

31 Jul 2024 16:30:05 ET | 18 pages

Enel Americas SA (ENELAM.SN)

Calmer Waters in Brazil Dx Market as Final Resolution is Closer

CITI'S TAKE

We are upgrading our recommendation to Buy and increasing our 12-month-forward TP to ChP 105 (up from ChP 102 per share). This comes after the end of the transaction of its Peruvian business, providing cash to significantly reduce debt, while seeing improvements from 2026 onwards owed to new installed capacity. Our rating is based on: (i) lower risk in its Dx subsidiaries in Brazil, due to the issuance of the decree on the renewal of concessions in that market, enabling extensions to the company's concessions end dates, (ii) low NFD/EBITDA after Peru assets disposal, providing room to take on new debt for future projects, and (iii) 12m-fwd P/E with an 11% discount against its 5-year history and an appealing 7.5% dividend yield.

De-risking the Brazil Dx concession renewal — Recent uncertainty in the Brazilian Dx market on concessions renewal and possible impacts for the companies would reduce as the concession renewal decree was published in June 2024, being similar to the previously published draft. It specifies the terms for renewal of concessions for 30 years, with no renewal fee and requirements for CAPEX, quality of service and financial indicators. Renewals contract by ANEEL is still pending publication for 4Q24, and a final concession contract after public consultation should be published in 1H25; we expect the definitive document not to have significant changes.

The company's strategic plan is delivering, providing room for new projects — The company has successfully carried out its renewable capacity additions (0.7 GW remaining to be completed through 2026) to replace the business sold in Peru. We expect an EBITDA evolution of 4% YoY for 2024 and 3% YoY for 2025, while +7% (ex Peru sale) and +12% for Net income in the same period. We expect no new sales in the short term and that proceeds from Peru will be used to pay down expensive debt, keeping leverage low (NFD/EBITDA < 1.0x), reducing financial burden. This low leverage can provide enough room to take on new debt to finance new projects (and at lower financial risk) enhancing company's growth.

Valuation shows a discount once again — Currently, 12m forward P/E shows a discount of ~11% vs its 5-year history, after recent times where this same multiple remained in line with history (excluding Peru assets sales). The company has an attractive 12m dividend yield of ~7.5%, impacted by the ~US\$1.8bn one-off Net income from their Peru business sale, maintaining its 30% payout.

Estimates	2023A	2024E	2025E	2026E	Q124A	Q224A	Q324E	Q424E
Sales (US\$M)	12,888	13,442	13,113	13,705	3,373	3,376	3,328	3,365
EBITDA adj (US\$M)	3,749	3,912	4,014	4,032	1,077	995	929	911
EBITDA margin adj (%)	29.1	29.1	30.6	29.4	31.9	29.5	27.9	27.1
Net income (US\$M)	864	2,753	1,036	1,136	359	1,931	269	194
EPS (US\$)	0.01	0.03	0.01	0.01	na	na	na	na
Valuation					Ratios		2023A	2024E
EV/EBITDA adj	4.8	4.1	3.7	3.8	ROE adj (%)		6.3	17.9
PE	11.5	3.6	9.6	8.7	ROIC adj (%)		7.6	8.6
FCF (%)	-2.2	12.5	1.7	6.0	Debt to Capital (%)		29.0	22.9

Source: Company Reports and dataCentral, Citi Research.

Buy ↑ from Neutral

Price (30 Jul 24 16:00) ChP88.25

 Target price ChP105.00 ↑
from ChP102.00

Expected share price return 19.0%

Expected dividend yield 7.5%

Expected total return 26.5%

 Market Cap ChP9,467,610M
 US\$9,919M

Price Performance

(RIC: ENELAM.SN, BB: ENELAM CI)


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ENELAM.SN: Fiscal year end 31-Dec						Price: ChP88.25; TP: ChP105.00; Market Cap: ChP9,467,610m; Recomm: Buy					
Profit & Loss (US\$m)	2022	2023	2024E	2025E	2026E	Valuation ratios	2022	2023	2024E	2025E	2026E
Sales revenue	15,729	12,888	13,442	13,113	13,705	PE (x)	na	11.5	3.6	9.6	8.7
Cost of sales	-9,104	-7,672	-8,013	-7,728	-8,197	PB (x)	0.8	0.7	0.6	0.6	0.6
Gross profit	6,625	5,216	5,429	5,384	5,508	EV/EBITDA (x)	3.6	4.8	4.1	3.7	3.8
Gross Margin (%)	42.1	40.5	40.4	41.1	40.2	FCF yield (%)	-41.6	-2.2	12.5	1.7	6.0
EBITDA (Adj)	4,825	3,749	3,912	4,014	4,032	Dividend yield (%)	2.2	na	2.0	8.3	3.1
EBITDA Margin (Adj) (%)	30.7	29.1	29.1	30.6	29.4	Payout ratio (%)	-503	0	7	80	27
Depreciation	-1,109	-949	-1,078	-1,129	-1,184	ROE (%)	-0.3	6.3	17.9	6.3	6.7
Amortisation	0	0	0	0	0	Cashflow (US\$m)	2022	2023	2024E	2025E	2026E
EBIT (Adj)	2,161	2,387	2,577	2,588	2,547	EBITDA	4,825	3,749	3,912	4,014	4,032
EBIT Margin (Adj) (%)	13.7	18.5	19.2	19.7	18.6	Working capital	-1,339	831	-216	-116	-10
Net interest	-1,038	-1,160	-1,074	-873	-644	Other	-3,760	-1,935	-82	-1,849	-1,713
Associates	0	0	0	0	0	Operating cashflow	-275	2,645	3,614	2,048	2,310
Non-Op/Except/Other Adj	20	223	342	480	488	Capex	-3,856	-2,860	-2,373	-1,875	-1,713
Pre-tax profit	1,143	1,450	1,845	2,195	2,391	Net acq/disposals	0	0	0	0	0
Tax	-840	-673	-738	-788	-847	Other	3,302	3,524	263	0	0
Extraord./Min.Int./Pref.div.	-347	87	1,645	-372	-408	Investing cashflow	-553	664	-2,109	-1,875	-1,713
Reported net profit	-44	864	2,753	1,036	1,136	Dividends paid	-222	0	-201	-826	-311
Net Margin (%)	-0.3	6.7	20.5	7.9	8.3	Financing cashflow	176	145	-1,588	-631	-126
Core NPAT	-44	864	2,753	1,036	1,136	Net change in cash	-652	3,454	-82	-458	471
Per share data	2022	2023	2024E	2025E	2026E	Free cashflow to s/holders	-4,130	-215	1,242	173	596
Reported EPS (\$)	0.00	0.01	0.03	0.01	0.01						
Core EPS (\$)	0.00	0.01	0.03	0.01	0.01						
DPS (\$)	0.00	0	0.00	0.01	0.00						
CFPS (\$)	0.00	0.02	0.03	0.02	0.02						
FCFPS (\$)	-0.04	0.00	0.01	0.00	0.01						
BVPS (\$)	0.12	0.14	0.15	0.15	0.16						
Wtd avg ord shares (m)	107,280	107,280	107,280	107,280	107,280						
Wtd avg diluted shares (m)	107,280	107,280	107,280	107,280	107,280						
Growth rates	2022	2023	2024E	2025E	2026E						
Sales revenue (%)	-2.9	-18.1	4.3	-2.5	4.5						
EBIT (Adj) (%)	-18.9	10.5	7.9	0.4	-1.6						
Core NPAT (%)	-106.0	na	218.5	-62.4	9.7						
Core EPS (%)	-105.5	na	218.5	-62.4	9.7						
Balance Sheet (US\$m)	2022	2023	2024E	2025E	2026E						
Cash & cash equiv.	1,122	1,500	3,591	3,252	4,031						
Accounts receivables	4,435	3,033	2,901	2,874	3,048						
Inventory	547	498	490	458	482						
Net fixed & other tangibles	22,840	21,450	21,627	22,373	22,903						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	5,830	10,374	5,936	6,189	6,289						
Total assets	34,774	36,855	34,545	35,146	36,753						
Accounts payable	4,306	3,686	3,330	3,154	3,343						
Short-term debt	1,349	1,733	1,148	1,190	1,246						
Long-term debt	5,448	5,209	4,406	4,560	4,689						
Provisions & other liab	8,224	9,207	7,008	7,008	7,008						
Total liabilities	19,327	19,834	15,893	15,912	16,286						
Shareholders' equity	12,957	14,505	16,222	16,431	17,257						
Minority interests	2,490	2,516	2,431	2,803	3,211						
Total equity	15,447	17,021	18,652	19,234	20,467						
Net debt (Adj)	5,675	5,441	1,964	2,498	1,904						
Net debt to equity (Adj) (%)	36.7	32.0	10.5	13.0	9.3						

For definitions of the items in this table, please click [here](#).

Relief after Brazilian Distribution concessions update

Recently, the decree related to the renewal of distribution market concessions in Brazil was published. This decree has turned out to be quite similar to the previously published draft, in which a technical resolution to the matter has prevailed, and ultimately de-risks this topic after having generated a lot of noise in recent months.

This document provides guidelines for the 30-year renewal of these concessions, including the fact that there would not be a renewal fee for the concessions and that there would also be a greater focus on quality of service, which the company has already tackled, providing CAPEX commitments for the 2024-26 period of around BRL 6.2bn (~US\$1.1bn) and BRL 4.8bn (~US\$0.9bn) for Enel São Paulo and Enel Ceará, respectively. There will also be the possibility for the companies of an early renewal, in which the expiration of the next concession will not be affected (the time until the original end of the first one added to the second period is respected).

For concessions renewals, the company will be required to develop its operation on two pillars: quality of service and financial stability. For quality of service, it will be considered non-compliant if the company does not meet the quality indicators for three consecutive years, and for financial, two consecutive years (all in the five years prior to the renewal). If the quality criteria are not met, there is the possibility of submitting a plan of measures and investments (CAPEX) to meet them. If the financial indicators are not met, the company may carry out a capital increase defined by ANEEL itself in order to achieve compliance.

In our view, this is positive for the company, reduces the uncertainty that has been generated on this issue in recent times, and provides a basis for a 30-year renewal of its concessions without any related payment. Thus, the company will be able to continue operating in its concession areas for a new period.

Figure 1. Enel Brasil Dx concessions end dates

Dx Company	Concession End Date
Enel Rio	9-Dec-26
Enel Ceará	13-May-28
Enel Sao Paulo	15-Jun-28

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Source: Citi Research, Company Reports

Process' future and recent milestones:

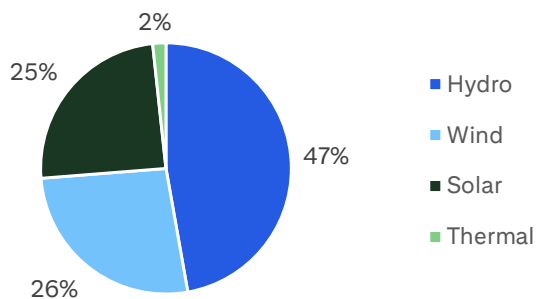
- 1) June 2024: Decree was published by the government, providing guidelines for the concessions renewal (quality of service and financial indicators).
- 2) 4Q24: The regulator (ANEEL) should publish a renewal contract (standard for said contracts).
- 3) 1Q25: ANEEL should issue a renewal recommendation for each distribution company.
- 4) 1 month after previous point: Based on the former recommendation, the Ministry of Mines and Energy should the final decision for the renewal.
- 5) 2Q25 (expected): Finally, the new concession contract is signed.

Evolution in the renewable strategic plan

The company has delivered capacity increases during this year, with a current 12.2 GW of installed capacity (98% renewable), and 0.7 GW in renewable projects being under construction, and should be completed by 2026. Gx pipeline is currently being the main focus for the company’s development, though the Dx segment remains at a high need of investments, especially in Brazil as the new requirements for concessions take place.

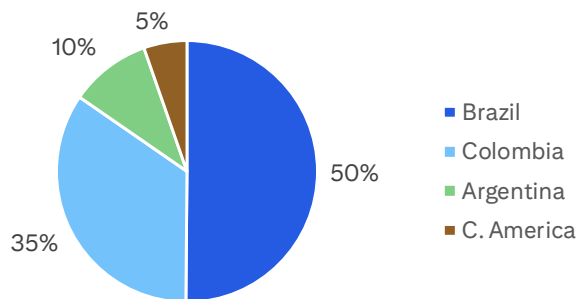
The addition of new renewable capacity through Enel Green Power in Brazil and Colombia will come to replace disposed assets this year in Peru, enhancing the company’s EBITDA, that way making investors to assess the company according to its operating performance, and not because of the asset sales or its announcements (which have been predominant last years). We still expect a steady EBITDA growth in the upcoming years (CAGR 2.4% from 2023-26e, where we see it reach US\$4.0bn) and Net Income’s (CAGR 9.3% from 2023-26e, reaching US\$1.1bn), and new relevant announcements such as the development of a stewardship model in Brazil, new important capacity increase for the company’s pipeline or the use of the remaining proceeds from the Peruvian disposal will have to wait until year end when the company unveils its 2025-27 strategic plan.

Figure 2. Installed Capacity Breakdown by Source, 2026e



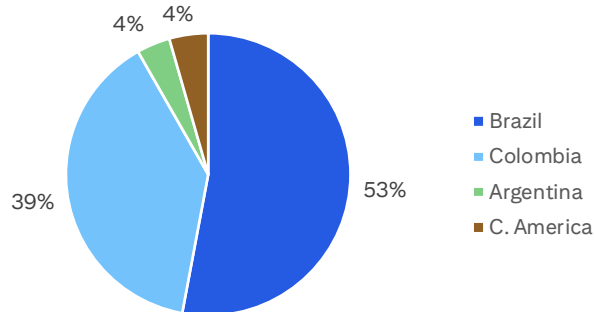
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Source: Company Reports and Citi Research Estimates

Figure 3. Installed Capacity Breakdown by Country, 2026e



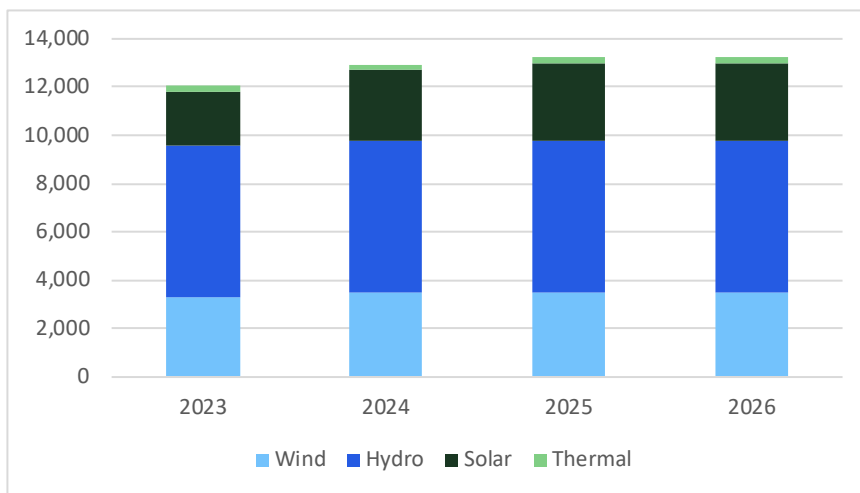
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Source: Company Reports and Citi Research Estimates

Figure 4. EBITDA Breakdown by Country, 2026e



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Source: Citi Research

Figure 5. Installed Capacity Evolution (MW)



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Source: Company Reports and Citi Research Estimates

Estimate changes

We expect a 2024 with relatively not significant changes compared to our previous estimates, and a delay of our view for 2025 into 2026, as we expect most of the new capacity from the pipeline to complete its ramp up by 2025 year end. Because of this, we have reduced our 2024 and 2025 EBITDA estimates by -1% and -3%, respectively. Despite this, we expect a positive evolution in EBITDA (+4% and +3% in 2024 and 2025, respectively). Net income for 2024 has been changed to incorporate the final figures related to the Peruvian business sale, while we are seeing a +7% and +12% growth in 2024 and 2025 (both adjusted ex-Peruvian sale), respectively.

Figure 6. Estimates changes vs last update

Estimates Enelam (US\$ mn)	2024 (Old)	2024 (New)	Change	2025 (Old)	2025 (New)	Change
Revenues	12,161	13,442	11%	12,773	13,112	3%
EBITDA	3,970	3,912	-1%	4,129	4,014	-3%
EBITDA Mg.	32.6%	29.1%	-354	32.3%	30.6%	-172
Net Income	2,805	2,753	-2%	1,265	1,036	-18%
Net Mg.	23.1%	20.5%	-259	9.9%	7.9%	-201

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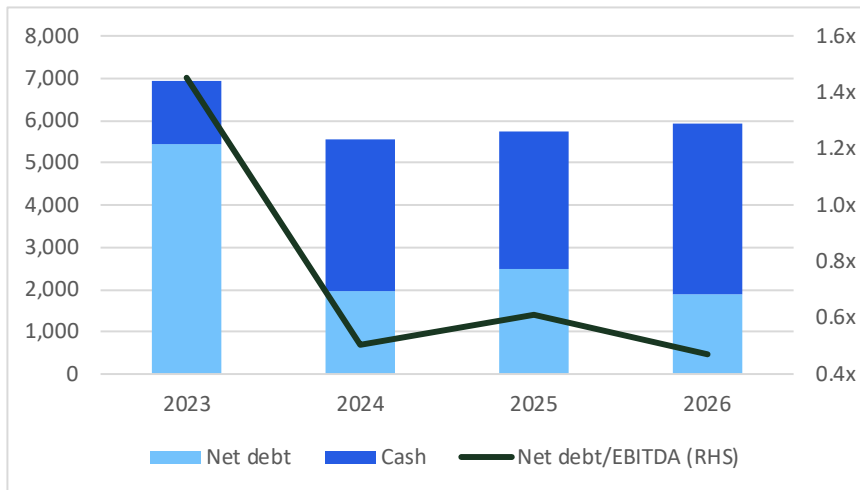
Source: Citi Research

Debt reduction plan as assets sale is over

According to the company, of the total US\$3.8bn proceeds from the sales, most would go to reduce debt in Brazil. This would include the prepayment of debt (US\$1.9bn), plus the gradual reduction of the pension fund in Sao Paulo (US\$1.2bn). The remaining US\$700mn are not earmarked, although our base scenario does not consider their distribution as extraordinary dividends.

We expect that after the sale of Peru, Net Debt/EBITDA ratio would stand below 1.5x and remain below 1.0x. This would provide enough room for the company to take on new debt to finance new projects (and at lower financial risk) enhancing company's growth. Also, as financial costs decrease (owed to lower debt and lower average cost of debt), and as long as the expensive debt is paid out over maintaining cash (10.5% cost of debt vs 5% average cash remuneration), we expect cash flows natural improvements.

Figure 7. Net Debt/EBITDA evolution



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Source: Citi Research

Valuation provides room for appreciation after the end of transactions, dividends take a relevant role for the next year

After the sale of its Peruvian subsidiary, the P/E multiple considers the company's operation itself. The latter currently represents a ~11% discount versus its 5-year average (currently at 9.6x vs. 10.8x average), providing room for appreciation.

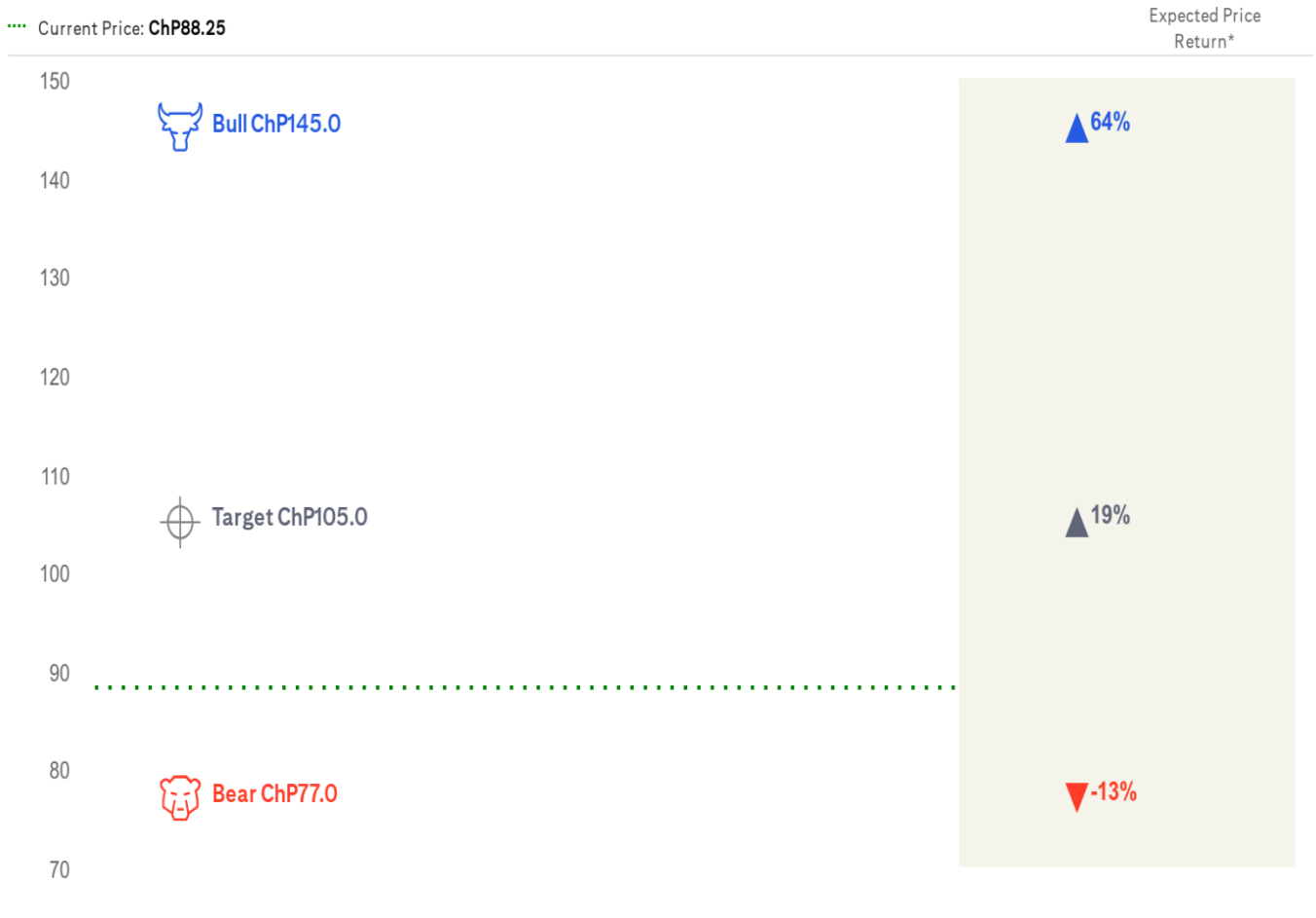
On the other hand, the proceeds stemming from the Peru subsidiary's sale will be increasing net income by about US\$ 1.9bn, providing an attractive increase in dividend payments, which, even if the 30% payout policy is maintained, would imply a ~7.5% dividend yield for the next 12 months at the current share price.

Figure 8. P/E 5-year historical average vs Brazilian peers



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Source: Citi Research, Bloomberg

Bull/Bear: Enel Americas SA (ENELAM.SN)



Spread* 77pp

*Current Price and expected returns as of 30 July 2024

BULL Assumptions

2.5% FX appreciation impact across geographies
Lower WACC across businesses (-50bps)

BASE Assumptions

FX rates assumptions based on Citi estimates
WACC by company based on current CDS.

BEAR Assumptions

Higher WACC across businesses (+50bps)
2.5% FX depreciation impact across geographies

Enel Americas SA

Company description

Headquartered in Santiago, Chile, and listed on the Santiago stock exchange, Enel Americas is a privately owned integrated electric utility with presence in several countries in Latin America. Enel Americas' controlling shareholder is the Italian company Enel SpA, which as of June 2023 beneficially owned 82.3% of total shares.

Since March 2019, when Enel SpA held 51.8% stake in Enel Americas, several events have allowed it to increase its ownership in the company. We refer to: (1) swap transactions with a financial institution through which it acquired ~13% of issued shares during the years 2019-2020; (2) the incorporation of the NCRE generation assets developed and held by Enel in Central and South America (except Chile), through a merger completed in the 2Q21 (Enel SpA's stake increased from 65% to 75.2%); and (3) the launch of a voluntary public tender offer that allowed Enel SpA to reach the 82.3% stake currently held .

Ranked according to the contribution to EBITDA in 2023, the company has operations in Brazil (60%), Colombia (37%), and Central America (3%; Panama, Costa Rica, and Guatemala), and Argentina (>1%). Currently, the company successfully completed its divesting from Peruvian assets (Distribution and Generation), aligned with Enel SpA corporate simplification strategy.

In 2023 while the electricity distribution business contributed 57% of consolidated EBITDA, the power generation business represented the remaining 43%.

In the generation business, as of June 2024, the company managed a portfolio of 12.5 GW (49% hydro, 49% wind and solar, and 2% thermoelectric).

Regarding the electricity distribution business, as of December 2023, Enel Americas served over 22 million customers totaling sales of more than 100 TWh in 2023.

Investment strategy

We rate Enel Americas with a Buy recommendation. This is explained by lower regulatory risks, as current context in Colombia has eased from 2023 and in Brazil, the recent issuance of the guidelines decree for Dx concessions renewal has reduced pressure over the future of Distribution assets. The operating performance evolution, driven by the incorporation of renewable assets, coupled with lower financial expenses after debt prepayment would positively impact earnings. The profits stemming from the sale of the Peruvian assets would be used for reducing debt, and no new assets sale on the horizon. Finally, the company's trading at 9.6x P/E according to our estimates, 11% below its 5-year average, provides room for appreciation after being in line with its history, while having an attractive dividend yield after the boost in Net Income of US\$1.8bn from the sale of Enel Peru.

Valuation

Our ChP 105/share target price for Enel Americas is derived from a sum-of-the-parts valuation. Our model considers the reporting currencies for each subsidiary and Citi's FX forecasts. We value each subsidiary in Brazil, Colombia, Argentina and Central America on free-cash-flow-to-the-firm methodology denominated in USD. We calculate WACC for each country (subject to the respective country risk and LT inflation differential vs the U.S.) and each type of business. We estimate the ownership-adjusted equity value for the company in each of them. After valuating each subsidiary, each target price in USD is converted into Chilean pesos.

Risks

In addition to relevant deterioration of the macroeconomic conditions and political scenario in the company's key markets, with the respective impact on interest rates as well as sovereign ratings hence local currencies and CDS, our target price and investment thesis on Enel Americas are subject to specific risks associated to each of its operation segments.

As the electricity distribution business is heavily regulated in all countries in which Enel Americas operates, the degree of regulatory discretion may materially influence the company's operating results and hence the profitability of the required investments to keep concession areas well served. In this regard, our valuation for each asset could be impacted in a significant manner by:

(i) the definition of Regulatory Asset Bases (RABs); (ii) the required expect return on investment (WACCs); (iii) regulatory uncertainty or changes in regulatory framework in the countries in which Enel Americas operates; and (iv) the operating costs, and electricity losses considered for a model or efficient concessionaire.

As for generation assets, the main risk factors are:

(i) extreme hydrological conditions that could still lead to volatility in margins, and potential exposure to spot prices; (ii) a change in Enel Americas' power generation business' commercial policy that results in an imbalanced long-term contractual position; (iii) delays in start-up of its greenfield projects; (iv) fluctuations in currency and commodity prices impacting its operating costs; (v) electricity prices; and (vi) changes in regulatory framework in the countries in which Enel Americas operates.

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Appendix A-1

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Enel Americas SA (ENELAM.SN)

Ratings and Target Price History
Fundamental Research

Analyst: Felipe Flores



Date	Rating	Target Price	Closing Price
26-Apr-22 08:14:14	*1	*113.00	89.79

Date	Rating	Target Price	Closing Price
27-Jul-23 07:10:36	*2	*115.00	110.66

Date	Rating	Target Price	Closing Price
12-Feb-24 16:06:37	2	*102.00	99.29

*Indicates Change

Rating/target price changes above reflect Eastern Time

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