

27-Mar-2020 | 22:44 EDT

Several Rating Actions Taken On 10 Mexican Infrastructure Entities Following The Sovereign's Downgrade

- On March 26, 2020, S&P Global Ratings downgraded its sovereign foreign currency ratings on Mexico to 'BBB' from 'BBB+' and the local currency ratings to 'BBB+' from 'A-'. The outlook is negative.
- As a result, on March 27, 2020, we lowered our global scale ratings on Comision Federal de Electricidad (CFE), CFE International, LLC (CFEi), the Mexico City Airport Trust (MEXCAT), Red de Carreteras de Occidente, S.A.B. de C.V. (RCO), and Concesionaria Mexiquense S.A. de C.V. (CONMEX) to 'BBB' from 'BBB+', following the same rating action on the sovereign. The outlook on these entities is negative, reflecting the current outlook on Mexico.
- At the same time, we revised the outlook on Impulsora del Desarrollo y el Empleo en America Latina S.A.B. de C.V. (IDEAL), Fermaca Enterprises S. de R.L. de C.V. (Fermaca), Libramiento de Matehuala, CE Oaxaca Dos S. de R.L. de C.V. (CE Oaxaca Dos), and CE Oaxaca Cuatro, S. de R.L. de C.V. (CE Oaxaca Cuatro) to negative from stable, reflecting the outlook on the sovereign. We affirmed our ratings on these companies.
- Finally, we affirmed our 'BBB+' rating on Mexico Generadora de Energia, S. de R.L. (MGE) with a stable outlook, the latter backed by our opinion that the project will survive the current downgrade on Mexico and the hypothetical sovereign stress scenario.

MEXICO CITY (S&P Global Ratings) March 27, 2020—S&P Global Ratings took rating actions described above. The downgrade of government-related entity CFE follows our similar action on Mexico (see "[Mexico Foreign Currency Ratings Lowered To 'BBB' And Local Currency To 'BBB+' On Hit To Trend Growth; Outlook Negative](#)", March 26, 2020), which mainly reflects our expectations on a pronounced hit to the Mexican economy following the combined shocks of COVID-19, in Mexico and in the U.S. (it's main trading partner) and lower oil prices. In addition, it indicates the risks of a downgrade over the coming 12-14 months as a result of uneven or ineffective policy execution; potential weakening in public finances, reflecting a difficult trade-off between sustaining GDP growth given Mexico's non-oil tax base and spending rigidities; and rising pressure on PEMEX. We believe CFE continues to play a critical role for the government, given its monopoly over the electric transmission and distribution in the country. We also expect the company to continue to be the leading player in the power generation business for the foreseeable future. Moreover, CFE has an integral link with the government, because the latter is the company's sole owner and will continue to have tight control over it. Given all these factors, we view the likelihood that the Mexican government would provide timely and sufficient extraordinary support to CFE in the event of distress as almost certain. Therefore, our ratings and outlook on CFE remain at the same level as on the sovereign. National scale ratings on the company of 'mxAAA' and Stable outlook remain unchanged.

We also lowered our ratings on CFEi, a company that we deem as core for CFE, maintaining the negative outlook on it. CFEi's primary goal is to meet the natural gas demand for the power generating companies under CFE, for and third-party industrials consumers in Mexico, by buying upstream physical supply in the U.S. to meet downstream demand in Mexico. Therefore, given CFEi's role in CFE's overall strategy to reduce fuel costs and the likelihood of receiving parent support if necessary, such as guarantees from CFE about fuel supplies and gas transportation agreements, we equalize the rating on CFEi with that on CFE.

The downgrade of the Mexico City Airport reflects the credit quality of the sponsor of this transaction, Grupo Aeroportuario de la Ciudad de Mexico, S.A. de C.V. (GACM; not rated), which in turn mirrors the sovereign rating on Mexico and its outlook. This is because we consider the GACM as a material and not easily replaceable without significant time or cash flow implications counterparty; and given its critical role in operating and maintaining the airport.

In the case of RCO, CONMEX, and Libramiento de Matehuala, we capped their ratings and outlook at the sovereign level, aside from performance. This is because, in our view, they operate in what we consider a highly regulated sector (dependent on tariff adjustments approved or registered by the regulators) and

their traffic volumes are correlated to the country's GDP growth pace. Consequently, we believe they could suffer from heavier regulation in a sovereign stress scenario, and wouldn't generate or maintain sufficient cash to honor their financial obligations under a sovereign default scenario.

We also revised the outlook to negative from stable on CE Oaxaca Dos, CE Oaxaca Cuatro, and Fermaca Enterprises and affirmed their 'BBB' ratings, because we consider CFE to be a key counterparty for all these projects. In the case of CE Oaxaca Dos and CE Oaxaca Cuatro, CFE is the only off-taker under each project's power purchase agreements. For Fermaca, CFE accounts for 90% of the total capacity of the project under the gas transportation agreements. A downgrade of CFE would trigger a similar rating action on these projects.

We also changed the outlook to negative from stable on the project developer IDEAL and affirmed the 'BBB' rating. This reflects our view of the company's high exposure in Mexico, and specifically in the transportation sector, which has a performance highly correlated to the country's GDP. Moreover, in certain projects, IDEAL receives availability payments from government entities. In this context, we do not envision the rating on IDEAL to be above that on the sovereign.

The rating affirmation and outlook maintenance on MGE follows a similar rating action on Minera Mexico and our expectation that the project's operating and financial performance will remain strong, even in a sovereign stress scenario, mainly based on the strengths of the Energy Self-Supply Agreement (ESSA) that Minera Mexico backs on an ultimate basis. Under the ESSA, the off-taker makes monthly fixed-capacity payments to MGE, covering the fixed and variable costs, fuel, back-up power, and transmission service costs, among others. All of MGE's costs would be passed to the counterparty, even under a hypothetical stress, and a lower generation level wouldn't affect our projections based on the take-or-pay nature of the ESSA. Therefore, we believe MGE's credit quality will be linked to that of Minera Mexico rather to the sovereign. As long we rate the counterparty above Mexico, and absent an unforeseeable change in the contracts, we expect MGE's credit quality to follow Minera Mexico's.

Related Criteria

- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019

- [Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions](#), March 8, 2019
- [General Criteria: Methodology For National And Regional Scale Credit Ratings](#), June 25, 2018
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [Criteria | Corporates | Industrials: Commodities Trading Industry Methodology](#), Jan. 19, 2017
- [Criteria | Corporates | Industrials: Methodology For Rating Project Developers](#), March 21, 2016
- [General Criteria: Rating Government-Related Entities: Methodology And Assumptions](#), March 25, 2015
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [Criteria | Corporates | Project Finance: Project Finance Transaction Structure Methodology](#), Sept. 16, 2014
- [Criteria | Corporates | Project Finance: Project Finance Framework Methodology](#), Sept. 16, 2014
- [Criteria | Corporates | Project Finance: Key Credit Factors For Social Infrastructure, Accommodation, And Entertainment Project Financings](#), Sept. 16, 2014
- [Criteria | Corporates | Project Finance: Key Credit Factors For Road, Bridge, And Tunnel Project Financings](#), Sept. 16, 2014
- [Criteria | Corporates | Project Finance: Key Credit Factors For Power Project Financings](#), Sept. 16, 2014
- [Criteria | Corporates | Project Finance: Key Credit Factors For Oil And Gas Project Financings](#), Sept. 16, 2014
- [Criteria | Corporates | Project Finance: Project Finance Operations Methodology](#), Sept. 16, 2014
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#), Nov. 19, 2013

- [Criteria | Corporates | General: Corporate Methodology](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry](#), Nov. 19, 2013
- [General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Nov. 13, 2012
- [Criteria | Corporates | Project Finance: Project Finance Construction And Operations Counterparty Methodology](#), Dec. 20, 2011
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011
- [General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating](#), Oct. 1, 2010
- [General Criteria: Use Of CreditWatch And Outlooks](#), Sept. 14, 2009

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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