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Research Update:

AES Panama S. R. L. Outlook Revised To Stable From Negative, New Debt Rated 'BB-'

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Research Update:

AES Panama S. R. L. Outlook Revised To Stable From Negative, New Debt Rated 'BB-'

Overview

- We expect AES Panama's EBITDA to stabilize given improved hydrology, lower spot prices, and the operation of its generation barge.
- We are revising our outlook on Panama-based power generator to stable from negative and affirming our 'BB-' ratings on it.
- We are also assigning our 'BB-' rating to the company's proposed seven-year senior unsecured bonds for up to \$375 million.
- The stable outlook reflects our view that AES Panama's leverage ratios will improve through 2016.

Rating Action

On June 18, 2015, Standard & Poor's Ratings Services revised its outlook on AES Panama S.R.L. to stable from negative. In addition, we affirmed our 'BB-' ratings on the company. We also assigned our 'BB-' issue-level rating on AES Panama's proposed seven-year senior unsecured bonds for up to \$375 million.

Rationale

The outlook revision reflects our expectation that the company's finances will strengthen in 2015 and afterwards as a result of improved hydrology conditions, overall lower spot prices, and the additional EBITDA generation from the power barge, Estrella del Mar. Spot prices in Panama have stabilized as oil prices dropped, installed capacity in the system rose about 15%, and hydrology conditions improved.

The rating on the new notes reflects the credit rating on AES Panama. The company will use the proceeds to refinance its existing senior unsecured bond due 2016 and its syndicated bank loan.

Our rating on AES Panama reflects its "fair" business risk profile and "aggressive" financial risk profile as our criteria define these terms. It also reflects the company's "less than adequate" liquidity. The rating also incorporates our view that there is a "moderately high" likelihood that the government of Panama would provide timely and sufficient extraordinary support to AES Panama in the event of financial distress. In accordance with our criteria for government-related entities, our view is based on our assessment of AES Panama's role as the largest low-cost power generator in Panama and its strong link to the government, which has a majority stake (50.4%) in the company. The AES Corp. (BB-/Stable/--) holds 49% and AES Panama's employees

hold the remaining 0.6%.

Outlook

The stable outlook reflects our expectation that AES Panama's adjusted funds from operations (FFO) to debt and adjusted debt to EBITDA will strengthen through 2015 and 2016 due to increased generation, resulting in lower purchases in the spot market. We expect FFO to debt to be 7% in 2015 and 16% in 2016 and adjusted debt to EBITDA to be 6.7x and 3.6x, respectively.

Downside scenario

Because AES Panama is a government-related entity, a downgrade is possible if we were to revise its SACP downward more than one notch.

Upside scenario

An upgrade would require the company's adjusted debt to EBITDA to remain below 5.0x, coupled with an improvement in the company's liquidity to our "adequate" assessment.

Ratings Score Snapshot

Issuer Credit Rating: BB-/Stable/--

Business risk: Fair

- Country risk: Moderately High risk
- Industry risk: Moderately High risk
- Competitive position: Fair

Financial risk: Aggressive

- Cash flow/leverage: Aggressive

Anchor: bb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Less than Adequate (-1 notch)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: b+

Related government rating: BBB

Likelihood of government support: Moderately high (+1 notch)

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Key Credit Factors For The Unregulated Power and Gas Industry, March 28, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
AES Panama S.R.L. Corporate Credit Rating Senior Unsecured	BB-/Stable/-- BB	BB-/Negative/--

New Rating

AES Panama S.R.L. Senior Unsecured US\$375M ser. notes	BB-
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