

## **FITCH AFFIRMS CENTRAL PUERTO S.A.'S FOREIGN CURRENCY IDR AT 'B'; OUTLOOK STABLE**

Fitch Ratings-Chicago-03 October 2016: Fitch Ratings has affirmed Central Puerto S.A.'s (CPSA) Long-Term Foreign Currency Issuer Default Rating (IDR) at 'B' and upgraded its Long-Term Local Currency IDR to 'BB-' from 'B'. Fitch has concurrently withdrawn the 'B/RR4' long-term rating for the company's USD100 million notes due 2017 as these have been called and paid in full. The Rating Outlook is Stable.

### **KEY RATING DRIVERS**

CPSA's foreign currency rating is constrained by the 'B' country ceiling of the Republic of Argentina, which limits the foreign currency rating of most Argentine corporates. Country ceilings are designed to reflect the risks associated with sovereigns placing restrictions upon private sector corporates that may prevent them from converting local currency to any foreign currency under a stress scenario and/or may not allow the transfer of foreign currency abroad to service foreign currency debt obligations.

The upgrade of CPSA's local currency rating reflects: the industry's improving regulatory risk; the company's robust cash flow generation potential supported by its dominant market position and diversified portfolio of assets; expected increase in dollar linked cash inflows from past due receivables as well as the company's conservative capital structure.

### **Regulatory Risk Remains High:**

CPSA's ratings reflect high regulatory risk given strong government influence in both the Electric/Utilities and Energy sectors. CPSA operates in highly strategic sectors where the government both has a role as the price/tariff regulator and also controls subsidies for industry players. In the electricity sector, CPSA depends on payments from government agency Compañía Administradora de Mercado Mayorista Eléctrico S.A. (CAMMESA). Payments from CAMMESA can be volatile given that it depends on the national government for funds to make the payments, and Argentina is currently suffering through a significant economic slowdown. In 2015, CAMMESA received approximately USD10 billion in funds from the Argentine treasury, which was an increase from the USD8.7 billion injection in 2014.

### **High Counterparty Risk:**

CPSA's financial profile is negatively affected by the weak credit quality of CAMMESA as its main counterparty, since the agency is highly vulnerable to Argentina's current credit situation. Electric companies in Argentina are not only exposed to delays in the payment of CAMMESA but also to risks in fuel supply, as the government's agency centralizes the country's fuel imports, and therefore the company could face serious difficulties if CAMMESA changes its role. This is partly mitigated by the strategic position CPSA has to provide electricity to the Buenos Aires city, Mendoza City and three of YPF's refineries.

### **Strong Competitive Position:**

CPSA owns a portfolio of well diversified generation assets in terms of operational technologies and geographical presence, allowing the company to mitigate risks associated with machine stops and the exposure to hydrological risk faced by its hydroelectric plant. This, combined with

a significant generation capacity of close to 4 GW and a market share of 15% in the Argentine matrix as the largest local private generator in the country, gives CPSA a significant competitive advantage compared to other players of smaller scale. Additionally, the geographic location of CPSA's generation plants provides a relevant advantage in terms of access to fuel and nearness to the capital city and some YPF's refineries.

#### Solid Metrics:

As of June 2016, CPSA financial metrics were strong with a limited leverage and good coverage figures. Debt to EBITDA, including debt with CAMMESA, stood at 1.3x, while EBITDA/Interest expenses was 8.5x. Net of the debt with CAMMESA, leverage ratio stands at 0.4x. Fitch expects leverage to remain below 3.0x level in the short to medium term, although it might temporarily surpass this number as the company funds a portion of its expansion plan with debt. The company's future capital structure and cash flow generation hinges on tariff increases and its ability to win contracts for new capacity.

#### KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for CPSA include:

- CPSA increases installed capacity by approximately 550MW over the rating horizon;
- The company receives payments for past-due receivables from CAMMESA on annual instalments that average approximately USD68 million per year;
- Electricity prices increase progressively to a level more consistent with international peers;
- Leverage stays below 3.0x in the long term.

#### RATING SENSITIVITIES

An upgrade to Argentina's ratings could result in a positive rating action.

CPSA's ratings could be negatively affected by a combination of the following: a downgrade of the Republic of Argentina's sovereign ratings, economic deterioration that affects CPSA ability to convert and transfer foreign exchange; given high dependence on the subsidies by CAMMESA from the Treasury, any further weakening of Argentina's fiscal accounts could have a negative impact on the company's collections/cash flow; a significant deterioration of credit metrics.

#### LIQUIDITY

Solid Liquidity: As of June 2016, CPSA's total debt reached USD183 million, more than half of which was with CAMMESA. As of June 2016, the company reported cash and equivalents totalling USD134 million, versus a short-term debt of USD123 million, giving CPSA a good liquidity profiles. A portion of CPSA's cash and equivalent as of June 2016 was invested in diversified high-yield fixed income funds, which Fitch's discounts by 60% when calculating readily available cash. As a result of this, the company's estimated readily available liquidity amounts to approximately USD60 million. Going forward, the company's liquidity will depend on its ability to generate and collect revenues from CAMMESA as the company will likely use existing liquidity to pay dividends in 2016.

#### FULL LIST OF RATING ACTIONS

Fitch has taken the following rating actions:

Central Puerto S.A.

- Long-term Foreign Currency IDR affirmed at 'B'; Outlook Stable;
- Long-term Local Currency IDR upgraded to 'BB-' from 'B'; Outlook Stable;
- Long-term senior unsecured notes rating of 'B/RR4' withdrawn.

Contact:

Primary Analyst  
Cinthya Ortega  
Director  
+1-312-606-2373  
Fitch Ratings, Inc.  
70 W. Madison St.  
Chicago, IL 60602

Secondary Analyst  
John Wiske  
Analyst  
+1-212-908-9195

Committee Chairperson  
Daniel R. Kastholm, CFA  
Managing Director  
+1-312-3682070

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email:  
elizabeth.fogerty@fitchratings.com.

Date of Relevant Rating Committee: Sept. 30, 2016

In accordance with Fitch's policies the issuer appealed and provided additional information to Fitch that resulted in a rating action that is different than the original rating committee outcome.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

#### Applicable Criteria

Country Ceilings (pub. 16 Aug 2016)

<https://www.fitchratings.com/site/re/885997>

Country-Specific Treatment of Recovery Ratings (pub. 28 Apr 2016)

<https://www.fitchratings.com/site/re/880875>

Criteria for Rating Non-Financial Corporates (pub. 27 Sep 2016)

<https://www.fitchratings.com/site/re/885629>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies

on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001