STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Research Update:

Transportadora de Gas Internacional 'BBB-' Ratings Affirmed; Outlook Remains Stable

Primary Credit Analyst:
Maria del Sol S Gonzalez, CFA, New York (1) 212-438-4443;
maria.gonzalezcosio@standardandpoors.com

Secondary Contact:
Sergio Fuentes, Buenos Aires (54) 114-891-2131; sergio.fuentes@standardandpoors.com

Table Of Contents

Research Update:

Transportadora de Gas Internacional 'BBB-' Ratings Affirmed; Outlook Remains Stable

Overview

- On April 4, 2014, Colombia-based energy holding group Empresa de Energia de Bogota S. A. E. S. P. (EEB; BBB-/Stable/--) announced that it would acquire the remaining 31.92% share of its subsidiary TGI, partially financing the transaction with debt.
- We are affirming our 'BBB-' corporate credit rating on TGI.
- The rating action and stable outlook reflects our expectation that the company's net debt to EBITDA will peak in 2015 at about 3.4x and quickly drop to 2.9x in 2016 as TGI will deleverage with its own cash flow generation.

Rating Action

On May 8, 2014, Standard & Poor's Ratings Services affirmed its ratings on Transportadora de Gas Internacional S.A.E.S.P. (TGI). The outlook is stable.

Rationale

The rating on TGI reflects its status as a core subsidiary of its parent EEB. TGI' 'bbb-' stand-alone credit profile reflects its "satisfactory" business risk profile, "intermediate" financial risk profile and "adequate" liquidity.

EEB recently announced the $880 million acquisition of 31.92% of TGIs shares, which were previously held by The Rohatyn Group (formerly Citi Venture Capital International, CVCI). After the acquisition, EEB will hold 99.97% of TGI. The company will finance the acquisition in part with about $616 million in debt issued through a newly created special purpose vehicle (SPV), which will hold TGI's 31.92% stake as guarantee. We expect this entity to merge with TGI about 12 months after the acquisition. At that time, we expect TGI to use its cash on hand to partially prepay about $300 million of its debt.

As a result of the company's future merger with the SPV that will initially issue the debt, we expect TGI's leverage to increase temporarily in 2015 to approximately 3.4xnet debt to adjusted EBITDA, from 2.8 times as of Dec. 31st 2013. This ratio would decrease to below 3.0xin 2016. We believe TGI has the financial flexibility to absorb this significant debt increase without weakening its creditworthiness.

Under our group rating methodology, we consider TGI to be "core" to its parent, EEB. This reflects our view that it's highly unlikely that EEB would sell TGI, that it's integral to the group strategy, and has a strong long-term commitment from EEB's senior management. Because there are no meaningful regulatory mechanisms or other structural barriers that restrict access by EEB to the assets and cash flow of TGI, we align the issuer credit rating (ICR) on TGI with that of the parent.

The rating on TGI reflects its 'bbb-' SACP, which considers the stability and predictability of TGI's cash-flow stream, the company's position as a monopoly in the markets in which it operates, and the high credit quality of its industrial clients. The rating also incorporates Colombia's favorable institutional and regulatory framework, which contributes to the stability of the energy sector. Limited business and client diversity partly offset these strengths.

TGI's "satisfactory" business risk profile is based on our view of the company's significant competitive position with a 48% market share in Colombia, and cash flow stability and predictability, because its contracts are fixed and have an average life of more than eight years. Take-or-pay revenues represent 87% of the company's total contracts, which we view as a positive. TGI benefits from stable profitability, with EBITDA margins consistently above 70%.

We assess TGI's financial risk profile as "intermediate." The significant percentage of fixed contracts strengthens its profile, and about 80% of its EBITDA is denominated in dollars, which partially offsets foreign-exchange risk. The company's key financial metrics continued to improve in the last 12 months, reflecting a boost in cash flow from the Cusiana II expansion project, an increase in regulated tariffs, and a drop in interest costs.

TGI's financial performance has been in line with our expectations. According to our calculations, for the 12 months ended Dec. 31, 2013, the company posted an EBITDA interest coverage ratio of 4.5x, net debt to EBITDA of 2.8x, and funds from operations (FFO) to net debt of 23%. During the same period, TGI posted revenues of Colombian peso (COP) 874 billion, a 24% increase over the same period in 2012. The EBITDA increase was mainly due to a 2013 tariff adjustment.

We expect the company to report EBITDA interest coverage of about 6.0x, net debt to EBITDA of about 2.4x, and FFO to total debt of about 28% by the end 2014.

Liquidity

We view the company's liquidity as "adequate." Under our base-case scenario, sources should cover uses by 3.5x in 2014 and by 1.25x in 2015.

Liquidity sources

- As of March 31, 2014, the company reported cash and short-term investments of approximately COP$797 billion; and
- FFO generation of about COP$518 billion.

Liquidity uses
- Working capital outflows of about COP$29 billion;
- Capital expenditures (capex) of COP$215 billion due to business expansion; and
- Dividend payment of COP$130 billion.

Outlook

The stable outlook reflects our expectation that the company's net debt to EBITDA will peak in 2015 at levels of about 3.4x due to the announced merger with the SPV, and to return to about 2.9x by 2016 as it reduces debt with own cash flow generation. We expect FFO to debt to drop to about 20% in 2015 from about 28% in 2014, and to recover to levels of 23% by 2016.

Upside scenario

The rating on its parent company EEB limits any rating upside on TGI, given that the parent has the ability and significant incentives to upstream cash from TGI under a financial stress scenario.

Downside scenario

A significant increase in debt from higher than expected capex needs, which weakens the company's financial ratios and liquidity, resulting in net debt to EBITDA of more than 3.5x and FFO to debt of less than 23%, in conjunction with a downgrade on its parent, EEB, could lead us to lower the rating on TGI.

Ratings Score Snapshot

Corporate Credit Rating: BBB-/Stable/--

Business risk: Satisfactory
- Country risk: Moderately high
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Intermediate
- Cash flow/Leverage: Intermediate

Anchor: bbb-

Modifiers
- Diversification/Portfolio effect: Neutral (No impact)
- Capital structure: Neutral (No impact)
- Liquidity: Adequate (No impact)
- Financial policy: Neutral (No impact)
- Management and governance: Fair (No impact)
- Comparable rating analysis: Neutral (No impact)

Stand-alone credit profile: bbb-
- Group Credit profile: bbb-
- Entity status within group: Core (No impact)

Related Criteria And Research

Related Criteria

- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013

Ratings List

Ratings Affirmed

Transportadora de Gas Internacional S.A. E.S.P.	
Corporate Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.