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Ratings

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Summary:

Transportadora de Gas Internacional S.A. E.S.P.

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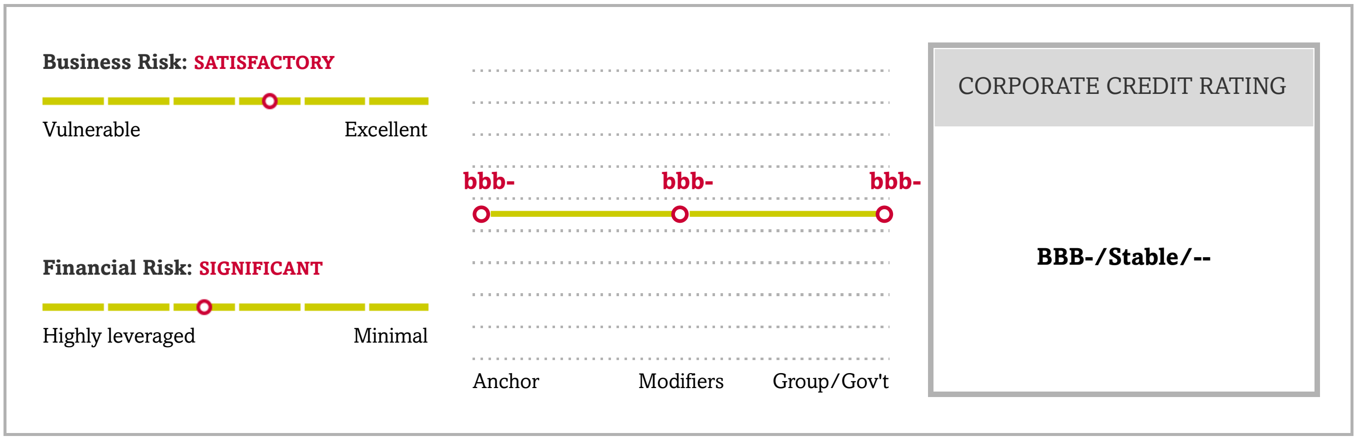

Rationale

Business Risk: Satisfactory	Financial Risk: Significant
• Our ratings on Transportadora de Gas Internacional S.A. E.S.P. (TGI) reflect its status as a core subsidiary of its parent company, Empresa de Energia de Bogota S. A. E. S. P. (EEB; BBB-/Stable/--). • Strong long-term availability contract profile with creditworthy counterparties that ensures a stable rate of return over investments. • Market-leading position as the largest natural gas pipeline system in Colombia, with a market share of 47% as of September 2017. • Fairly narrow business and client diversification, considering its exposure to a single regulatory regime: approximately 65% of its revenue comes from gas distributors.	• Stable cash flow generation, thanks to its supportive contract profile. • Adequate liquidity, which provides protection during adverse events.

Outlook: Stable

The stable outlook for the upcoming 12 months mirrors the one on EEB, given that we consider TGI a core entity of EEB.

Downside scenario

We could lower the ratings on TGI if we were to downgrade EEB to 'BB+'. At this point, we view a weakening of TGI's importance to EEB as highly unlikely.

Upside scenario

Given that the ratings on the issuer are aligned with those on its parent, an upgrade of TGI would depend on an upgrade on EEB.

Our Base-Case Scenario

Assumptions	Key Metrics
• Macroeconomic variables that we view as relevant for the project, as such as for the midstream energy industry, particularly the Colombian inflation rate and the COP/USD exchange rate. For our analysis, we used the credit conditions article, "Political Risks are Receding in Latin America, But Uncertainty Looms," published on Sept. 28, 2017. We expect the consumer price index (CPI) to be 4.0% in 2017, 3.8% in 2018, 3.5% in 2019, and 3.0% in 2020, and to impact costs that are denominated in local currency. • We expect a COP/USD exchange rate of COP2,950 per $1 for 2017, COP3,050 per $1 for 2018, and COP3,100 per $1 for 2019 and 2020. Currency devaluation might hurt revenues, because 65% is dollar-denominated. In addition, inflation and devaluation will affect costs as most are denominated in local currency. • Total capacity will stand at 754 million cubic feet per day (MMCFD) for 2017, compared to 750 MMCFD expected last year. The additions on investments will increase total capacity starting in 2018, leading to a capacity of 877 MMCFD by 2020. • Since the Comision Reguladora de Energía y Gas (CREG) regulates the tariffs, we assume the tariffs will change by 2019, but expect the change to only be marginal. • Capital expenditures (capex) should approach $300 million in the next five years: $70 million in 2017, $124 million in 2018, and the rest from 2019 to 2022. • Dividends policy to be between 50% and 100% of pay out for the next three years.	• EBITDA margin (%): 78-80 in 2017, 2018, and 2019. • Debt to EBITDA (x): 3-4 for 2017, 2018, and 2019. • Funds from operations (FFO) to debt (%): 20-23 in 2017, 2018, and 2019. • Free operating cash flow (FOCF) to debt (%): 8-15 in 2017, 2018, and 2019.

Business Risk: Satisfactory

TGI's business risk profile continues to incorporate our view of the company's market-leading position, as it benefits from a 47% market share in Colombia. The business risk also takes into account TGI's cash flow stability, which is mainly driven by firm capacity contracts with an average remaining life of 8.14 years. By the second quarter of 2017, regulated revenues represented 90% of the company's total contracts with fixed tariffs and limited market risk, which we view as a rating strength. TGI benefits from stable profitability, with EBITDA margins consistently above 75%.

TGI also benefits from a favorable institutional and regulatory framework that together with its contract profile contributes to the stability and predictability of the company's cash flow stream. TGI's contracts are with creditworthy counterparties and have an average remaining term of 10 years. In addition, 96% of TGI's revenues come from regulated tariffs that are reviewed at least every five years.

In the next two years, we believe that TGI will continue to benefit from its strong competitive position, illustrated by its ownership of almost 60% of the national gas pipeline network and that it transports 48% of the gas consumed in Colombia.

Financial Risk: Significant

Our expectations include stable EBITDA generation of around $325 million to $340 million for the next three years, given that TGI benefits from predictable volumes and its availability contracts.

We expect that the company will use a significant part of the EBITDA generation to face debt service for the upcoming few years, leading to debt to EBITDA below than 3.5x and FFO to net debt around 20% to 22%.

Liquidity: Adequate

We view the company's liquidity as adequate because we expect its sources to cover uses of funds by 1.2x in the next 12 months. Its sources versus uses should stay positive even if EBITDA declines by 15%, which provides protection under adverse events. We believe that TGI has the ability to absorb high-impact, low-probability events with limited need for refinancing, considering that most of its debt matures in 2022. In our view, the company also has a satisfactory standing in credit markets and a satisfactory relationship with banks.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and liquid investments of $240 million as of June 30, 2017; and • FFO close to $200 million.	• Debt maturities of about $50 million as of June 30, 2017. • Capex of about $100 million in the next 12 months. • Working capital outflows of $100 million. • Dividends of $50 million, although the company has flexibility to lower them if needed.

Covenant Analysis

TGI isn't subject to the restricted covenants stipulated in its 144A notes because the company is rated investment-grade by at least two of the three major rating agencies.

Other Credit Considerations

The modifiers do not affect the rating.

Group Influence

The rating on TGI reflects its status as a core subsidiary of EEB. This reflects our view that TGI is integral to the group's current and future strategy; therefore, EEB is committed to supporting its subsidiary under any circumstance. In addition, because there are no meaningful regulatory mechanisms or other structural barriers that restrict EEB's access to TGI's assets and cash flow, we align the credit rating on TGI with that on the parent.

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	**bbb-/bb+**	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-