FITCH: AES PANAMA'S PROPOSED POWER BARGE ACQUISITION REFLECTED IN CURRENT RATING

Fitch Ratings-New York-14 August 2014: AES Panama's (AESP, 'BB+'/Negative Outlook) proposed acquisition of a 72 MW Power Barge was already incorporated in Fitch Ratings' most recent rating action on AESP in April 2014. Fitch considers this acquisition will improve the company's cash flows, diversify its assets portfolio and slightly mitigate the impact of ongoing adverse hydrology conditions. Rating actions may follow depending on company's ability to execute the project in the terms set forth and to continue reducing its elevated exposure to hydrological risk.

Acquisition Mitigates Hydrological Risk
Fitch believes the acquisition will help AESP to diversify its sources of revenues and to mitigate the elevated exposure to hydrology risk. The company's ratings also incorporate the increase in leverage resulting from this acquisition in the short-term (before the project starts generating cash flows). The company's exposure to political risk may increase given that the PPA's counterparty is a state-owned company,.

The power barge will have a stable and predictable cash generation profile given its fully contracted capacity, ability to transfer changes in fuel prices and adequate margins. Capacity payments will generate a cumulative incremental EBITDA of USD108 million in five years. This compares with incremental debt of USD57.3 Million. Revenues derived from energy dispatches will depend on future market conditions, including spot prices. AESP expects elevated levels of dispatch in the short to medium term given that the current variable cost of the plant is approximately USD135/MWh and spot prices are above USD250/MWh. The contracted base energy price for the first three years is USD190/MWh and USD210/MWh for the remaining two.

The company's financial results will likely continue to be stressed in the short to medium term given the ongoing severe drought in Panama, the possible occurrence of 'El Nino' phenomenon during 2015 and AESP's elevated contracted position. Consequently the Rating Outlook is Negative. The acquisition of the barge is part of the actions being taken by the company to reduce its exposure to hydrology risk. Failure to materialize these plans, including this acquisition, in the terms set forth by the company may negatively impact the ratings.

New Asset to Increase Revenue and Leverage
AESP has announced the acquisition of a 72MW power barge, Estrella del Mar, at a total cost of USD 57.3 million. This investment will be financed 100% with new debt. The barge will be fully contracted through a five-year Power Purchase Agreement (PPA) with EGESA, a government-owned generation company. EGESA is committed to buy total energy output at prices partly indexed to fuel costs plus U.S. Inflation (CPI). The new plant's EBITDA, considering capacity payments only, will be on average USD 21.5 million per year over the life of the PPA. AESP expects the barge will start operations in early 2015.

The company has requested a waiver on the incurrence covenant that limits additional indebtedness when the interest coverage ratio is below 2.5:1 or the debt service reserve account is not fully funded. The EBITDA-to-Gross Interest Expense ratio was 0.53x for the last 12 months ended in March 31, 2014. In 1Q2014, the company recorded a negative EBITDA of USD28.2 million mainly as result of non-expected net purchases in the spot market for USD74.6 million (USD32.8 million in 1Q2013).

RATING SENSITIVITIES

A rating downgrade could result from a combination of the following factors: leverage above 4.0x on a sustained basis, increased government intervention in the sector coupled with weakening regulatory framework, inability to reduce exposure to the spot market, and/or payment of dividends coupled with high leverage levels.

Factors that could trigger a positive rating action include: a sustained decrease in leverage below 3.0x coupled with an effective diversification of revenues among different fuels, and reduced exposure to the spot market.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (May 28, 2014).

Applicable Criteria and Related Research:
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393