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CREDIT OPINION
5 December 2022

Update

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RATINGS

Gas Natural de Lima y Callao S.A. (Calidda)

Domicile	Peru
Long Term Rating	Baa2
Type	Senior Unsecured - 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.

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Gas Natural de Lima y Callao S.A. (Calidda)

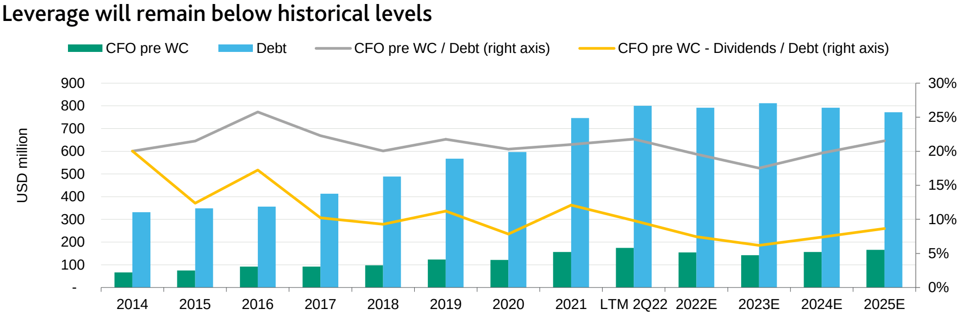
Update to credit analysis

Summary

Gas Natural de Lima y Callao S.A. (Calidda)'s (Baa2 stable) credit profile reflects the stable regulatory environment for the natural gas distribution sector in Peru (Baa1 stable), which provides for a strong business profile. The COVID-19 pandemic and lockdown measures caused a decline in the volumes and revenues in 2020. Nonetheless, during 2021 and the first half 2022 Calidda recorded a strong rebound in volume and revenues with figures above pre-pandemic levels.

The credit view is based on our expectation that leverage will decrease substantially in the upcoming years once the expansion phase is completed. In 2023, we expect credit metrics to remain below historical levels, with interest coverage and cash flow from operations (CFO) pre-working capital (WC)/debt around 5.6x and 18%, respectively. Despite the slight deterioration, these are still commensurate with a Baa2 rating. The company's higher expected dividend payments will also constrain its credit profile.

Exhibit 1
Leverage will remain below historical levels



Source: Moody's Financial Metrics™ and Moody's Investors Service estimates

Credit strengths

» Supportive regulatory environment evidenced by timely tariff adjustments

» Low-risk business profile, inherent to the natural gas distribution sector

Credit challenges

» Relatively high leverage although expected to decrease

» High dividend payments

» A significant portion of revenue coming from nonrecurring installation services

» High customer concentration, with power generators as the most important clients

Rating outlook

The stable rating outlook reflects our expectation that Calidda's key credit metrics will remain commensurate with the Baa2 rating, with debt/EBITDA of 3.6x, CFO pre-WC/debt of around 20% and interest coverage at or above 6.4x

Factors that could lead to an upgrade

We could upgrade Calidda's rating if the company is able to record more robust credit metrics that offset the risks related to the still-important contribution from nonrecurring installation revenue, concentration of power generators in the off-take base and single-market concentration. Specifically, upward rating pressure would arise if its:

» Interest coverage ratio exceeds 6.5x on a sustained basis

» CFO pre-WC/debt exceeds 25% on a sustained basis

» (CFO pre-WC - dividends)/debt is above 18% on a sustained basis

Factors that could lead to a downgrade

We could lower Calidda's rating if its business fundamentals deteriorate or the regulatory environment weakens, leading to a perception of lower credit metrics. Specifically, downward rating pressure would arise if its:

» interest coverage ratio is below 5.0x on a sustained basis

» CFO pre-WC/debt is below 18% on a sustained basis

» (CFO pre-WC - dividends)/debt is below 7% on a sustained basis

Key indicators

Exhibit 2
Gas Natural de Lima y Callao S.A. (Calidda)

	2015	2016	2017	2018	2019	2020	2021	LTM (06/22)
CFO pre-WC + Interest / Interest	5.9x	6.7x	6.6x	6.3x	6.4x	5.7x	7.3x	7.1x
CFO pre-WC / Debt	21.5%	25.8%	22.3%	20.0%	21.3%	20.3%	21.0%	21.8%
CFO pre-WC – Dividends / Debt	12.4%	17.2%	10.2%	9.7%	10.6%	7.8%	12.4%	6.9%
Debt / Capitalization	55.8%	54.7%	57.6%	60.5%	62.4%	63.2%	66.8%	69.6%

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

Profile

Headquartered in Lima, Gas Natural de Lima y Callao S.A. started commercial operations in 2004 in the Department of Lima and the Constitutional Province of Callao. It is currently the largest natural gas distribution company in Peru, serving around 1,300 customers as of year-end 2021. The company operates under a 33-year Build, Operate, Own and Transfer concession agreement and its May 2010 Addendum, expiring in 2033, although subject to potential extensions. The company's tariffs are subject to a purview of the Peruvian regulatory body, Organismo Supervisor de la Inversión en Energía y Mineria (OSINERGMIN), which also monitors its pre-agreed four-year capital spending program.

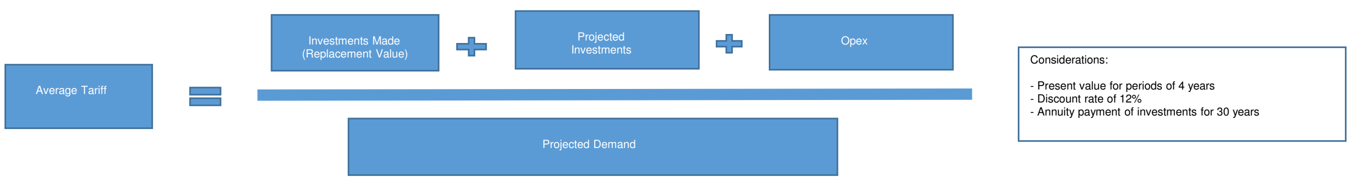
The company's majority shareholder is Grupo Energia Bogota S.A. E.S.P. (Baa2 stable) with an indirect and direct ownership stake of 66.2%, given its 15.2% equity interest in Calidda's minority shareholder, Promigas S.A. E.S.P. (Baa3 stable), which holds a direct 40% interest.

Detailed credit considerations

Strong regulatory framework

The company's revenue is subject to a regulatory framework that establishes tariffs that provide for a 12% return on a 30-year annuity on the investments made (through a replacement value analysis) and the expected capital investment plan. The regulatory framework takes into account the operating expenses and the projected volume of demand. The final tariff per individual consumer is weighted by the projected consumption. Tariffs for the 2022-2026 period have been applied since last May based on a 12% return on investments.

Exhibit 3
Inputs to the tariff review process



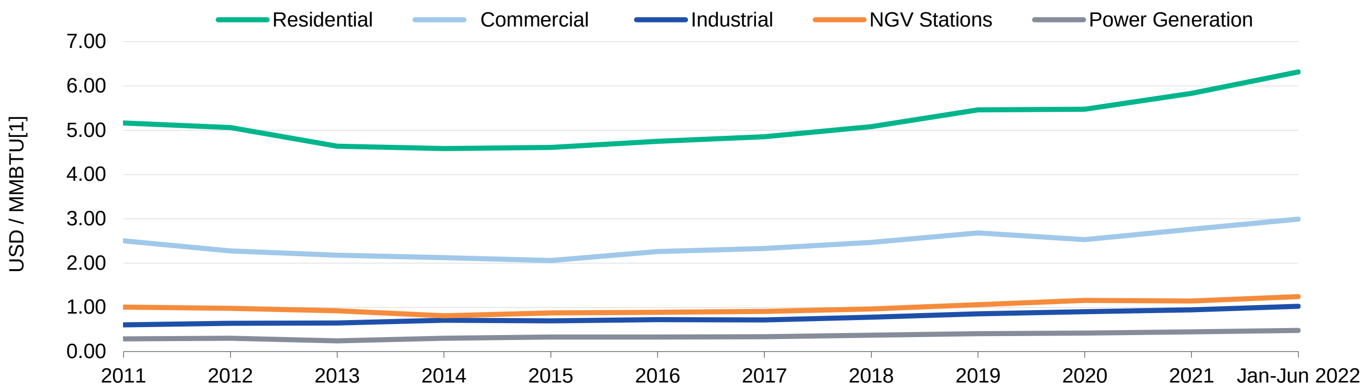
Source: Calidda

The framework effectively provides protection against fluctuations in operating and capital costs on a quarterly basis, and could trigger an extraordinary mid-cycle tariff review in case the adjustments lead to a 13.7% variation compared with the plan established in the latest tariff review.

The regulatory framework is based on a national level. The concession was granted to Calidda by the Ministry of Energy and Mining, and is regulated by OSINERGMIN. Other agencies involved in Calidda's day-to-day operations include the underlying municipalities within the metropolitan region of Lima for the licenses and approvals to conduct construction works, environmental agencies, and the Ministry of Culture in case of archaeological findings.

The framework has been applied since 2010, having passed through three tariff review processes, with evident improvements in the smoothness of the interaction between the company and the regulator. The timely conclusion of the process in May 7, 2022 for the 2022-26 cycle reflects the robustness of the framework, particularly in light of the persistent political tensions and infighting.

Exhibit 4
Average historical distribution tariffs

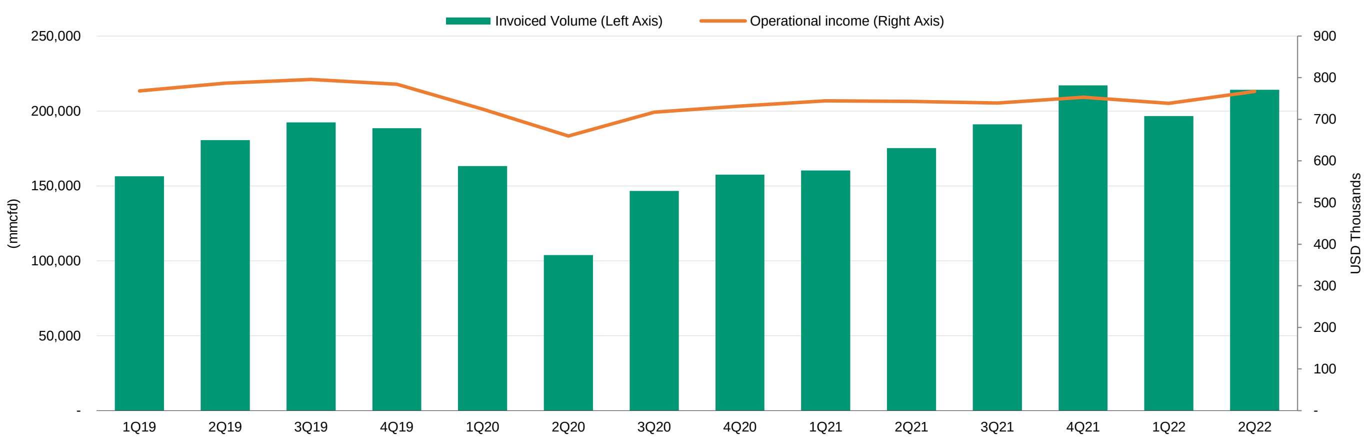


[1] Million British Thermal Units
Source: Calidda

Volume and revenue surpassed 2019 levels in H1 2022 after being disrupted in 2020

As a result of the coronavirus pandemic, the Government of Peru implemented strict economic lockdown measures in mid-March 2020, which remained in place until mid-May, after which a plan of gradual reopening was put in place. During the lockdown, natural gas distribution remained 100% operational with uninterrupted service. Nonetheless, with several industries closed and the overall shutdown of commercial operations, volume and revenue declined. In April 2020, invoiced volume and revenue to regulated clients reached 40% and 65%, respectively, of pre-lockdown levels. At the same time, the company implemented cost-saving measures and temporarily halted investments in network expansion. Volume and revenue strongly picked up in the first half of 2021, and surpassed the pre-pandemic levels by Q4 2021 and remained above pre-pandemic levels for the first two quarters of 2022, respectively.

Exhibit 5
Calidda's volumes and income remain strong



MMCFD = Million cubic feet per day.
Source: Calidda

Foreign-exchange mismatch addressed by hedging policy

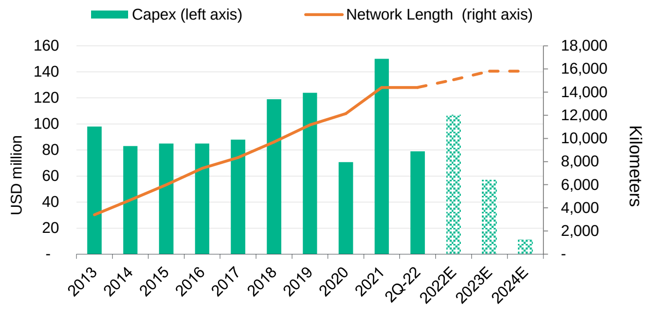
The underlying tariff is denominated in US dollars. However, monthly invoices are sent to the underlying consumers in local currency at the equivalent exchange rate. There is an average 30-day mismatch between invoice and payments. This mismatch is addressed by maintaining a rolling hedging program using nondelivery call forwards. The bulk of the company's costs constitute the supplied natural gas and associated transportation costs, which are also denominated in US dollars. Local-currency costs are related to salaries, installation facilities and other administrative expenses, and represent less than 25% of total costs. Roughly 70% of the company's indebtedness is denominated in US dollars.

Adequate track record of capital spending execution resulting in business growth

Calidda's network continues to grow rapidly and extends to the metropolitan region of Lima, reaching a total 14,407 kilometers (km) of underground pipelines as of 2021. The company's network is relatively new, with the overall network practically doubling in size over the past five years. We expect the company to continue to grow, although at a slower pace. The current business plan factors in a client growth at a compound annual growth rate of 3% in 2021-26.

Exhibit 6

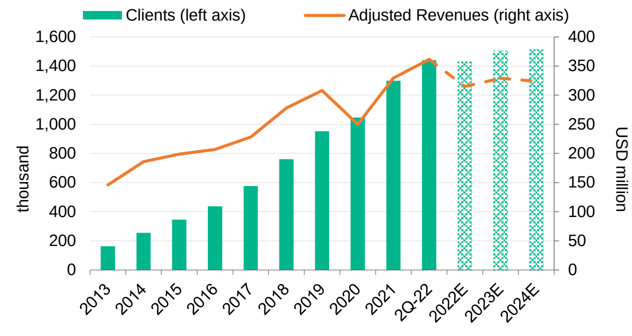
Capital investments to sustain growth in network length



Source: Calidda

Exhibit 7

Adjusted revenue as a result of network expansion

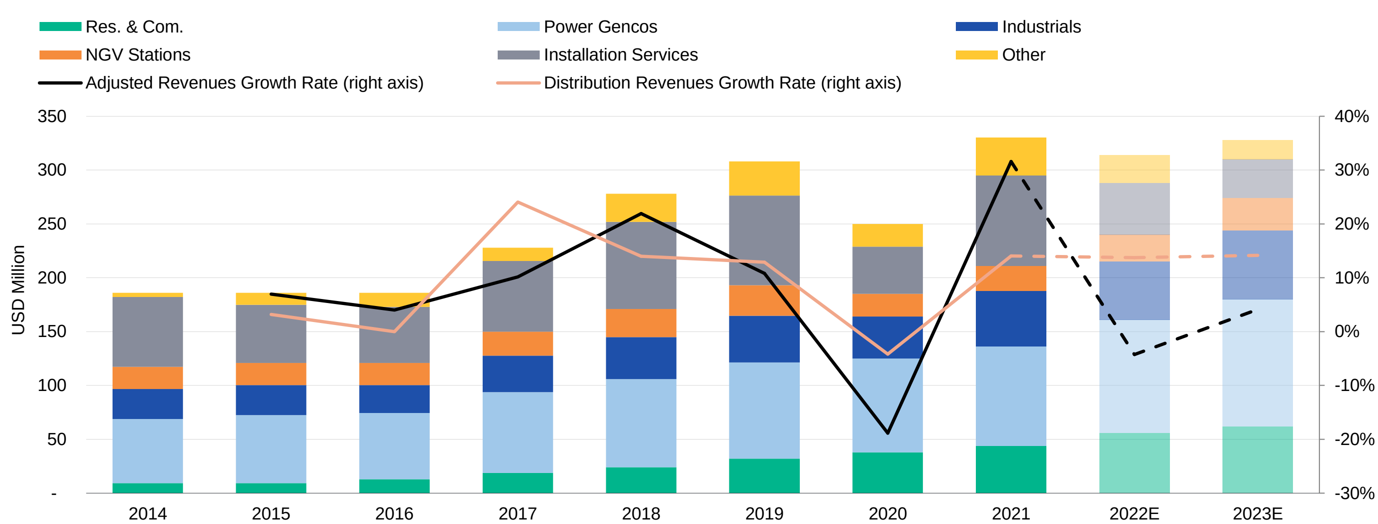


Source: Calidda

As the company executes its capital spending plan, the number of potential clients grows. Adjusted revenue, which includes the one-off installation revenue, is directly related to network expansion and is more volatile. Distribution revenue is a better proxy for long-term regulated revenue and is likely to continue to grow at high rates, driven by residential, industrial and natural gas vehicle (NGV) station consumption.

Exhibit 8

Distribution revenue to continue to grow at high levels after the pandemic; installation services will shrink

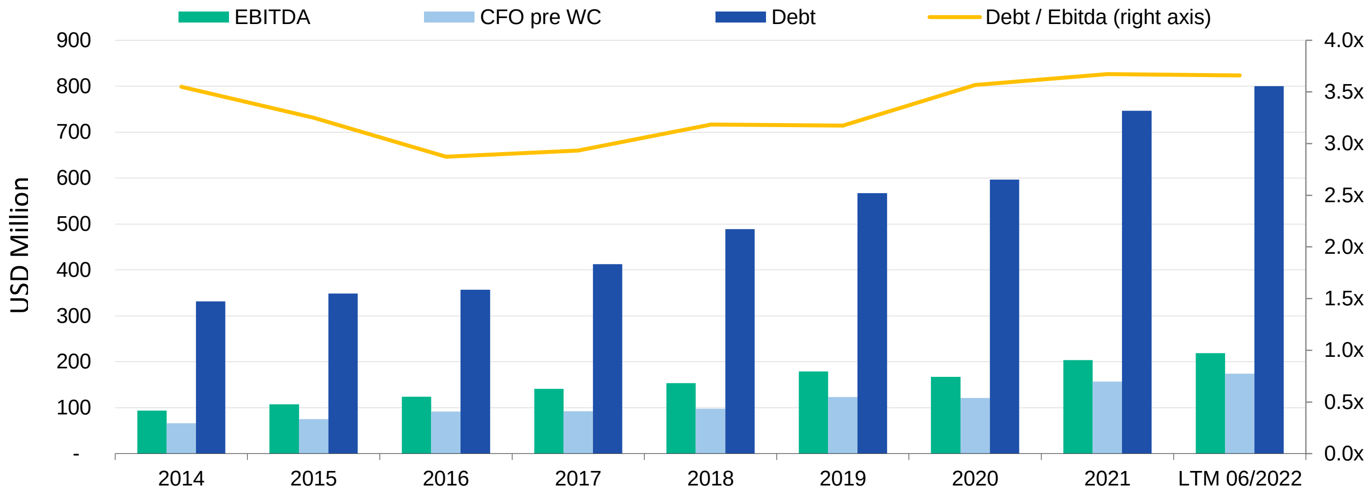


Source: Calidda

Temporary deterioration in credit metrics, with a rebound to stronger levels in 2022

The company's credit metrics suffered a sharp deterioration in 2020 as a result of lower demand amid the strict lockdown measures imposed by the government. We expect leverage to improve slightly in 2022 but to remain above the levels registered between 2015 and 2019, because of a more aggressive capital spending program and higher dividend payments. We expect the company's financial policy to remain flexible, to the extent that the company can reduce dividend payments to avoid substantial increases in leverage.

Exhibit 9
Strong cash generation tempered by a higher leverage



Sources: Calidda, Moody's Financial Metrics™ and Moody's Investors Service estimates

ESG considerations

Gas Natural de Lima y Callao S.A. (Calidda)'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 10
ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Gas Natural de Lima y Callao S.A.'s (Calidda) ESG Credit Impact Score is moderately negative (**CIS-3**), indicating that its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. Its score reflects moderately negative exposure to environmental, social and governance risks.

Exhibit 11
ESG Issuer Profile Scores

ENVIRONMENTAL
E-3
Moderately Negative

SOCIAL
S-3
Moderately Negative

GOVERNANCE
G-3
Moderately Negative

Source: Moody's Investors Service

Environmental

Calidda's exposure to environmental risks is moderate (**E-3** issuer profile score) mainly driven by its moderately negative exposure to carbon transition risks in the long term. Notwithstanding, we recognize that natural gas is less polluting than the alternatives broadly used today in Peru, including liquid petroleum gas (LPG), industrial oil or coal. Our score also incorporates neutral to low exposure to physical climate, water management, waste and pollution and natural capital risks.

Social

Exposure to social risks is moderately negative (**S-3** issuer profile score) reflecting the moderate risk to demographics and societal trends that increase public concern over affordability issues in the longer term that could lead to adverse regulatory political intervention. This exposure is partially mitigated since natural gas use is currently developing in the Peruvian market and typically results in savings for households with respect with LPG, still commonly used, Our issuer profile score also incorporates neutral to low exposure to customer relations, human capital, health and safety, and responsible production related risks.

Governance

Governance risk is moderately negative (**G-3** issuer profile score) due to moderate exposures to financial strategy and risk management; and board structure, policies and procedures. Our governance score also considers a neutral to low exposure to management credibility and track record, organizational structure as well as internal controls risks.

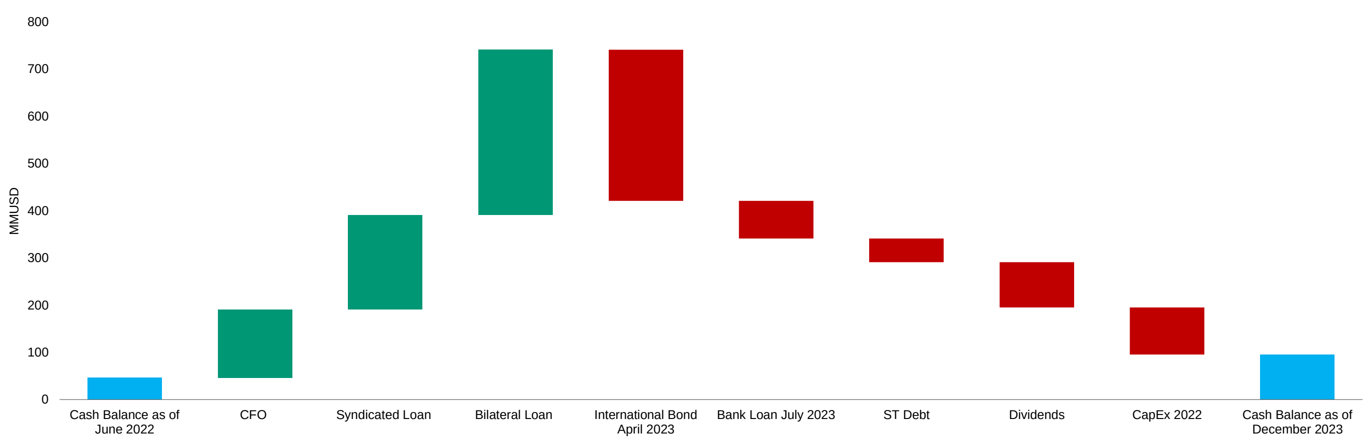
ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

As of June 2022, Calidda had a low cash balance of $46 million and current short-term debt maturities of $24 million. The company maintains uncommitted credit facilities in the amount of $190 million. In addition, the company expects to record cash flow from operations of $145 million which also contributes to its liquidity position.

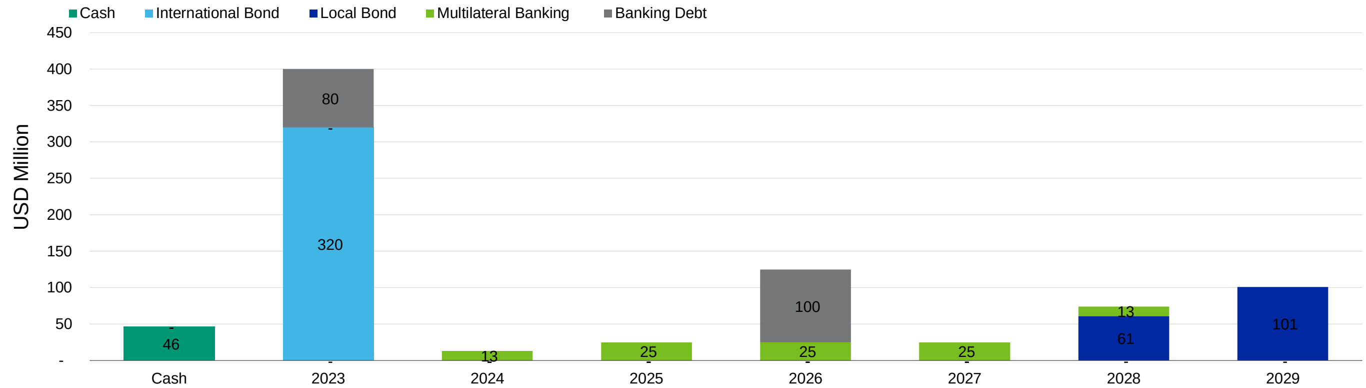
For 2023, the company has planned roughly $100 million of capital spending and faces approximately $450 million in debt maturities. The $550 million debt needs will be financed with a $200 million bilateral loan and $350 million syndicated loan that were contracted in 2021.

Exhibit 12
Cash walk forward through December 2023



Source: Moody´s Investors Service

Exhibit 13
Amortization profile



Source: Calidda

Methodology and scorecard

Calidda is assessed on the basis of our Regulated Electric and Gas Utilities rating methodology, published in June 2017. The scorecard-indicated outcome based on the financials for the 12 months that ended June 2022 is Baa3, which is one notch below the assigned rating of Baa2. The difference is explained by a high capitalization rate, which is expected to improve as debt financing for capital investments is reduced, and high dividend distributions. These credit weaknesses are partially mitigated by the stability of the company revenues.

Exhibit 14
Rating factors
Gas Natural Lima y Callao S.A.

Regulated Electric and Gas Utilities Industry [1][2]	LTM Ending June 30, 2022		Moody's 12-18 Month Forward View As of 11/04/2022	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Baa	Baa	Baa	Baa
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.4x	Aa	5.7x - 6.2x	A-Aa
b) CFO pre-WC / Debt (3 Year Avg)	20.4%	Baa	18% - 20%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	8.2%	Ba	6% - 7%	Ba
d) Debt / Capitalization (3 Year Avg)	68.1%	B	68.4% - 68.5%	B
Rating:				
Scorecard Indicated Outcome Before Notching Adjustment		Baa3		Baa3
HoldCo Structural Subordination Notching		-		-
a) Scorecard Indicated Outcome		Baa3		Baa3
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2022(L).
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 15

Category	Moody's Rating
GAS NATURAL DE LIMA Y CALLAO S.A. (CALIDDA)	
Outlook	Stable
Senior Unsecured	Baa2
PARENT: GRUPO ENERGIA BOGOTA S.A. E.S.P.	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2

Source: Moody's Investors Service

REPORT NUMBER 1344283

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