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Research Update:

Ameren Energy Generating Co. Corporate Credit Rating Lowered To 'B' On Stand-Alone Credit Quality'; Outlook Stable

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Table Of Contents

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Overview

- The rating on Ameren Energy Generating Co. (GenCo) reflects its stand-alone credit quality given our assessment that parental support for GenCo is minimal.
- We are lowering our corporate credit rating on GenCo to 'B' from 'BB-'. The outlook is stable.
- We are lowering our rating on GenCo's senior unsecured debt to 'B+' from 'BB-', reflecting our expectation of substantial (70%-90%) recovery in the event of a payment default.
- The stable outlook incorporates our expectation that Genco's profit margins will remain pressured because of low electricity market prices and the expiration of a higher hedged position.

Rating Action

On Nov. 26, 2012, Standard & Poor's Ratings Services lowered its corporate credit on Ameren Energy Generating Co. to 'B' from 'BB-'. We also lowered the ratings on GenCo's senior unsecured debt to 'B+' from 'BB-'. The outlook is stable. The recovery rating on GenCo's senior unsecured debt has been revised to '2' from '3', indicating our expectation of substantial (70%-90%) recovery in the event of a payment default. The revised recovery rating reflects our previous capping of GenCo's recovery ratings at '3', which is typically the limit for unsecured debt of companies with a corporate credit rating of 'BB-' or higher, because we believe there is a high probability that the recovery prospects on this debt will be impaired by additional priority or pari passu debt or other claims before a default.

Rationale

The downgrade on Ameren Energy Generating Co. reflects its stand-alone credit quality, including its highly leveraged financial risk profile and weak business risk profile. Our view of GenCo is based on its standalone credit quality and reflects our assessment of no material support for GenCo by parent Ameren. It is our opinion that Ameren would only provide support to GenCo to the extent that Ameren anticipates an improving forward power price curve by 2018, when its $300 million senior unsecured note matures and incremental environmental capital investments are needed to meet the state's multipollutant standards.

GenCo's highly leveraged financial risk profile reflects Standard & Poor's base-case scenario that cash flow measures will weaken over the next three years. We expect funds from operations (FFO) to debt to gradually weaken to less than 10% and for debt to EBITDA to increase to more than 6x, reflecting cash flow measures that are consistent with the highly leveraged financial risk profile category. For the 12 months ended June 30, 2012, FFO to debt decreased to 19.3% compared with 24.2% at year-end 2011, adjusted debt to EBITDA weakened to 4.2x compared with 3.4x at year–end 2011, and adjusted debt to total capital remained unchanged at 48.5%. Under Standard & Poor's base-case scenario, we expect that over the next three years the U.S. economy will continue to grow slowly at an annual GDP growth rate of about 2.5%. Under this scenario, electricity demand growth by itself would be insufficient to substantially increase the market price of electricity.

While GenCo has materially reduced capital spending over the next three years, partially by decelerating spending on the Newton scrubber project, we expect that GenCo's discretionary cash flow will eventually turn negative as higher-priced electricity hedges expire. To meet its cash obligations, management will have to continue to identify further opportunities to reduce costs, use its available cash, and potentially sell assets.

GenCo's weak business risk profile reflects its ultimate dependence on the market price of electricity, which has remained low. Management has proactively addressed those areas that it can directly influence, including maintaining a consistent hedging program, reducing costs and capital spending, receiving a variance from the Illinois Pollution Control Board to extend the state's compliance date for the multipollutant standards, and solidifying GenCo's liquidity by entering into a minimum $100 million asset put option with Ameren. However, while GenCo's three-year rolling hedging strategy provided a degree of price insulation over the past two years, sustained low power prices have undermined this credit enhancement. Over the next year, we expect that expiring higher-priced hedges will continue to be replaced by lower market prices. While we expect that management may continue to identify further cost reduction opportunities, the business risk profile will continue to be pressured by the company's less efficient coal plants and its Midwest location, which lacks a robust capacity market and higher congestion pricing.

Liquidity

GenCo has "strong" liquidity and can more than cover its needs for the short-term, even if EBITDA decreases. Our liquidity assessment is based on the following factors and assumptions:

- We expect the company's liquidity sources (including cash, FFO, and potential asset sales) over the next 12 months to exceed its uses by more than 2.5x.
- GenCo does not have long-term debt maturities until 2018.
- Even if EBITDA decreases by 30%, we believe net sources will be in excess of liquidity requirements.

- The company has sound relationships with its banks and has generally prudent risk management, including its flexibility to lower capital spending and ability to exercise its $100 million asset put option.

In our analysis, we assumed liquidity of more than $200 million over the next 12 months, primarily consisting of cash, FFO, and potential asset sales. We estimate the company will use about $80 million over the same period for capital spending and working capital needs.

GenCo terminated its $500 million credit facility in November 2012. GenCo's bond indenture includes financial covenants that must be met for GenCo to incur additional indebtedness. These financial covenants include a debt-to-capital ratio of no greater than 60% and a minimum interest coverage ratio of 2.5x. Because of these financial covenants, GenCo projects that it will not be able to borrow additional funds from external third parties as of March 31, 2013. Therefore, our assessment of GenCo's strong liquidity does not rely on external third party borrowings.

Recovery analysis

GenCo's unsecured notes are rated 'B+', one notch higher than the corporate credit rating. The '2' recovery rating indicates our expectation of substantial (70%-90%) recovery. We will publish a full recovery report on RatingsDirect following the release of this report.

Outlook

The stable outlook incorporates Standard & Poor's base-case scenario for GenCo as a standalone company that assumes that profit margins will continue to be pressured by low electricity market prices and the expiration of higher-priced hedges. Under our base-case scenario, the company's financial measures will weaken so that FFO to debt will be less than 10% and debt to EBITDA will be more than 6x. We could lower the ratings if our assessment of the company's strong liquidity weakens to less than adequate or if FFO to debt is consistently less than 5%. The ratings could be raised if the U.S. economy improves, increasing the demand and the price of electricity so that FFO to debt is consistently greater than 12%.

Related Criteria And Research

- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Standard & Poor's Extends Recovery Ratings To Unsecured Speculative-Grade Corporate Issues, March 21, 2008

Ratings List

Downgraded; Outlook Action

	To	From
AmerenEnergy Generating Co.		
Corporate Credit Rating	B/Stable/--	BB-/Negative/--

Ratings Revised

	To	From
AmerenEnergy Generating Co.		
Senior Unsecured	B+	BB-
Recovery Rating	2	3

Ratings Affirmed

Ameren Corp.	
Ameren Missouri	
Ameren Illinois Co.	
Corporate Credit Rating	BBB-/Stable/A-3
Ameren Corp.	
Senior Unsecured	BB+
Commercial Paper	A-3
Ameren Illinois Co.	
Senior Secured	BBB+
Recovery Rating	1+
Senior Secured	BBB
Recovery Rating	1
Preferred Stock	BB
Commercial Paper	A-3
Ameren Missouri	
Senior Secured	BBB+
Recovery Rating	1+
Preferred Stock	BB
Commercial Paper	A-3

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