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Research Update:

Transportadora de Gas Internacional S.A. E.S.P. 'BBB-' Rating Affirmed, Outlook Remains Negative

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Overview

- Colombia-based natural gas transportation company TGI is a "core" subsidiary of its parent, EEB.
- TGI's revenues are somewhat lower than we previously expected due to the impact of the Colombian peso's depreciation. However, the company's low exposure to foreign exchange risk and its stable and predictable cash flow are the mitigating factors.
- We're affirming our 'BBB-' corporate credit rating on TGI.
- The negative outlook reflects that of its parent company and TGI's "core" subsidiary status.

Rating Action

On Dec. 11, 2015, Standard & Poor's Ratings Services affirmed its 'BBB-' corporate credit rating on Transportadora de Gas Internacional S.A. E.S.P. (TGI). The outlook remains negative.

Rationale

The rating on TGI reflects its status as a "core" subsidiary of its parent Empresa de Energia de Bogota S. A. E. S. P. (EEB; BBB-/Negative/--). TGI's 'bbb-' stand-alone credit profile (SACP) reflects its "satisfactory" business risk profile, "significant" financial risk profile, and "adequate" liquidity.

On Sept. 3, 2015, we revised our outlook on EEB to negative from stable, reflecting the group's increased leverage ratios due to the depreciation of the Colombian peso (COP).

We consider TGI to be a "core" subsidiary of EEB. This reflects our view that it's highly unlikely that EEB would sell TGI because it's integral to the group's strategy and has strong long-term commitment from EEB's senior management. 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.

The rating on EEB continues to reflect its 'bbb-' SACP, which stems from our view of its "satisfactory" business risk profile, "significant" financial risk profile, and "neutral" financial policy. The rating also reflects our opinion that there is a high likelihood that the city of Bogota, (Bogota Distrito Capital; BBB-/Stable/--), would provide timely and sufficient extraordinary support to EEB in the event of financial distress, given the link between the two entities. In accordance with our criteria for government-related entities (GREs), the government's support is based on our assessment of EEB's important role as Bogota's integrated energy provider, its very strong link with the government due to its majority shareholder position (76.3%), and the city's influence on the company's strategic and business plans.

Last year, EEB acquired 31.92% of TGI's shares from The Rohatyn Group. EEB now holds 99.97% of TGI. EEB partly financed the acquisition with about $616 million in debt issued through a newly created special purpose vehicle (SPV), which holds TGI's 31.92% stake as guarantee. We expect this entity to merge with TGI in the next six to nine months. At that time, TGI will absorb the SPV's liabilities, currently at $394 million. We expect TGI to use its cash on hand to partly prepay about $175 million of its debt in March 2016, resulting in a likely net additional debt of $219 million after the merger. We believe TGI has the financial flexibility to absorb this additional debt without weakening its creditworthiness. In our estimates for TGI's key credit ratios, we adjust debt by subtracting cash and short-term investments net of restricted cash from gross debt.

TGI's 'bbb-' SACP reflects the stability and predictability of the company's cash-flow stream, position as a monopoly in the markets in which it operates, and the high credit quality of its clients. The SACP 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 competitive position which benefits from a 55% market share in Colombia, and cash flow stability and predictability, because its contracts are fixed and have an average life of more than 10 years. Take-or-pay revenues represent 82% of the company's total contracts, which we view as rating strength. TGI benefits from stable profitability, with EBITDA margins consistently above 70%.

We assess TGI's financial risk profile as "significant." We have reviewed our projections by assuming the merger with the SPV will occur in 2016 and the depreciation of the COP, in which the company generates 30% of its revenues. However, most of TGI's operating expenses are denominated in COP. As a result, gross and EBITDA margins have benefited from the depreciation. TGI's financial performance has been in line with our expectations. According to our calculations, for the 12 months ended Sept. 30, 2015, the company posted an EBITDA interest coverage ratio of 6.1x, adjusted debt to EBITDA of 2.1x, and funds from operations (FFO) to debt of 38%.

Our base case assumes:

- An 8% revenue decrease in 2015 (measured in dollars) mainly due to the COP depreciation. A revenue increase 5% in 2016 and 7% in 2017 as a result of annual rise in demand of about 3% and a mild recovery of the

COP.
- Rise in margins to about 86% in the next three years mostly due to COP denomination.
- Capital expenditures (capex) according to TGI's plan.
- No dividend payment in 2015, a $51 million payment in 2016, and $81 million in 2016.

Based on these assumptions, we arrive at the following credit measures for 2015 and 2016, respectively;
- Adjusted debt to EBITDA of 3.0x and 2.0x; and
- FFO to debt of 20% and 29%.

Liquidity

We view the company's liquidity as "adequate." Under our base-case scenario, sources should cover uses by 1.7x in the next 12 months and by 2.0x in the next 24 months. We consider that the company's capex and dividend payments are highly flexible, as it made no payments in 2015.

Liquidity sources:
- Cash and short-term investments of approximately $123 million, as of Sept. 30, 2015; and
- FFO generation of least $185 million in the next 12 months.

Liquidity uses:
- Working capital outflows of about $8 million;
- Capex of $137 million consisting of maintenance capex and committed projects; and
- Dividends payments of about $38 million.

Outlook

The negative outlook on TGI reflects our view that EEB's key financial ratios could remain weak for its current rating category in the next few years. This could be the result of high unexpected debt-financed capex. The outlook on TGI mirrors the outlook on EEB. We expect TGI's revenues to be about $377 million by the end of 2015 and $400 million in 2016, with adjusted debt to EBITDA of 3.0x and 2.0x and FFO to debt of 20% and 30%, respectively.

Downside scenario

We would lower the ratings on TGI if we were to downgrade EEB to 'BB+'.

Upside scenario

We would revise the outlook to stable in tandem with a similar action on EEB. An upgrade is currently unlikely, but would also be associated to changes in EEB's ratings.

Ratings Score Snapshot

Corporate Credit Rating: BBB-/Stable/--

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

Financial risk: Significant
- Cash flow/Leverage: Significant

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

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- 2008 Corporate Criteria: Rating Each Issue, April, 15, 2008

Related Research

- Empresa de Energia de Bogota And Subsidiaries Outlook Revised To Negative From Stable, 'BBB-' Ratings Affirmed, Sept. 3, 2015

Ratings List

Ratings Affirmed

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

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