FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Calidda's IDRs at 'BBB'; Outlook Stable

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Fitch Ratings - New York - 19 Apr 2022: Fitch Ratings has affirmed Gas Natural de Lima y Callao S.A.'s (Calidda) Long-Term Local and Foreign Currency Issuer Default Ratings (IDRs) at 'BBB' with a Stable Rating Outlook. Fitch also affirmed Calidda's USD320 million senior unsecured notes due in 2023 at 'BBB'.

Calidda's ratings reflect the company's natural monopoly as the sole natural gas distributor for the cities of Lima and Callao. Cash flow stability is supported by a regulated tariff program designed to ensure an adequate return on investment with the ability to fully pass through fixed costs related to the supply and transportation of natural gas. The ratings are constrained by the company's exposure to volumetric sales risk.

KEY RATING DRIVERS

Stable Cash Flow Generation: Calidda's contracted revenues translates into a stable cash flow profile. The contracts are take-or-pay, U.S. dollar-denominated contracts with top-tier power generators and large industrial companies. Unregulated clients represented 73% of total invoiced volume, and 31% of total adjusted revenues in 2021, with the remainder coming from regulated clients. The company's regulated tariff, which is reviewed every four years, ensures a fixed cost recovery and a 12% fixed return rate on approved capital investment and operational expenses, which is partially offset by its company's exposure to volume risk in the regulated segment during economic slowdowns.

Strong Market Position: Calidda is Peru's largest natural gas distribution company and the sole gas distributor in Lima and Callao. The service area under its concession contains more than 30% of the country's population and over 45% of GDP. The concession term lasts through 2033 and may be renewed upon request from Calidda in 10-year increments until 2060. Its total network reaches 14,407 km, with a 95% penetration rate and installed capacity of 420 mmcfd. The company expects to continue to expand its distribution capacity, which is expected to reach 1.5 million customers by 2025 equivalent to a penetration rate of 94%.

Leverage Profile: Calidda's leverage remained at 3.8x in 2021, which Fitch expects will return to 3.5x by 2023 as sales volume grows, which is consistent with the 'bbb' rating category for Latin American utilities. The company generated EBITDA of USD202 million in 2021, an increase compared to USD159 million in 2020. This increase is mainly due to the company's recovery of invoiced volumes, which is mostly comprised of take-or-pay contracts with non-regulated industrial and power generator customers, higher users connected, and operational efficiencies.

The company's network expansion program is manageable over the rating horizon. Once revenues from installation and financial services fall over time, cash flows should remain strong as distribution revenues gradually replace these services. Currently, distribution and installation services revenues make up 64% and 25%, respectively, of the company's total adjusted revenues.

Adequate Gas Supply: Calidda's gas supply and transportation is secured through 2033. The company has 220 mmcfd of natural gas supply under take-or-pay and interruptible contracts with the Camisea consortium. The company also has a long-term contract for natural gas transportation with Transportadora de Gas del Peru, S.A. (TGP; BBB+/Stable) for 228 mmcfd, under take-or-pay and interruptible contracts, through 2033.

Single-source exposure is mitigated by consortium operator Pluspetrol S.A.'s obligation to prioritize natural gas supply to cover local demand, according to the concession agreement. According to the Peruvian Ministry of Energy and Mines, Camisea lots 56 and 88 and the nearby lots 57 and 58 had approximately 8.4 trillion cubic feet of natural gas proven reserves as of YE 2021, equivalent to roughly 23 years of supply.

Neutral Shareholder Support: Calidda's risk profile benefits from the expertise and operational ties of shareholders Grupo Energia Bogota S.A. E.S.P. (GEB; BBB/Stable) at 60% and Promigas S.A. E.S.P. (BBB-/Stable) at 40%. GEB is a leading energy holding company with interests across the electricity and natural gas sectors in Colombia, Peru and

Guatemala. Promigas is one of the largest natural gas transportation and distribution companies in Colombia and Peru. Fitch expects that Calidda will continue to upstream strong cash distribution to shareholders. Absent parental support, Calidda's ratings are still commensurate with a 'BBB' credit profile.

DERIVATION SUMMARY

Calidda's business profile is similar to Promigas (BBB-/Stable) and Companhia de Gas de Sao Paulo (COMGAS; BB/Negative), due to low business risk from the companies' participation in the regulated utilities businesses, leading to relatively predictable cash flow generation.

Calidda is rated one notch above COMGAS's 'BBB-'/Negative Long-Term Local Currency IDR, due to their different operating environments, despite COMGAS' stronger capital structure, with leverage at 2.0x-2.5x through the rating cycle. Calidda is rated one notch above Promigas due to Promigas' more aggressive capital structure. Promigas' expected debt/EBITDA was 4.4x at YE 2020, compared with Calidda's 3.7x.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within The Rating Case for the Issuer:

--Residential/commercial clients trending toward 1.5 million clients by 2025;

--Volumes from regulated users growing 6.2% on average over the next four years;

--Average monomic price of USD0.25 cents per cubic feet over the rating horizon, including connections and pass-through costs;

--Pass-through of supply and transportation costs for regulated customers;

--Capex of approximately USD180 million during 2022-2025;

--Dividend payout equivalent to 100% of previous-year net income.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Significant and sustained deleveraging to below 3.0x;

--Growth and consolidation of regulated demand, including the natural gas vehicle and residential and commercial segments.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Sustained total debt to EBITDA above 4.0x, due to either operational deterioration or the inability to adjust distribution to shareholders and maintain a healthy capital structure;

--Material negative changes in its build, operate, own and transfer agreement and subsequent accomplishment, tariff program and applicable regulations;

--A material decline in new connections that negatively affects revenues, which in turn is not followed by increased gas invoiced to residential/commercial users;

--A downgrade of its shareholders' ratings by multiple notches.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: The company's liquidity position is adequate and supported by its cash on hand, cash flows from operations, a comfortable debt amortization profile and adequate access to the debt capital markets. The company also relies on uncommitted credit lines totalling USD192 million, as well as on committees credit lines for USD450 million as of Dec. 31, 2021.

As of Dec. 31, 2021, total cash on hand was USD86 million with no short-term debt. Long-term debt mostly comprises USD320 million in senior unsecured notes and USD80 million due in April 2023. The company already signed a USD350 million syndicated loan with local and international banks. Some of the proceeds will be used to repay 2023's maturities.

Approximately 54% of its total debt is U.S. dollar-denominated, while its tariff is calculated in U.S. dollars and the balance is covered by a currency swap.

ISSUER PROFILE

Calidda is the largest natural gas distribution company in Peru in terms of number of clients and volume sold. The company has a 33-year BOOT (Build-Own-Operate-Transfer) concession that grants exclusive right to distribute natural gas in Lima and Callao.

SUMMARY OF FINANCIAL ADJUSTMENTS

--Total debt adjusted by financial leasings derived from IFRS 16;

--Total debt adjusted by fair value of cross-currency swaps.

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.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Gas Natural de Lima y Callao S.A.	LT IDR Affirmed	BBB Rating Outlook Stable	BBB Rating Outlook Stable

	LC LT IDR Affirmed	BBB Rating Outlook Stable	BBB Rating Outlook Stable
senior unsecured	LT	BBB Affirmed	BBB

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 15 Oct 2021) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 01 Dec 2021)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Gas Natural de Lima y Callao S.A.	EU Endorsed, UK Endorsed

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