MOODY'S
RATINGS



CREDIT OPINION
26 September 2024

Update

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RATINGS

**Niagara Energy S.A.C.**

| | |
|---|---|
| Domicile | Peru |
| Long Term Rating | Baa3 |
| Type | LT Issuer Rating - Fgn Curr |
| Outlook | Stable |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*

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# Niagara Energy SAC

## New Issuer: Up to $1.2 billion of senior unsecured notes

## Summary

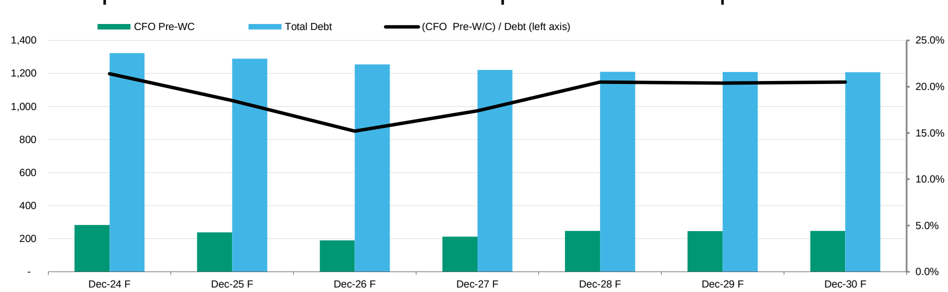
Niagara Energy S.A.C.'s (Niagara) Baa3 credit profile is supported by the strong market position of its operating companies in Peru, serving a diversified client base of regulated and unregulated customers, under long-term power purchase agreements (PPAs) that provide good visibility into expected cash flows for future debt service. These key considerations are further reinforced by the company's diversified and competitive asset base and the track record of its commercial policy.

The credit profile also incorporates a supportive regulatory framework in Peru and the competitive nature of the market, which is currently oversupplied and leading to relatively low power prices.

Balancing the credit strengths is the relatively high leverage embedded in the transaction. The company's financing encompasses the issuance of 10-year $1.2 billion senior unsecured notes and a 3-year $100 million amortizing loan, which will result in relatively weak credit metrics at least until 2027, once the company's projects under development start operations. At that point, assuming the re-contracting of PPAs coming due, metrics will start to improve.

The credit profile is premised in our expectation that the sponsors will maintain a financial policy that is supportive of the company's credit quality, balancing the dividend distributions with its capex and financing needs.

Exhibit 1
**Cash flow pre-W/C to debt starts to rise after completion of investment plan**




*Source: Moody's Ratings*

## Credit strengths

» Strong market share in Peru

» Diversified and competitive asset base

» Contracted operations with creditworthy offtakers

## Credit challenges

» High leverage resulting in weak credit metrics until 2027

» Upcoming investment needs, amid declining margins due to maturities of high-priced PPAs

## Rating outlook

The stable outlook acknowledges that credit metrics will deteriorate in the next two years up to 2026, when (CFO pre WC)/Debt is expected to bottom to 15%. The stable outlook further assumes that the company's investment plan will develop as expected, with no material delays or cost overruns, and importantly, no incremental debt and a prudent financial policy. The stable outlook also incorporates our view of a gradual improvement in credit metrics in 2027 (17% CFO pre WC to Debt) while our longer term credit view incorporates a ratio of CFO (pre WC) to debt consistently above 18%.

## Factors that could lead to an upgrade

Given our expectations of weaking credit metrics in the next two years, a rating upgrade is unlikely. Longer-term, a rating upgrade would require CFO (pre-WC)/ Debt consistently above 22% and RCF to debt above 18%, on a sustained basis.

## Factors that could lead to a downgrade

Evidence of an aggressive financial policy during the investment period, such that there is an increase in leverage, dividends are above our expectations or the minimum equity from sponsors to support the company's investment needs is not forthcoming as expected, could result in negative ratings' pressure. The ratings could also be downgraded if the company's cash flow improvement is not materialized as expected, either because the investment plan is materially delayed or because the company is not able to continue securing long-term contracts to support its generation margins.

## Key indicators

Exhibit 2

**Niagara Energy S.A.C.**

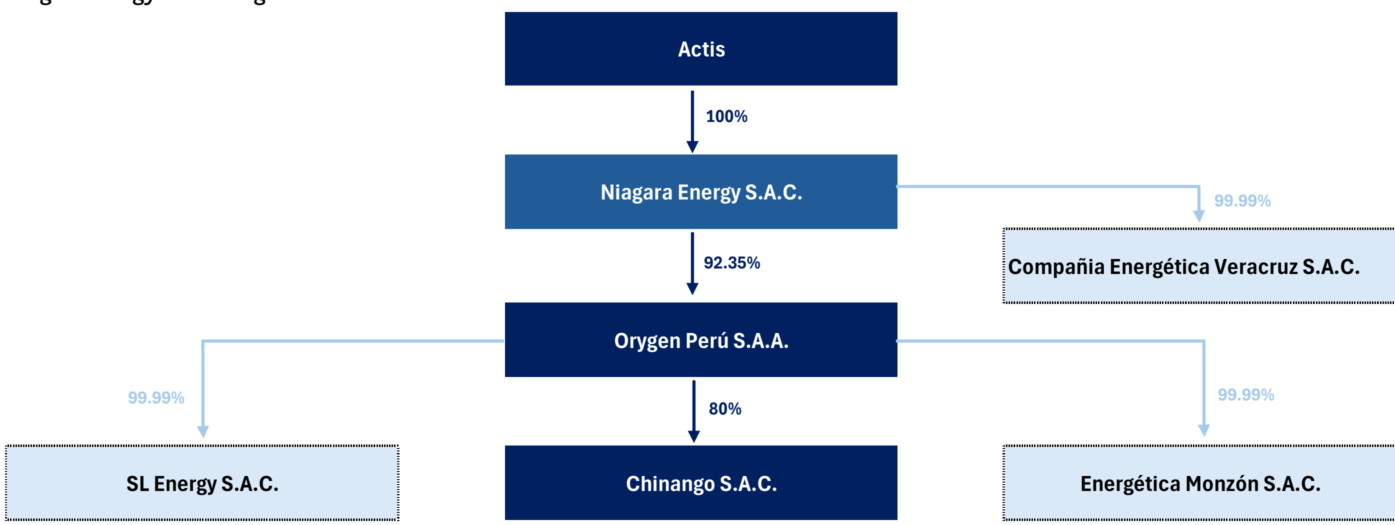
| | Dec-22 | Dec-23 | Dec-24 F | Dec-25 F | Dec-26 F | Dec-27 F |
|---|---|---|---|---|---|---|
| CFO Pre-W/C + Interest / Interest | 25.9x | 11.4x | 6.0x | 3.8x | 3.3x | 3.6x |
| CFO Pre-W/C / Debt | 67.0% | 68.1% | 21.4% | 18.5% | 15.0% | 17.4% |
| RCF / Debt | 20.9% | 26.1% | 13.5% | 17.0% | 14.4% | 10.9% |

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. FYE 2022 and 2023 correspond to Enel Generación Perú and are provided as a reference.
*Source: Moody's Ratings*

## Profile

Niagara Energy S.A.C. is a holding company established in Peru in June 2023 for the acquisition of Orygen Perú S.A.A., an unregulated power generation company and the continuation of the business of Enel Americas in the country, and Compania Energetica Veracruz S.A.C.. The company operates 13 plants in the country with a total capacity of 2.3 GW and holds a 17% market share. Orygen's asset base is diversified across technologies, regions, and clients, and the company has demonstrated strong operational standards.

Exhibit 3
**Niagara Energy S.A.C. Organizational Chart**




*Issuer of the Notes: Niagara Energy S.A.C.*
*Source: Niagara Energy S.A.C. and Moody's Ratings*

## Recent Developments

On September 24, 2024, we assigned a Baa3 issuer rating to Niagara Energy S.A.C., and a Baa3 rating to its $1.2 billion senior unsecured notes, with a stable outlook.

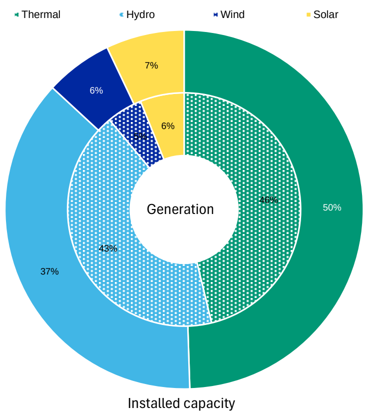
On May, 2024, Actis acquired Enel Generacion Peru's assets, a 2.3GW power generation platform encompassing thermal, hydro, and wind & solar assets. These assets are held under a company now renamed as Orygen Perú S.A.A., which is majority owned by Niagara Energy. As part of the acquisition, Niagara Energy raised close to $1.3 billion 5-year acquisition financing term loan, which the company is now seeking to refinance through the issuance of an inaugural 144A/Reg. S $1.2 billion senior unsecured bond. In addition to the upcoming senior unsecured notes, the company's debt will encompass an amortizing term loan of US$100 million and a liquidity facility of up to $150 million that will rank pari-passu with the notes.

## Detailed credit considerations

### Diversified asset base and solid market share

Niagara Energy is an unregulated power company in Peru, with total assets as of June 2024 amounting to $2.4 billion. The company has an entrenched position in the Peruvian market, with 17% market share in terms of energy output. Its asset base includes a diverse portfolio of renewable and natural gas fueled power plants.

Exhibit 4
**Generation vs Installed Capacity in 2023 by energy source**



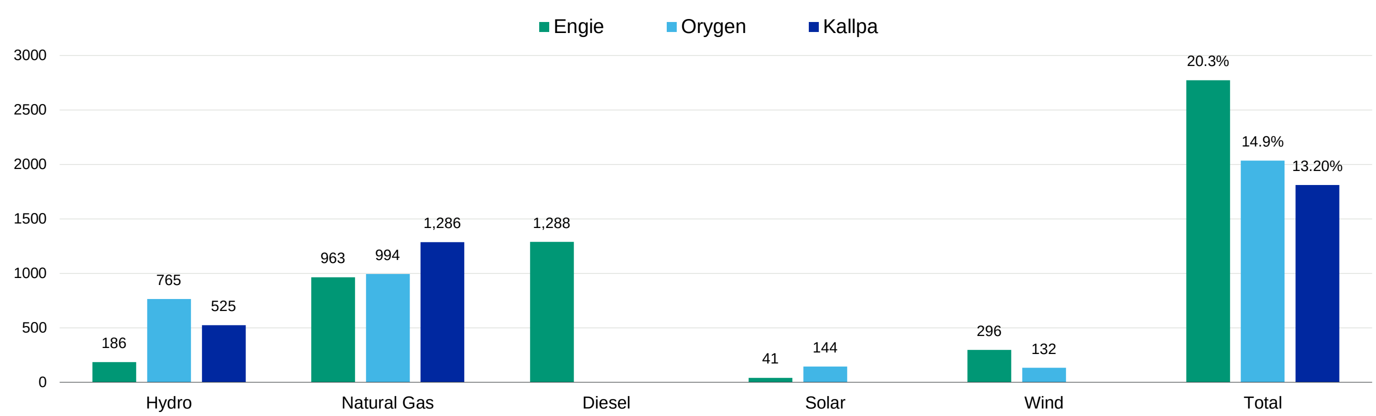

*Source: Moody's Ratings*

The Wayra I Wind Power Plant in Ica and the Rubí Solar Power Plant in Moquegua, with capacities of 132.3 MW and 144.5 MW respectively, leverage excellent wind and solar conditions. In Lima, hydroelectric plants like Huinco, Matucana, Callahuanca, Moyopampa, Huampaní, and HER 1, with a combined capacity of 600 MW, utilize water from the Rimac and Santa Eulalia River basins. Additionally, the Central Yanango and Central Chimay plants in Junín contribute 43.1 MW and 152.3 MW respectively. The natural gas fueled plants, including Santa Rosa and Ventanilla, offer a total capacity of 888.5 MW, with Ventanilla featuring a 14.6 MW BESS energy storage system. The company is well-positioned for capacity expansion in Peru, benefiting from the country's expected economic growth, stable regulatory framework, and increasing power demand mainly derived from the mining industry.

To this extent, the company is currently developing two renewable projects, a 240 MW wind farm in Morrope and Wayra, a 95 MW solar project in Ica, with expected completion dates at the end of 2027 and 2026, respectively.

Their major competitors are generally large international power generation corporations operating in Peru, in addition to certain local competitors, including certain government owned generators. Since privatization initiatives began in Peru in the energy sector in the 1990s, the participation of government owned generations has been decreasing.

Exhibit 5
**Installed capacity in Peruvian Energy sector of three main companies (MW) and percentage of total installed capacity of each company in December 2023**




*Source: COES and Moody's Ratings*

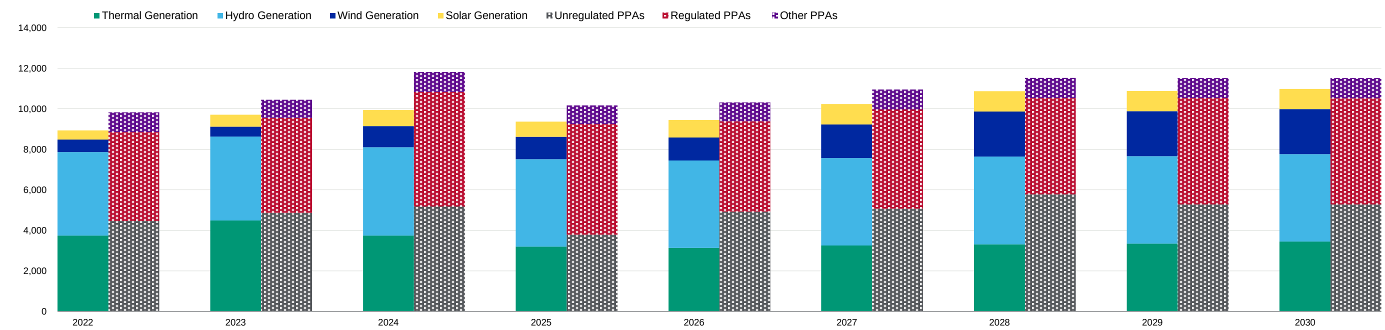
## Balanced contractual position and solid track-record in recontracting PPAs

The company has a solid contractual position with ~8.5 years average remaining contract life and solid track-record in securing and recontracting PPAs. Currently the company presents a slighty over contracted position, given its own generation is not sufficient to supply the expected demand from its PPAs. Is our understanding that the company's commercial policy is designed to accomplish a contractual position of 95% of its firm energy.

Exhibit 6

**Niagara's contractual PPAs obligation exceeds its expected own generation output**

**Energy Balance**




*From 2024+ figures are based on projected demand and generation*
*Source: Niagara Energy S.A.C. and Moody's Ratings estimates*

Most of the company's unregulated PPAs are USD-dollar denominated and indexed according to variations of the PPI and gas prices while the regulated PPA's are indexed to CPI and to the variation in the USD/Soles eschange rates. However, these regulated contracts are not take-or-pay and subject to demand risk.

As of June 30, 2024, Orygen had 171 agreements in place with unregulated customers with agreement terms ranging from one to 12 years, with a maximum annual contracted capacity between 0.20 MW and 185 MW.

As of the same date, Orygen had 71 PPAs outstanding with distribution companies. The term of these PPAs ranges between two and 19 years and the maximum annual contracted power between 0.09 MW and 198.2 MW. In May 2016, Enel Green Power Peru S.A.C. (now Orygen) signed with the Peruvian Government two PPAs pursuant to which Orygen injects into the SEIN 415 Gw/year and 573 Gw/year, from its Rubi photovoltaic and Wayra wind power plants, respectively. These PPAs ensured a guaranteed income of US$47.98 MW/h and US$37.83 MW/h for each plant, respectively. Both agreements will expire on December 31, 2038.

### Weaking credit metrics due to market dynamics, to improve from increased revenues after completion of investment plan

The credit profile incorporates our view of weakening credit metrics in the next two years mainly because most of the company's currently high-priced PPAs, that were signed before the Peruvian energy market went oversupply, will likely be renewed at lower prices due to the current market dynamics and expected levels of the spot prices.

Due to the over-supply situation in the Peruvian market, coupled with factors such as the high contribution of hydro generation and low cost of natural gas, spot prices in the Peruvian stayed at very low levels in the past decade (US$12.4 MWh average spot price from 2015 to 2020). However, since the implementation of a regulatory change in the market in 2021 that incorporated the fixed portion of utilities' cost structure along with energy supply and demand rebalancing, spot prices in the Peruvian electricity market have followed an upward trend. While last year monthly average spot prices peaked to US$179.1 MWh in September 2023 due to very dry conditions and gas supply restrictions from Camisea, prices have since normalized (US$40.7 MWh as of June 2024 and expected to remain in the range of $35-$40/Mwh in the next 12 to 18 months.)

Offsetting the downward price trend, the company is currently investing to expand its capacity, mainly in wind and solar projects, to increase its generation output to supply its energy commitments. Therefore, only in 2027 when the projects are operating the company will be able to increase revenues and cash flows to partially compensate the revenue losses from lower energy prices.

Our base case acknowledges that credit metrics will deteriorate in the next two years up to 2026, when the ratio of CFO pre WC)/ Debt is expected to bottom to 15% and assumes that the company's investment plan will develop as expected, with no material delays or cost overruns, and importantly, no incremental debt. Once the investments are completed, we foresee a gradual improvement in credit metrics in 2027 (17% CFO pre WC to Debt) while our longer term credit view incorporates a ratio of CFO -pre WC- to debt consistently above 18%.

### Contractual agreements for fuel supply enhance the visibility predictability of cash flow

Given that most of the PPAs include the indexation/pass through of the gas prices, have pass the company's gas supply arrangements are also an important consideration to support future cash flow visibility.

The company has signed two long-term natural gas supply contracts with Pluspetrol to attend the operations of the Ventanilla and Santa Rosa thermal power plants, enabling it to hedge against fluctuations in the price of natural gas. These agreements were signed in May 2019, until December 31, 2029. The contracted daily quantities (Cantidades Diarias Contratadas or “CDC”) are 74.16 MMPCD for Ventanilla and 63.57 MMPCD for Santa Rosa, which we understand should be sufficient to run these facilities under average weather conditions.

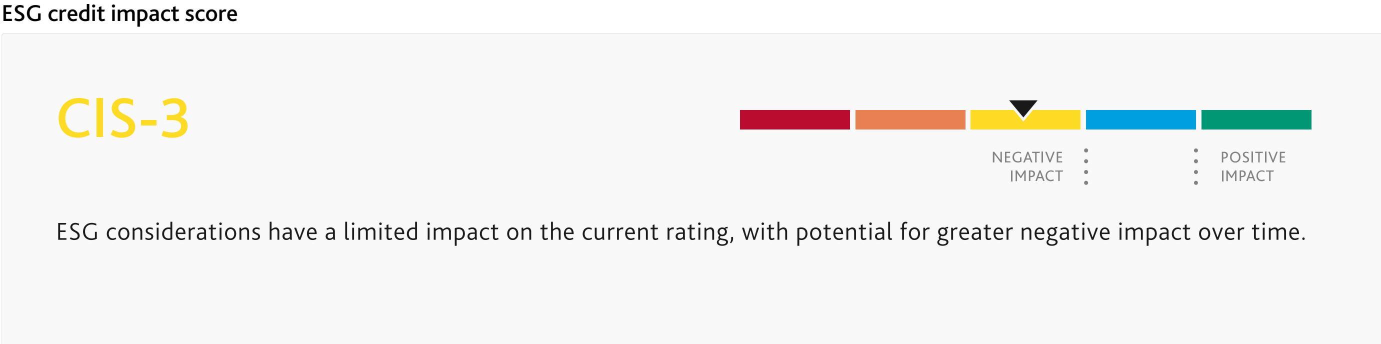
In addition, in May 2006, Orygen entered into an interruptible transportation service agreement with Transportadora de Gas del Peru S.A. (“TGP”), in order for TGP to provide the tranpsort service from the reception point located in Las Malvinas (Camisea) to the delivery point at the “City Gate” in Lurin. This agreement is valid until January 2034. In September 2023, Orygen entered into an additional agreement with TGP, to complement the previous one, in order for TGP to provide the service until December 2029.

## ESG considerations

### Niagara Energy S.A.C.'s ESG credit impact score is CIS-3

Exhibit 7

**ESG credit impact score**




*Source: Moody's Ratings*

Niagara Energy S.A.C. ESG Credit Impact Score is (**CIS-3**) reflecting that its environmental, social and governance attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time.

Exhibit 8

**ESG issuer profile scores**


*Source: Moody's Ratings*

### Environmental

Environmental considerations incorporated into our credit analysis for Niagara Energy S.A.C. (IPS **E-3**) are primarily related to the carbon transition risks of unregulated utilities, mainly because of their fossil fuel generation (natural gas). Even though 39% of the company's capacity are thermal plants fuelled by natural gas, they have a diversified generation matrix, given the company owns and operates 7 hydroelectrical plants that account for 35% of the total capacity, and 26% renewable energy. In addition, the company plans include a further expansion of its renewable (wind & solar) generation sources

### Social

Niagara's **S-3** issuer profile score reflects the social risks that are primarily related to demographic and societal trends. The score reflects the risks of adverse regulations due to social pressures or public concern over affordability issues that are of particular concern in several countries across Latin America. In relative terms, the cost of electricity in Peru is much lower than the regional average.

### Governance

Niagara's **G-3** Issuer Profile Score and corporate governance considerations include an overall aggressive financial policy and the risk management of its ultimate owners (Actis) that add some pressure to the company's distributions., in addition to a concentrated ownership. Governance practices include a 7-member board of directors, with 2 independent members.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Debt Profile and liquidity analysis

The company's debt structure will encompass the 144A/Reg. S $1.2 billion senior unsecured notes plus a $100 million three-year amortizing term loan that will rank pari-passu with the notes. In addition, the company will enter into committed liquidity facility of up to $150 million that we expect will remain mostly unused and will also rank pari-passu with the notes. The financing structure contemplates most of the debt will be at the level of Niagara Energy, the holding company and that the operating companies will remain largely un-leveraged.

As of June 2024, Niagara had a cash position of $394 million, and we expect the company to keep a consolidated cash position of around $100 million, in average, until 2030. Our assumption is that distributions during the initial years of the transaction will be flexible to allow available cash flows for interest payments, repayment of the amortizing loan and funding the CAPEX plan.

## Rating methodology and scorecard factors

Moody's assesses Niagara's financial performance based on the Unregulated Utilities and Unregulated Power Companies methodology published in December 2023. The grid indicated rating is Ba1, one notch below than the assigned Baa3 senior unsecured rating. The one notch differential reflects our forward view through the investment cycle.

Exhibit 9
**Niagara Energy S.A.C.**

| Unregulated Utilities and Unregulated Power Companies Industry [1][2] | Average metrics 2024-2030 | |
|---|---|---|
| **Factor 1 : Scale (10%)** | **Measure** | **Score** |
| a) Scale (USD Billion) | Ba | Ba |
| **Factor 2 : Business Profile (35%)** | | |
| a) Market Diversification | Ba | Ba |
| b) Hedging and Integration Impact on Cash Flow Predictability | Baa | Baa |
| c) Market Framework & Positioning | A | A |
| d) Capital Requirements and Operational Performance | Baa | Baa |
| **Factor 3 : Financial Policy (15%)** | | |
| a) Financial Policy | Ba | Ba |
| **Factor 4 : Leverage and Coverage (40%)** | | |
| a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg) | 3.84x | Ba |
| b) (CFO Pre-W/C) / Debt (3 Year Avg) | 18.7% | Ba |
| c) RCF / Debt (3 Year Avg) | 8.5% | Ba |
| **Rating:** | | |
| a) Scorecard-Indicated Outcome | | Ba1 |
| b) Actual Rating Assigned | | Baa3 |

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures
*Source: Moody's Financial Metrics™*

Exhibit 11

## Peer comparison [1]

| | Niagara Energy S.A.C. | | Kallpa Generacion S.A. | | | | AES Andes S.A. | | | | Colbun S.A. | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Baa3 Stable | | Baa3 Stable | | | | Baa3 Stable | | | | Baa2 Stable | | | |
| | FYE | FYE | FYE | FYE | FYE | LTM | FYE | FYE | FYE | LTM | FYE | FYE | FYE | LTM |
| (in USD millions) | Dec-22 | Dec-23 | Dec-21 | Dec-22 | Dec-23 | Jun-24 | Dec-21 | Dec-22 | Dec-23 | Jun-24 | Dec-21 | Dec-22 | Dec-23 | Jun-24 |
| Revenue | 619 | 701 | 534 | 597 | 685 | 694 | 2,771 | 2,579 | 2,742 | 2,518 | 1,440 | 1,974 | 2,004 | 1,711 |
| CFO Pre-W/C | 256 | 287 | 203 | 188 | 184 | 167 | 721 | 797 | 403 | 580 | 208 | 463 | 539 | 426 |
| Total Debt | 384 | 426 | 1,128 | 1,146 | 1,117 | 1,106 | 2,067 | 2,573 | 2,610 | 2,530 | 2,317 | 1,991 | 1,977 | 1,963 |
| CFO Pre-W/C / Debt | 67.0% | 68.1% | 20.40% | 16.20% | 13.90% | 18.60% | 34.9% | 31.0% | 15.4% | 22.9% | 8.90% | 22.90% | 26.90% | 21.40% |
| CFO Pre-W/C – Dividends / Debt | 20.9% | 26.1% | 14.70% | 6.50% | 4.20% | 9.70% | 29.3% | 28.5% | 12.2% | 19.3% | -44.30% | 15.40% | 11.70% | 11.70% |
| Debt / Capitalization | 26.4% | 28.1% | 66.10% | 63.10% | 61.30% | 60.90% | 52.8% | 55.7% | 57.6% | 57.2% | 31.30% | 33.70% | 35.30% | 33.90% |

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
*Source: Moody's Financial Metrics*

## Ratings

Exhibit 12

| Category | Moody's Rating |
|---|---|
| **NIAGARA ENERGY S.A.C.** | |
| Outlook | Stable |
| Issuer Rating | Baa3 |
| Senior Unsecured | Baa3 |

*Source: Moody's Ratings*

REPORT NUMBER 1423799

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