



## Rating Action: Moody's upgrades to Ba3 ratings of ICE and Reventazon; changes outlook to positive

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New York, November 09, 2023 -- Moody's Investors Service (Moody's) has upgraded the ratings of Instituto Costarricense de Electricidad ("ICE") and Reventazon Finance Trust ("Reventazon") to Ba3 from B1, and changed the outlook to positive from stable.

The rating action follows the outlook change to positive from stable of the Government of Costa Rica ("GOP"). For more information please visit: <https://ratings.moody's.com/ratings/600023791>

### RATINGS RATIONALE

The upgrade of ICE's ratings to Ba3 reflects the sovereign credit rating upgrade of the Government of Costa Rica to B1 as a consequence of the improving structural fiscal consolidation and debt affordability. The Ba3 rating positioned one-notch above the Government of Costa Rica's sovereign rating of B1 continues to recognize ICE's relatively stronger financial metrics and the expectation that the regulatory framework will remain reliable and credit supportive. Additionally, it continues reflecting ICE's key role as an autonomous government entity and dominant position as the largest vertically integrated utility in the country.

ICE's rating outlook change to positive from stable, in line with the Government of Costa Rica's rating outlook, reflects the favorable credit trends in the region and also the deep linkages with the government given the full ownership, exposure to common risks including interest rates, foreign exchange risks and economic performance.

The upgrade on Reventazon's rating to Ba3 and change of outlook to positive considers the significant dependence on ICE's financial performance given the obligations it assumed under the contractual operational and financial arrangements. ICE acts as Reventazon's sponsor, operator, lessee, EPC contractor and off-taker.

ICE's baseline credit assessment ("BCA"), a measure of its standalone creditworthiness, was upgraded to ba3 recognizing its strategic position in the electricity domestic market, the growing electricity demand supporting a solid revenue profile, the robust coverage and leverage financial metrics and an overall credit-supportive regulatory framework. The main credit risks incorporated in our rating analysis include (i) the significant foreign exchange risk exposure as more than 50% of the total debt is US dollar denominated while revenues in local Colones are not adjusted to cover foreign exchange variations, (ii) an increasing lag of variable costs recovery due to regulatory changes and (iii) the rating constrain due to a relatively weaker sovereign credit quality. We expect that the company will average a (CFO Pre-W/C + Interest Expense) / Interest Expense ratio of 2.8x and a (CFO Pre-W/C) / Debt metric of 14.4% by 2024.

ICE's Ba3 rating recognizes the application of Moody's Joint Default Analysis ("JDA") framework for GRIs which contemplates: i) the baseline credit assessment of ba3, ii) our assumption of very high level of default dependence with the GOP as a result of their exposure to common credit risks such as FX and interest rate risks in addition to regional economic conditions, and iii) our assumption of strong level of government support in case of financial need because the systemic relevance to the country's economic development.

The rationale behind the levels of support from and dependence on the government is derived from the company's obligation to reinvest all net profit in further developing the national electrification and generation development plans

with no dividend payments; electric operations being exempt from income taxes; and the strategic importance to the overall Costa Rican economy and key role as executant of the government's energy policies and development plans.

## RATINGS OUTLOOK

ICE's and Reventazon's positive rating outlooks are in line with the positive outlook on Costa Rica's sovereign rating.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

### FACTORS THAT COULD LEAD TO AN UPGRADE

Upward pressure would require an upgrade of Costa Rica's sovereign rating while ICE records cash interest coverage above 3.0x and CFO pre-WC/Debt above 13% on a sustained basis.

An upgrade of ICE's ratings would likely drive an upgrade of Reventazon Finance Trust's rating.

### FACTORS THAT COULD LEAD TO A DOWNGRADE

A downgrade of Costa Rica's sovereign rating could lead to a rating downgrade for ICE. Additionally, if ICE's debt increases significantly above the expected levels, such that its credit metrics deteriorate and cash flow interest coverage falls below 2.0x or retained cash flow (RCF)/debt declines below 6% for an extended period, downward pressure on the ratings will rise.

A downgrade of ICE's ratings would also likely result in a downgrade of Reventazon Finance Trust's rating.

## LIST OF AFFECTED RATINGS

..Issuer: Instituto Costarricense de Electricidad (ICE)

Upgrades:

.... Corporate Family Rating, Upgraded to Ba3 from B1

.... Baseline Credit Assessment, Upgraded to ba3 from b1

....Senior Unsecured Regular Bond/Debenture, Upgraded to Ba3 from B1

Outlook Actions:

....Outlook, Changed To Positive From Stable

..Issuer: Reventazon Finance Trust

Upgrades:

.... Corporate Family Rating, Upgraded to Ba3 from B1

....Senior Secured Regular Bond/Debenture, Upgraded to Ba3 from B1

Outlook Actions:

....Outlook, Changed To Positive From Stable

The methodologies used in these ratings were Regulated Electric and Gas Utilities published in June 2017 and

available at <https://ratings.moodys.com/rmc-documents/68547>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

## COMPANIES' PROFILE

Headquartered in San Jose, Costa Rica, Instituto Costarricense de Electricidad (ICE) is a government-owned vertically integrated electric utility and an integrated telecommunications services provider. ICE's electric and telecommunications operations are subject to the purview of the Costa Rican regulatory bodies Autoridad Reguladora de los Servicios Publicos and Superintendencia de Telecomunicaciones, respectively.

Reventazon Finance Trust is a financing vehicle used to raise proceeds for the construction of the 305.5 MW hydroelectric plant located on the Reventazon River in Costa Rica, which is owned and operated by ICE.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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