FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades EPM's IDR to 'BB'; Outlook Stable

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Fitch Ratings - Bogota - 22 Dec 2025: Fitch Ratings has downgraded Empresas Públicas de Medellín E.S.P.'s (EPM) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'BB' from 'BB+'. The Rating Outlook is Stable. Fitch also affirmed EPM's National Scale Long-Term rating at 'AAA(col)' and National Long-Term ratings for EPM Inversiones S.A., Aguas Nacionales EPM S.A. E.S.P. and Caribemar de la Costa S.A.S. E.S.P. (Afinia) at 'AAA(col) with a Stable Outlook. Their National Short-Term ratings were affirmed at 'F1+(col)'.

The IDRs reflects the downgrade of the City of Medellín's IDR to 'BB' and EPM's close linkage with its shareholder, including the company's financial relevance to the city, the lack of effective documentation limiting dividends and Medellín's influence over EPM's administration and operations. The ratings also reflect EPM's dominant position in Colombia's power generation and distribution sectors, moderate leverage and strong liquidity, given significant upcoming debt maturities.

KEY RATING DRIVERS

Strong Linkage with Parent: Under Fitch's Government-Related Entities and Parent and Subsidiary Linkage Rating Criteria, EPM's ratings are aligned with the City of Medellín ('BB'/Stable) given open ring-fencing, parent access and control, and EPM's strategic and financial importance to the municipality. Open ring-fencing is evidenced by the absence of effective documentation limiting dividend distributions, and the city's influence over EPM's administration and operations supports open access and control.

EPM's distributions account for 20% or more of municipal revenue and 20%-30% of the city's investment budget. These factors indicate strong linkage under GRE and PSL criteria and no basis for notching between EPM and the City's ratings.

Strong Credit Profile: Fitch assesses EPM's Standalone Credit Profile (SCP) at 'bb+', supported by operations in regulated businesses in mature markets, a robust and diversified asset base, moderate leverage (debt/EBITDA) and strong liquidity. Colombia, where the company is headquartered, is the main EBITDA contributor, accounting for 80% of consolidated EBITDA. More than 80% of EPM's EBITDA and capex pertain to the energy business (electricity generation and distribution and natural gas distribution), with water and waste treatment accounting for the balance.

EPM holds leading market positions in Colombia's generation and distribution sectors. The remaining four units of the Ituango project are expected to come online between 4Q27 and 1Q28, adding about 1.2GW of capacity, which should strengthen EPM's generation profile and support EBITDA growth.

Moderate Leverage Increase: Fitch expects EPM's consolidated leverage to rise moderately to an average of about 3.2x over the rating horizon, driven by negative FCF from elevated capex, with average intensity of roughly 16.5% of revenue. Capex will be concentrated in the distribution segment, including energy distribution company Afina, and the completion of the Hidroituango project, along with a dividend payout of 55% of the prior year's net income, and significant refinancing needs in 2026 and 2027. Despite these pressures, Fitch expects EBITDA-to-interest coverage to remain solid at above 3.5x over the rating horizon.

Cash Flows Support Liquidity: Fitch expects short-term liquidity relief at Afinia from the sale of its Tariff Option balance of about COP738 billion (USD190 million) and a smaller capex program in coming years. However, Fitch sees limited visibility for a recovery in Afinia's financial and operational performance. EPM expects incremental cash flow from the planned sale of UNE EPM Telecomunicaciones in 2026, supporting liquidity.

Conversely, EPM expects to begin annual payments to Sociedad Hidroituango S.A. E.S.P. (HI) under an arbitration conciliation that depends on the behavior of the variables defined for the calculation and settlement of HI's remuneration, estimated at about COP443 billion (USD116 million) for 2025. This will pressure cash flow but will be partially offset by dividends from HI and tax benefits.

Moderate Regulatory Risk: Fitch views EPM's regulatory risk as moderate, reflecting a concentration in regulated businesses in Colombia and recent initiatives by the government to influence public service regulation. Colombia's new power market rules reduce generators' commercial flexibility and could pressure profitability and leverage during dry periods. However, this risk is mitigated by EPM's conservative commercial policy, which keeps a high percentage of its energy purchases and sales under contracts. Regulatory changes are required to avoid causing hardship and to ensure financial stability for all market participants.

PEER ANALYSIS

EPM's ratings are linked to those of its owner, the city of Medellin, 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, Enel Americas S.A., AES Andes (BBB-/Stable), Enel Colombia S.A. E.S.P. and Promigas (BBB-/Rating Watch Negative).

Fitch projects EPM's total leverage to average around 3.2x over the rating horizon, considering the financing needed for its investments plan, including demanding capex needs at Afinia, 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.

FITCH'S KEY RATING-CASE ASSUMPTIONS

--Ituango units 5 through 8 come online in 2028 with no penalties or further significant delays;

--A generation load factor of about 51% over the rated horizon;

--Distribution tariffs increase at the expected rate of inflation between 2026 and 2029;

--Sale of Afinia's Tariff Option balance in 2025;

--Dividend payout of 55% of previous year's net income;

--UNE divestment in 2026;

--Total debt disbursements of around COP31 trillion between 2026 and 2029;

--Capex of COP7.7 trillion in 2026, COP9.6 trillion in 2027, COP6.6 trillion in 2028 and COP4.6 trillion in 2029.

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 4.0x.

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 3Q25, EPM had adequate liquidity with cash on hand and equivalents of COP3.6 trillion (USD945 million) at the group level, of which about COP1.3 trillion (USD338 million) was at the parent company. Consolidated debt was COP31.6 trillion (USD8.3 billion). Fitch expects liquidity pressures from significant upcoming maturities of USD1 billion in 2026 and USD2.1 billion in 2027 to be refinanced.

Fitch estimates that available cash plus forecast cash flow from operations (CFO) will cover more than two times short-term maturities on average as of YE 2025. Fitch foresees refinancing pressures, mitigated by EPM's proven access to financing through capital markets and bank debt.

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 Sector Forecasts Monitor 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 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 rating[s] 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
Empresas Publicas de Medellin E.S.P. (EPM)	LT IDR	BB Rating Outlook Stable Downgrade	BB+ Rating Outlook Negative
	LC LT IDR	BB Rating Outlook Stable Downgrade	BB+ Rating Outlook Negative

	Natl LT	AAA(col) Rating Outlook Stable	Affirmed	AAA(col) Rating Outlook Stable
senior unsecured	LT	BB	Downgrade	BB+
senior unsecured	Natl LT	AAA(col)	Affirmed	AAA(col)
Aguas Nacionales EPM S.A. E.S.P.	Natl LT	AAA(col) Rating Outlook Stable	Affirmed	AAA(col) Rating Outlook Stable
	Natl ST	F1+(col)	Affirmed	F1+(col)
Caribemar de la Costa SAS ESP	Natl LT	AAA(col) Rating Outlook Stable	Affirmed	AAA(col) Rating Outlook Stable
	Natl ST	F1+(col)	Affirmed	F1+(col)
EPM Inversiones S.A.	Natl LT	AAA(col) Rating Outlook Stable	Affirmed	AAA(col) Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 27 Jun 2025)

Corporate Rating Criteria (pub. 27 Jun 2025) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 27 Jun 2025)

Government-Related Entities Rating Criteria (pub. 18 Jul 2025)

Metodología de Calificación de Finanzas Corporativas (pub. 24 Jul 2025)

Metodología de Calificación de Entidades Relacionadas con el Gobierno (pub. 04 Sep 2025)

Metodología de Vínculo de Calificación entre Matriz y Subsidiaria (pub. 10 Sep 2025)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Empresas Publicas de Medellin E.S.P. (EPM)	EU Endorsed, UK Endorsed

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