

# Empresa de Energia de Bogota S.A. E.S.P. (EEB)

## Full Rating Report

### Ratings

#### Foreign Currency

Long-Term IDR	BBB
Senior Unsecured	BBB

#### Local Currency

Long-Term IDR	BBB
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#### National

Long-Term Rating	AAA(col)
Local Bond Issuance	AAA(col)

IDR – Issuer Default Rating. FC – Foreign currency. LC – Local currency.

### Rating Outlooks

Long-Term FC IDR	Stable
Long-Term LC IDR	Stable
National Long-Term Rating	Stable

### Financial Data

#### Empresa de Energia de Bogota S.A. E.S.P. (EEB)

(COP Bil.)	12/31/16	12/31/15
Revenue	3,133	3,420
EBITDA	1,477	1,424
EBITDA Margin (%)	47.2	41.6
FFO	1,993	2,144
FCF	197	(762)
Cash and Marketable Securities	1,549	1,148
Total Adjusted Debt	8,204	8,915
Total Adjusted Debt/EBITDAR (x)	3.4	4.2
FFO-Adjusted Leverage (x)	3.5	3.7
EBITDA/Interest Paid (x)	5.3	5.3

### Related Research

Fitch Affirms Empresa de Energia de Bogota SA ESP's IDRs at 'BBB' & National Scale at 'AAA(col)' (October 2016)

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### Key Rating Drivers

**Stable Cash Flow Generation:** Empresa de Energia de Bogota S.A. E.S.P.'s (EEB) ratings incorporate a diversified portfolio of assets and a low business risk profile. EEB owns noncontrolling majority stakes in Colombia's second largest electric generation company, Emgesa S.A. E.S.P. (BBB/Stable), and in the country's largest electric distribution company, Codensa S.A. E.S.P. (AAA(col)/Stable). EEB fully owns Transportadora de Gas Internacional S.A. E.S.P. (TGI) (BBB/Stable) the largest natural gas pipeline transportation company in Colombia.

**Solid Business Position:** All of EEB's companies are in a strong competitive position and operate in a lower business risk environment, boding well for the company's credit profile. EEB operates at the holding level in the electric transmission business and has a controlling position in companies participating in the gas distribution and transportation businesses, which are regulated natural monopolies with stable cash flow generation. During 2016, more than 60% of EBITDA plus dividends received was derived from these operations.

**Predictable Dividend Stream:** The vast majority of cash dividends received at the holding company is generated from investments in Emgesa and Codensa. Emgesa's 'BBB' rating reflects the company's strong business model, supported by asset diversification, solid competitive position and conservative commercial strategy. Codensa's 'AAA(col)' rating reflects the company's low business risk profile supported by regulated revenue and a solid track record of credit metrics, with low leverage and ample liquidity.

**Moderate Increase in Leverage:** Fitch Ratings expects EEB's leverage will be in the 3.5x–4.0x range over the next two years. These metrics are consistent with the rating level. Leverage is projected to be elevated in the next few years given the aggressive capex to be executed in the transmission business, the ongoing effects of local currency depreciation on the company's debt structure and a still demanding dividend policy at the holding company.

**Outlook Stable:** The ratings factor in the expectation EEB will execute a new corporate strategy and will maintain a solid financial profile. The company will focus on growing through current affiliates concentrated in natural monopolies. Mergers and acquisitions activity at the holding level may be limited in the medium term.

### Rating Sensitivities

**Negative Rating Action:** A negative rating action could result from any combination of the following factors: leverage levels over 3.5x on a sustained basis as a result of an aggressive growth strategy of the investment portfolio; influence from the company's shareholders results in a suboptimal financial or operational strategy that could weaken the group's credit quality; and significantly large acquisitions financed mostly with incremental debt.

**Positive Rating Action:** A positive rating action or outlook is unlikely in the near to medium term given the company's current credit metrics and capex expectations.

## Financial Overview

### Scheduled Debt Maturities

(COP Mil., As of Dec. 31, 2016)	
2017	548,065
2018	56,027
2019	1,655,331
2020	109,190
2021	2,418,612
Thereafter	3,416,771
<b>Total Debt Maturities</b>	<b>8,203,998</b>

Source: Company filings, Fitch.

### Liquidity and Debt Structure

EEB's liquidity is considered solid, supported by high cash on hand, predictable cash flow from operations (CFFO) and a manageable debt amortization profile. As of year-end 2016, the company reported COP1.3 trillion in cash, with COP383 billion in cash at the holding company level. This compares favorably with around COP548 billion of short-term debt on a consolidated basis and COP235 billion at the holding company level. Fitch expects most of the debt amortization in the medium term will be refinanced given the projected pressures in FCF generation over the next couple of years due to elevated capex requirements.

The next sizable consolidated debt amortization is scheduled in 2019, when credit loans to TGI of USD219 million and Peruvian subsidiary Contugas S.A.C. of USD342 million are due. Sizable amortization begins in 2021 with maturity of USD749 million in bonds issued by EEB.

### Liquidity Summary

(COP Mil., As of Dec. 31)	2015	2016
Total Cash and Cash Equivalents	872,430.0	1,341,886.0
Short-Term Investments	275,962.0	207,253.0
Less: Not Readily Available Cash and Cash Equivalents	0.0	0.0
<b>Fitch-Defined Readily Available Cash and Cash Equivalents</b>	<b>1,148,392.0</b>	<b>1,549,139.0</b>
Availability Under Committed Lines of Credit	0.0	0.0
<b>Total Liquidity</b>	<b>1,148,392.0</b>	<b>1,549,139.0</b>
Plus: Fitch Forecast 2017 FCF (Post Dividend)	—	(601,354.5)
<b>Total Projected 2017 Liquidity</b>	<b>—</b>	<b>947,784.5</b>
Liquidity Score	—	1.3
LTM EBITDA	1,424,052.0	1,477,161.0
LTM FCF	(762,130.0)	196,154.0

Source: Company filings, Fitch.

### Cash Flow Analysis

EEB's financial profile is considered consistent with an investment grade level rating, characterized by predictable CFFO from the company's participation in regulated business. Fitch notes the company maintains a diversified portfolio of assets with a low business risk profile and stable and predictable cash flow generation. EEB's low business risk profile stems from a diversified portfolio of energy assets operating as regulated natural monopolies.

The company's EBITDA consists of the energy transmission business at the holding level plus EBITDA generated in subsidiaries mostly represented by TGI. EEB receives cash dividends from noncontrolling stakes in a portfolio of companies operating in the electric and natural gas businesses. Emgesa and Codensa comprise the majority of EEB's cash dividends received. EEB maintains shareholder agreements with Emgesa and Codensa to ensure minimum dividend payments for these companies. In practice, both companies maintained an aggressive dividend policy.

Fitch anticipates projected capex will pressure FCF in the next few years. Most capex is related with the energy transmission business at the holding level. Fitch expects EEB's leverage will be in the 3.5x–4.0x range over the next two years, trending below 3.5x by 2019. These metrics are consistent with the rating level.

### Related Criteria

Criteria for Rating Non-Financial Corporates  
(March 2017)

**FX Screener**

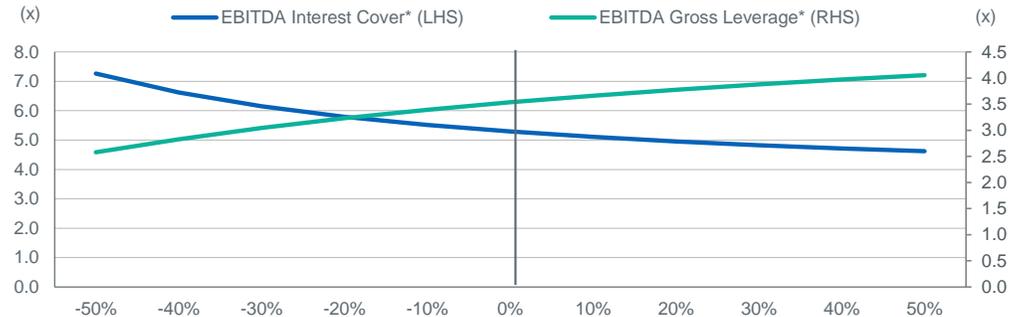
The *Fitch FX Screener* chart below displays Fitch's estimates of long- and short-term reported local and foreign currency (FC) for EEB along with EBITDA interest coverage and EBITDA gross leverage. The chart illustrates relative proportions rather than specific figures, thereby acknowledging the limitations of calculating the currency splits for a given financial year.

Fitch analysts make estimates, sometimes with information from management, as to the actual FC receipts or FC-linked income relative to costs. Within the screener's debt columns, the short-term FC debt, usually in U.S. dollars, is highlighted, because in a volatile currency market, this debt has to be physically repaid with FC using cash or accommodative refinancing in the bond or bank market.

Almost 98% of EEB's financial debt is U.S. dollar denominated and exposes the company to FX risk, since the company estimates on average 40% of EBITDA generation is denominated in Colombian pesos.

**Fitch FX Screener - Foreign to Reported Currency Stress Test - Absolute Variation**

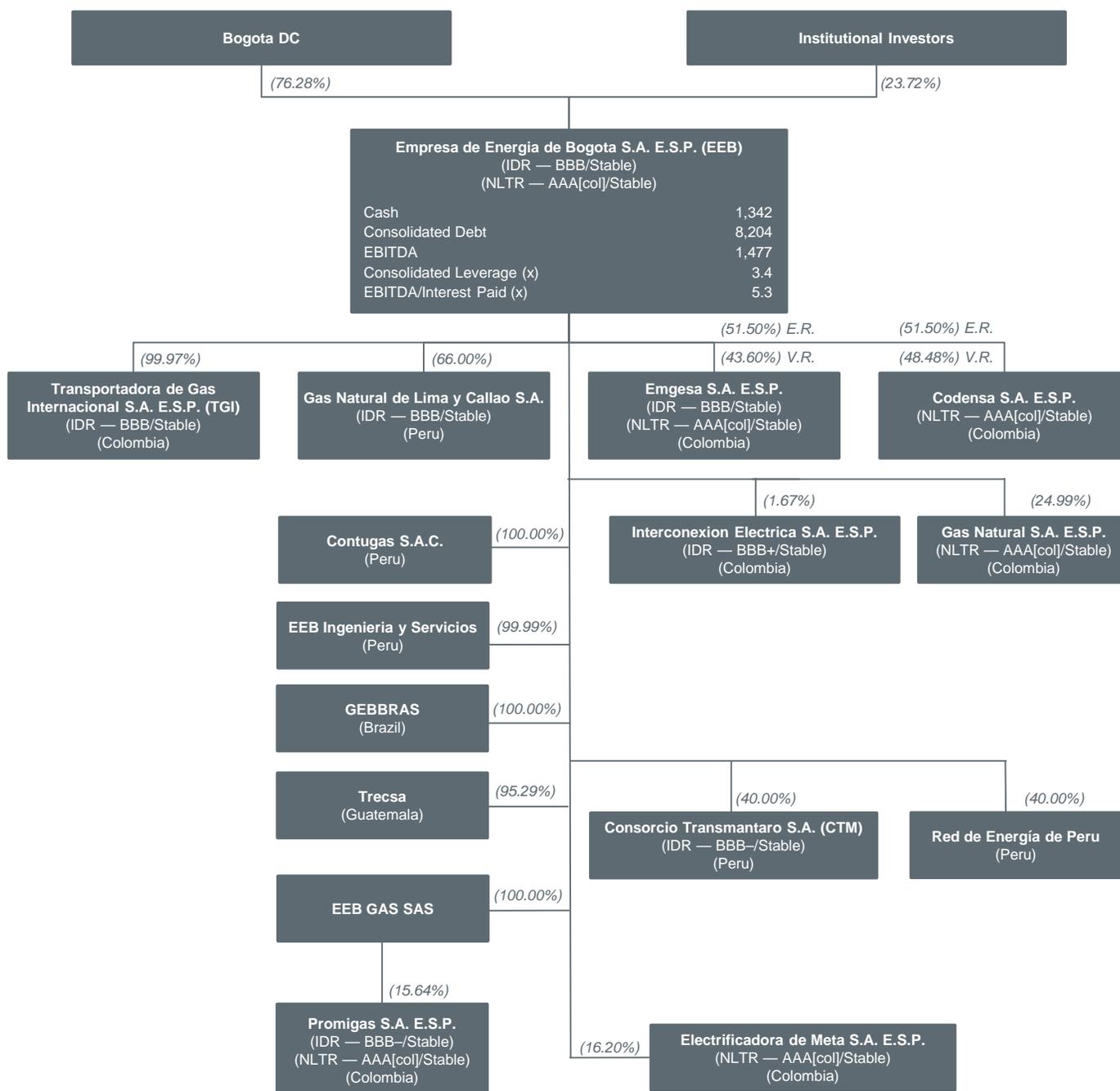
(Empresa de Energia de Bogota S.A. E.S.P. (EEB) — BBB/Stable, LTM Dec-16)



\*EBITDA after Dividends to Associates and Minorities  
Source: Fitch

## Organizational Structure — Empresa de Energia de Bogota S.A. E.S.P. (EEB)

(COP Bil., As of Dec. 31, 2016)



IDR — Issuer Default Rating. NLTR — National Long-Term Rating. E.R. — Economic rights. V.R. — Voting rights.  
 Source: Empresa de Energia de Bogota S.A. E.S.P. (EEB).

**Key Forecast Assumptions**

Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate.

Key Fitch forecast assumptions include:

- Empresa de Energia de Bogota S.A. E.S.P. (EEB) revenue and EBITDA growth mostly reflects expansion in operations at the EEB holding level and Transportadora de Gas Internacional S.A. E.S.P. (TGI).
- Dividends received by EEB will reach COP700 billion–COP800 billion per year.
- The company executes around USD1.6 billion in consolidated capex until 2020.

**Forecast Summary — Empresa de Energia de Bogota S.A. E.S.P. (EEB)**

(COP Mil., As of Dec. 31)	Historical		Fitch Forecast		
	2015	2016	2017	2018	2019
<b>Summary Income Statement</b>					
Revenue	3,419,610	3,132,827	4,011,000	4,552,938	4,779,442
Revenue Growth (%)	48.3	(8.4)	6.6	13.5	5.0
Operating EBITDA	1,424,052	1,477,161	1,823,503	2,102,870	2,174,850
Operating EBITDA Margin (%)	41.6	47.2	45.5	46.2	45.5
Operating EBITDAR	1,424,052	1,477,161	1,823,503	2,102,870	2,174,850
Operating EBITDAR Margin (%)	41.6	47.2	45.5	46.2	45.5
Operating EBIT	1,070,860	1,079,518	1,069,525	1,297,342	1,367,767
Operating EBIT Margin (%)	31.3	34.5	26.7	28.5	28.6
Gross Interest Expense	(395,517)	(422,878)	(501,705)	(548,733)	(545,779)
Pretax Income	1,568,125	1,797,539	567,820	748,609	821,988
<b>Summary Balance Sheet</b>					
Readily Available Cash	1,148,392	1,549,139	1,664,218	1,637,128	1,319,509
Total Debt with Equity Credit	8,914,862	8,203,996	10,013,484	10,215,850	9,375,300
Total Adjusted Debt with Equity Credit	8,914,862	8,203,996	10,013,484	10,215,850	9,375,300
Net Debt	7,766,470	6,654,857	8,349,266	8,578,722	8,055,791
<b>Summary Cash Flow Statement</b>					
Operating EBITDA	1,424,052	1,477,161	1,823,503	2,102,870	2,174,850
Recurring Associate Dividends Less Distributions to NCI	687,461	916,301	757,926	732,822	769,463
Cash Interest Paid	(396,552)	(452,062)	(501,705)	(548,733)	(545,779)
Implied Interest Cost (%)	4.9	5.3	5.5	5.4	5.6
Cash Interest Received	—	77,521	0	0	0
Cash Tax	—	(86,517)	(181,702)	(239,555)	(263,036)
Other Items before FFO	429,251	60,913	0	0	0
FFO	2,144,212	1,993,317	1,898,021	2,047,404	2,135,498
FFO Margin (%)	62.7	63.6	47.3	45.0	44.7
Change in Working Capital	(667,072)	(541,199)	(3,488)	(7,596)	(3,175)
Cash Flow from Operations (Fitch Defined)	1,477,140	1,452,118	1,894,534	2,039,809	2,132,323
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—
Capex	(1,138,423)	(922,895)	—	—	—
Capital Intensity (Capex/Revenue) (%)	33.3	29.5	—	—	—
Common Dividends	(1,100,847)	(333,069)	—	—	—
Net Acquisitions and Divestitures	—	951	—	—	—
Capex, Dividends, Acquisitions and Other Items Before FCF	(2,239,270)	(1,255,013)	(2,495,888)	(2,269,265)	(1,609,392)
FCF After Acquisitions and Divestitures	(762,130)	197,105	(601,354)	(229,456)	522,931
FCF Margin After Net Acquisitions (%)	(22.3)	6.3	(15.0)	(5.0)	10.9
Other Investing and Financing Cash Flow Items	(78,667)	(116,870)	0	0	0
Net Debt Proceeds	109,283	389,221	998,758	202,366	(840,550)
Net Equity Proceeds	—	—	0	0	0
Total Change in Cash	(731,514)	469,456	397,403	(27,090)	(317,619)
<b>Coverage Ratios (x)</b>					
FFO Interest Coverage	6.1	5.2	4.8	4.7	4.9
FFO Fixed-Charge Coverage	6.1	5.2	4.8	4.7	4.9
Operating EBITDAR/Interest Paid + Rents <sup>a</sup>	5.3	5.3	5.1	5.2	5.4
Operating EBITDA/Interest Paid <sup>a</sup>	5.3	5.3	5.1	5.2	5.4
<b>Leverage Ratios (x)</b>					
Total Adjusted Debt/Operating EBITDAR <sup>a</sup>	4.2	3.4	3.9	3.6	3.2
Total Adjusted Net Debt/Operating EBITDAR <sup>a</sup>	3.7	2.8	3.2	3.0	2.7
Total Debt with Equity Credit/Operating EBITDA <sup>a</sup>	4.2	3.4	3.9	3.6	3.2
FFO-Adjusted Leverage	3.7	3.5	4.2	3.9	3.5
FFO-Adjusted Net Leverage	3.2	2.8	3.5	3.3	3.0

<sup>a</sup>EBITDA/R after dividends to associates and minorities. NCI – Noncontrolling interests.

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