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CREDIT OPINION
12 May 2022

Update

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RATINGS

Celeo Redes Operacion Chile S.A.

Domicile	Santiago, Chile
Long Term Rating	Baa2
Type	Senior Secured - 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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Celeo Redes Operacion Chile S.A.

Update to credit analysis

Summary

Celeo Redes Operacion Chile S.A.'s (Celeo, Baa2 stable) credit quality reflects the low business risk and good operational performance of its transmission projects in Chile: Alto Jahuel Transmisora de Energia S.A. (AJTE 1 and AJTE 2) and Charrua Transmisora de Energia S.A. (CHATE). CHATE and AJTE jointly and severally guarantee Celeo's $348 million senior secured outstanding notes and UF5.4 million Unidades de Fomento (UF) notes.

Celeo's credit quality incorporates the high visibility of cash flow, which is driven by the availability-based revenue of AJTE 1 and CHATE (around 85% of revenue) over a 20-year period (until 2035 and 2037, respectively), and a credit-supportive outcome of the ongoing tariff review process for AJTE 2 (15% of revenue, new tariff expected to start in 3Q 2022). The predictability of cash flow is also supported by the projects' low counterparty risk and by the natural hedge that results from the tariffs underlying indexation formulas and the debt currency breakdown ($62% USD; 38% UF). Following the expiration of the 20-year fixed period, these two concessions will be subject to tariff reviews every four years, which somewhat diminishes their long-term cash flow visibility. Around 65% of the principal debt will be still outstanding after the expiration of the initial 20-year fixed tariff period for AJTE 1 and CHATE.

While the financial model and the debt amortization profile target a minimum 1.25x debt service coverage ratio (DSCR) during the fixed-tariff period and a 1.35x DSCR during the resettable-tariff (period to address the higher revenue risk on the later part of the transaction), leverage for the project is overall high, which tempers the rating.

The credit profile is further enhanced by the project financing structure features of the debt, which encompass several creditor protections like a six-month debt service reserve account, three-month O&M reserve account, limitations to business activity, to additional debt, restriction on distributions and comprehensive insurance package.

Credit strengths

» Credit supportive regulatory environment and satisfactory counterparty risk

» Long-term useful life of transmission assets held in perpetuity that provide for 20 years of fixed tariffs

» No exposure to volume risk

» Contractual terms and tariff mechanism underpin predictability of cash flow

» High availability levels, which support cash flow stability

Credit challenges

» High leverage

» Long-term cash flow uncertainty after the expiration of the 20-year fixed-tariff period

Rating outlook

The stable outlook reflects our assumption that AJTE and CHATE will maintain high availability levels for its operating transmission assets, such that Celeo's financial performance will be generally consistent with our base case expectations assuming a minimum and average DSCR of 1.15x and 1.28x, respectively, during the tenor of the notes.

Factors that could lead to an upgrade

» An upgrade of the rating is unlikely over the near term because of Celeo's high leverage. Over the long term, stronger-than expected financial metrics that result in a minimum and average DSCR of 1.30x and 1.40x, could result in a rating upgrade.

Factors that could lead to a downgrade

» The rating could be downgraded if the operational performance of the assets deteriorates, or if Celeo's financial performance is materially different from expected such that the minimum and average DSCR remain below 1.15x and 1.20x, respectively.

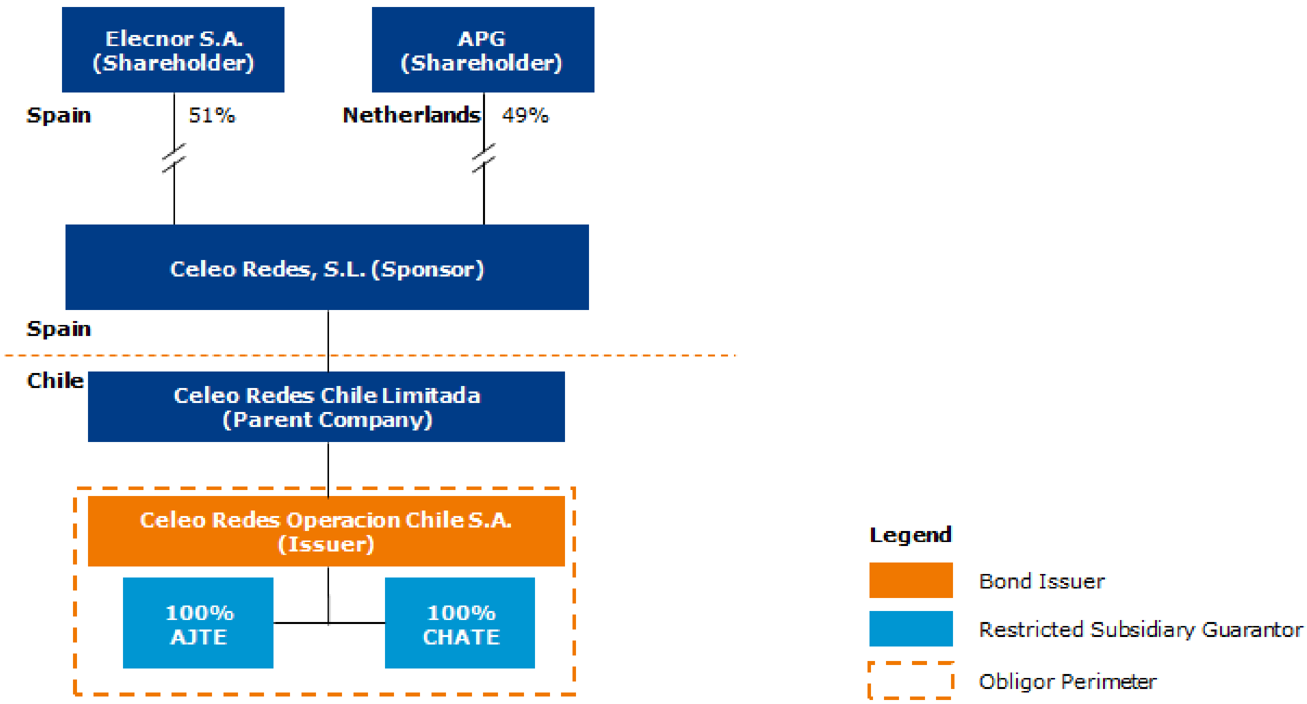
Profile

Headquartered in Santiago, Chile, Celeo Redes Operation Chile S.A. (Celeo) holds a 99.99% direct interest stake in the 500 KV transmission projects Alto Jahuel Transmisora de Energia S.A. (AJTE) and Charrua Transmisora de Energia S.A. (CHATE).

Celeo's holding parent company, Celeo Redes Chile Limitada, is 99.99% owned by Celeo Redes, SL (Celeo Redes Spain), the sponsor (see Exhibit 1).

Celeo Redes Spain is an indirect subsidiary of the Dutch pension fund Algemene Pensioen Groep N.V. (APG, 49%) and Elecnor S.A. (51%), the parent company of Elecnor Chile S.A., which was also the engineering, procurement and construction (EPC) contractor for the project.

Exhibit 1
Celeo's simplified organizational structure



Sources: Celeo and Moody's Investors Service

The structure above reflects the 2019 transfer of Diego de Almagro Transmisora de Energía (DATE) out of the scope of the Celeo Redes Operación Chile S.A. (CROCH) perimeter as a result of the shareholder decision on June 10, 2019, to transfer the shares CROCH held in DATE to its parent (Celeo Redes Chile Limitada). The transfer was made through a capital decrease at CROCH and formalized on July 22, 2019. Subsequently, on July 24, 2019, the parent, Celeo Redes Chile Ltda., transferred all the shares of DATE to another subsidiary it controls, CRC Transmisión SpA, which also operates transmission assets in Chile.

Detailed credit considerations

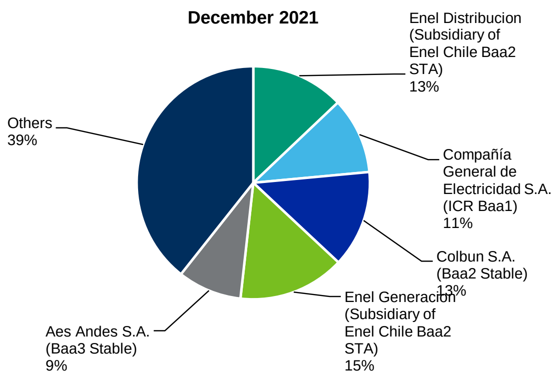
Supportive Regulatory Environment & Satisfactory counterparty risk

The regulatory framework in Chile is well developed. Regulation has been in place since 2006 (Transmission Law), with some recent changes in regulations (Transmission Law -TxL- 2016) aimed at improving some inefficiencies and the payments allocation mechanisms, among others. All the changes were largely anticipated, broadly discussed and implemented gradually so there is no evidence of unexpected or adverse change. The presence of the panel of experts in most of the regulatory studies and decisions or in cases of discrepancies guarantees additional independence of regulatory decisions. Prices associated to transmission activity (legacy assets) are determined by the National Electricity Commission (CNE) every four years by conducting internationally tendered studies that include the participation of companies, users and interested institutions and the Panel of Experts. For new assets or assets recently built, tariffs are fixed for a 20 year period (including annual indexation).

Celeo's credit profile takes into account the fact that the National Transmission Remuneration System has transitioned to a scheme based on the allocation of the transmission payment obligations across the unregulated generation and utility companies from a model where Celeo used to receive the payments related to their transmission services (embedded in the power generation costs) from the power producers. Exhibit 2 shows Celeo's current revenue composition. Past exposure to volume risk has declined significantly; 2016 TxL changed the transmission system remuneration from a volume-based to an annuity payment (take or pay) over the zonal system transmission assets. This process started in 2018 and was fully implemented during 2019; as a result Celeo's revenues are not exposed to volume risk.

Exhibit 2

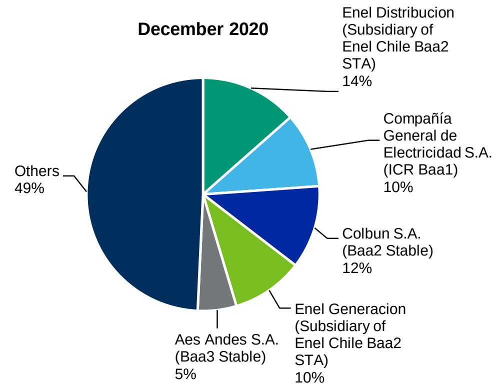
Celeo's revenue breakdown by client after the change of the National Transmission Remuneration System



Source: Celeo and Moody's Investors Service

Exhibit 3

Celeo's revenue breakdown by client after the change of the National Transmission Remuneration System



Source: Celeo and Moody's Investors Service

The credit profile also factors in the satisfactory credit profile of Celeo projects' key counterparties and the fact that the ultimate risk exposure is to the system and not to the individual companies, which are users of the system. The regulation provides for a mechanism by which if any of the transmission system's users (either independent power producers [IPPs] or distribution companies) fail to pay for the transmission (for example, because of bankruptcy), the remaining users will have to make up for the difference in a way that Celeo always receives the full amount of its annual VATT.

Low business risk from long lived assets held in perpetuity

The projects' annual revenues (VATT) consist of the AVI, an annuity calculated on the assets' investment value and the applicable rate or return, and the COMA that represent the project's remuneration for its O&M and administrative costs (COMA). The AVI represents more than 80% of the projects' total income (operational costs of transmission are typically low). Importantly, all of Celeo's transmission assets are owned by the company in perpetuity and; the estimated useful life for transmission assets is of 50-60 years.

Celeo's risk profile takes into account the fact that around 85% of its total revenue (AJTE 1 and CHATE) is fixed over a 20-year period. Upon the expiration of the projects' fixed tariff period its revenue will be subject to tariff reviews every four years (resettable project revenue), as is the case for AJTE 2, which currently represents around 15% of total revenue. Celeo's credit quality incorporates our assumption that AJTE 2's first tariff review will be credit supportive and in line with the report issued by the independent consultant last March. According to the legislation, a new tariff should have been in place in 2020, allowing for a 7% (post-tax) internal rate of return (IRR), down from a fixed 10% rate of return (pretax). However, the implementation of the new tariff has been delayed because of some discrepancies found by the regulator in the external consultant's calculation of the asset's value. The process is still underway and the new tariff is likely to be in force in 3Q 2022. This tariff change will affect only AJTE 2's revenues because AJTE 1 and CHATE (85% of the revenues) are still undergoing the 20-year fixed-tariff period.

The rates are adjusted monthly for AJTE 2 but only annually for AJTE 1 and CHATE. Nevertheless, we acknowledge the fact that the underlying revenue indexation formulas and Celeo's debt composition (dollar-denominated notes around 67% and UF-denominated notes around 33%) allow for a natural hedge of the debt. This takes into consideration the fact that the projects' COMA are fully indexed to changes in local inflation (with labor accounting for most of their operating costs). In contrast, CHATE's AVI is fully subject to changes in the CLP/USD exchange rate, which represents 44% of AJTE 1's and AJTE 2's AVI indexation formulas (56% indexed to changes in local inflation).

Strong operational track record, low investment needs

The assets have started operations in 2015 and 2017 and as new assets they continue to report a strong operating performance and very high availability ratios while requiring relatively low investments (maintenance only). This is important because the revenue lost because of availability interruptions (fines), which are passed through to Celeo Redes Chile under the O&M agreements, are capped at 50% of the monthly O&M fee. Any remaining discounts could be carried over to the following month but the total aggregated discount amount is capped at 12.5% of the annual O&M fee, which is relatively modest. Our analysis also takes into account the experience of Elecnor and its subsidiaries in operating transmission assets, and the reputational considerations that may result should the transmission assets face material operating challenges and penalties. Our expectations is that the company will maintain the assets' strong operational performance.

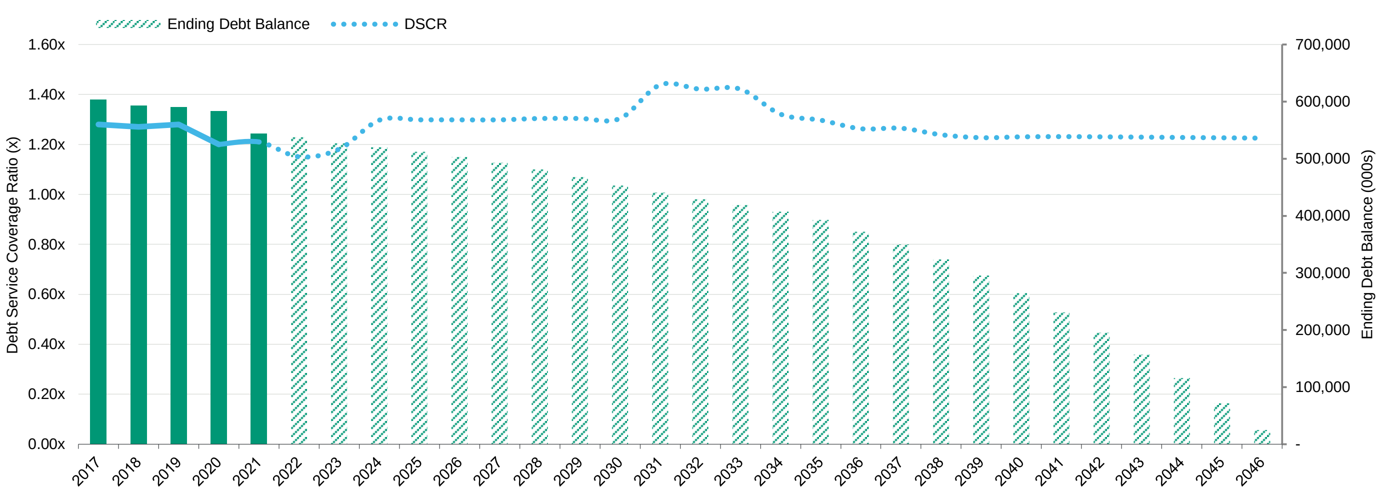
The transmission law also foresees a mechanism to compensate end-users for failures in services, capped at 5% of the asset's revenue. Importantly, the n-1 redundancy configuration of the Chilean system reduces the risk of outages caused by unavailability events. Celeo's credit profile also benefits from a three-month O&M reserve.

High initial and current leverage tempered by the debt amortization profile

Celeo's credit quality is mainly constrained by the project's overall high leverage (net debt to fixed assets of 137% at year end 2021). However, we acknowledge the fact that the notes will fully amortize by its contractual maturity in 2047 and that the amortizing profile of the notes will result in a gradual reduction in the project's leverage. We also acknowledge a back-loaded amortization profile given that the scheduled amortization will allow Celeo to repay only approximately 35% of the notes' principal amount by 2037, when the assets will be operating in full under the resettable tariff scheme.

To address the revenue uncertainty after the initial 20 years of fixed tariffs, the company designed the amortization profile to target a minimum 1.25x DSCR for the cash flows during the fixed tariff period and a 1.35x DSCR for the cash flows subject to resettable tariffs. Under our base case and owing to recent tariff delay we expect the minimum DSCR to be at 1.15x (in 2022) with an average of 1.28x during the remaining tenor of the debt. As of December 2021 Celeo recorded a DSCR of 1.21x, in line with our expectations.

Exhibit 4
DSCR until the debt fully amortizes at maturity in 2047 [1]



[1] Historical DSCR as per financial statements and covenants definition
Source: Moody's Investors Service and issuer financial model

Long-term cash flow uncertainty

The credit quality is further constrained by the long-term uncertainty surrounding the value of the projects' asset base used in setting tariffs, value of investments (VI), after the initial 20 years of fixed tariff. This uncertainty increases credit risk during the final 10 years of the 2047 notes. However, our analysis takes into account a break-even scenario that allows for a reduction of at least 20% in the projected VI, at which point Celeo will have repaid nearly 35% of the total debt after the expiration of the 20-year fixed-tariff period. We also take into consideration the long useful life of these assets that are held in perpetuity, while we assume that 500 kilovolt (KV) transmission lines will remain key pieces of infrastructure in the Chilean transmission system.

In Chile, the rate base used to calculate the tariffs is premised on the asset's investment value (VI) which, unlike that in most global jurisdictions, does not reflect the assets' depreciated value. This limits the visibility into AJTE1's and CHATE's transmission cash flow in after the initial 20 years of the regulated tariff period because the VI in Chile is based on the assets' value of new replacement (VNR). This represents the investments required to build a complete new system, which is currently uncertain. For example, a significant change in technology that reduces the value of the transmission assets could also result in a downward adjustment to the assets VI. Thus, the credit risk increases during the notes' final 10 years, particularly if the projects' tariffs are significantly lower than expected. This view also takes into consideration the fact that the debt amortization schedule is heavily back-ended, which is credit negative.

However, according to our analysis, a break-even scenario in the financial model resulting in a 1.0x DSCR would need nearly a 24% reduction in the projected VI, which helps alleviate credit concerns because of the long useful life of the assets that are held in perpetuity.

Structural Considerations

While Celeo operates as a regulated transmission company, its financing structure corresponds to that of a project financed transaction; therefore the credit profile acknowledges the existence of several structural considerations and certain bondholder protections that provide uplift to the company's rating. These include but are not limited to a 6-month debt service reserve, a 3-month O&M reserve, a distribution test based on a 1.15x DSCR (which rises to 1.2x after January 2036), a collateral package, and extensive insurance coverage, among others.

ESG considerations

CELEO REDES OPERACION CHILE S.A.'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 5
ESG Credit Impact Score

CIS-3
Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Celeo's ESG Credit Impact Score is moderately negative (**CIS-3**), indicating that its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time.

Exhibit 6
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-2
Moderately Negative	Moderately Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental
Celeo's moderately negative environmental risk (**E-3** issuer profile score) mainly reflects the company's moderate exposure to physical climate risks that are common for transmission companies whose networks are not underground and therefore more exposed to climate events that could damage the assets. Partially mitigating the exposure of grid unavailability due to extreme weather events are the stand-alone insurance policies covering business interruption. The company's carbon transition exposure is neutral given it is a pure transmission company that does not own any generation assets. The company's exposure to other environmental considerations such water management, natural capital and waste & pollution is low.

Social
Celeo social risk is also moderate (**S-3** issuer profile score), reflecting moderate risks of adverse regulations due to social pressures or public concern over affordability issues on regulated tariffs that had recently manifested in Chile and that resulted for example in the recent temporary suspension of the electricity tariffs indexation. These risks are balanced by low to neutral exposure to loss of clients or limited access to capital due to ESG related concerns.

Governance
Governance risk for Celeo is low/neutral (**G-2** issuer profile score) because the company's financial profile is reflective of strong structural protections embedded in the company's project financed structure that limits incurrence of additional debt and distributions. In addition, the company's management team has a sound track record in the industry, and provides for timely financial and operational information. While Celeo presents ownership concentration in two shareholding groups, we see limited exposure to board structure and procedures due to strong creditor protections provided by the structural package of the transaction.

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.

Methodology and scorecard

We evaluate the financial performance of Celeo Redes Operacion Chile S.A. using our Regulated Electric and Gas Networks rating methodology (April 2022). As depicted in the grid below, the scorecard-indicated outcome under this methodology is Baa1. The assigned rating of Baa2 for Celeo is one notch below the scorecard-indicated outcome because of the long-term uncertainty surrounding cash flow after the expiration of the 20-year fixed-tariff period for AJTE 1 (2035) and for CHATE (2037).

Exhibit 7
Rating factors
Regulated Electric and Gas Networks

Celeo Redes Operacion Chile S.A.		
Regulated Electric and Gas Networks Industry Grid		
Factor 1 : Regulatory Environment and Asset Ownership Model (40%)	**Measure**	**Score**
a) Stability and Predictability of Regulatory Regime	A	A
b) Asset Ownership Model	Aa	Aa
c) Cost and Investment Recovery (Ability and Timeliness)	A	A
d) Revenue Risk	A	A
Factor 2 : Scale and Complexity of Capital Program (10%)		
a) Scale and Complexity of Capital Program	A	A
Factor 3 : Financial Policy (10%)		
a) Financial Policy	Ba	Ba
Factor 4 : Leverage and Coverage (40%)		
a) Minimum Debt Service Coverage Ratio	1.15x	Ba
b) Average Debt Service Coverage Ratio	1.28x	Ba
c) Concession Life Coverage Ratio (CLCR)	1.32x	Ba
Rating:		
Indicated Rating from Grid Factors 1-4	Baa3	Baa3
Rating Lift	**1.5**	**1.5**
a) Indicated Rating from Grid	Baa1	Baa1
b) Actual Rating Assigned	Baa2	Baa2

Financial performance based on Moody's base case using the forecast through the tenor of the debt.
Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
CELEO REDES OPERACION CHILE S.A.	
Outlook	Stable
Senior Secured	Baa2

Source: Moody's Investors Service

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CLIENT SERVICES

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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