; sovereign downgrades reflecting deterioration of macroeconomic conditions.

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Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 28 May 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393