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CREDIT OPINION
2 January 2024

Update

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RATINGS

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

Domicile	Peru
Long Term Rating	Baa2
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.

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

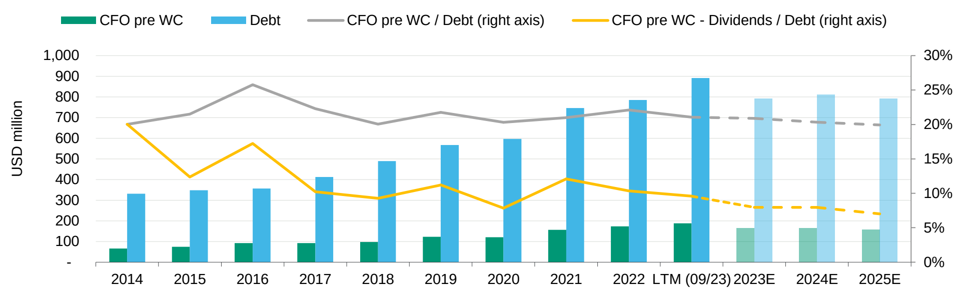
Update to credit analysis

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 negative), which provides for a strong business profile.

The credit view is based on our expectation that leverage will remain stable once the expansion phase is completed. In 2023-25, we expect credit metrics to remain slightly below historical levels, with interest coverage and cash flow from operations (CFO) preworking capital (WC)/debt around 5.5x and 20%, on average. The company's high dividend payments and relatively high debt-to-capitalization ratio constrain its credit profile.

Exhibit 1
Leverage will remain below historical levels



Source: Moody's Financial Metrics™ and Calidda

Credit strengths

» Supportive regulatory environment, illustrated by timely tariff adjustments

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

Credit challenges

» Relatively high leverage

» High dividend payments

» 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 close to historical averages in the next 12-18 months, with debt-to-capitalization of less than 70%, CFO pre-WC/debt of close to 18% and interest coverage at or above 5.5x.

Factors that could lead to an upgrade

We could upgrade Calidda's rating if the company is able to record more robust credit metrics excluding non recurring installation revenue. An upgrade would also require improvement in the off-take base. 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 remains above 18% on a sustained basis

Factors that could lead to a downgrade

We could lower Calidda's rating if its business fundamentals deteriorate, evidenced by a weaker offtake base or unfavorable regulatory decisions leading to 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)

	2018	2019	2020	2021	2022	LTM (09/23)
CFO pre-WC + Interest / Interest	6.3x	6.5x	5.7x	7.3x	5.8x	6.2x
CFO pre-WC / Debt	20.0%	21.8%	20.3%	21.0%	22.1%	21.1%
CFO pre-WC – Dividends / Debt	9.3%	11.2%	7.8%	12.4%	10.3%	9.6%
Debt / Capitalization	60.5%	62.4%	63.2%	66.8%	63.8%	67.0%

[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. (Calidda) 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 1,560 customers as of year-end 2022. 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 the 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.

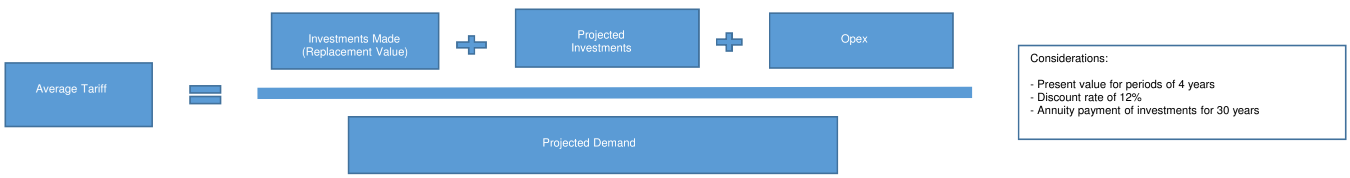
The company's majority shareholder is Grupo Energia Bogota S.A. E.S.P. (Baa2 negative) with a direct ownership stake of 60% in Calidda and an indirect ownership of 66.2% given its 15.2% equity interest through the minority shareholder, Promigas S.A. E.S.P. (Baa3 stable), which holds a direct 40% interest in Calidda.

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 2022-26 period have been applied since last May based on a 12% return on investments.

Exhibit 3
Inputs to the tariff review process



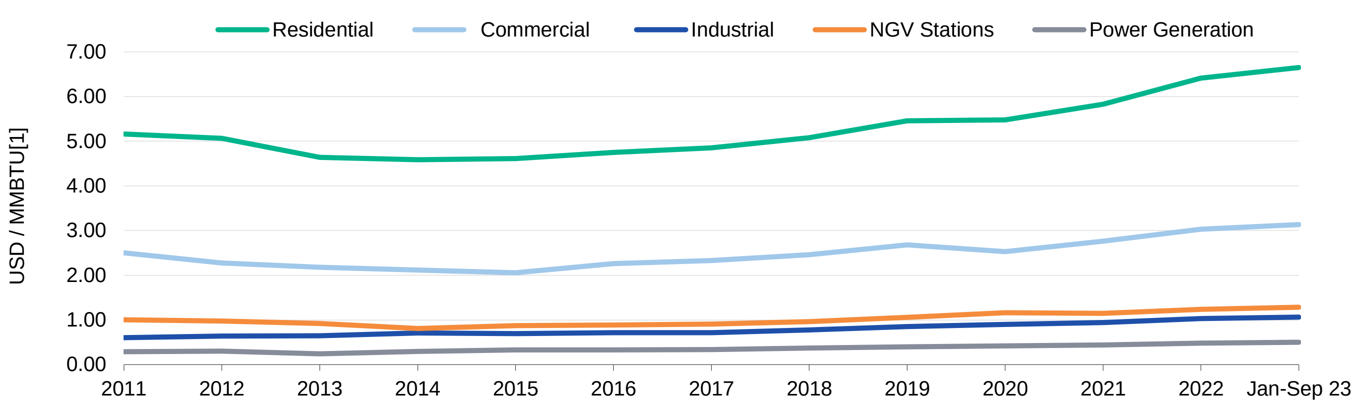
Source: Calidda

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 on 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

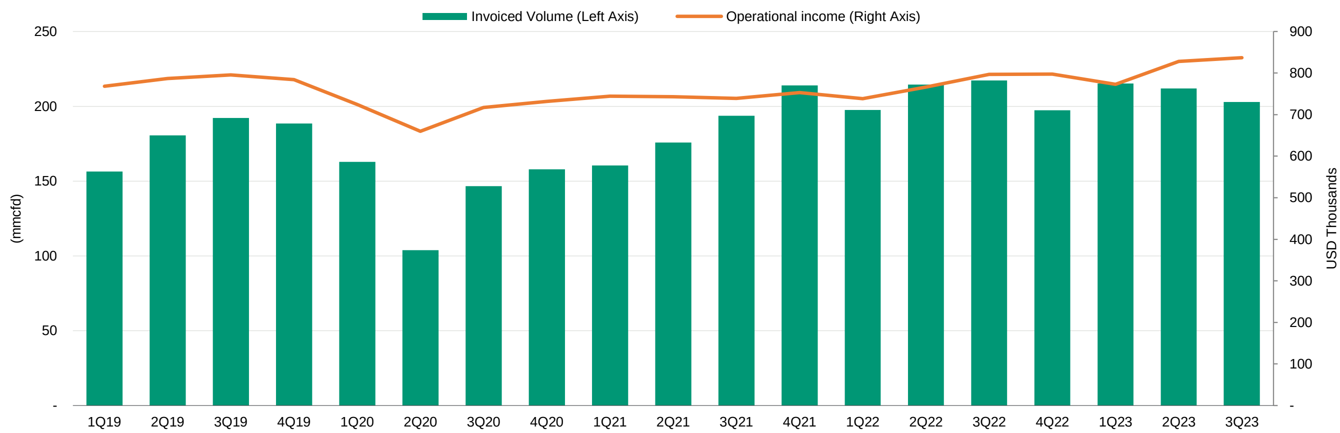


[1] Million British thermal units.
Source: Calidda

Volume and revenue expected to remain stable

As a result of the 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. Revenue was impacted during the lockdown but have since recovered. The company also implemented cost-saving measures to balance lower volumes. Despite the political environment in Peru, Calidda invoices roughly 200 million cubic feet per day on average, per quarter, levels that are higher than pre-pandemic levels. Going forward, we expect volume will track Peru's economic growth.

Exhibit 5
Calidda's volume and income remain strong



MMCFD = Million cubic feet per day.
Source: Calidda

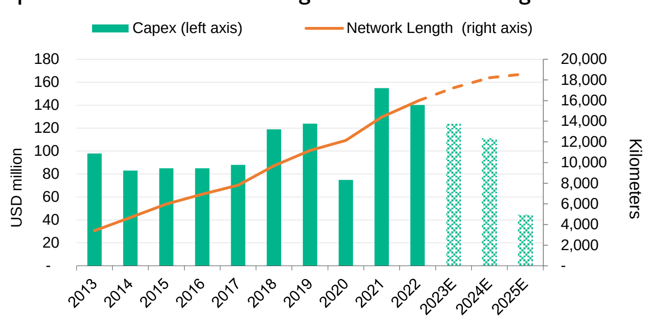
Foreign-exchange mismatch addressed by hedging policy

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 comprise 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. Around 70% of the company's debt is denominated in US dollars.

Adequate track record of capital spending execution, resulting in business growth

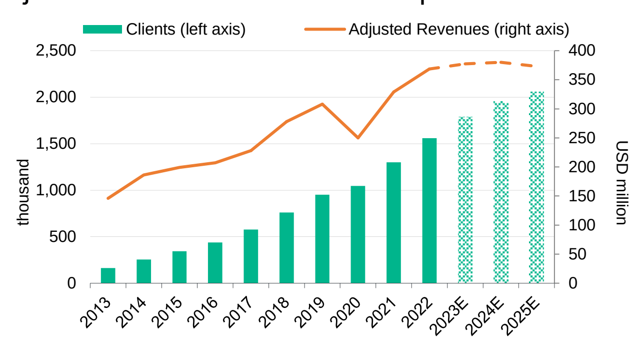
Calidda's network continues to grow rapidly and extends to the metropolitan region of Lima, reaching a total of 15,961 kilometers (km) of underground pipelines as of year-end 2022. The company's network is relatively new, with the overall network practically doubling in size over the past five years. As the network reaches more of Lima's population, capex requirements will be lower.

Exhibit 6
Capital investments to sustain growth in network length



Source: Calidda

Exhibit 7
Adjusted revenue as a result of network expansion



Source: Calidda

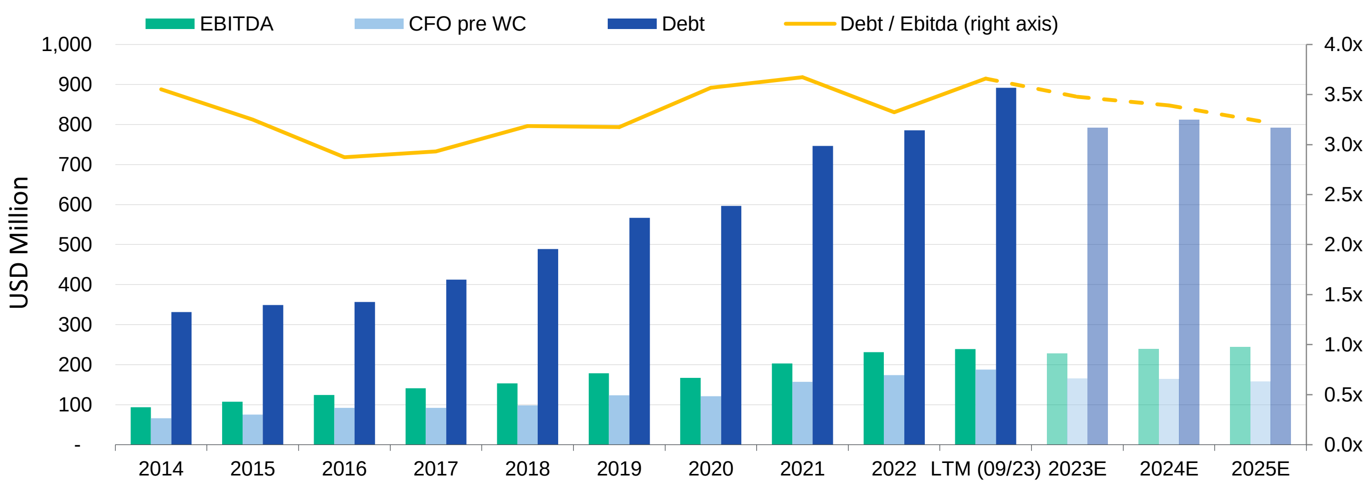
As the company executes its capital spending plan, the number of potential clients grows. Adjusted revenue, which includes the one-off installation revenue, is directly related to network expansion and is more volatile. Distribution revenue is a better proxy for long-term regulated revenue and is likely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

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

The company's credit metrics deteriorated in 2020 as a result of lower demand amid the strict lockdown measures imposed by the government. Metrics recovered strongly in 2021 but leverage driven by capital expenditures and dividend distributions led to metrics in 2022 and 2023 to remain close to those registered between 2015 and 2019. We expect Calidda's financial policy to remain flexible, and consider that the company can reduce dividend payments to avoid a substantial increase in leverage.

Exhibit 8

Strong cash generation tempered by higher leverage



Source: 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 CIS-3

Exhibit 9

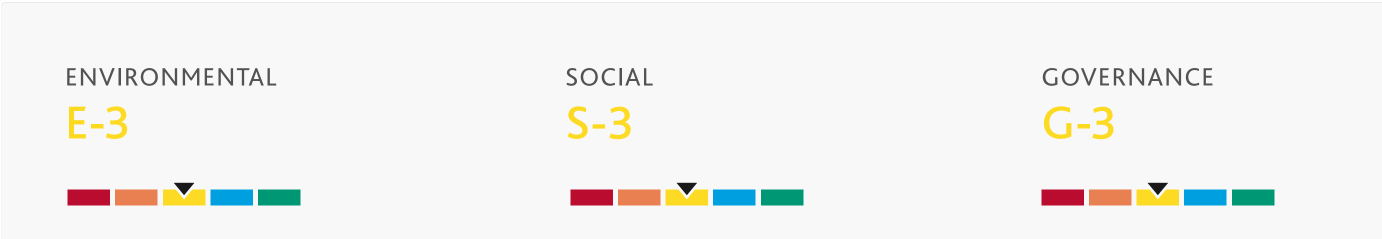
ESG credit impact score

ESG considerations have a limited impact on the current rating, with potential for greater negative impact over time.

Source: Moody's Investors Service

Gas Natural de Lima y Callao S.A.'s (Calidda) ESG Credit Impact Score (**CIS-3**) indicates 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 moderate exposure to environmental, social and governance risks.

Exhibit 10
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

Calidda's exposure to environmental risks is moderate (**E-3** issuer profile score) mainly driven by its 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 low exposures to physical climate, water management, waste and pollution and natural capital risks.

Social

Exposure to social risks (**S-3** issuer profile score) reflects the moderate exposure 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 low exposures to customer relations, human capital, health and safety, and responsible production related risks.

Governance

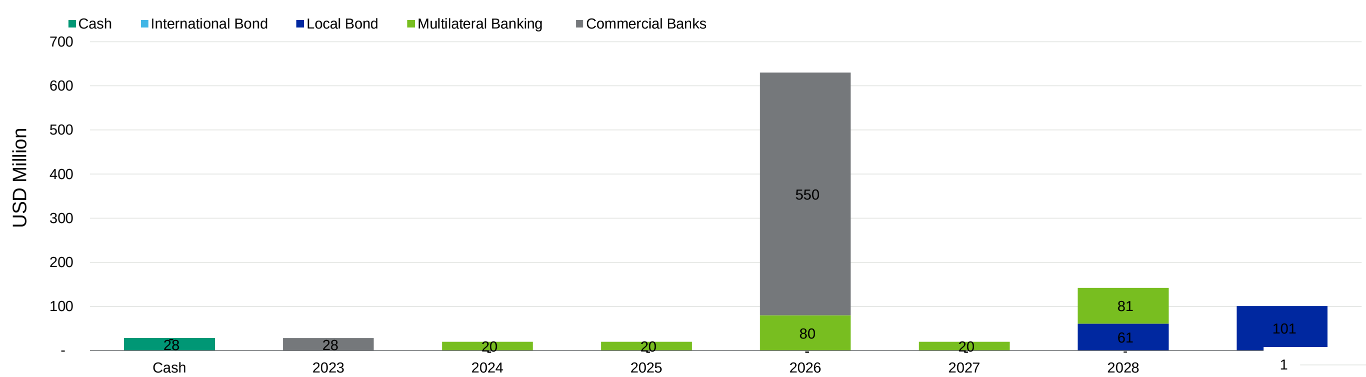
Governance risk exposure (**G-3** issuer profile score) is driven by exposures to financial strategy and risk management and board structure, policies and procedures. Our governance score also considers low exposures to management credibility and track record, organizational structure as well as internal 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

Liquidity is currently adequate. During 2023, Calidda successfully extended about $400 million in debt maturities, replacing an international bond with commercial banking loans due in 2026. As of September 2023, Calidda had a low cash balance of $28 million. For 2024, the company has planned around $145 million of capital spending and faces around $28 million in maturities.

Exhibit 11
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 in September 2023 is Baa3, which is one notch below the assigned rating of Baa2. The difference is explained by a high capitalization rate, which partially reflects high debt balances due to capital investments and relatively low equity, in part due to dividend distributions. These credit weaknesses are mitigated by the stability of the company's revenue due to the regulated nature of the business.

Exhibit 12

Rating factors

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

Regulated Electric and Gas Utilities Industry [1][2]	LTM Ending Sep 30, 2023		Moody's 12-18 Month Forward View As of 12/11/2023 [3]	
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)	6.3x	Aa	5.6x	A
b) CFO pre-WC / Debt (3 Year Avg)	20.8%	Baa	17.7	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	6.8%	Ba	6.9%	Ba
d) Debt / Capitalization (3 Year Avg)	66.9%	B	69.9%	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 9/30/2023(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 13

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

Source: Moody's Investors Service

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