

NEW YORK--( [BUSINESS WIRE](#) )--Fitch Ratings expects to assign a rating of 'BBB-' to Transelec S.A.'s (Transelec) proposed senior unsecured debt issuance, which will range between USD270 million and USD670 million depending on market conditions. The proceeds will be used for the refinancing of financial debt. Transelec's maturities in local currency, a mix of CLP and UF, for the next three years are the equivalent of USD270 million in 2014, USD100 million in 2015, and USD300 million in 2016.

This rating is in line with Transelec's foreign and local currency Issuer Default Ratings (IDRs) of 'BBB-'. The Rating Outlook is Stable.

### KEY RATING DRIVERS

**Low Business Risk Profile:** The investment grade ratings of Transelec reflect the company's low business risk profile stemming from its exceptionally stable and predictable cash flow generation, characteristic of electric transmission utility companies, and its natural monopoly condition. The regulatory environment in Chile is considered solid and stable, and provides for certainty in the determination of regulated transmission revenues and returns on future investments.

**Operating Performance Remains Stable:** The company generates stable and predictable cash flows from operations due to the nature of its business and the strengths of the regulatory environment. EBITDA has increased over the past years to approximately USD360 million per annum, mainly as a result of the organic expansion of the transmission facilities and, to a lesser extent, additional engineering services provided to third parties. EBITDA margin remains high, above 80%. Tariffs review process for the 2014-2018 period are not expected to have a material impact on the company's revenues.

**Debt Profile to Improve After Proposed Issuance:** Following the proposed refinancing, Transelec's debt maturity profile is expected to improve considerably. If the company refinances only 2014 maturities (USD270 million), the average life of the total debt would increase from 11.5 years to 12.7 years. If the company raises funds to also refinance 2015 and 2016 maturities (USD100 million and USD300 million respectively), Transelec would have no relevant debt maturities until 2023.

**Leverage to Remain High:** Transelec's leverage is considered high, although this is mitigated by the company's stable cash flow generation stream. Leverage measured as debt-to-EBITDA was 5.9x as of March 2014 (latest 12 months [LTM]), in line with the company's long-term financial strategy of maintaining leverage (debt-to-EBITDA) in between 5.7x and 6.5x. The company's debt-load mainly funds capex and dividend payments.

**High Dividends Expected to Continue:** Transelec has a dividend policy of distributing 100% of net profits (approximately USD100 million annually), although the payout rate has been higher in the last years due to the payment of extraordinary dividends in 2012 and 2013. Fitch expects that in the future, and in the event the company accumulates substantial amounts of cash, it could repeat such extraordinary payments to shareholders. Nonetheless, based on Transelec's solid cash generation capacity, the company should be able to maintain adequate levels of indebtedness, profitability and liquidity. The strong credit quality of the company's shareholders (Canadian Investment Funds Brookfield Asset Management, CPP Investment Board, British Columbia IMC and PSP Investments) is also considered.

**Client Base to Shift Gradually:** At present Transelec's client base per revenue type is composed of 43% regulated revenues and 57% contractual revenues; included in the latter are the transmission contracts signed with Endesa in 2000 (before the enactment of the Short Law), which will start gradually maturing and becoming regulated between 2016 and 2018. These contracts represent 32% of the company's total revenues. After these contracts become regulated, Transelec's client base is expected to shift to 75% regulated and 25% contractual, although no material impacts are expected in revenues as contracts have a very similar structure under current regulation.

### RATING SENSITIVITIES

Future developments that may, individually or collectively, lead to a negative rating action include: the maintenance of leverage ratio at or above peak levels (6.5x); a change in the company's strategy that becomes more aggressive in terms of leverage, dividends, and capital expenditures; movements beyond the expected debt levels, liquidity, and operational earnings; or a change in the regulatory framework.

## Fitch Expects to Rate Transelec's Proposed Debt Issuance of Up to USD670MM 'BBB-'

Written by Australian Business

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Although unlikely in the near term given the company's capital structure profile, a positive rating action could be considered if the company decreases its leverage strategy.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

Applicable Criteria

-'Corporate Rating Methodology' (May 18, 2014).

Applicable Criteria and Related Research:

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage

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Additional Disclosure

Solicitation Status

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