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AES Panamá S.A.

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AES Panamá S.A.

Major Rating Factors

Corporate Credit Rating
BBB-/Stable/--

Strengths:

- Strong profitability and management;
- Increasing energy demand based on expected GDP growth in Panama;
- Stable cash flow from long-term power purchase agreements signed with the three distribution companies in Panama;
- Ability to generate electricity at the lowest cost in Panama; and
- Solid position as a major player in the Panamanian market.

Weaknesses:

- Exposure to drought seasons;
- Large debt from investments needed to upgrade and repower facilities; and
- High energy prices, which could affect the distribution companies' collection rates under drought conditions.

Rationale

Standard & Poor's Ratings Services' rating on AES Panamá S.A. reflects our recent assessment that the institutional framework in Panama will likely keep supporting the country's favorable business and regulatory environment, contributing to the stability of the electric sector and the predictability of the company's financial profile. We expect that the government will likely maintain sound policies and clear regulations to promote the development of the electric sector. This limits the volatility risk on AES Panamá's financial and operational performance, especially given the strategic importance of the sector to Panama's ability to lock in economic growth.

The ratings incorporate our opinion that there is a "moderately high" likelihood of timely and sufficient extraordinary support from the Republic of Panama (foreign currency: BBB-/Stable/A-3; local currency: BBB-/Stable/A-3) to AES Panamá in the event of financial distress. In accordance with our criteria for government-related entities, our view of a moderately high likelihood of extraordinary government support is based on our assessment of AES Panamá's "important" role as the largest low-cost power generator in the country, and its "strong" link with the government, given the latter's majority ownership stake in the company.

AES Panamá is a joint venture between AES Panamá Energy S.A. (49%; not rated), a subsidiary of The AES Corp. (BB-/Positive/--) and the Panamanian government (50.5%), which control AES Panamá's operating activities through a management agreement. Employees control the remaining 0.5%. AES and the government control three and two of the five board members, respectively. The joint ownership structure, along with the presence of independent directors, allows the rating on AES Panamá to exceed the rating on its parent company, AES Corp. Also, covenants on the senior notes indenture support rating separation because AES Panamá can pay dividends only if funds from operations (FFO) interest coverage exceeds 2.5x and the debt reserve fund is fully funded.

The ratings on AES Panamá are also supported by a satisfactory business position based on promising growth prospects for power consumption and a competitive advantage from the ability to generate electricity at the lowest cost. The ratings also consider strong profitability among hydrogenerators in the region, stable cash flow generation

resulting from long-term power purchase agreements, and prudent financial management. AES Panamá owns and operates the lowest cost hydropower generation units in Panama.

The company's exposure to hydrological conditions and high volatility in spot energy prices limit the rating. Any power generation shortage driven by lower-than-historical average rainfall, resulting in the purchase of energy at the current high spot market prices, would hurt the company's financial margins. However, despite the impact on operations in 2009 from lower-than-average rainfall, the company's cash flow protection metrics remained compatible with the rating because energy purchase spot prices fell in 2009 compared with 2008. We expect that the increasing rainfall this year will reestablish the company's profitability at its historical levels, with EBITDA margins of more than 65%. Our rating also incorporates expected yearly energy demand growth of 6% for the coming years and a 38% increment in the supply grid in Panama from 2010 to 2014, which will lead to lower energy prices.

We also anticipate that the company will maintain a total debt-to-EBITDA ratio of less than 3.0x in 2010. FFO to debt as of December 2009 was 25.5%, and we forecast this metric exceeding 20% in the next two years. FFO to interest coverage was 4.0x at year-end 2009, and we estimate it in the vicinity of 4.7x for 2010.

Liquidity

AES Panamá's liquidity is adequate, in our opinion. As of March 30, 2010, the company reported $62 million in cash, and we expect free operating cash flow generation of $72 million in the next 12 months, which compares extremely favorably with debt obligations of $200,000 and estimated capital expenditures of $3 million for the same period. Under the financial covenants in the indenture, the interest coverage ratio should be no less than 2.5x, and we expect AES to post this at more than 5.0x for 2010.

Outlook

The stable outlook reflects our expectation that AES Panamá's operating competitiveness will continue to support stable cash flow generation over the next couple of years. Our base-case scenario expects a 60% EBITDA margin for 2010, more than $70 million in cash flow generation, and a fall in energy spot prices to about $100 per megawatt. A deterioration of the company's financial profile that results in a total debt-to-EBITDA ratio of more than 3.2x and an FFO-to-interest coverage ratio of less than 3.0x could pressure the rating downward. The local and foreign currency ratings on AES Panamá reflect our stand-alone credit profile on the company but are also limited by our foreign currency rating on the sovereign. As stated in our criteria, a rating action on Panama would not necessarily trigger a parallel rating action on AES Panamá.

Related Criteria And Research

- General Criteria: Enhanced Methodology and Assumptions For Rating Government-Related Entities, June 29, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Table 1

AES Panamá S.A.--Peer Comparison*

Industry Sector: Electric Utilities

	--Twelve months ended Dec. 31, 2009--				
	AES Panama S.A.	**Enel Fortuna S.A.**	**Tractebel Energía S.A.**	**AES CHIVOR & CIA S.C.A. E.S.P.**	**AES Gener S.A.**
Rating as of Sept. 7, 2010	BBB-/Stable/--	BBB-/Stable/--	brAA+/Stable/brA-1¶	BB+/Stable/--	BBB-/Negative/--
(Mil. $)					
Revenues	185.1	178.4	1,724.0	277.0	554,042.2
Net income from cont. oper.	58.2	56.2	571.9	69.3	109,385.2
Funds from oper. (FFO)	83.9	72.5	731.8	93.3	164,548.8
Capital expenditures	4.9	4.3	180.7	9.0	276,045.1
Cash and short-term investments	28.8	31.9	448.5	52.7	164,015.7
Debt	302.0	105.4	1,935.6	203.0	597,221.1
Equity	161.5	365.8	1,661.1	487.6	868,809.8
Debt and equity	463.5	471.2	3,596.7	690.6	1,466,030.9
Adjusted ratios					
Operating income (before D&A)/revenues (%)	65.1	60.0	63.5	47.9	24.9
EBIT interest coverage (x)	5.3	7.7	5.6	5.9	4.4
EBITDA interest coverage (x)	6.2	9.1	6.2	6.4	6.1
FFO interest coverage	4.3	7.0	4.8	5.5	27.6
Net cash flow/capital expenditures (%)	27.8	68.8	37.8	46.0	40.7
Total debt/debt plus equity (%)	34.5	15.5	35.8	14.1	36.6

*Fully adjusted. ¶National scale.

Table 2

AES Panamá S.A.--Financial Summary*

Industry Sector: Electric Utilities

	--Fiscal year ended Dec. 31--				
	2009	**2008**	**2007**	**2006**	**2005**
Rating history	BB+/Watch Neg/--	BBB-/Stable/--	BBB-/Stable/--	BBB-/Stable/--	NR
(Mil. $)					
Revenues	168.7	211.4	175.1	144.7	134.5
Net income from cont. oper.	50.9	71.3	52.6	16.9	36.3
Funds from oper. (FFO)	77.5	96.3	78.0	66.7	61.9
Capital expenditures	4.8	3.5	6.5	5.4	6.0
Cash and short-term investments	38.9	28.4	19.1	17.4	2.1
Debt	303.2	303.3	299.5	303.3	294.9
Preferred stock	0.0	0.0	0.0	0.0	0.0
Equity	146.4	158.5	179.5	191.4	232.0
Debt and equity	449.7	461.9	479.1	494.7	526.9

Table 2

AES Panamá S.A.--Financial Summary* (cont.)

Adjusted ratios					
EBIT interest coverage (x)	4.7	6.2	4.8	2.0	3.0
FFO interest coverage (x)	4.0	4.9	4.0	2.7	2.4
FFO/debt (%)	25.5	31.7	26.0	22.0	21.0
Discretionary cash flow/debt (%)	3.4	2.8	1.5	0.5	10.2
Net cash flow/capital expenditures (%)	298.8	109.1	198.8	327.5	618.0
Debt/debt and equity (%)	67.4	65.7	62.5	61.3	56.0
Return on common equity (%)	33.4	42.2	28.3	8.0	16.1

*Fully adjusted. NR--Not rated.

Ratings Detail (As Of September 7, 2010)*

AES Panama, S. A.	
Corporate Credit Rating	BBB-/Stable/--
Senior Unsecured (1 Issue)	BBB-
Corporate Credit Ratings History	
27-Aug-2010	BBB-/Stable/--
31-May-2010	BB+/Watch Pos/--
04-Sep-2009	BB+/Watch Neg/--
08-Dec-2006	BBB-/Stable/--
Business Risk Profile	Satisfactory
Financial Risk Profile	Significant

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.