

**Rating Action: Moody's affirms CFE's Baa1 rating; negative outlook**

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03 May 2021

New York, May 03, 2021 -- Moody's Investors Service, ("Moody's") affirmed Comision Federal de Electricidad ("CFE")'s senior unsecured debt ratings of Baa1 (Global Scale). The outlook remains negative.

The ratings action follows the affirmation of the Baa1 sovereign bond rating of the Government of Mexico, negative outlook. For more information on the Government of Mexico, please visit [https://www.moodys.com/research/--PR\\_443399](https://www.moodys.com/research/--PR_443399).

Affirmations:

..Issuer: Comision Federal de Electricidad

...Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

**RATINGS RATIONALE**

The Baa1 senior unsecured rating affirmation reflects the application of Moody's joint default analysis (JDA) framework for GRIs, which takes into account the i) the Baa1 rating of the Mexican government as CFE's support provider, ii) our assessment of a very strong implied government support to the utility in the case of financial distress and iii) our views of a very high default dependence between CFE and the Mexican government, resulting in the senior secured rating four notches above CFE's BCA of ba2.

While Mexico's government does not guarantee CFE's debt obligations, Moody's believes that there is significant likelihood of governmental support given the company's status as a wholly government-owned entity, and its strategic importance to the country's economy overall. Our estimate of very high default dependence reflects our view that CFE shares several common risk factors with the government.

During 2020, CFE's interest rate coverage equaled 3.4x and Cash From Operations pre-working capital to debt amounted 11.3%. For 2021, Moody's estimates that the interest rate coverage will be around 2.0x and Cash From Operations pre-working capital to debt will represent 5% as a result of debt increases to finance capital expenditures and increasing in operating costs, particularly on the generation business given the high volatility on natural gas prices during the weather crisis in Texas. Nonetheless, Moody's expects these challenges to be partially offset by subsidy increases coming from the federal government.

The outlook remains negative reflecting the rating outlook of the Government of Mexico, the support provider, which provides rating uplift under our analytical framework for Government Related Issuers (GRIs). The negative outlook also reflects the uncertainty regarding the company's decision to combine debt and equity sources to finance its growing capital spending plan, which could lead to a prolonged or higher than anticipated deterioration of credit metrics.

**FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS**

Although a rating upgrade is unlikely in the near future, the outlook could be changed to stable if the outlook on the Mexican government's rating is changed to stable. CFE's BCA could face upward pressure if CFO pre-WC/debt and CFO pre-WC/interest coverage remain above 10.0% and 2.5x, respectively, on a sustained basis.

The ratings could be downgraded if the sovereign rating is downgraded or our view of implied government support diminishes. The ratings could also be downgraded if CFE's leverage increases or its ability to generate adequate cash flow is impaired, leading to a consistent deterioration in credit metrics. Specifically, if CFO pre-WC/debt and CFO pre-WC/interest coverage were to fall and remain below 5.0% and 2.0x, respectively, on a sustained basis, the ratings could be downgraded.

**PROFILE**

CFE is Mexico's dominant electric utility and one of the largest electric utilities in Latin America, with installed

generation capacity of 59 GW (as of December 2020) when including the generation capacity of independent power producers (15.9 GW). CFE has 110,138 kilometers of transmission lines (medium and high voltage) and a distribution network of more than 868,876 kilometers (low voltage). In 2020, CFE generated almost 216 TW/hr to supply energy for 45.6 million of users.

The methodologies used in these ratings were Regulated Electric and Gas Utilities published in June 2017 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1072530](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1072530) , and Government-Related Issuers Methodology published in February 2020 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1186207](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207) . Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1263068](http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1263068) .

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