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Rating Action: Moody's affirms TGI's Baa3 rating following EEB's announcement to increase its majority stake; outlook remains stable

Global Credit Research - 07 Apr 2014

New York, April 07, 2014 -- Moody's affirmed today the Baa3 senior unsecured rating of Transportadora de Gas Internacional (TGI). Today's rating action follows the announcement on April 4, 2014 by Empresa de Energia de Bogota (EEB; Baa3, stable), that it has reached an agreement to increase its majority ownership in Transportadora de Gas Internacional (TGI; Baa3, stable) from 68.05% to 99.97%. To that end, EEB has agreed to pay US$880 million to Citi Capital Venture (CVCI) that currently holds a 31.91% voting stock in TGI via Inversiones en Energia Latino America Holding S.L. (IELAH). TGI's outlook is stable.

Moody's understands that EEB has 90 days to arrange the financing, and that the transaction is likely to be funded using a combination of equity and a 5-year committed bank loan. EEB will initially make the equity contribution (around 30%) via a newly special purpose vehicle (SPV) that will be merged with IELAH and also incur US$616 million indebtedness. After attaining all the required authorizations the SPV and TGI will also merge. As a result, this new piece of debt will become TGI's financial senior unsecured obligations, and rank pari passu to the outstanding US$750 million 10-year senior unsecured notes due in 2022 and ahead of the US$370 million subordinated debt payable to EEB. Moody's understands that the terms of the bank loan will likely allow for early prepayments without penalties. Moody's estimates that the agreed price would equal a high multiple of around 9 times TGI's EBITDA recorded in 2013, a credit negative.

RATINGS RATIONALE

The rating affirmation is largely predicated on the assumption that as soon as the merger between TGI and the new SPV is completed the company will use a substantial portion of its current balance of cash on hand and short-term investments to pre-pay about half of this new indebtedness.

As a result, the rating action incorporates the expectation that TGI's credit metrics will deteriorate amid its increased indebtedness to help fund the purchase of the minority shares currently held by CVCI following the significant improvement registered during 2013. However, it also assumes that following the expected debt pre-payment the metrics will still largely remain commensurate with the lower-end of the Baa-rating category as outlined in the financial ratio guidelines of the Natural Gas Pipeline ratings methodology.

Moody's rating action considers that TGI will commence distributing dividends this year after completing in 2012 the bulk of its capital expenditure (capex) program which allowed TGI to accumulate a material amount of cash and short-term investments that aggregated US$360 million at year-end 2013. The rating also assumes that in the absence of committed credit facilities TGI's management will continue to enhance the company's liquidity profile by maintaining, at all times, at least US$30 million cash balance which we understand would cover around three months of operational costs.

The stable outlook reflects Moody's expectation that post the merger with the SPV in late 2014 and debt-prepayment TGI in 2015 will be able to report credit metrics that remain commensurate with the Baa-rating category along with the continuation of positive free cash flows. Specifically, that TGI's FFO to debt, interest coverage and retained cash flow (RCF) to debt will exceed 15%, 3x and 12%, respectively.

Upon completion of the transaction, TGI will be weakly positioned within the Baa-rating category. Therefore, there would be limited prospects for an upgrade over the near term. That said, the rating could experience positive momentum if Colombia's current government sovereign rating (Baa3, positive outlook) is upgraded and the company's credit metrics continue their previous significant improvement. Specifically, if its FFO to debt, interest coverage and RCF to debt were to exceed 20%, 4.5x, and 15%, respectively, on a sustainable basis.

The rating and outlook will likely come under pressure if EEB management upon completion of the transaction decides to implement a more aggressive dividend policy that results in material negative free cash flows. Given that TGI is currently weakly positioned within the Baa3-rating category downward momentum is likely if the company incurs additional indebtedness to fund dividends, and/or growth opportunities that results in an additional deterioration in TGI's credit metrics such that these are not commensurate with the Baa3-ratiing category;

Specifically, such that it reports FFO to debt, interest coverage and RCF to debt fall below 15%, 3.0x, and 12%, respectively, for an extended period. Downward pressure could also result from a deterioration in the credit supportiveness of the Colombian regulatory environment or a change in the company's business risk profile that jeopardizes TGI's cash flow visibility.

For more detailed information about TGI please refer to the Credit Opinion and Presale report which can be found at www.moodys.com.

The principal methodology used in this rating was Natural Gas Pipelines published in November 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Headquartered in Bogota, Transportadora de Gas Internacional (TGI) is a natural gas transportation company operating in Colombia (Baa3, positive). TGI's majority shareholder is Empresa de Energia de Bogota (EEB; Baa3, stable) with a 68.05% ownership-stake, while Citi Capital Venture (CVCI) indirectly holds a 31.92% interest via Inversiones en Energia Latino America Holding S.L. of TGI's voting stock with the remaining 0.03% held by retail investors and TGI's employees. TGI's international operations currently consist of its 25% ownership-stake in Contugas (a majority owned subsidiary of EEB) that is developing the natural gas transportation and distribution networks in the Department of ICA, Peru. At year-end 2013, TGI reported total assets of around US$3 billion.

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