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Research Update:

Transportadora de Gas Internacional Upgraded To Investment Grade On Improving Business Risk Profile And Metrics

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

Transportadora de Gas Internacional Upgraded To Investment Grade On Improving Business Risk Profile And Metrics

Overview

- Our assessment of Colombia-based natural gas transportation company TGI's business risk profile has improved due to the stability and predictability of the cash flow stream, the company's position as a monopoly, and the improvement in tariffs.
- We are raising our corporate credit rating on TGI to 'BBB-' from 'BB'.
- The stable outlook reflects our expectation that TGI's investment strategy will continue to support its profitability and lead to stronger cash flows and key financial ratios.

Rating Action

On May 6, 2013, Standard & Poor's Ratings Services raised its ratings on Transportadora de Gas Internacional S.A. E.S.P. (TGI), including its corporate credit rating to 'BBB-' from 'BB' (see list below). The outlook is stable.

Rationale

The upgrade reflects the company's improved business risk profile to "satisfactory" from "fair" due to the stability and predictability of TGI's cash-flow stream, the company's position as a monopoly in the markets it operates, the high credit quality of its industrial clients, and the improvement in tariffs. The rating also reflectsthe strengthening of TGI's key financial metrics due to higher tariffs and revenues, and the continued support from its parent, Empresa de Energia de Bogota S. A. E. S. P. (EEB; BBB-/Stable/--).

The ratings on TGI reflect our view of Colombia's favorable institutional and regulatory framework, which contributes to the stability of the energy sector. , TGI's aggressive capital structure, "significant" financial risk profile, and limited business and client diversity partly offset these strengths.

In November 2012, the regulator, CREG (Comisión de Regulación de Energía y Gas), issued Resolution 121 establishing new tariffs for the next five years after considering TGI's appeal. The expected increase in regulated revenues is about 10%. This resolution resolves the company's 2011 appeal over the previous tariff scheme. However, TGI is currently legally pursuing a higher tariff that, according to the company's calculations, correctly reflects the

cost of past and future investments.Despite the continued legal actions, the new tariffs are in force since December 2012. Our base case does not consider a further increase in tariffs due to the legal claims.

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 all of its contracts are are not subject to revision, with an average life of more than eight years. The company also benefits from the high percentage, 82%, of take-or-pay contracts. TGI has continued to show sound operating performance with increased capacity of 730 million standard cubic feet per day and network length of 3,957 kilometers and gas losses of less than 0.52% as of 2012. TGI benefits from stable profitability, with EBITDA margins consistently above 70%.

TGI's business risk profile also reflects our view of that EEB has strong incentives to continue to support the company. EEB is an integrated energy company with interests in the natural gas and electricity sectors in Colombia, Peru, and Guatemala, and holds a 68.05% controlling share in TGI. In our view, EEB will continue to support TGI, given its full integration into EEB's business strategy and financial policies, as seen in the parent's financial support for TGI's network expansion projects. Also, TGI accounts for approximately 44% of EEB's operating revenues and 67% of its EBITDA (EBITDA and operating revenues do not include dividends from unconsolidated entities), underlining the subsidiary's strategic importance to its parent.

Under our criteria, we asses TGI's financial risk profile as "significant." Strengths of the company's financial risk profile are the following: large percentage of fixed contracts and 76% of its EBITDA are denominated in dollars, partially offsetting the foreign-exchange risk. The company's key financial metrics improved in the last 12 months, reflecting increased cash flow from the Cusiana II expansion project and decreased interest costs. The company's leverage has decreased faster than under our initial expectations and its cash flow from operations has returned to positive since December 2012.

For 2013-2014, we expect revenues to rise as the new tariffs fully take effect in May 2013. For 2013, we expect debt to EBITDA to remain below 4.0x, interest coverage to be 4.4x, and FFO to increase to around COP349 billion. Currently, debt to EBITDA is at 3.8x, funds from operations (FFO) to debt at 20%, and debt to capital at 44% as of March 31, 2013.

Liquidity

TGI's liquidity is "adequate" based on the following assumptions:

- We expect a sources-to-uses ratio of 2.8x in 2013.
- The company has benefitted from the 2012 debt refinancing, which lowered its financing costs by half and improved its debt maturity profile.
- The company will fund its capital expenditures from operating cash flow and that it won't incur further debt in 2013.

- For the 12 months ended March 31, 2013, free operating cash flow--at $179.9 million--exceeded our expectations.

As of March 31, 2013, TGI had cash and short-term investments of approximately $372 million, and its next major maturity is not due until 2022.

Outlook

The outlook is stable. The outlook reflects our expectation that the company's operating revenues and EBITDA will continue to rise during 2013 as a result of the adjustment in tariffs and the start of operations of the Cusiana III expansion project. We expect that higher revenues will improve the company's key financial ratios and liquidity. Under our base-case scenario, TGI's debt to EBITDA ratio will be below 4.0x by the end of 2013 and FFO to total debt will increase to around 16%. If TGI fails to reach its expected financial metrics during 2013, or if leverage metrics rise more than expected, we could lower the rating. If the ratios are better than expected with debt to EBITDA below 3.0x and debt to capital of less than 45%, coupled with an upgrade of TGI's parent company, we could raise the rating.

Related Criteria And Research

- Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008

Ratings List

Upgraded; Outlook Action

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

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