MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Calidda's Baa3 senior unsecured rating; Outlook positive

Global Credit Research - 27 Jun 2017

Approximately USD320 million rated debt impacted

New York, June 27, 2017 -- Moody's Investors Service affirmed today the Baa3 foreign currency senior unsecured rating of Gas Natural de Lima y Callao S.A.'s (Calidda). Concurrently, Moody's changed the outlook to positive from stable.

RATINGS RATIONALE

The Baa3 rating and positive outlook acknowledge the progressive improvement of Calidda's cash flows and operating margins which resulted from the expansion of its network and customer base as well as the implementation of the tariff increase in July 2014 and cost saving initiatives. Specifically, Calidda reported at year-end 2016 CFO pre-W/C to debt of 24.3%, a material improvement compared to the 2012-2014 average CFO pre-W/C to debt of 17%.

The Baa3 rating and positive outlook also assume a credit supportive outcome of Calidda's upcoming tariff review scheduled for 2018 that will allow the company to recover its planned capital and operating expenditures during the 2018-2021 period via rates, on a timely basis. Moody´s also anticipates that the Peruvian governments' programs to cross-subsidize costs to end-users' connecting to the natural gas grid will foster the penetration of natural gas in Peru and allow Calidda to further expand its customer base and grow its cash flows. This along with management's commitment to maintain Calidda's debt to EBITDA below 3.5x at all times, further underpins Moody's expectation that the issuer's key credit metrics will remain strongly positioned within the Baa-rating category.

Calidda's robust credit metrics help offset the company's cash flows exposure to non-regulated ancillary services, largely associated with fees related with installation and connections of new customers and the interest received for providing financing to new residential end-users for funding connection devices. The company's strong metrics also offset its exposure to unregulated industrial and power generation customers. The aggregated contribution of the three segments accounts for 75% of Calidda's adjusted revenues in 2016, a high level across Moody's rated universe peers in the Americas.

The Baa3 and positive outlook also consider Calidda's prudent hedging program which includes using derivatives to offset up to at least 90% of cash flow mismatching due to some foreign exchange risk exposure. In the absence of a multi-year committed credit facility, Calidda's reliance on capital markets to meet its capital requirements is a credit negative. Especially, as it continues its expansion program and meets its working capital needs while targeting to maintain a minimum cash balance of only US$10 million (year-end 2016: $15 million after dividend distributions of $30 million). However, we acknowledge that the issuer faces no material debt maturities over the next few years.

What could move the rating up/down

The rating is likely to be upgraded if the outcome of Calidda's next tariff review is credit supportive, and if the company's prudent financial policies allow the issuer to further record key credit metrics that remain well-positioned for the Baa-rating category; for example, CFO pre-W/C to debt in the high teens on a sustained basis.

Calidda's outlook could be stabilized and/or the rating could be downgraded if the issuer's liquidity profile remains insufficient to comfortably cope with potential external shocks. Downward pressure is also likely if the outcome of Calidda's next tariff is not credit supportive, and/or if unexpected changes in the regulatory framework negatively impacts Calidda's ability to recover its planned investments on a timely basis. Failure over the medium-term to further record credit metrics that remain strong for the Baa-rating category, such that its CFO pre-W/C-to-debt and interest coverage fall below 15% and 3x, for an extended period, could also trigger negative momentum on the rating and/or outlook. Furthermore, an aggressive cash distribution policy that results in the issuer reporting Retained Cash flows (RCF) to-debt below 7% and debt to book capitalization in excess of 59%, on a sustainable basis, could also trigger downward pressure on the rating and/or outlook.

The principal methodology used in this rating as Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Headquartered in Lima, Gas Natural de Lima y Callao S.A. (Calidda) started commercial operations in 2004 in Department of Lima and the Constitutional Province of Callao. It is currently the largest Local Distribution Company (LDC) of natural gas in Peru (A3 stable) as measured by number of customers (year-en 2016: around 438,000) and volume of natural gas supplied. Calidda operates under a 33-year Build Operate Own and Transfer (BOOT) concession agreement and its May 2010 Addendum. Calidda's tariffs are subject to regulatory purview of the Peruvian regulatory body, Organismo Supervisor de la Inversión en Energía y Mineria (OSINERGMIN), which also monitors its pre-agreed five year capital expenditure (capex) program.

Calidda's majority shareholder is Empresa de Energia de Bogota (EEB; Baa2 stable) with an indirect and direct ownership stake of 66.2% given its 15.6% equity interest in Calidda's minority shareholder, Promigas S.A. E.S. (unrated; 40% interest).

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