

FITCH RATINGS: NO RATING IMPACT ON CANAL RESOLUTION OF BOND'S TECHNICAL EVENT OF DEFAULT

Fitch Ratings-London/Madrid-27 January 2020: Fitch Ratings says that Canal de Isabel II, S.A.'s (Canal; BBB+/Stable) resolution of the technical event of default (EoD) of its EUR500 million bond has no impact on its ratings. We consider it credit-positive, however, because it eliminates the liquidity risk posed by a potential redemption of the bond, which was classified as a current liability in the company's accounts following the bond's technical EoD in October 2018. The redemption has never been our base case scenario for the ratings.

Canal on 13 January 2020 received consent from bondholders present as a simple majority on the second assembly convened to exclude subsidiary Triple A Barranquilla (Triple A) as a relevant subsidiary in the EUR500 million bond's documentation following a consent solicitation. As a result, the bond has ceased to be on technical EoD.

We affirmed Canal's ratings in November 2019, reflecting the company's strong credit profile that is supported by its low business risk, with the majority of earnings generated by its regulated activities as a regional monopoly asset operator and provider of water and sewerage services under long-term concession agreements, and its strong fixed-charge coverage and low leverage. The ratings also take into consideration our view of the company's less conservative liquidity policy than European peers' following the company's decision to reinstate dividends in mid-2019 in spite of the liquidity risk related to potential cash requests from bondholders.

In addition, the ratings incorporated the loss of control and deconsolidation of Triple A, the postponement of divestment of Canal's interests outside the Madrid region and the company's ability to meet any cash demand in the event of the full redemption of the bond. However, we saw little incentive from bondholders to request full repayment of the bonds and consequently had not assumed any cash needs in this respect in our base case scenario for the ratings.

Canal lost control of Triple A, its main operating company in Colombia, in October 2018 and the bond had been in technical EoD since then. The Colombian prosecutor proceeded to forfeit Triple A's shares in April 2019.

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