Research Update:

Niagara Energy S.A.C. Rated 'BBB-'; Outlook Stable

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Rating Action Overview

- Niagara Energy S.A.C. intends to issue a new financing structure with the issuance of a 10-year $1.2 billion senior unsecured 144A/Reg S bond, the disbursement of a three-year term loan of $100 million, and a revolving credit facility of $150 million (that remains unused but available in our base case).
- All debt will be allocated at Niagara's level and be pari passu. We believe this transaction will result in a more manageable capital structure and debt maturity schedule, favoring liquidity by removing virtually all short-term bank debt due in the next 12 months.
- On Sept. 25, 2024, S&P Global Ratings assigned its 'BBB-' long-term issuer and issue credit rating to Niagara and its debt.
- The stable outlook on Niagara reflects our expectation that the company will maintain a conservative financial policy, based on the sponsor's commitment to keep a balanced dividend distributions, particularly amid elevated cash needs to fund capex in 2025 and 2026. We expect relatively stable cash flow in the next two years due to the company's highly contracted profile, which should bring net debt to EBITDA to about 2x-3x and FFO to debt to above 20%.

Rating Action Rationale

In our view, the company benefits from its well-diversified portfolio of assets, strong market position as the second-largest energy producer in Peru (with a 17% market share), and stable and predictable cash flow generation given its highly contracted nature. This derives from the company's offtake agreements, mostly with creditworthy customers, that average 8.5 years.

More precisely, as of June 2024, 49% of the company's 11.8 terawatt hours are contracted with regulated clients--including Luz del Sur S.A., Pluz Energia, and other government-owned entities--while 43% includes unregulated entities such as Siderperu, Chinalco, Hudbay Peru, Boroo, and Las Bambas, among others. The remaining 8% are contracts with the government. In all cases, the power purchase agreements are U.S.-dollar-denominated or linked, which eliminates any exposure to foreign exchange fluctuations.

The company has 13 plants across the country, and we believe it is well-diversified by technology, including thermal (39%), hydro (35%), wind (14%), and solar (12%) assets. Moreover, the company has a leading position in the nonconventional renewable sector, which we view as a credit strength because it positions Niagara better than comparable peers to renew contracts in the medium term.

We expect this segment will consolidate in the upcoming years, with new solar capacity coming online in late 2026 (Wayra Solar) and a new wind facility in late 2027 (Morrope Wind). On an aggregate basis, Niagara should add close to 340 megawatts of new nonconventional capacity by 2028, increasing existing figures in such technologies by 40%.

The company's exposure to weather conditions somewhat offsets the above-mentioned strengths, given that many of Niagara's plants are hydro. Therefore, we believe there is some level of volatility, although mitigated by the company's prudent commercial strategy and additional capacity that could compensate during less favorable hydrological conditions.

We anticipate Niagara's debt to peak in the next two years, as evidenced by net debt to EBITDA and funds from operations (FFO) to debt ratios of about 2.7x-3x and 20%-22%, respectively, in 2025 and 2026. However, from 2027 on we expect these ratios to gradually improve as capital expenditure (capex) normalizes, new projects contribute to EBITDA generation, and the company enters new power purchase agreements.

We expect the company to finance most of the next three years of capex--which will rise to about $516 million (including $428 million for growth)--with internally generated funds.

Outlook

The stable outlook on Niagara reflects our expectation that the company will maintain a conservative financial policy, based on the sponsor's commitment to keep a balanced dividend distributions, particularly amid elevated cash needs to fund capex in 2025 and 2026. We expect relatively stable cash flow in the next two years due to the company's highly contracted profile, which should bring net debt to EBITDA to about 2x-3x and FFO to debt to above 20%.

Downside scenario

We could lower the ratings on the company if its financial metrics deteriorate, with FFO to net debt dropping below 20%. This could occur, for example, if the company implements any debt-financed capex or pays dividends in 2025 and 2026, which we do not anticipate in our base case. We may also lower the ratings if we think the company's financial policy has become more aggressive.

Upside scenario

We could upgrade Niagara if net debt to EBITDA and FFO to debt improve to consistently below 3x and above 30%, respectively. This could happen if the company considerably reduces its leverage and assumes a more conservative financial policy (such as regarding dividend payments), to preserve cash flow, evidenced by debt to EBITDA of 2x and FFO to debt of consistently more than 30%.

Company Description

On November 2023, Actis LLP (not rated) and Enel SpA (BBB/Stable/A-2) acquired 100% of Enel SpA's indirect interest in Enel Generacion Peru S.A.C., now Orygen Peru S.A.A., for an enterprise value of $2.1 billion. As part of the acquisition, Actis raised approximately $1.3 billion via a five-year acquisition financing term loan at a newly constituted vehicle, Niagara. Niagara will be the holding company, through which the infrastructure fund will manage the operation of its energy portfolio in Peru, currently comprising 13 power plants.

Actis is one of the most active global sustainable infrastructure investors in Latin America. As of December 2023, the group had deployed $3.2 billion across 17 investments, totaling 20 gigawatts of installed capacity in the region.

Our Base-Case Scenario

Assumptions

- We expect Peru's GDP to grow 2.7% in 2024 and 2025, and 2.9% in 2026. We see GDP growth as a relevant variable for the generation business, as demand for energy typically shifts according to growth.
- We expect inflation in Peru of 2.4% in 2024, 2.1% in 2025 and 2026, and 2% in 2027; and inflation in the U.S. of 2.9% in 2024, 2% in 2025, and 2.4% in 2026. Many of the company's contracts have price adjustments according to U.S. inflation, and some of the selling, general, and administrative costs are linked to Peruvian inflation, such as salaries and compensation.
- We expect an average currency exchange (per $1) of Peruvian nuevo sol (PEN) 3.75 in 2024, PEN3.79 in 2025, and PEN3.85 in 2026. Although contracts are set in U.S. dollars, some of the company's costs are denominated in local currency. We expect total energy generation of 9,938.43 gigawatt hours (GWh) for 2024, 9,363.33 GWh for 2025, and 9,443.60 GWh in 2026.
- We expect total debt of about $1.3 billion in 2024, decreasing thereafter as it amortizes.
- We expect $63 million of capex in 2024, $170 million in 2025, and $281 million in 2026, all related to the projects under construction (Purun and Morrope).
- Dividend distributions of about $50 million in 2024, no distributions in 2025 and 2026, then rising to about $70 million in 2027 once capex falls, and $176 million in 2028.

Sources: "Economic Outlook Emerging Markets Q4 2024: Lower Interest Rates Help As Pockets Of Risk Rise" and "Economic Outlook U.S. Q4 2024: Growth And Rates Start Shifting To Neutral," both published Sept. 24, 2024

Key metrics

Niagara Energy S.A.C.--Key metrics

	2022a	2023a	2024e	2025f	2026f
Revenue (bil. PEN)	2.3	2.6	2.9-3.0	2.8-3.0	2.6-2.7
EBITDA (bil. PEN)	1.2	1.3	1.6-1.7	1.5-1.6	1.4-1.5

Niagara Energy S.A.C.--Key metrics (cont.)

	2022a	2023a	2024e	2025f	2026f
EBITDA margin (%)	54	50	52-55	52-55	52-55
Debt to EBITDA (x)	0.9	0.9	2.5-3.0	2.5-3.0	3.0-3.5
FFO to debt (%)	81.3	76.4	22-24	20-22	19-21
FFO cash interest coverage (x)	22.5	7.9	6.0-6.5	4.0-4.5	4.0-4.5

All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Liquidity

We view Niagara's liquidity as adequate. We expect the company's sources of cash to exceed its uses by about 25% in the next 12 months and that its sources of cash will continue to exceed uses even if EBITDA were to decline 15% in the period.

We also believe the company will be able to absorb high-impact, low-probability events with limited need for refinancing, given that it currently has a manageable debt maturity profile and satisfactory relationships with banks--as evidenced by its long track record of accessing revolving credit facilities. The company has outstanding committed credit lines available of about $50 million for a 24-month tenor.

Principal sources of liquidity:

- Cash and short-term investments of $166 million as of June 2024
- Revolving credit facility of $150 million, only available for unpredicted situations
- FFO of about $270 million
- New bond of $1.2 billion and three-year term loan of $100 million

Principal liquidity uses:

- Existing short-term debt of $252 million as of June 2024
- Working capital outflows of $26 million-$40 million over the next 12 months
- Capex of $112 million over the next 12 months
- Dividend distributions of $50 million in 2024 and no distributions in 2025
- Expected repayment of the rest of the acquisition loan for $1.3 billion

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Stable
Business risk:	Satisfactory
Country risk	Moderately high
Industry risk	Moderately high

Issuer Credit Rating	**BBB-/Stable**
Competitive position	Satisfactory
Financial risk:	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

New Rating	
Niagara Energy S.A.C.	
Senior Unsecured	BBB-

New Rating; Outlook Action	
Niagara Energy S.A.C.	
Issuer Credit Rating	BBB-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.