MOODY'S RATINGS

Rating Action: Moody's Ratings affirms Calidda's Baa2 rating, outlook changed to negative from stable

25 Sep 2024

New York, September 25, 2024 -- Moody's Ratings (Moody's) affirmed the Baa2 issuer rating assigned to Gas Natural de Lima y Callao S.A. (Calidda). The outlook changed to negative from stable.

RATINGS RATIONALE

The outlook change to negative from stable on Calidda's Baa2 issuer rating reflects our expectation that metrics will deteriorate as a result of new investments financed with debt that will translate into higher debt burden and interest expense, before the associated revenue materializes, and the company start to reduce its debt balance. According to the management's base case, cash interest coverage will be below 5.0x until 2029, CFO pre-WC/debt below 18% until 2028 and CFO pre-WC - dividends)/debt is below 7% until 2026.

The negative outlook also captures Calidda's refinancing risk stemming from $630 million in debt maturities in 2026, that the issuer plans to partially refinance but details on the timing and structure are yet unknow. The debt is comprised by $550 million in commercial bank debt plus $80 million in a multilateral bank debt. We recognize that the company has a history of accessing both local and international capital markets, and commercial and multilateral banks, but market conditions or political risks could affect Calidda's ability to obtain financing in favorable terms.

We also recognize the challenges that the company faces amid a concession maturity in 2033. According to management projections, the company will be generating approximately $200 million in free cash flow per year starting 2027, allowing it to repay all of its outstanding debt (projected to reach a maximum of $1 billion by 2025) by 2033. Nonetheless, a deterioration of financial performance due to cost overruns related to investments or a shift in the regulatory framework reducing revenue, could result in the lack of sufficient funds to meet these obligations by the end of the concession. These risks are partially mitigated by (a) a track record of adequate financial performance from successful capital expenditure execution and access to debt, (b) the regulatory regime that allows the company to earn a set return on investments, and (c) the company's long-term take-or-pay contracts with competitive tariffs. We consider the possibility that the concession is extended given the essential service nature of gas distribution, but the terms and conditions are uncertain.

Calidda's Baa2 rating reflects our view of a stable regulatory environment for the natural gas distribution sector in Peru, which allows to set tariffs such that capital investments and operating costs are recovered plus a return, providing for a solid business profile. Moreover, the government has implemented public policies supporting broader use of its abundant natural gas in order to replace more expensive and polluting options to foster social development.

The negative rating outlook reflects our expectation that Calidda's key credit metrics will remain below to historical averages in the next 12-18 months, with CFO pre-WC/debt of below 18% and interest coverage below 5.0x. The negative outlook also considers the absence of clear plan to refinance the material debt maturities in 2026.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Given the negative outlook, an upgrade of Calidda's rating in the near term is unlikely. However, the outlook could be stabilized if the company improves its debt maturity schedule with projected amortization that aligns with its concession terms. Quantitatively, cash interest coverage ratios prospectively above 5.0x and FFO/debt above 18% on projected and sustained basis, based on the successful execution of its capital investment plans would support an outlook stabilization.

On the other hand, persistently weak financial performance or an aggressive financial strategy that entails high dividend distributions to shareholders while metrics are pressured by large investments would lead to a downgrade. Prolonged delays in attaining a debt maturity schedule would also lead to negative rating pressures. Specifically, if Calidda's cash interest coverage ratios stay below 5.0x or its FFO/debt ratio drops below 18%, it would create downward pressure.

PROFILE

Headquartered in Lima, Gas Natural de Lima y Callao S.A. (Calidda) started commercial operations in 2004 in the Department of Lima and the Constitutional Province of Callao. It is currently the largest natural gas distribution company in Peru, serving around 1,560 customers as of year-end 2022. The company operates under a 33-year build, operate, own and transfer concession agreement and its May 2010 Addendum, expiring in 2033, although subject to potential extensions. The company's tariffs are subject to the purview of the Peruvian regulatory body, Organismo Supervisor de la Inversión en Energía y Mineria (OSINERGMIN), which also monitors its pre-agreed four-year capital spending program.

The company's majority shareholder is Grupo Energia Bogota S.A. E.S.P. (Baa2 negative) with a direct ownership stake of 60% in Calidda and an indirect ownership of 66.2% given its 15.2% equity interestthrough the minority shareholder, Promigas S.A. E.S.P. (Baa3 stable), which holds a direct 40% interest in Calidda.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in August 2024 and available at https://ratings.moodys.com/rmc-documents/426183. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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