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CREDIT OPINION
27 February 2024

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RATINGS

AES Panama Generation Holdings S. de R.L.

Domicile	Panama
Long Term Rating	Baa3
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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AES Panama Generation Holdings S. de R.L.

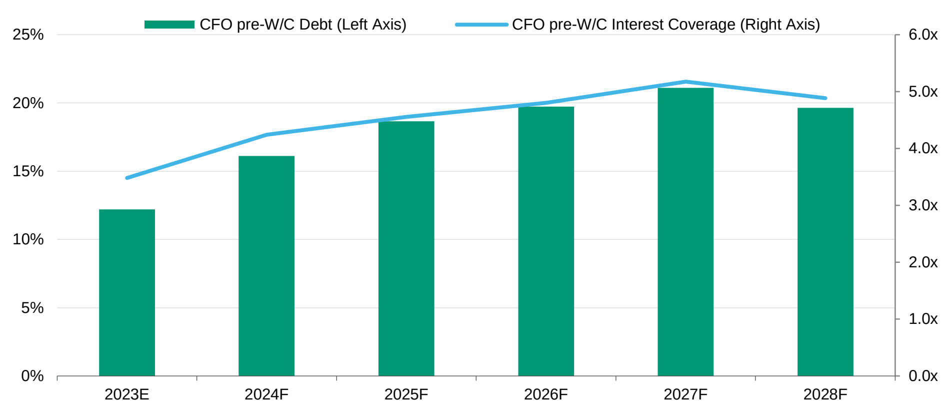
Update to credit analysis following rating affirmation

Summary

The Baa3 rating assigned to AES Panama Generation Holdings S. de R.L.'s (AES PGH) $1,380 million senior secured partially amortizing notes (due 2030) reflects the company's strategic, competitive and highly contracted portfolio of generation assets in Panama. More than half of AES PGH's portfolio consists of hydropower generation assets, and the rest includes natural gas, wind and solar assets, partially mitigating exposure to hydro volatility. Most of the company's energy capacity is contracted with three partially government-owned distribution companies (DISCOs) in Panama (Baa3 stable), which also supports AES PGH's credit quality.

AES PGH's high leverage constrains the rating, particularly in the first few years of our projection (see Exhibit 1). As of the 12 months that ended September 2023, AES PGH reported cash from operations pre-working capital (CFO pre-WC) + interest/interest of 3.5x and CFO pre-WC/debt of 15.1%. Key financial metrics will improve in 2024 after a temporary deterioration due to weak hydrological conditions driven by El Niño weather phenomenon.

Exhibit 1
Improvement in hydrological conditions and new projects expected to improve financial performance



Sources: AES PGH and Moody's Investors Service

Credit strengths

- AES PGH's portfolio is strategic, competitive and highly contracted portfolio of energy assets.
- Solar, wind and natural gas generation partially mitigates its exposure to low hydro generation.
- The AES Corporation (Baa3 stable) is an experienced sponsor with a long track record in Panama and Latin America.
- Credit enhancements include a $50 million liquidity facility, additional debt and dividend lockups.

Credit challenges

- AES PGH's high leverage and refinancing risk are high.
- Dividend distributions of the largest operating company, AES Panama, are subject to the approval of the Government of Panama, its majority owner.

Rating outlook

The rating outlook is stable, reflecting our view that AES PGH will maintain stable and visible cash flow for the next 12-18 months. Specifically, we expect its Cash from Operations Pre-Working Capital (CFO Pre-W/C) /debt and interest coverage ratio to average around 17% and 4.0x, respectively, throughout the life of the transaction.

Factors that could lead to an upgrade

We could upgrade AES PGH's ratings if the company reduces its debt balance or increases its cash flow, such that its CFO pre-WC/debt exceeds 20% and interest coverage ratio remains at or above 4.5x on a sustained basis.

Factors that could lead to a downgrade

We could downgrade AES PGH's rating if the company records funds from operations/debt below 15% or if the interest coverage ratio remains below 3.0x on a sustained basis. Projected debt/EBITDA above 4.0x on a sustained basis could also strain the ratings. The rating could also face downward pressure following a downgrade of the Government of Panama, given its strong linkages with the country's economy, and the government-owned distribution companies.

Key indicators

Exhibit 2

AES Panama Generation Holdings S. de R.L.

	2021	2022	LTM (09/23)	2023F	2024F
(CFO Pre-W/C + Interest) / Interest Expense	3.1x	5.3x	3.5x	3.5x	4.2x
CFO pre-W/C Debt	12%	26%	15%	12%	16%
RCF / Debt	9%	11%	-2%	3%	3%

Sources: Combined financial statements and Moody's Investors Service

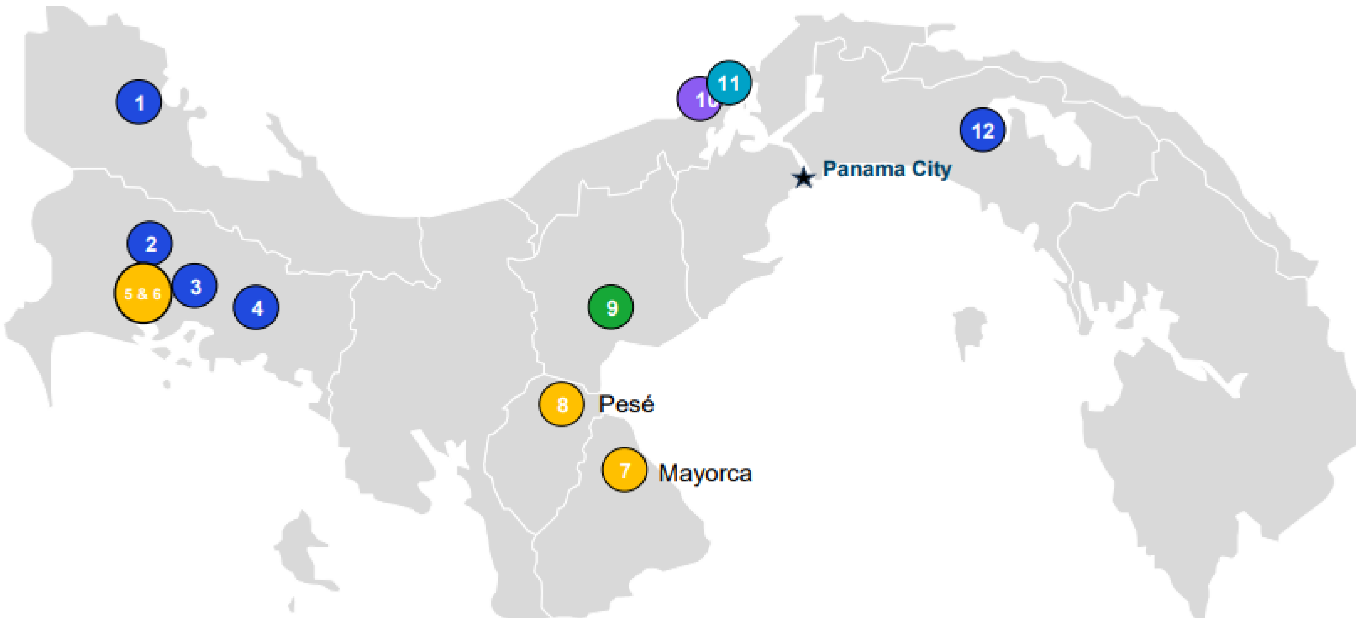
Profile

AES Global Power Holdings is a subsidiary of AES Corporation (Baa3 stable) that operates a large portfolio of power generation and LNG assets in Panama. AES Global Power Holdings is the largest power supplier in Panama (a 41% market share as of December 2023) with 1,181 megawatts (MW) of installed capacity and $2,517 million in assets as of September 2023. The various assets of the AES group in the country are operated under four entities (together, the “OpCos” or the “Portfolio”): AES Changuinola, AES Panamá S.R.L., and Costa Norte LNG Terminal and Gas Natural Atlantico (together “AES Colón”).

The company operates 12 power plants across the country:

- Bayano: A hydroelectric power plant with an installed capacity of 260 MW
- Chiriqui: Three hydroelectric power plants with total installed capacity of 222 MW
- Changuinola: A hydroelectric power plant with an installed capacity of 223 MW
- Colón: A natural gas power plant with an installed capacity of 381 MW and an LNG terminal
- Cedro and Caoba: Two solar farms with total installed capacity of 10 MW
- Mayorca: A solar farm with an installed capacity of 10 MW
- Penonome: A wind plant with an installed capacity of 55 MW
- Pesé: A solar farm with an installed capacity of 10 MW

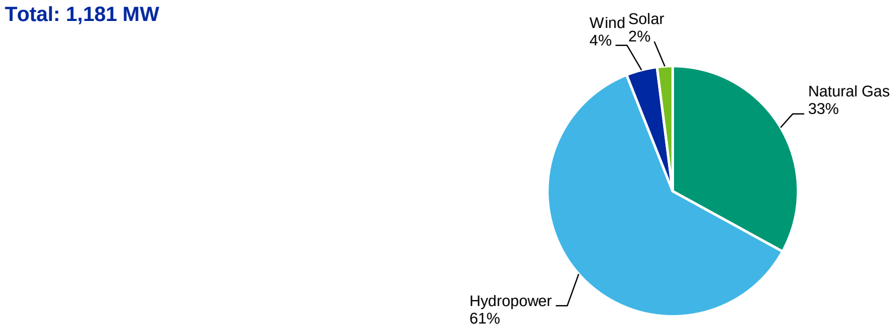
Exhibit 3
AES GPH's portfolio



1. Changuinola	2. Chiriquí – La Estrella	3. Chiriquí – Los Valles	4. Chiriquí – Estí
5. Cedro	6. Caoba	7. Mayorca	8. Pesé
9. Penonemé I	10. Colón – Power Plant	11. Colón – LNG Terminal	12. Bayano

Source: AES Panama

Exhibit 4
Installed capacity by fuel type



As of September 2023.
Source: AES Panama

Organizational structure

AES PGH is an entity that was created with the sole purpose of issuing consolidated debt of the operating companies of AES Global Power Holdings (AES GPH) in Panama (see Exhibit 4).

In 2020, AES PGH issued a total of $1,485 million of senior secured debt, which is supported by the consolidated cash flow of the portfolio of power generation and LNG assets in Panama, operated under four entities. Total debt was comprised by the $1,380 million Reg S/144A senior secured notes (maturing in 2030) and a three-year fully amortizing $105 million senior secured loan due 2023. At the time of the issuance, the AES PGH's Notes and a $105 million Term Loan due 2023 refinanced most of existing debt at the OpCos which in turn entered into Intercompany Loans (ICL) with the Issuer. The $105 million Term Loan was fully amortized at maturity in 2023.

The notes outstanding are secured by the issuer's rights under the ICLs; AES GPH's equity interests in the operating companies; and the issuer's collection and operating accounts and AES GPH's dividend collection accounts. Dividends from the operating companies will flow into AES GPH's dividend collection accounts, which are pledged as collateral, and will only be released to AES GPH if, among other conditions, no default exists under the notes, the loan facility or the liquidity facility.

Exhibit 5
AES PGH's corporate and financing structure

Sources: AES PGH and Moody's Investors Service

Recent developments

On 14 February, Moody's affirmed the Baa3 issuer rating assigned to AES PGH and the Baa3 senior secured rating assigned to the $1,380 million Reg S/144 A senior secured notes due 2030 (the "Notes").

Detailed credit considerations

Highly contracted generation assets with creditworthy counterparties

AES PGH's portfolio is more than 80% contracted, providing stable and visible cash flow, a key credit strength. A large portion is contracted with three regulated DISCOs, which are partially owned by the Government of Panama and operate as regional monopolies.

As such, the counterparty risk of these DISCOs reflects the broader electricity demand risk in the country. If an issue with a DISCO arises, the local law allows the regulator to step in and grants it expansive powers to implement remedies. Ultimately, the regulation ensures the continuity of services in the region. In terms of guarantees, the DISCOs are required to provision a payment guarantee equivalent to one month of payments and a performance bond equivalent to two months of payments.

Natural gas generation mitigates exposure to low hydro generation

Most of AES PGH's capacity is related to hydro assets but the portfolio also includes natural gas, solar and wind generation assets, which partially mitigate the exposure to the variability in hydro generation. The asset diversification works as a natural hedge, where under low hydro generation scenarios, natural gas generation and energy market prices increase and offset the loss in revenue from the hydro assets. The company has also developed four new solar projects to diversify the portfolio, two of which started operations in May 2021 and the other two since December 2021. AES Panama S.R.L. is currently constructing a new 35 MW solar project.

AES Colón's LNG storage and re-gasification business provides additional diversification to the portfolio. Colon's contracted capacity improved to above 70% of total capacity from around 35%. The TUA with Gatún which is expected to start generating additional revenue once it starts operations next August.

AES Corporation is an experienced sponsor with a long track record in Panama and Latin America

AES Corporation is a key participant in the electricity generation market in Panama, with a 41% market share in terms of generation (as of December 2023). AES Corporation started operations in Panama in 1998 and has approximately a third of the country's installed capacity.

Before the 1998 privatization of the Panamanian generation and distribution sectors, the electricity sector was under the management of the state-owned integrated electric utility Insituto de Recursos Hidráulicos y Electrificación (IRHE). In 1998, as part of the privatization process, the Panamanian government divided IRHE's assets and operations into four generation companies, three DISCOs and one transmission company.

Following a public auction in 1998, 51% shares in each DISCO were sold by the government, followed by the sale of 49% shares in each of the three state-owned hydroelectric generation companies and a 51% share in the main thermoelectric generation company.

AES GPH in Panama has majority stakes in AES Changuinola and AES Colón, and a 49% stake in AES Panama, which is majority owned by the Government of Panama. Thus, dividend distributions of AES Panama are subject to the approval of the Government of Panama, its majority owner. While dividend distributions from AES Panamá S.R.L. are subject to approval by the Government of Panama, the majority stakeholder, there is a good track record of adequate distributions and aligned decisions between AES and the Government of Panama.

Financial profile and key credit metrics

As of September 2023, AES PGH recorded cash interest coverage ratio of 3.5x and Funds from Operations (FFO)/ debt ratio of 15%, commensurate with Ba scores under Moody's Unregulated Utilities and Unregulated Power Companies Methodology. In 2023 and early 2024, the El Niño caused severe droughts in Panama reducing hydro generation. In order to meet its generation obligation under its Power Purchase Agreements (PPAs), AES Panama S.R.L, one of the four operating companies supporting the credit, has purchased energy in the spot market at higher prices compared to those in the PPAs. This situation caused a temporary deterioration in credit metrics.

The rating base case incorporates a projection where the FFO/Debt will drop to 12.2% for year-end 2023 but it will return to above 15% in 2024 and gradually improve to above 17% thereafter. The Debt/EBITDA ratio will also remain above the 4.0x threshold in 2023 and 2024, while the cash interest coverage is projected to remain close to 3.5x in 2023 and strengthen onwards.

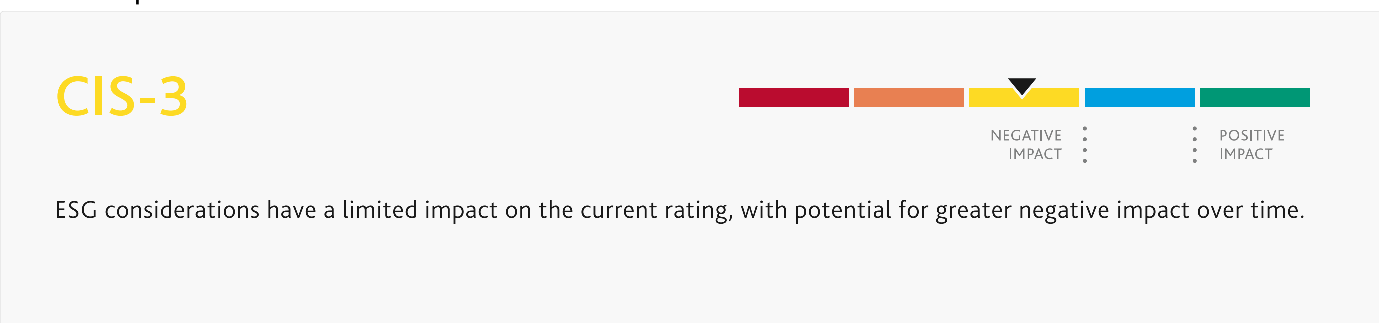
Supporting the improved in credit conditions is the expectation that El Niño conditions will dissipate during the second half of this year, improving hydro generation performance around starting on April or May and reducing the need to purchase energy at the spot market. In addition, the start of operations of the 670 MW Gatún combined-cycle power project (Gatún) - a joint-venture of AES Panama S.R.L and InterEnergy with target completion on August 2024 - is expected to improve AES PGH performance given the Terminal Use Agreement (TUA) of Gatún with Costa Norte (Colón), Gatún's revenue contribution to AES Panama S.R.L. and the reduction of spot prices as a result of the additional capacity in the market.

Nonetheless, AES PGH's high leverage and exposure to refinancing risk will continue to constrain its credit quality, but the refinancing risk is partially compensated because AES PGH's portfolio is competitive and essential to the Panamanian energy matrix.

ESG considerations

AES Panama Generation Holdings S. de R.L.'s ESG credit impact score is CIS-3

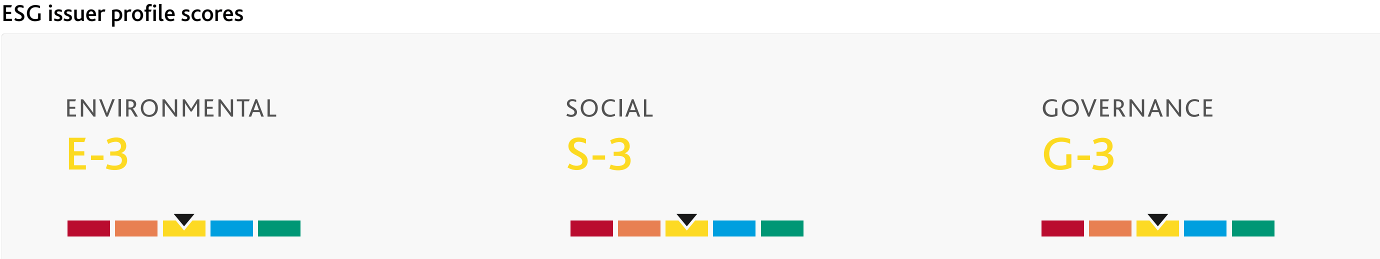
Exhibit 6
ESG credit impact score



Source: Moody's Investors Service

AES Panama Generation Holdings S. de R.L.'s 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 exposures to environmental, social and governance risks.

Exhibit 7
ESG issuer profile scores



Source: Moody's Investors Service

Environmental

AES PGH's exposure to environmental risks (**E-3** issuer profile score) is mainly driven by its exposure to physical climate risks, such as floods, hurricanes, or droughts. Our score also considers low exposures to carbon transition, water management, waste and pollution and natural capital risks.

Social

AES PGH's **S-3** issuer profile score reflects its exposure to demographics and societal trends and responsible production that increase public concern over environmental, social, or affordability issues that could lead to adverse regulatory political intervention. These risks are partially balanced by low exposures to customer relations, human capital, and health and safety considerations.

Governance

Governance risk (**G-3** issuer profile score) is driven by the company's exposures to financial strategy and risk management; organizational structure; and board structure, policies and procedures. Our governance score also considers low exposures to management credibility and track record 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 and structural features

AES PGH's credit quality is underpinned by the credit enhancements embedded in the transaction structure.

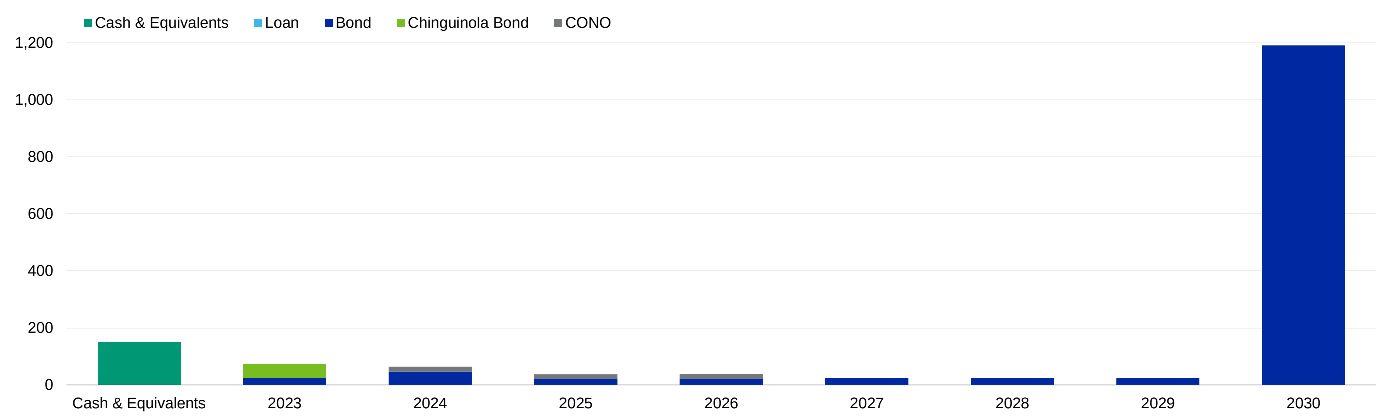
Bondholders benefit from a $50 million liquidity facility with recourse to shareholders that can be drawn in the event of a cash shortfall to meet debt service payments as a result of an operating company defaulting under the ICLs. Furthermore, dividends paid by the operating companies to AES GPH flow into its collection accounts, which will be pledged as collateral and can only be released to the company if no default exists under the notes, the loan facility or the liquidity facility, and the liquidity facility is fully replenished. Depending on the type of default, a default under an ICL may block the release of dividends to AES GPH from all operating companies or just from the defaulting operating company. The facility can be replenished with the flow of dividends from the performing operating companies.

We do not expect AES GPH to hold significant cash available at the operating companies or the holding company level in addition to the facility. Management projects that the company will hold minimum cash balances at each of the operating companies for their capital investment needs, which will likely be low in the forthcoming years. We expect maintenance capital spending to be around 1% of the property, plant and equipment (PP&E) assets each year, on average, for 2022-30.

Additionally, the notes include covenants that detail the limitations on debt (subject to certain ranges of debt/EBITDA).

Exhibit 8

Outstanding debt amortization profile as of September 2023



Note: The $105 million Term Loan was fully amortized at maturity in 2023. Changuinola's local bond issuance balance of $40 million due 2023 was refinanced with a 3-year maturity amortizing loan. In 2023, CONO obtained a $50 million Term Loan with a 5-year maturity.
Source: AES PGH

Methodology and scorecard

The principal methodology used in this rating was the Unregulated Utilities and Unregulated Power Companies methodology, published in December 2023. The assigned rating of Baa3 is one-notch above the scorecard-indicated outcome, reflecting relatively weak financial metrics for the last twelve months. We expect metrics to improve in the next 12-18 months.

Exhibit 9

Unregulated Utilities and Unregulated Power Companies [1] [2]	LTM Sep, 2023		Moody's 12-18 Month Forward View As of 12/31/2023 [3]	
Factor 1: Scale	**Measure**	**Score**	**Measure**	**Score**
Scale	Ba	Ba	Ba	Ba
Factor 2: Business Profile				
Market diversification	Ba	Ba	Ba	Ba
Hedging and integration impact on cash flow predictability	Baa	Baa	Baa	Baa
Market framework and positioning	A	A	A	A
Capital requirements and operational performance	A	A	A	A
3.- Financial Policy				
Financial policy	Baa	Baa	Baa	Baa
4.- Leverage and Coverage				
(CFO Pre-W/C + interest) / Interest Expense (3 Year Avg)	3.5	Baa	4.2x	Baa
(CFO Pre-W/C) / Debt (3 Year Avg)	15%	Ba	16%	Ba
RCF / Debt (3 Year Avg)	-2%	Caa	3%	Caa
Scorecard Indicated Rating:		**Ba1**		**Baa3**
Actual rating assigned		**Baa3**		

[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 10

Category	Moody's Rating
AES PANAMA GENERATION HOLDINGS S. DE R.L.	
Outlook	Stable
Issuer Rating	Baa3
Senior Secured	Baa3

Source: Moody's Investors Service

REPORT NUMBER 1390608

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