MOODY'S
INVESTORS SERVICE

CREDIT OPINION
27 March 2024

Update

Send Your Feedback

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.

Contacts

Daniela Cuan +54.11.5129.2617
VP-Senior Analyst
daniela.cuan@moodys.com

Cristiane Spercel +55.11.3043.7333
Senior Vice President/Manager
cristiane.spercel@moodys.com

Celeo Redes Operacion Chile S.A.

Update to credit analysis

Summary

Celeo Redes Operacion Chile S.A.'s (Celeo, Baa2 stable) credit quality incorporates high visibility into its cash flow, driven by the availability-based revenue of its transmission assets. The credit profile 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. Following the expiration of a 20-year fixed tariff period, tariff reviews will take place every four year, which somewhat diminishes the assets' long-term cash flow visibility. Around 62% of the principal debt will be still outstanding after the expiration of the initial 20-year fixed tariff period.

While 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, the project's leverage is overall high, which tempers the rating.

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

Exhibit 1
Debt service coverage ratio

	2019	2020	2021	2022	2023	2024F
DSCR	1.28x	1.24x	1.21x	1.27x	1.31x	1.36x

Sources: Celeo and Auditor's report calculations

Credit strengths

» Credit-supportive regulatory environment and low 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

» Cash flow predictability underpinned by contractual terms and tariff mechanism

» 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 Celeo 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 1.25x, 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, respectively, could lead to 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 deviates significantly from our expectations such that the minimum and average DSCR remains below 1.15x and 1.20x, respectively.

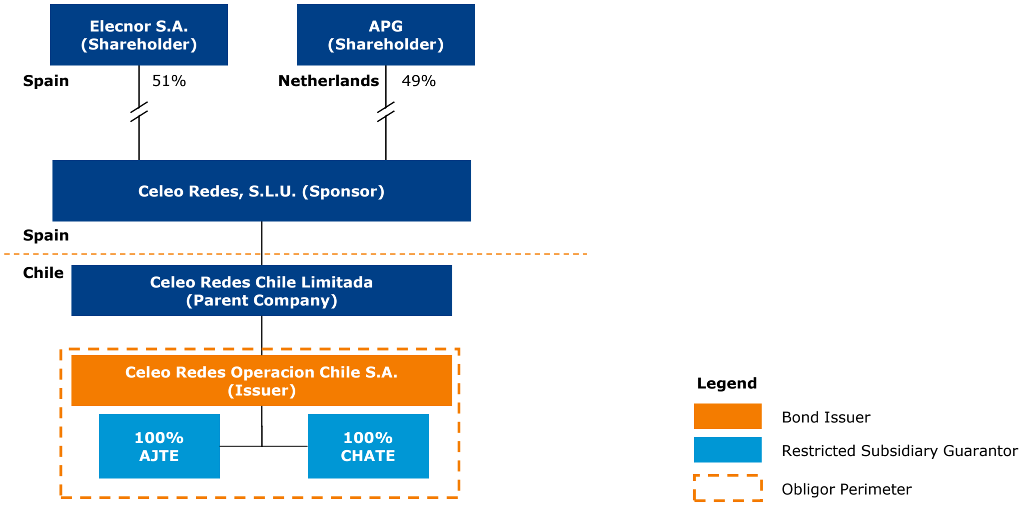
Profile

Headquartered in Santiago, Chile, Celeo Redes Operation Chile S.A. (Celeo) holds a 99.99% direct interest stake in the 500 KV transmission projectsAlto Jahuel Transmisora de Energia S.A. (AJTE) and Charrua Transmisora de Energia S.A. (CHATE), which are the co-obligors under the senior secured notes.

Celeo's holding parent company, Celeo Redes Chile Limitada, is 99.99% owned by Celeo Redes, SLU (Celeo Redes Spain), the sponsor (see Exhibit 2).

Celeo Redes Spain is an indirect subsidiary of the Dutch pension fund Algemene Pensioen Groep N.V. (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 projects.

Exhibit 2
Celeo's simplified organizational structure



Sources: Celeo and Moody's Ratings

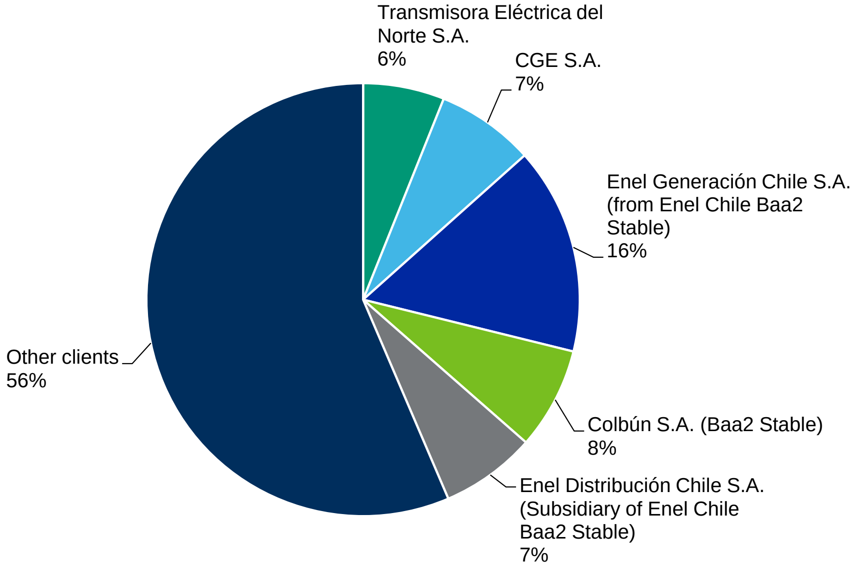
Detailed credit considerations

Supportive regulatory environment and low counterparty risk

The regulatory framework in Chile is well developed. Regulation has been in place since 2006 (Transmission Law, TxL), with posterior modifications implemented by the TxL in 2016, which eliminated inefficiencies of the previous regulations and modified the payment allocation for transmission. With the 2016 Law, 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 payments related to its transmission services (embedded in the power generation costs) from power producers. Exhibit 3 shows Celeo's current revenue composition. Exposure to volume risk has declined significantly; 2016 TxL changed the transmission system remuneration from a volume-based system 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 revenue is not exposed to volume risk.

The credit profile factors in the satisfactory credit profile of Celeo projects' key counterparties and the fact that the ultimate risk exposure is to 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.

Exhibit 3
Celeo's revenue breakdown by client



As of December 2023.
Sources: Celeo and Moody's Ratings

Low business risk from long lived assets

The projects' annual revenue (VATT) consists of AVI, annuity calculated on the assets' investment value and the applicable rate or return, and COMA, which represents the project's remuneration for O&M and administrative costs. 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 of the transmission assets is 50-60 years.

For new assets or assets recently built (AJTE 1 and CHATE), tariffs are determined in public competitive bids and are then fixed for a 20-year period and annually indexed by inflation. Transmission tariffs for legacy assets or expansions (AJTE 2) are determined by the National Electricity Commission (CNE) every four years by conducting internationally tendered studies that include the participation of companies, users and the panel of experts.

Celeo's risk profile takes into account the fact that around 86% of its total revenue is fixed over a 20-year period. Upon the expiration of the projects' fixed tariff period, revenue will be subject to tariff reviews every four years (resettable project revenue), as is the case for AJTE 2, which currently represents around 14% of total revenue.

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 65% and UF-denominated notes around 35%) allow for a natural hedge of the debt.

Outcome of tariff review in line with expectations

While most of Celeo's revenue is fixed for a 20-year period, AJTE 2 (14% of revenue) is subject to a four-year tariff review scheme. Celeo's credit quality incorporates AJTE 2's first tariff review, published in February 2023, which was in line with the report issued by an independent consultant in March 2022. This new tariff reduced the asset's remuneration (internal rate of return [IRR]) to a 7% post-tax IRR from a fixed 10% rate of return (pretax), a change that should have been made in 2020 (2020-24 period). However, the valuation studies and all the regulatory steps were largely delayed.

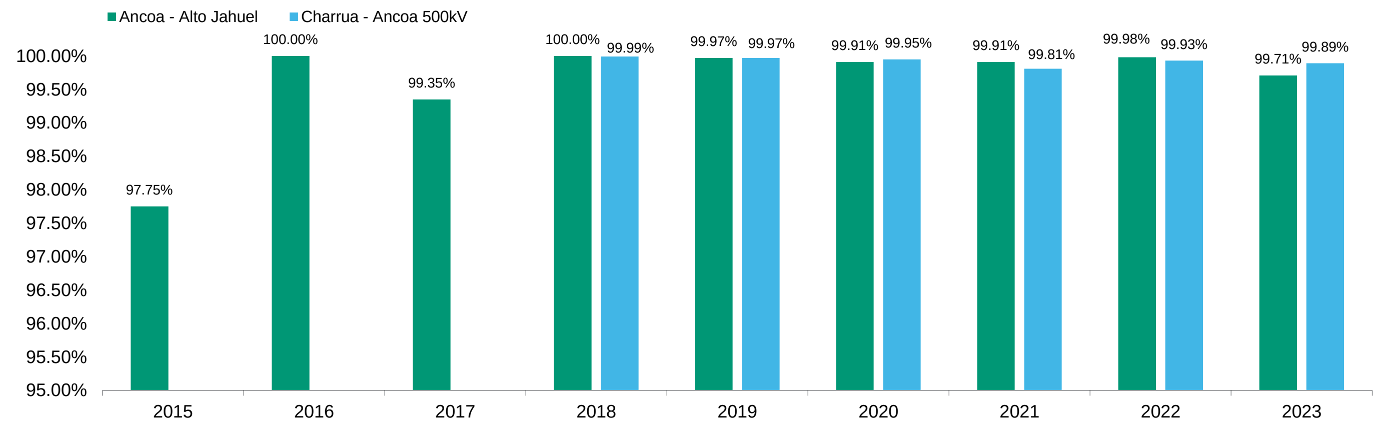
The 2024-27 tariff and valuation studies already started in early 2022. In December 13, 2023 the CNE published the Final Technical Report for the period. Currently, the CNE and the transmission companies are working on the asset's valuation process, which should be completed by Q2 2024.

Strong operational track record and low investment needs

Celeo's assets started operations in 2015 and 2017, and they continue to report strong operating performance and very high availability ratios (above 99.7% since 2018) while requiring relatively low maintenance investments. 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, is 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 significant operating difficulties and penalties. We expect the company to 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.

Exhibit 4
Transmission lines



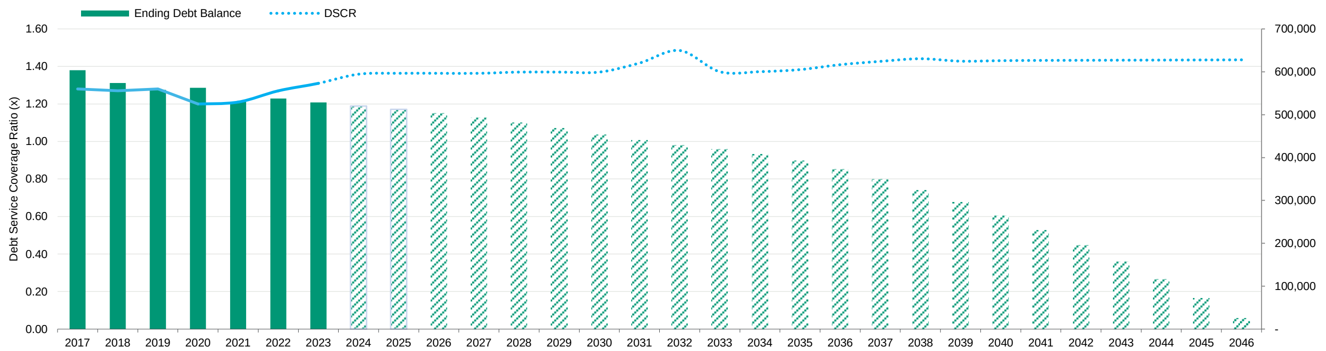
Source: Celeo's Business Plan February 2024

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. However, we acknowledge the fact that the project's debt will fully amortize by its contractual maturity in 2047 and that the debt amortizing profile will result in a gradual reduction in the project's leverage. We also acknowledge the backloaded amortization profile given that the scheduled principal payments will allow Celeo to repay only 35% of the notes' principal by 2037, when the assets will be operating 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 during the fixed tariff period and a 1.35x DSCR for the cash flow subject to resettable tariffs. As of December 2023, Celeo recorded a DSCR of 1.31x, in line with our expectations.

Exhibit 5
DSCR until the debt fully amortizes at maturity in 2047 [1]



[1] Historical DSCR per financial statements and covenants definition.
Sources: Moody's Ratings and issuer financial model

Long-term cash flow uncertainty

The long-term uncertainty surrounding the value of the projects' asset base used to set the tariffs (value of investments [VI]) after the initial 20 years of fixed tariff constrains the credit profile. However, our analysis takes into account a break-even scenario that allows for a reduction of at least 20% in the projected VI after the expiration of the 20-year fixed tariff period, which helps alleviate credit concerns because of the long useful life of the assets that are held in perpetuity. At that point, Celeo will have repaid nearly 38% of the total debt, given the back-ended debt amortization schedule. Thus, the credit risk increases during the notes' final 10 years, particularly if the projects' tariffs are significantly lower than expected.

In Chile, the asset base used to calculate the tariffs is premised on the investment value (VI), which, unlike that in most global jurisdictions, does not reflect the assets' depreciated value but the assets' value of new replacement (VNR). VNR represents the investments required to build a completely new system, which is currently uncertain and limits the asset's cash flow visibility after the initial 20 years of the regulated tariff period.

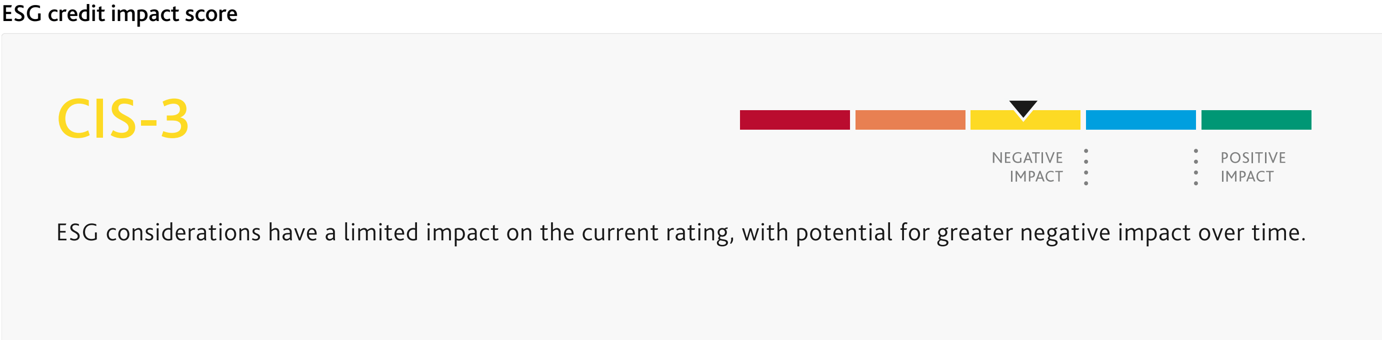
Structural considerations

While Celeo operates as a regulated transmission company, its financing structure corresponds to that of a project finance 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 six-month debt service reserve (cash funded), a three-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.

ESG considerations

Celeo Redes Operacion Chile S.A.'s ESG credit impact score is CIS-3

Exhibit 6
ESG credit impact score

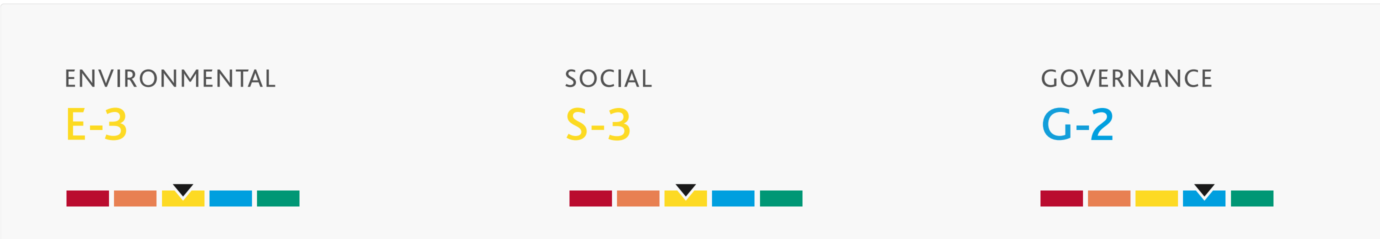


Source: Moody's Ratings

Celeo Redes Operaciones Chile S.A.'s credit impact score (**CIS-3**), indicates that its ESG attributes have a limited impact on the current rating, with potential for greater negative impact over time.

Exhibit 7

ESG issuer profile scores



Source: Moody's Ratings

Environmental

E-3. Celeo Redes Operaciones Chile S.A.'s is exposed to physical climate risks that are common for transmission companies whose networks are not underground and therefore are 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 low given that does not own any generation assets while it also contributes Chile's decarbonization goals.

Social

S-3. Celeo Redes Operaciones Chile S.A.'s reflects the risks of adverse regulations due to social pressures or public concern over affordability on regulated tariffs, as they have manifested in Chile in the past, resulting for example in the temporary suspension of the electricity tariffs indexation.

Governance

Celeo Redes Operaciones Chile S.A.'s **G-2** IPS reflects the company's financial profile and 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. While Celeo presents ownership concentration in two shareholding groups, we see limited exposure to board structure and procedures due to 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 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), and a backloaded amortization profile.

Exhibit 8
Rating factors
Regulated Electric and Gas Networks

Celeo Redes Operacion Chile S.A.		
Regulated Electric and Gas Networks Industry		
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 Sevice Coverage Ratio	1.15x	Ba
b) Average Debt Service Coverage Ratio	1.27x	Ba
c) Concession Life Coverage Ratio (CLCR)	1.23x	Ba
Rating:		
Scorecard-Indicated Rating from Grid Factors 1-4	Baa3	Baa3
Rating Lift	**1.5**	**1.5**
a) Scorecard-Indicated Outcome	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 Ratings

Ratings

Exhibit 9

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

Source: Moody's Investors Service

REPORT NUMBER 1400826

Contacts

Jose Aybar Critto +54.9.114.075.9420
Ratings Associate
jose.aybarcritto@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE