

## RATING ACTION COMMENTARY

# Fitch Affirms EPM and Subsidiaries' at 'BB+'; Removes Negative Watch

Tue 11 Feb, 2025 - 2:02 p. m. ET

Fitch Ratings - Santiago/Bogota - 11 Feb 2025: Fitch Ratings has removed the Rating Watch Negative on Empresas Publicas de Medellin E.S.P.'s (EPM) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) and National Scale Long-Term rating. Fitch has affirmed the ratings at 'BB+' and 'AAA(col)', respectively. The Rating Outlook is Stable.

Fitch has also removed the RWN on EMP's subsidiaries; EPM Inversiones S.A., Empresa de Energía del Quindío S.A. E.S.P. (EDEQ), Centrales Eléctricas del Norte de Santander S.A. E.S.P. (CENS), Central Hidroeléctrica de Caldas S.A. E.S.P. (CHEC), Electrificadora de Santander S.A. E.S.P. (ESSA), Aguas Nacionales EPM S.A. E.S.P. (AGN) and Caribemar de la Costa S.A.S E.S.P. (Afinia). Fitch has affirmed the subsidiaries' national long-term ratings at 'AAA(col)' with a Stable Outlook and the national short-term ratings at 'F1+(col)'.

Fitch removed the RWN on Aguas Regionales EPM S.A. E.S.P.'s (AR) national long-term rating and affirmed it at 'AA-(col)' with a Stable Outlook and affirmed the national short-term rating at 'F1+(col)'. Fitch affirmed Empresas Varias de Medellin S.A. E.S.P. (Emvarias) national long-term rating at 'AA+(col)' with a Stable Outlook and affirmed the national short-term rating at 'F1+(col)'.

Today's actions follows the successful closure of the right tunnel of *Hidroituango* (Ituango's) blocked Auxiliary Diversion System in 2024. This enabled EPM to regain full control of the project, effectively mitigating the risk of major flooding downstream. With this risk eliminated, the project is now on a stable trajectory towards full completion by 2027, reinforcing EPM's operational stability and enhancing the project's overall risk profile. EPM's ratings reflect strong ownership and control by its owner, the city of Medellin (BB+/Stable).

The ratings of EPM Inversiones, EDEQ, CENS, CHEC, ESSA, Afinia and AGN are equalized with EPM's, given the existence of relevant legal documentation that link their ratings with that of their parent. The ratings also reflect strategic incentives evidenced in the importance of the energy distribution and water segments for EPM's business profile, as well as financial support provided to the subsidiaries. Operational incentives are high, given fully integrated management decisions and service branding. Strategic and operational incentives are lower for Emvarias and AR, given lower financial contribution and more moderate avoidance of costs for EPM. As a result, these subsidiaries are rated with a top-down approach.

## **KEY RATING DRIVERS**

**Ituango Risk Mitigated:** Fitch has removed EPM's ratings from RWN following the company's successful sealing of the right tunnel of the auxiliary diversion system at Ituango in 2024. Fitch originally placed the ratings on Watch due to a 2018 emergency that led to significant cost overruns and operational delays. The project reached 93.2% completion in October 2024, and four out of eight generation units were fully operational. Once all units are completed, Ituango's capacity will be 2.4GW, representing nearly 13% of the country's installed capacity.

**Strong Linkage with Parent:** EPM's ratings are linked to the City of Medellin's (BB+/Stable) ratings given the financial relevance of the company to Medellin, lack of effective documentation limiting dividend distribution, and the city's influence on the company's administration and operations. EPM's distributions contribute an average 20% or more of government revenues and a material 20%-30% of the city's investment budget.

**Strong Credit Profile:** Fitch assesses EPM's standalone credit profile (SCP) at 'bbb-' and has also removed its RWN, supported by operations in regulated businesses in mature markets, a robust and diversified asset base, moderate leverage (debt/EBITDA) and a strong liquidity position. Over 80% of EPM's EBITDA and capex pertain to the energy business (including electricity generation and distribution and natural gas distribution), with water and waste treatment segment accounting for the balance. The company commands market dominance within Colombia's generation and distribution matrices.

**Weak Credit Profile at Afinia:** EPM's subsidiary Afinia accounts for 12% of capex spending for the energy segment. Afinia's cash position has weakened materially over the past two years due to elevated energy and financing costs, accumulated pandemic-era balances from restricted tariff increases and government subsidy payment delays. The resulting USD520 million liability will drive negative EBITDA and operating cash flows at YE 2024. EPM has

extended a credit line of up to around USD280 million to support the subsidiary while maintaining a stable consolidated credit profile.

**Moderate Leverage Expected:** Fitch expects leverage to average 2.8x and net leverage to average 2.5x, coupled with negative free cash flow, reflecting new debt estimated at USD1.7 billion to fund an increased capex program, and annual EBITDA of around USD3 billion. The company will also address significant refinancing needs from bond maturities in 2027, reversing a three-year deleveraging trend.

**Moderate Regulatory Risk:** Fitch considers EPM's exposure to regulatory risk moderate following president Petro's attempt to control regulations of the country's public services. Fitch considers the company's risk exposure moderate due to EPM's concentration in regulated businesses. All regulatory changes must provide all market players with financial stability to operate properly and may not impose undue hardship.

## **DERIVATION SUMMARY**

EPM's ratings are linked to those of its owner, the city of Medellin (BB+/Stable), due to the latter's strong ownership and control over the company. The company's low business-risk profile is commensurate with that of Grupo Energia Bogota S.A. E.S.P.'s (BBB/Stable), Enel Americas S.A. (BBB+/Stable), AES Andes (BBB-/Stable), Enel Colombia S.A. E.S.P. (BBB/Stable) and Promigas (BBB-/Stable).

Fitch projects EPM's total leverage to remain slightly below 3.0x over the rating horizon, considering the financing needed for its investments plan, including demanding capex needs at Afnia, as well as covering working capital needs. This is in line with AES Andes' and Promigas' expected average gross leverage, that will remain between 3.5x and 4.0x. It is higher than Enel Colombia, which will remain below 2.0x.

EPM also compares well with electricity generation peers that have national ratings, namely Enel Colombia S.A. E.S.P., Isagen S.A. E.S.P. and Celsia Colombia S.A. E.S.P., all rated 'AAA(col)'. Similar to peers, EPM has an efficient portfolio of low-cost hydro assets. In 2024, EPM ranked first in installed capacity, ahead of Enel Colombia, and first in generation, ahead of Enel Colombia and Isagen, which were second and third, respectively.

## **KEY ASSUMPTIONS**

--Ituango units 5 through 8 come online in 2027 with no penalties or further significant delays;

- A generation load factor of about 55% over the rated horizon;
- Distribution tariffs increase at the expected rate of inflation between 2025 and 2028;
- COP2.3 trillion in uncharged revenue are recovered up until 2029;
- Dividend payout of 55% of previous year's net income;
- No divestments in 2025 or over the rating horizon;
- Total debt disbursements of COP25 trillion between 2025 and 2028;
- Capex of COP8.4 trillion in 2025, COP8.4 trillion in 2026, COP7.2 trillion in 2027 and COP5.7 trillion in 2028.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- A negative rating action on the City of Medellin's ratings;
- Sustained gross leverage above 3.5x.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

- Although unlikely, Fitch may consider a positive rating action if there is a positive rating action on the company's owner, the City of Medellin.

## **LIQUIDITY AND DEBT STRUCTURE**

As of 3Q24, EPM had a cash in hand and equivalents of COP2.7 trillion (~USD656 million) at the group level, and around COP672 billion (~USD160 million) of which was at the parent company. As of 3Q24, the company had consolidated debt of COP29.4 trillion (~USD7.1 billion), the majority of which was due in 2027. The company faces scheduled maturities of COP1.3 trillion and COP3.9 trillion in 2025 and 2026, respectively, which Fitch considers manageable.

Fitch estimates available cash on hand plus forecast CFO will cover more than 2x short-term maturities on average as of YE 2024. In 2024, EPM approved an intercompany loan for

Afinia, around USD116million of which has been disbursed, to support its weakened liquidity position. The repayment of this loan is tied to the recovery of Afinia's accumulated balances from unpaid government subsidies and delayed tariff increases.

## **ISSUER PROFILE**

EPM provides public utility services. It participates in the generation, transmission, distribution and commercialization of electricity, the distribution and commercialization of natural gas and the provision of water, sewage and waste management services.

## **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.

## **PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

EPM's ratings are capped by the ratings of its owner, the city of Medellin.

## **MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS**

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

## **ESG CONSIDERATIONS**

Empresas Publicas de Medellin E.S.P. (EPM) has an ESG Relevance Score of '4' for Governance Structure due to its nature as a majority government-owned entity and the inherent governance risk that arises with a dominant state shareholder, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Centrales Electricas del Norte de Santander S.A. E.S.P	Natl LT	AAA(col) Rating Outlook Stable		AAA(col) Rating Watch Negative
	Affirmed			
	Natl ST	F1+(col)	Affirmed	F1+(col)
Empresas Publicas de Medellin E.S.P. (EPM)	LT IDR	BB+ Rating Outlook Stable		BB+ Rating Watch Negative
	Affirmed			
	LC LT IDR	BB+ Rating Outlook Stable		BB+ Rating Watch Negative
	Affirmed			
	Natl LT	AAA(col) Rating Outlook Stable		AAA(col) Rating Watch Negative
	Affirmed			
senior unsecured	LT	BB+	Affirmed	BB+ Rating Watch Negative
senior unsecured	Natl LT	AAA(col)	Affirmed	AAA(col) Rating Watch Negative
Aguas Nacionales EPM S.A. E.S.P.	Natl LT	AAA(col) Rating Outlook Stable		AAA(col) Rating Watch Negative
	Affirmed			

	Natl ST	F1+(col)	Affirmed	F1+(col)
Empresa de Energia del Quindio S.A.E.S.P.	Natl LT	AAA(col)	Rating Outlook Stable	AAA(col) Rating Watch Negative
	Affirmed			

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub. 16 Jun 2023\)](#)

[Metodología de Vínculo de Calificación entre Matriz y Subsidiaria \(pub. 13 Jul 2023\)](#)

[Metodología de Calificación de Finanzas Corporativas \(pub. 22 Dec 2023\)](#)

[Government-Related Entities Rating Criteria \(pub. 09 Jul 2024\)](#)

[Metodología de Calificación de Entidades Relacionadas con el Gobierno \(pub. 23 Jul 2024\)](#)

[Corporate Rating Criteria \(pub. 06 Dec 2024\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 [\(1\)](#)

## **ADDITIONAL DISCLOSURES**

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Empresas Publicas de Medellin E.S.P. (EPM)

EU Endorsed, UK Endorsed

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