Fitch Affirms Elektra Noreste's IDRs at 'BBB'; Outlook Stable

Ratings Endorsement Policy

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Fitch Ratings-San Jose-08 August 2012: 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.

SOLID CREDIT METRICS:

ENSA's financial profile is solid with investment-grade credit protection measures. As of the last 12 months (LTM) ended June 30, 2012, the company reported a total debt-to-EBITDA ratio of 2.2x, which is considered in line with the rating category and in compliance or below the covenant of 3.25x established in its senior debt. Total debt comprises USD100 million in senior unsecured and unsubordinated notes expiring in 2021 and USD20 million in unsecured and unsubordinated corporate bonds expiring in 2018. The company recurrently uses short-term bank debt (approximately USD35.5 million) mainly to finance working capital needs. Fitch expects the leverage ratio to remain between 2.0x and 2.5x.

The company generates stable and predictable cash flows from operations. EBITDA has increased over the past two years to approximately USD62.6 million on average, as a result of the tariff reset approved on July 1, 2010 lasting until July 2014. Additionally, EBITDA generation has benefited from increases in energy demand and gains in operating efficiencies. ENSA's interest coverage improved to 8.2x as of June 2012 from 5.7x in 2009 due to the higher EBITDA generation.

The company's liquidity position is considered adequate for the rating category. The company reported cash on hand as of June 2012 of USD4.1 million. ENSA's liquidity position and access to financing is also supported by its lines of credit, which currently amount to USD110.5 million. The debt amortization schedule is manageable due to the company's predictable cash flow generation, and because of the long term of the debt (77% as of June 2012).

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 company's distribution tariffs are based on a price-cap methodology with the value added of distribution (VAD) reset every four years. 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 concession has a term of 15 years and expires in October 2013. One year before the expiration of the concession process, the Panamanian public services regulator, Autoridad Nacional de Servicios Publicos (ASEP) will carry out an open public bid for the sale of the shares currently 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).

The result of the bid will determine if PDG will continue to own their share participation (51%). PDG has the right to set the asking price for the tender. If a higher bid is made, PDG will retain the sale proceeds. Otherwise, PDG will retain its concession for another 15-year term, subject to the same renewal procedure thereafter with no requirement to make any payment to the Panamanian Government.

This will be the first time this process will take place since the restructuring of the electricity sector of Panama in 1998. The bid process is at the holding company level (PDG); therefore, it does not affect ENSA's operational activity. Since March 2011, EPM owns 51% of ENSA and controls the company, and its intention is to remain as the main shareholder of ENSA. Fitch will continue to monitor the outcome of this bid 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 10.06% as of December 2011, showing a consistent reduction in energy losses (2010: 10.03%); as of June 2012 energy losses reported were 9.67%. 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's exposure to regulatory risk is considered moderate. The company has been subject to receipt of government subsidies, which in general have been modest and payment timely. During 2011, total subsidies received from the Panamanian government amounted to USD99.8 million (2010: USD51.5 million), which includes base tariff adjustments as well as fuel variation costs. ENSA's exposure to fuel price through power purchase agreements (approximately 60% of contracts with thermoelectric generation companies) may decrease, since ENSA will add new energy contracts as the country increases its hydroelectric generation. 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 RATING DRIVERS

-- With Debt-to-EBITDA between 2.0x and 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 negative rating action include: significant increases in the company's and sector's 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.

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Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug.12, 2011)

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