MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Assigns Baa2 Issuer Rating to Grupo Energia Bogota

17 Oct 2019

New York, October 17, 2019 -- Moody's Investors Service ("Moody's") today assigned a Baa2 issuer rating to Grupo Energia Bogota S.A. E.S.P. ("GEB" or "Issuer"). The outlook is stable.

Assignments:

..Issuer: Grupo Energia Bogota S.A. E.S.P.

....Issuer Rating, Assigned Baa2

Outlook Actions:

..Issuer: Grupo Energia Bogota S.A. E.S.P.

....Outlook, Assigned Stable

RATINGS RATIONALE

The Baa2 issuer rating assigned to GEB reflects its operational and geographically diversified portfolio of subsidiaries that result in strong consolidated financial metrics. The financial profile of GEB is underpinned by cash flows generated by creditworthy, key, controlled subsidiaries such as Transportadora de Gas Internacional S.A. E.S.P. (TGI; Baa3, stable) and Gas Natural de Lima y Callao S.A. (Calidda; Baa2, stable). The rating also reflects its ownership structure and linkages with the Distrito Capital (Colombia) Bogota (District of Bogota; Baa2 stable).

GEB's credit quality is constrained by the structural subordination that results from (i) nearly 40% of parent only debt compared to consolidated indebtedness as well as (ii) its strong dependence on subsidiaries' cash up-streams to meet capital requirements including its debt service despite GEB's own profitable transmission operations. GEB's credit profile is also tempered by important capital expenditure needs that amount to approximately $2bn for 2019-2023. Nonetheless, financial metrics are expected to remain stable with an adequate debt maturity profile. Moody's also recognizes GEB's track record of access to capital markets.

The Baa2 issuer rating assigned to GEB reflects the application of Moody's joint default analysis (JDA) framework for government related issuers (GRIs), which takes into account the following four input factors: i) a baseline credit assessment (BCA) of baa3 as a measure of GEB's standalone creditworthiness, ii) the Baa2 rating of the District of Bogotá as GEB's support provider, as well as iii) our estimates of Strong implied government support in the case of financial distress and iv) a Moderate dependence between GEB and Bogotá. These assumptions consider the company's linkages with the District of Bogotá, which owns 66% of GEB. These also reflect the strategic and essential nature of the services provided, the government control and direction of the company, which under our framework translates into a one-notch rating uplift from the BCA of baa3.

GEB seeks to naturally hedge its exposure to foreign exchange risk by matching their Colombian Peso (COP) denominated debt proportionally to their EBITDA generated in COP. Notwithstanding, currently a modest exposure remains: approximately 65% of total EBITDA is USD denominated and 35% in COP, while close to 85% of total debt is USD denominated and 15% in COP. GEB also has a long track record of access to debt financing and its credit rating also reflects a manageable debt maturity profile and our expectation that GEB's dividend policy will be reasonable and sustainable.

The stable outlook reflects our expectation that GEB will continue recording key credit metrics that remain commensurate with the Baa-rating category. The BCA also assumes no material changes in the group's ownership-stakes and/or new important expansion plans, as well as that the group's dividend policy will remain sustainable.

WHAT COULD CHANGE THE RATING UP/DOWN

The ratings of GEB could experience positive momentum if the ratings of Colombia and the District of Bogota are upgraded in conjunction with a raise of GEB's BCA. The company's exposure to foreign exchange risk limits the latter but if it becomes fully hedged again an upgrade could result if GEB's current material structural subordination weakens significantly, either in terms of a reduction in its cash dependence from the non-controlled subsidiaries and/or a material reduction of in the percentage of parent only indebtedness over consolidated debt along an improvement in financial metrics; Specifically, if its 3-year CFO pre-W/C to debt and interest coverage exceeded 22% and 5x, respectively, on a sustainable basis.

GEB's rating is likely to be downgraded if the ratings of Colombia and/or the District of Bogota experience negative momentum. The BCA could be lowered if Moody's perceives a deterioration in the Colombian regulatory environment, and/or increase in the structural subordination considerations and/or material changes in the portfolio of key subsidiaries. An aggressive dividend policy and/or investment program that results in incremental indebtedness above Moody's current anticipated levels that is likely to also result in a lower BCA. Expansion initiatives that increase the group's exposure to unregulated operations and/or less transparent regulatory environments are likely to also have a negative impact on the BCA.

The methodologies used in this rating were Regulated Electric and Gas Utilities published in June 2017, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies

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