

CREDIT OPINION

10 August 2020

New Issue

 Rate this Research

RATINGS

Empresa de Transmision Electrica, S.A.

Domicile	Panama
Long Term Rating	Baa1
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.

Contacts

Alejandro Olivo +1.212.553.3837
 Associate Managing Director
alejandro.olivo@moody.com

CLIENT SERVICES

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

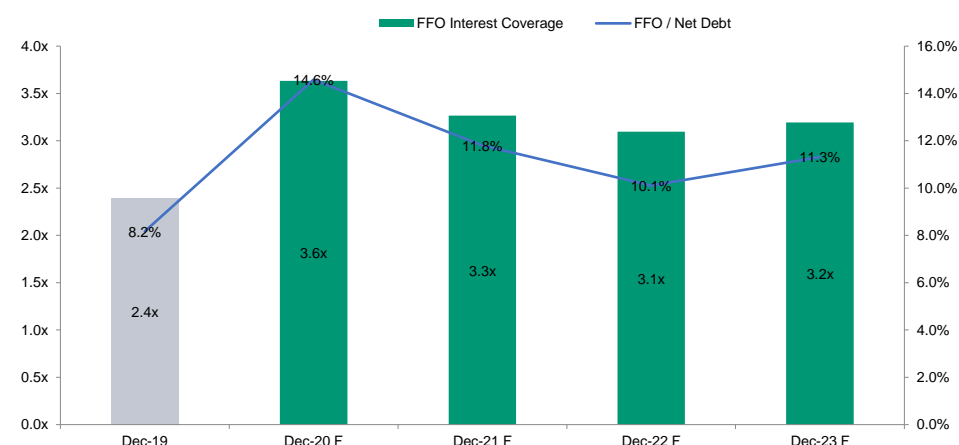
Empresa de Transmision Electrica, S.A.

Regular Credit Update

Summary

- » [Empresa de Transmision Electrica, S.A.](#) (ETESA or the company) is Panama's electricity transmission company, wholly owned by the [Government of Panama](#) (Baa1 stable). ETESA has the exclusive rights on the transmission, dispatch, control and demand planning for electricity generation in Panama. It owns the national transmission system, mainly three trunk transmission lines.
- » Empresa de Transmision Electrica, S.A. (ETESA) is Panama's electricity transmission company, wholly owned by the Government of Panama (Baa1 stable).
- » ETESA's creditworthiness is supported by the visible cash flow stemming from its strategic position as the sole electricity transmission provided under a regulated market, where tariffs are adjusted to provide a determined return on investments. ETESA does not face volume risk because its revenue is a function of the company's productive assets, a key credit strength.
- » ETESA's projected financial metrics include a relatively high leverage, particularly over the next few years mainly because of the capital investment program. In 2019, ETESA recorded cash interest coverage (FFO + interests/interests) and FFO/net debt for 2.4x and 8.2%, respectively.

Exhibit 1
Actual and Projected FFO, Net debt and FFO/net debt (\$ million)



Financial metrics based on our base case scenario.
 Source: ETESA and Moody's Investors Service

Credit strengths

- » Sole transmission company in Panama, with exclusive rights to operate the network
- » Essential and regulated service provides for a highly visible stream of cash flow
- » Wholly owned by the Government of Panama, which, under our government-related issuer (GRI) framework provides, rating uplift

Credit challenges

- » Leverage is likely to be relatively high, particularly over the next few years because of the capital investment program.
- » ETESA operates under a concession contract with a finite life, although renewal risk is significantly mitigated by its links with the government and by the fact that under law, it is the only entity permitted to own, operate and develop the country's transmission network.
- » Transmission capacity shortfalls must be covered by ETESA because the company must compensate for the electricity that it is not able to deliver.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Rating outlook

The outlook is stable, reflecting the regulated business model that is expected to generate stable and visible cash flow. The stable outlook is also in line with the rating outlook of the Government of Panama, the support provider.

Factors that could lead to an upgrade

- » Given that the Baa1 rating is in line with the sovereign rating of Panama, an upgrade of the rating is unlikely in the next 12-18 months.
- » Upward pressure on ETESA's rating would require that the company continues to record cash interest coverage and FFO/debt above 3.5x and 13.0%, respectively, on a sustained basis, and importantly, that the sovereign rating of Panama is upgraded.

Factors that could lead to a downgrade

- » The rating would come under downward pressure if there is a downgrade of the sovereign rating or if we change our view on implied government support.
- » The Baseline Credit Assessment (BCA) and rating could also be downgraded if ETESA's key financial metrics deteriorate as a result of higher leverage or lower cash flow generation. Specifically, if cash interest coverage and FFO/debt were expected to fall below 2.8x and 9.0%, respectively, on a sustained basis.

Key indicators

Exhibit 2

Empresa de Transmisión Eléctrica, S.A.

	Dec-19	Dec-20 F	Dec-21 F	Dec-22 F	Dec-23 F
FFO Interest Coverage	2.4x	3.6x	3.3x	3.1x	3.2x
Net Debt / Fixed Assets	71.2%	66.2%	71.5%	72.4%	77.5%
FFO / Net Debt	8.2%	14.6%	11.8%	10.1%	11.3%
RCF / Net Debt	8.2%	14.6%	11.8%	10.1%	11.3%

Financial metrics based on our base case scenario.

Sources: ETESA and Moody's Investors Service

Profile

Empresa de Transmisión Eléctrica, S.A. (ETESA) is Panama's electricity transmission company, wholly owned by the Government of Panama. ETESA was created in 1999 with exclusive rights on the transmission, dispatch, control and demand planning for electricity generation in Panama. ETESA is, by law, the only operator and owner of the national transmission system, which mainly consists of three trunk transmission lines, adding up to close to 3,000 kilometers.

Detailed credit considerations

The Baa1 rating assigned to ETESA reflects key credit strengths, including its solid market position as the sole transmission company in Panama with exclusive rights to operate the network. In addition, the company provides an essential and regulated service, with tariffs sized to cover operating and investment costs, which guarantees its sustainability and generate a highly visible stream of cash flow.

ETESA has a "Maximum Permitted Income" for the transmission services it provides. This amount is determined by the regulator, and is defined through a tariff regime that is revised every four years. The next review period will start in 2021 and will become effective in July 2021. This tariff is meant to provide a fixed return after covering transmission and administrative costs, operating expenses and depreciation of assets. It is calculated as a percentage of its regulated fixed asset base. As such, ETESA's revenue does not depend on the energy that is transported through the system, but is a function of the company's productive assets, a credit positive. Revenue is charged to generation and distribution companies, and if any of those companies fail to make a payment to ETESA, the payment is redistributed among the participants based on their market share.

As a result of ETESA's capital program for the coming years, that averages a yearly investment equivalent to 20.2% of net fixed assets over the period 2020-2022, Moody's projects that ETESA will record a relatively high leverage. Under our base case, ETESA's cash interest coverage (FFO + interests/interests) and FFO/net debt are projected to average 3.3x and 12.2%, respectively, over the first three years of our projection (2020-22). A key assumption embedded in our rating is that the planned fourth transmission line, with an estimated cost of \$550 million, will be built under a Design, Build, Finance and Maintain (DBFM) scheme, following the guidelines of the new APP law enacted in 2019 (Law 93 of September 19, 2019), without recourse to ETESA and any significant capital requirement from the company. The bidding process for this transmission is expected to begin at the fourth quarter of 2020 and is expected to be awarded during the first quarter of 2021.

ETESA is authorized by the regulator Autoridad de los Servicios Públicos (ASEP) to provide the public electricity transmission service under an exclusive renewable concession contract expiring in 2025. As such, ETESA operates under a contract with a finite life, although renewal risk is significantly mitigated by its links with the government and by the fact that under the current law, it is the only entity permitted to own, operate and develop the country's transmission network.

Close links with the Government of Panama

The Baa1 issuer rating assigned to ETESA reflects the application of our Joint Default Analysis (JDA) framework for GRIs, which takes into account the following four input factors: a BCA of baa2 as a measure of ETESA's standalone creditworthiness, the Baa1 rating of the Government of Panama as ETESA's support provider, our estimates of high implied government support in the case of financial distress, and a very high default dependence between ETESA and the Panamanian government. These input factors are supported by the company's strong links with the Government of Panama, which owns 100% of ETESA. These factors also reflect the strategic and essential nature of the services provided, the government control and direction of the company, and precedents of financial support through tariffs or direct capital contributions.

According to Law 6 of 1997, the board of directors is responsible for defining the policies for the proper operation, development and modernization of ETESA; it has historically been led by the Minister of Economy and Finance.

The Panamanian government has supported ETESA by providing capital contributions of \$68.7 million since 2011. By policy, ETESA does not have to pay any dividends, and it reinvests all the annual profit in the development and expansion of more efficient transmission lines, which allows the company to provide more competitive tariffs.

In 2018, the Government of Panama supported ETESA by approving an extraordinary tariff increase that resulted in additional \$80 million in revenue to compensate for the "Generación Obligada" expense incurred by ETESA because of the delay in the construction of the third transmission line. Nonetheless, about half of the \$80 million will be deducted from tariffs in the coming years to compensate the electricity market.

ESG considerations

Environmental considerations

Regulated electric networks, who operate under a concession contract with finite life such as ETESA carry low environmental risks. New project investments bring completion execution risks, and environmental licenses can eventually lead to delays in project completion or cost overruns. Nonetheless, ETESA has been able to manage these appropriately.

Social considerations

Social protests and objections to particular transmission lines, which have been observed for particular transmission projects globally, does not typically happen within ETESA's portfolio. Other considerations such as employee safety and transmission tariff increases are also of low risk to ETESA, given the low labor-intensive nature of its operations and the low representation of transmission fees in the overall electricity bill.

Governance considerations

ETESA has shown a good track record of maintaining a conservative financial policy and is not required to make dividend payments. The company's senior management has extensive sector experience, and its overall policies and strategy are well aligned and complementary to that of the Government of Panama.

Liquidity analysis

Given the visibility into cash flow stemming from the tariff-setting mechanism, liquidity is not a credit concern for ETESA. Nonetheless, the company has credit facilities for up to \$130 million. These facilities are mostly used for short-term needs.

Rating methodology and scorecard factors

The methodologies used in these ratings were Regulated Electric and Gas Networks, published in March 2017, and Government Related Issuers, published in June 2018. Please see the Rating methodologies page on www.moody's.com for a copy of these methodologies.

Exhibit 3

Rating Factors

Empresa de Transmisión Eléctrica S.A

Empresa de Transmisión Eléctrica, S.A. -Private		
Regulated Electric and Gas Networks Industry [1][2]		
	Current FY 12/31/2019	
Factor 1 : Regulatory Environment and Asset Ownership Model (40%)	Measure	Score
a) Stability and Predictability of Regulatory Regime	A	A
b) Asset Ownership Model	Baa	Baa
c) Cost and Investment Recovery (Ability and Timeliness)	A	A
d) Revenue Risk	Aa	Aa
Factor 2 : Scale and Complexity of Capital Program (10%)		
a) Scale and Complexity of Capital Program	Ba	Ba
Factor 3 : Financial Policy (10%)		
a) Financial Policy	Baa	Baa
Factor 4 : Leverage and Coverage (40%)		
a) FFO Interest Coverage (3 Year Avg)	3.2x	Baa
b) Net Debt / Fixed Assets (3 Year Avg)	53.5%	A
c) FFO / Net Debt (3 Year Avg)	11.5%	Baa
d) RCF / Net Debt (3 Year Avg)	11.5%	Baa
Rating:		
Scorecard-Indicated Outcome Before Notch Lift		Baa1
a) Assigned BCA		baa2
Notch Lift		1
b) Actual Rating Assigned		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 12/31/2019

Source: Moody's Financial Metrics™

Ratings

Exhibit 4

Category	Moody's Rating
EMPRESA DE TRANSMISION ELECTRICA, S.A.	
Outlook	No Outlook
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

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