Fitch Assigns Initial Rating of 'A+(pan)' to AES Changuinola, S.A.; Stable Outlook

Ratings Endorsement Policy
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Fitch Ratings-San Jose-12 November 2013: On Nov. 11, 2013, Fitch Ratings has assigned the following initial ratings to AES Changuinola S.A. (AES Changuinola):

--Long-term national scale rating 'A+(pan)';
--USD470 million bonds 'A+(pan)'.

The Rating Outlook is Stable.

KEY RATING DRIVERS

The ratings reflect the competitive dispatch position of AES Changuinola, and the relevance of the company's operation to supply energy as contracted by AES Panama, S.A. The ratings consider the financial profile characterized by stable cash flows coming from a strong credit quality profile of its unique offtaker, a physical contract with fixed prices through 2022, a moderate level of leverage projected, and no foreign-exchange risk. The ratings also reflect the company's exposure to hydrology risk, the regulatory risk and favorable macroeconomic conditions.

The ratings are constrained by its asset concentration as energy generation relies on two units and the mini-hydro located in the same geographical area, which exposes the company to hydrology risk as well as to an unexpected outage. In addition, the transmission-constrained region may limit the ability to dispatch the energy; however, this will be an operational limitation only as AES Panama should compensate for any business interruption caused by failures in the transmission line as the latter has been offset by the state agency responsible for the transmission --Empresa Electrica de Transmision S.A.- ETESA. The Rating Outlook is Stable.

COMPETITIVE DISPATCH POSITION
AES Changuinola benefits from its low-cost hydroelectric generating assets as run of the river hydro plants have no cost basis and are always dispatched first. The power plant with 223 MW installed capacity and 175 MW firm capacity is located in Changuinola, Bocas del Toro Province in Panama. The plant initiated commercial operations on November 2011. It accounts for 9.3% of the installed capacity in Panama and together with AES Panama's plants capacity (482MW) account for 29.4% as of December 2012. During 2012, AES Changuinola generated 995 GWh, approximately 12% of the industry.

HYDROLOGY RISK EXPOSURE
The company's cash flow capacity generation depends on the hydrology conditions. AES Changuinola is guaranteed to be dispatched under normal hydrological conditions. In April 2013, the National Dispatch Center declared an electricity rationing mandate as result of the low hydrology coupled with growing energy demand. This weather condition reduced the generation from hydroelectric plants while Panama energy imports from other countries increased and higher thermoelectric power plant generation was required. During the first half of 2013, AES Changuinola generated 294.2 GWh, 34.1% less than energy generated during the first half of 2012 (446.7GWh).

STABLE CASH FLOW
AES Changuinola's ratings reflect the company's stable cash flow stream under normal hydrology conditions generated by the strong credit quality offtaker. AES Changuinola and AES Panama signed a power purchase agreement PPA (reserve contract) on 2007, which have been amended this year to change the type of the contract to physical contract from financial PPA beginning January 2014. This change implies that AES Changuinola revenues will depend on its energy generation only, contributing to cash flow stability as exposure of AES Changuinola to the spot market to purchase energy will be eliminated. Beginning 2014 all energy generated will be sold at a fixed price until the end of 2022, and from 2023 onwards the energy and capacity price is assumed to be the spot price. Fitch expects EBITDA to range around USD70 million per year under normal hydrology conditions.

MODERATE LEVERAGE
Fitch projects a leverage ratio measured as total debt to EBITDA around 5.5x during the first five years of the beginning of the physical contract in 2014, which is considered moderate for the type of industry. Fitch expects interest coverage of 2.5x during that same timeframe, which is considered adequate for the rating category. The proceeds from the proposed issuance of bonds for USD470 million in three tranches (A: USD200 million, 10 years amortized, B: USD220 million, 10 years, and C: USD50 million, combined exposure not to exceed USD420 million) will be used for the payment of a syndicated loan and other obligations, as well as additional liquidity requirements of the company. The bond conditions consider a debt service reserve account for six months of principal and interest payments, pledge over 80% of the issued and outstanding shares of the company, as well as restrictions to encumber assets (negative pledge) of AES Changuinola.

The cash flow of the company benefits from relatively low levels of CAPEX, which will represent between 1% and 3.5% of total revenue per year. The company's liquidity is supported by its cash flow generation and manageable debt maturity. The annual interest expenses of approximately USD25 million during the first seven years are satisfactorily covered with internally generated cash flow, and subsequently are expected to decrease maintaining an adequate coverage. Dividend distributions are subject to the coverage of debt service above 1.2x as well as other conditions established.

EXPOSURE TO REGULATORY RISK
The company's ratings also reflect its exposure to regulatory risk. Historically, generation companies in Panama were competitive unregulated businesses free to implement their own commercial strategies. In the past years, the increase in electricity prices has resulted in increased government intervention in the sector in order to curb the impact of high energy prices for end-users.

RATING SENSITIVITIES

--The ratings could be negatively affected by any combination of the following factors: significant and sustained increase in leverage as measured by debt/EBITDA above 6x, operational events that prevent the supply of energy, negative outcomes associated with litigation affecting the company's liquidity, higher degree of regulatory intervention or policy that adversely affects the company's financial performance, deterioration of macroeconomic conditions in Panama that result in lower energy consumption. The deterioration in the credit quality of AES Panama.

--AES Canguinola's ratings could be reviewed positively by lower leverage resulting from a strengthening EBITDA as result of better hydrology conditions that will allow it to increase electricity generation.

AES Changuinola was formed for the purpose of developing hydroelectric generation projects and from other sources of energy, as well as act as a concessionaire for the generation and utilization of resources related to the activity of hydroelectric generation inside and outside of the Republic of Panama. AES Changuinola was granted for a concession of 50 years by the Panamanian public services regulator, Autoridad Nacional de Servicios Publicos (ASEP), as stated from the endorsement of the Comptroller General of the Republic of Panama on April 27, 2007.

The shareholding structure of AES Changuinola at the time of the liquidation of the syndicated loan, on Nov. 25, 2013, would be 80% owned by AES Bocas del Toro Hydro, SA, in turn 100% subsidiary owned by AES Panama Hydro Holding Ltd., the latter a 100% subsidiary of The AES Corporation, with headquarters in Arlington, Virginia (USA). The remaining 20% would be owned by AES Panama, S.A.

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Applicable Criteria and Related Research:

--'Corporate Rating Methodology', dated Aug. 5, 2013.

Applicable Criteria and Related Research:
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

Additional Disclosure
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