FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns First-Time 'BBB-' IDR to Niagara Energy; Outlook Stable

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Fitch Ratings - Chicago - 24 Sep 2024: Fitch Ratings has assigned Niagara Energy S.A.C. (Niagara) first-time Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) of 'BBB-'. Fitch has also assigned a 'BBB-' rating to the company's proposed USD1.2 billion senior unsecured notes. Niagara will use the proceeds to refinance the equivalent of USD1.28 billion of loans used to buy its operating subsidiary Orygen Peru S.A.A. (Orygen). The Rating Outlook is Stable.

Niagara's ratings are underpinned by the solid business position of its subsidiary Orygen, which owns the second largest energy generation portfolio in Peru, with a 17% market share. Niagara owns 92.35% of Orygen, and it is Niagara's only source of dividends to service debt. Fitch takes a 'consolidated' rating approach using its parent and subsidiary rating linkage criteria.

KEY RATING DRIVERS

Consolidated Profile With Subsidiary: Niagara's ratings are based on a consolidated basis with its subsidiary Orygen, of which it owns 92.35%. Per Fitch's Parent and Subsidiary linkage criteria, Orygen's standalone credit profile is stronger than its parent's. Fitch's assessment in terms of legal-ring fencing is open, and there are very low prohibitions on upstream guarantees, intercompany loans, asset sales or dividend payments. Access and control from Niagara to Orygen is also open, as Niagara was created to fund the acquisition of Orygen. Niagara is the dominant shareholder with control of all major transactions, and has a very low concentration of minority shareholders.

Funding and cash management policy is centralized at Niagara. Therefore, Orygen's cash can be pooled upstream to its parent. In addition, Orygen is the sole contributor to its parent's cash flow generation. Fitch's base case assumes Niagara will hold the USD1.2

billion senior unsecured notes to fund the acquisition of Orygen, a USD100 amortizing term loan and a revolving credit facility.

Solid Contractual Position: Niagara has a strong contracted profile under U.S. dollar-denominated, long-term power purchase agreements (PPAs) with high credit quality off-takers and cost pass-through provisions with a weighted average life of more than eight years. The company has an evenly distributed exposure of energy sales as of June 2024, with 49% to regulated customers through distribution companies and 43% to free customers mainly concentrated in the mining and industrial sectors. The remaining 9% of its sales are to the Ministry of Energy and Mines or Perú (MINEM), through the Wayra I and Ruby PPAs set to expire in 2038. Fitch expects the company to maintain a significant portion of its capacity contracted in the long term as it has shown re-contracting prospects with similar contractual terms.

Limited Exposure to Hydrological Risk: Hydro generation represents 32% of the company's total generation capacity and its divided between seven hydroelectric plants. The plants are geographic diversified, which limits the impact of a severe drought in a region. Fitch anticipates hydro production of around 4.3TWh during 2024, representing approximately 41% of the company's production. Niagara's commercial strategy incorporates a conservative approach to serve its PPA's dispatching hydro assets combined with combined cycle units, aiming to reduce the spot market exposure.

Niagara is expected to increase the dispatch of its thermal assets in the event of a severe drought to fulfil its contracts, while gradually increase the dispatch from renewable sources once the new projects come in line. The company's commercial policies limit the contracted volume of its efficient generation capacity, combined with third party agreements to purchase energy at competitive prices, aiming to reduce the spot market exposure. Niagara is expected to dispatch its thermal assets in the event of a severe drought, facing some spot price volatility to fulfil its contracts.

Leverage Metrics: After the refinancing, Fitch anticipates Niagara energy total debt EBITDA leverage will remain between 3.3x and 3.7x during 2024 and 2025, and then will increase to around 3.8x - 4.0x during 2026-2027 due to the development of two renewable projects; Fitch incorporates an EBITDA interest coverage ratio of between 3.4x and 6.3x and a negative FCF in 2026 due to a capex program primarily concentrated in renewables. The company has a balanced generation based on hydro, efficient combined cycle units, solar and wind.

Moderate Capex Program: Niagara is expected to reach Final Investment Decision for two projects in the near term: Morrope, a 240MW wind plant and Wayra a 94.2MW solar plant. Morrope is expected to end construction by 3Q27 and Wayra Solar during 3Q26. Total investment should reach approximately USD428 million. The company's FCF is expected to be negative in 2026 mainly as a result of higher capex for the construction of the projects. Fitch incorporates a dividend of USD50 in 2024 and 2025 and no dividend payment in 2026, and maintenance capex for its current operations.

Strong Market Position: Niagara is the second largest private electricity generator of Peru. Niagara Energy has 13 power plants in its portfolio including two thermals (39% of total capacity), seven hydro (35%), two wind (14%) and two solar (12%) plants. The company accounts for an average of 15% of Peru's total effective capacity and 17% of generation as of December 2023.

DERIVATION SUMMARY

Niagara's ratings compare favorably with other generation companies in the region. Industry peer ratings reflect stable, diversified asset bases and predictable cash flows, supported by solid contractual positions, embodied in long-term contract agreement with financially strong counterparties and limited volume exposure.

Niagara's ratings are below those of Colbun S.A. (BBB+/Stable) and Enel Generacion Chile S.A. (BBB+/Stable), as a result of higher leverage metrics. Fitch expects Niagara's total debt to EBITDA leverage metric will remain between 3.3x-4.0x. Enel Generacion Chile consistently reports gross leverage of around 1.5x, and Colbun has leverage between 2.5x and 3.0x.

In terms of business profile, Niagara is similar to Enel Generacion Chile and Colbun in the region, and with Kallpa Generacion S.A. (BBB-/Stable) in Peru, with a balanced portfolio of assets between hydro and thermal units, that is expected to further improve as the company expands into renewables. Both Niagara and Kallpa's cash flows are supported by U.S. dollar-denominated, long-term power purchase agreements (PPAs) with high credit quality off-takers and full cost pass-through provisions, with an average life of more than seven years for Kallpa and more than eight years for Niagara.

Niagara's ratings are at the same level as AES Andes S.A. (BBB-/Stable), AES Andes benefits from geographical diversification, with operating assets in Chile, Colombia and, to a lesser extent, Argentina.

KEY ASSUMPTIONS

--Contracted volume of 11,812 GWh in 2024 and 10,168 GWh in 2025.

--EBITDA margins between 51% and 53% during the next three years.

--Load capacity of around 76% for thermal, 69% for hydro, 32% for solar and 46% for wind.

--Capex to increase during 2025- 2026 due de development of Morrope 240MW and Wayra 94.2MW (USD428 million).

--Dividends of around USD50 in 2024 and 2025, while maintaining a minimum cash balance of USD25 million.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A decrease in the weighted average contract life or a decrease of its contracted capacity;

--A change in the company's commercial policy that results in an imbalanced long-term contractual position;

--A sustained deterioration of the company's credit metrics reflected in a total debt/EBITDA leverage greater than 4.5x combined with EBITDA interest coverage below 3.5x;

--Debt funded acquisitions that change the company's capital structure;

--Asset sales where proceeds are exclusively allocated to pay extraordinary dividends;

--Pressure from main shareholder to increase dividend payments or shareholder distributions;

--Downgrade of Peru's sovereign rating.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--EBITDA leverage consistently below 3.0x on a sustained basis, combined with EBITDA interest coverage above 4.5x;

--An increased weighted average contract life of greater than nine years, while maintaining similar contractual positions;

--Structurally neutral to positive FCF across the investment cycle.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: After the refinancing, Fitch expects that the company will face no important debt maturities in 10 years apart for the USD100 million amortizing loan. Niagara's liquidity is supported by good capital market access and a committed USD150 revolving credit facility.

ISSUER PROFILE

Niagara is the second largest electricity generator in Peru. Through its operating subsidiaries Orygen Peru S.A.A. and Chinango S.A.C. Niagara owns seven hydroelectric plants, two thermoelectric generation plants, two solar plants and two wind power plants. Total effective power reaches 2,251 MW.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		
Niagara Energy S.A.C.	LT IDR	BBB- Rating Outlook Stable	New Rating
	LC LT IDR	BBB- Rating Outlook Stable	New Rating
senior unsecured	LT	BBB-	New Rating

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 21 Jun 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Niagara Energy S.A.C. EU Endorsed, UK Endorsed

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