



Tagging Info

**Fitch Affirms HAINA's IDR at 'B'; Positive Outlook** Ratings Endorsement Policy

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Fitch Ratings-Chicago-20 January 2012: Fitch Ratings has affirmed Empresa Generadora de Electricidad Haina S.A. (HAINA) long-term Issuer Default Rating (IDR) and local currency IDR at 'B' and senior unsecured international bond rating due 2017 at 'B/RR4'. Concurrently, Fitch has affirmed both, HAINA's national rating and local bond ratings with maturities in 2012 and 2016 at 'A-(dom)'. The Rating Outlook on the IDR is Positive.

HAINA's ratings reflect the electricity sector's high dependency on transfers from the central government to service its financial obligations. Although Fitch expects the continuation of recent policy changes to allow distribution companies (EDEs) to reach breakeven cash flow generation in the medium term, the expiration of the stand-by arrangement (SBA) with the International Monetary Fund (IMF) on Feb. 28, 2012 and the presidential elections in May 2012 hold the potential to derail the modest progress achieved by the sector so far. HAINA's credit quality also reflects the company's linkage to the Dominican Republic Government (IDR 'B', Outlook Positive by Fitch) as public transfers are necessary to pay for the company's account receivables associated to electricity sales. The company's ratings also consider the company's solid asset portfolio, strong balance sheet and well structured power purchase agreements (PPAs), which contribute to strong cash flow generation and bolster liquidity.

**Ratings Constrained by Credit Quality of the Government:**

The Dominican Republic's power sector is characterized by low collections from end-users and high electricity losses. Such conditions have kept distribution companies from effectively transferring cash to the country's generation companies, and the government subsidies have covered this gap during recent years. This links the credit quality of the distribution and generation companies in the country to that of the sovereign. During 2009, the Dominican Republic government entered into a stand-by agreement with the IMF to aid the country run counter cyclical fiscal policies.

As part of this arrangement, the government committed itself to increase metered users, gradually reduce the gap between the technical tariff and the implemented tariff; eliminate the free electricity areas (PRA) and substitute this program with more efficient demand subsidies. The arrangement also included a reduction in the account payables with generation companies to no more than 45 days of sales, a reduction from a previous average of approximately 180 days in 2008. Although the government did not succeed in meeting all the goals, it at least reduced the amount of payables due to generation companies, which strengthened generators' liquidity and cash flow generation.

**Transition Risk:**

There is a latent risk of disrupting the progress the sector has achieved so far as the SBA with the IMF expires and the country goes through a presidential electoral year. The expiration of the SBA with the IMF removes the third party pressure on the government to stay current on its payments to generation companies and there is no guaranty that the new administration will have the same willingness to overcome the structural problems that affect the financial sustainability of the country's electricity sector. Fitch will closely monitor these events to determine the impact of any potential change on the credit quality of all generation companies in the Dominican Republic.

**Recent Payments Bolster Liquidity:**

HAINA received an extraordinary payment from the government during the month of December 2011 (USD106 million) which contributed to maintaining days-of-Sale (DOS) within the agreed target of 45 days and ensured a payment rate from distribution companies of 93% by Dec. 31, 2011.

**Competitive Generation Assets:**

HAINA's ratings are supported by its diversified portfolio of generation assets, the use of various sources of fuel in its plants, its strong market position and operational efficiency. HAINA'S generation assets comprise plants that use fuel oil, diesel and coal located throughout the country. This provides the company with different positions on the dispatch merit list. HAINA's operational efficiency compares favorably with other generating companies in the country, registering an average heat rate of 8.856 British thermal units (Btu) per kilowatt-hour (kWh), while its most efficient unit registers a 7.833 BTU / kWh heat rate burning heavy fuel oil.

**Adequate Credit Metrics:**

HAINA's credit metrics are currently adequate for the rating category. For the fiscal year 2011, the company reported EBITDA of USD112 million, an increase from USD79 million in fiscal year 2010 (FY10). Cash flow from operations (CFO) was USD44 million due to an extraordinary payment made by the government during month of December which contributed to maintaining the 45 days DOS average by the end of the year. As of Dec. 31, 2011, HAINA had a cash and marketable securities balance of USD184 million. HAINA's leverage ratio and net leverage were 2.5 times (x) and 0.9x respectively during the referenced period.

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**Applicable Criteria and Related Research:**

--'Corporate Rating Methodology' (Aug. 12, 2011).

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Corporate Rating Methodology

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