

RATING ACTION COMMENTARY

Fitch Upgrades Instituto Costarricense de Electricidad to 'BB'; Outlook Stable

Mon 04 Mar, 2024 - 11:32 ET

Fitch Ratings - New York - 04 Mar 2024: Fitch Ratings has upgraded Instituto Costarricense de Electricidad y Subsidiarias' (ICE) Long-Term Foreign Currency and Local Currency Issuer Default Ratings (IDRs) to 'BB' from 'BB-' and the senior unsecured bonds to 'BB' from 'BB-'; following the upgrades of Costa Rica's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'BB' from 'BB-' (for more information please see Fitch Upgrades Costa Rica to 'BB'; Outlook Stable, dated Feb. 29, 2024 and available at www.fitchratings.com). The Rating Outlook is Stable.

ICE's ratings incorporate its strategic importance to the country and the potentially significant negative socio-political and financial implications to the sovereign if there is any financial distress at the company level. Additionally, the ratings reflect the company's diversified asset portfolio, moderate capex program and its strong market share position in both the electricity and the telecommunications business.

KEY RATING DRIVERS

Rating Equalization: As per Fitch's Government-Related Entities Rating Criteria, Fitch equalizes ICE's IDRs to those of the sovereign of Costa Rica at 'BB', as Fitch assess both the incentives-to-support key risk factors (KRFs) 'provision of a public service' and 'financial contagion risk' as 'Very Strong'. The incentives-to support KRFs are given more weight than the responsibility-to-support KRFs (decision-making and oversight, and precedents of support), which Fitch view as 'Strong'. As a result, ICE's Support Score is 50.

The above reflects ICE's role as the incumbent integrated player in the electricity market in the country, and the ICE as a reference issuer in the local market and is considered a core government entity, which means that a default from ICE is almost certainly likely to disrupt

access to financing for the government or other government related entities significantly and for an extended period of time.

DERIVATION SUMMARY

ICE's linkage to the sovereign is similar to Comision Federal de Electricidad (CFE; BBB-/Stable). Similar to ICE, CFE is highly important to Mexico as its largest integrated electric utility, and it is the only domestic entity allowed to both transmit and distribute electricity.

ICE's ratings reflect its strong linkage to Costa Rica's sovereign rating, which stems from the company's government ownership and the implicit and explicit expectation of government support. The ratings reflect the company's diversified asset portfolio, moderate capex program, and its monopoly position in the electricity industry and strong market share position in the telecommunications business.

KEY ASSUMPTIONS

--ICE remains important to the government as a strategic asset for the country;

--In 2023, revenues grow by 4% on improved electricity demand;

--Leverage close to 4.3x in 2023; and 4.7x in 2024;

--ICE's Telco market share remains strong.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Upgrade of the sovereign's ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A sovereign downgrade;

--Weakening of the linkage between ICE and the sovereign and a material deterioration of ICE's operating and financial profile;

--Regulatory intervention that negatively affects the company.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: ICE's liquidity position is adequate, with a cash and equivalents balance of approximately of CRC648 billion as of 3Q23 and total debt of CRC2.127 billion, of which CRC103 billion was short-term debt.

Historically, ICE has financed capex with its own resources and new debt, where the debt related to electrical projects represents approximately 90% and the rest to the Telco segment.

ISSUER PROFILE

ICE is a government-owned, vertically integrated monopoly in the electricity industry, in charge of developing, constructing and operating an electric power generation, transmission and distribution system and the incumbent player in the telecommunications industry.

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.

ESG CONSIDERATIONS

ICE has an ESG Relevance Score of '4' for Governance Structure and Group Structure due to ownership concentration, as a majority government-owned entity and due to the inherent governance risks that arise with a dominant state shareholder. This 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

www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS



ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Instituto Costarricense de Electricidad y Subsidiarias	LT IDR	BB Rating Outlook Stable	BB- Rating Outlook Stable
	Upgrade		
	LC LT IDR	BB Rating Outlook Stable	BB- Rating Outlook Stable
	Upgrade		
senior unsecured	LT	BB	BB-
	Upgrade		

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APPLICABLE CRITERIA

[Corporate Rating Criteria \(pub. 03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 03 Nov 2023\)](#)

[Government-Related Entities Rating Criteria \(pub. 12 Jan 2024\)](#)

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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Instituto Costarricense de Electricidad y Subsidiarias

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