Gas Natural de Lima y Callao S.A. (/gws/en/esp/issr/92138890)

FitchRatings

Fitch Affirms Calidda's IDRs at 'BBB'; Outlook Stable

Fitch Ratings-Chicago-01 May 2018: Fitch Ratings has affirmed Gas Natural de Lima y Callao S.A.'s (Calidda) long-term local and foreign currency Issuer Default Rating (IDR) at 'BBB'/Stable Outlook. Fitch has also affirmed Calidda's USD320 million of senior unsecured notes due in 2023 at 'BBB'.

Calidda's ratings reflects the company's improved capital structure supported by its naturally monopolistic market position as Lima and Callao's sole natural gas (NG) distributor. It is further underpinned by the sustained cash flow stability provided by its transparent, regulated tariff scheme designed to ensure adequate return on investment. Calidda's cash flow generation also continues to benefit from expected demand growth of 110,000 client additions per year going forward, based on Fitch's estimates.

KEY RATING DRIVERS
Predictable and Stable Cash Flow: Calidda's stable and predictable cash flow generation are supported by its long-term take or pay, U.S. dollar-denominated contracts with top tier power generators and large industrial companies with an average remaining life of 13 years. During 2017, these contracts represented 79% of the total invoiced volume. Additionally, the company's regulated tariff scheme assures cost recovery and fixed return over capital investments, further supporting cash flow predictability. As of 2017, the company generated USD138 million of EBITDA, up from USD125 million in 2016 mainly due to higher volumes sold. EBITDA margins also improved to 24% from 18% in 2014, reflecting the higher proportion of distribution revenues relative to connection/installation revenues.

Adequate Credit Metrics: Calidda's credit metrics have improved significantly since the issuance of the notes in 2013. Leverage, measured as total debt/EBITDA, decreased to 2.9x in 2017 from 4.4x in 2013. Fitch expects the company will maintain leverage metrics between 3.0x and 3.5x during the 2018-2021 period, while financing capex with internal cash flow and paying moderate dividends in line with historical levels. Fitch's incorporates expectations for a substantial capex expansion program in the near to medium term of around USD100 million per year.

Adequate Gas Supply: Calidda recently renewed its gas supply contract with the Camisea consortium, increasing its contracted volume from the Camisea consortium to 248 mmcfd through 2021(+40% versus 2016). The company also has a long-term contract with the gas transportation company Transportadora de gas del Peru (BBB+/Stable) for 228 mmcfd through 2033. Single-source exposure is mitigated by the fact that Pluspetrol, the consortium operator, is obliged to prioritize NG supply to cover local demand according to its concession agreement. As of December 2017, according to Peruvian Ministry of Energy and Mines, Camisea (Lots 56 &88) and the nearby Lot 57 had approximately 14.1 trillion cubic feet (TCF) of NG proved reserves.

Strong Market Position: Calidda is the largest NG distribution company in Peru. Its total network reaches 8,347 km with a 70% penetration rate and installed capacity of 420 mmcfd. The service area under its concession, Lima and Callao, concentrates more than 35% of the country's population and over 50% of its GDP. The concession term lasts through 2033, and may be renewed upon request from Calidda in 10-year increments up to 2060. The company expects to increase penetration rate to 80% by 2020, reaching approximately 1 million customers by 2021 as it continues to expand its distribution capacity.

Strong Shareholders: Calidda's risk profile benefits from the expertise and support of its shareholders Grupo de Energia de Bogota-GEB 'BBB/Stable) (60%) and Promigas (BBB-/Stable) (40%). GEB is a leading energy holding company with interests across the electricity and natural gas sectors in Colombia, Peru and Guatemala, while Promigas is one of the largest NG transportation and distribution companies in Colombia and Peru. Although Fitch's forecast incorporates annual dividends through the rating horizon, we expect the shareholder to continue to maintain leverage below 3.5x.

DERIVATION SUMMARY

Calidda's ratings are similar to Transportadora de Gas Internacional S.A. E.S.P. (TGI) (BBB/Stable), Promigas S.A. E.S.P. (BBB-/Stable) and Companhia de Gas de Sao Paulo (Comgas, BB+/Negative) due to the low business risk that stems from this companies' participation in regulated utilities businesses.

Calidda's credit profile is similar to TGI's given the similar capital structure and contracted position. Calidda is nevertheless rated two notches above Comgas since Comgas' Foreign Currency IDR is capped by Brazil's Country Ceiling, and one notch above Promigas due to Promigas more aggressive capital structure and expected negative cash flow generation.

KEY ASSUMPTIONS
Fitch's Key Assumptions Within Our Rating Case for the Issuer
--The company will add an average of 110,000 clients per year;
--Annual volumes increase by around 1% on average over the next four years.
--Average tariffs per customer segment increasing by CPI;
--Pass-through of costs and inflation in the tariffs;
--Annual capex of approximately $100 million on average for the next five years;
--Dividend distribution of between USD30 and USD40 million annually

RATING SENSITIVITIES
Developments That May, Individually or Collectively, Lead to Positive Rating Action
--Significant and sustained deleveraging to about 2.0x;
--Growth and consolidation of the regulated supply and demand (NGV and residential and commercial segments) including a major increase in network penetration rates.

Developments That May, Individually or Collectively, Lead to Negative Rating Action
--Sustained total debt/EBITDA above 3.5x due either to operational deterioration or unexpectedly large dividend distributions;
--Material negative changes in BOOT agreement and accomplishment, tariff scheme and applicable regulations;
--Material decline in new connections that negatively impact revenues from natural gas installation.

LIQUIDITY
Adequate Liquidity: The company's liquidity position is adequate as a result of cash on hand, adequate internal cash flow generation, comfortable debt amortization profile and unused uncommitted credit lines of USD107 million as of Dec. 31, 2017. Calidda's policy is to maintain a minimum cash of USD10 million to USD15 million.

As of year-end 2017, Calidda showed gross leverage of 2.9x and interest coverage of 6.8x. Fitch expects the company's leverage will remain around 3.0-3.5x through the medium term.

As of Dec. 31, 2017, the company reported USD402 million of debt. All of it is USD-denominated and its tariff is calculated in USD. Exchange rate risk is limited to the collection period (approximately 30 days). Hedging is based on the exchange rate forecast, and is reviewed on a monthly basis.

Since 2015, the company has been adding medium-term debt to fund annual dividends of around USD30 to 50 million as well as to provide a hedge on accounts receivable. This debt amortizes in five years, and Fitch expects future debt increases of this nature to follow a similar amortization structure.

FULL LIST OF RATING ACTIONS

Fitch has affirmed the following ratings:

Gas Natural de Lima y Callao S.A (Calidda)
--Long-Term Foreign Currency IDR at 'BBB';
--Local Currency Long-Term IDR at 'BBB';
--USD320 million due 2023 senior unsecured notes at 'BBB'.

The Rating Outlook is Stable.

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Corporate Rating Criteria (pub. 23 Mar 2018)
(https://www.fitchratings.com/site/re/10023785)
Parent and Subsidiary Rating Linkage (pub. 15 Feb 2018)
(https://www.fitchratings.com/site/re/10019836)

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