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IEnova sees low counterparty risk, stable revenue upstream

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Only a small portion of IEnova's (Baa2/BBB-) customer base faces challenges that could affect payment ability, and the Mexican pipeline company has a stable revenue upstream based on its take-or-pay contracts, CEO Tania Ortiz said today on a conference call to discuss 1Q20 earnings.

IEnova has managed to diversify its customer base over the last few years. A little less than 50% of its revenue comes from government entities and the remainder from private Mexican industrial counterparties and international oil companies, according to management.

"Our government counterparties – of which Pemex accounts for less than 10%, and the rest is shared between CFE and Cenegas – have been meeting their payment obligations and there is no sign of changing the payment terms in their contracts," CFO Nelly Molina said.

In 1Q20, revenues were USD 313.2m, compared with USD 380.6m in the same period of 2019. The decrease was mainly due to lower prices and volumes of natural gas sold, and lower revenue from several projects and pipelines.

Facing the economic backdrop caused by lower oil prices and the coronavirus, IEnova maintains a strong level of liquidity through cash balance and committed credit lines. In 1Q20, adjusted EBITDA increased to USD 251.3m, from USD 229.0m in 1Q19. There is no estimate of the potential impact of payment and operational delays on 2020 EBITDA.

"This quarter we were in line with our expectations, but we cannot determine the impact of potential payment delays in projects that are under development and under construction due to the construction activity being restricted," Ortiz said. "Our contracts are take-or-pay and therefore the revenue upstream is stable, but any delays might affect the guidance."

IEnova's counterparties are rated BBB to BBB+ on average, according to management.

Only a small percentage of private counterparties, consisting of international customers such as Shell and Gazprom and Mexican industrial companies, have expressed concerns about challenges related to their industrial production.

"Several customers, mainly Mexican industrial companies, formally or informally have informed us that they might face challenges due to their industrial production, so we will work closely with them to understand their concerns," Ortiz said. "The services we provide are critical, and they will continue to require them."

In the event of missed payments, the company may collect interest and eventually stop providing services.

IEnova will continue its efforts to replace its existing debt, extend debt maturities, and maintain or lower its cost of debt, while improving liquidity, according to Molina.

“The recent [Fitch and Moody’s credit rating] downgrades did not have an impact on our balance sheet as the existing long-term debt has fixed interest rates,” Molina said. “Our goal is to maintain investment grade.”

Looking out for potential M&A opportunities

IEnova will be closely watching out for consolidation opportunities, according to management.

However, it said there is no current inclination to use its share buyback program.

“There has been selective execution of our up-to-USD 150m buyback program for the last two years and right now there is no inclination to go that road,” Ortiz said.

IEnova’s exposure to gas prices is limited, as it has almost no commodity exposure and the prices of its assets are not linked to commodity prices.

Some construction will be deferred from 2020 to 2021 due to limited government operation resulting in permitting delays, and interruption of local supply causing delays in construction.

“We are evaluating how employment may vary for the rest of the year and how the projects may evolve while we are working closely with the government,” Ortiz said.

IEnova’s USD 540m 4.875% 2048 bond last traded 22 April at 85.125, to yield 5.98%, according to MarketAxess. The USD 300m 3.75% 2028 bond last traded on 16 April at 90.25, to yield 5.302%.

by Ero Partsakoulaki