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Fitch Affirms EGE Haina's IDRs at 'B-'; Outlook Stable Ratings

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Fitch Ratings-Chicago-28 July 2009: Fitch Ratings has affirmed Empresa Generadora de Electricidad Haina, S.A.'s (EGE Haina) international foreign and local currency Issuer Default Ratings (IDRs) at 'B- '. The senior unsecured debt is also affirmed at 'B-/RR4'. The rating action applies to US$175 million of notes due 2017 issued by EGE Haina.. The Rating Outlook is Stable. Concurrently, Fitch has affirmed EGE Haina's national scale rating of 'BBB(dom)', which applies to the company's senior unsecured debt issuance program of USD30 million.

EGE Haina's ratings reflect risks of operating electric generation assets in the Dominican Republic (DR) and are constrained by the systemic risks of the sector. EGE Haina sells electricity to government-owned distribution companies, which continue to report poor operating and financial results, and are characterized by very high energy losses, low end-user collections, and large government subsidies. Such conditions have kept distribution companies from effectively transferring cash to the country's generation companies and the government subsidies continue to cover this gap during recent years. The ratings of the generators have been constrained one notch below that of the sovereign as government subsidies to the sector are indirect and are not direct obligations of the government. In addition, the timing of the subsidies and payment by the distribution risk add to uncertainty and cash flow volatility.

EGE Haina benefits from its diversified portfolio of assets using different fuel sources to generate electricity, its strong market position and its operating efficiency. EGE Haina's generation assets are composed of fuel oil, diesel, and coal power generation plants scattered throughout the country. This gives EGE Haina different positions on the dispatch merit list (starting from the second thermoelectric plant to be dispatched in the system after the coal generation units and ending with peak units). In addition, EGE Haina is the largest generation company in the country, with an installed capacity of 599MW (megawatts). EGE Haina's operating efficiency compares well with other generation companies in the country.

EGE Haina's credit metrics are strong for the rating category; however, they have been weakening during the past six months due to the fall of hydrocarbon prices. Although the company received approximately USD77 million of sovereign bonds as payment for past due receivables, current account receivables remain high as of March 31, 2009 at USD114 million. Liquidity has also deteriorated as a result of high dividend payments and lower cash flow generation. For the last twelve months (LTM) ended March 31, 2009 EBITDA decreased to USD55 million from approximately USD74 reported during 2008. This translated to a leverage and interest coverage ratio of 3.4 times (x) and 2.3x, respectively, as of March 31, 2009. Going forward, EGE Haina's EBITDA generation is expected to recover somewhat as hydrocarbon prices moderate and the company increases contracted sales.

Going forward, EGE Haina's business risk is expected to moderate bolstered by the company's diversified portfolio of generation assets and sales to CEPM, its affiliate company serving the tourist east side of the island. EGE Haina has entered into a Power Purchase Agreement with CEPM for 50MW. This contract reduces somewhat the company's exposure to the DR electricity sector systemic risk as the east part of the country does not face these issues.

EGE Haina's collection rate volatility is very high, ranging from 140% to just over 40% in some months. This reflects the fact that most of the government subsidies are transferred to distribution companies during the first half of the year, and in the second quarter, liquidity at the distribution companies is low. This is evidence to the sector dependency on government subsidies. Should the government reduce transfers to the sector, the generating companies' (gencos) collections from distribution companies will erode fast affecting the gencos liquidity. Distribution companies reported a modest increase in the cash recovery index during 2008 to 63.9% from 59.8% the previous year. This means that of all the electricity that goes in to the national grid, only 63.9% is paid for and the balance disappears as theft, nonpayment, free electricity and technical losses.

During 2009, the Dominican Republic government reiterated its commitment to the sector by paying approximately USD250 million of past due payables to generation companies with sovereign bonds. The sector deficit for 2009 has been estimated at approximately USD700 million or 1.5% of gross domestic product. DR ranks fourth as the country with the highest electricity losses worldwide, after Congo, its neighbor Haiti and Moldavia. Over the next few years, Fitch expects the government to continue to support the sector via subsidies and the sector to slowly recover.

EGE Haina is one of the largest electricity generation companies in the Dominican Republic, currently operating seven generator units and seven plants throughout the country. The company currently has a combined installed capacity of approximately 600 MW representing 20% of the country's total installed capacity. As of March 31, 2009, EGE Haina's firm capacity was approximately 273MW.

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