Empresa de Energia de Bogota S.A. E.S.P. (EEB) (/gws/en/esp/issr/86275334)

FitchRatings

Fitch Affirms EEB's IDRs at 'BBB'; National Scale at 'AAA(col)'; Outlook Stable

Fitch Ratings-Chicago-12 October 2017: Fitch Ratings has affirmed Empresa de Energia de Bogota S.A. E.S.P.'s (EEB) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) and international senior unsecured debt at 'BBB'. Fitch has also affirmed EEB's National long-term rating and local bond issuance at 'AAA(col)'. The Rating Outlook is Stable.

EEB's ratings reflect the company's stable cash flow generation, strong business position, and its adequate liquidity as well as expectations for credit metrics in-line with the rating level over the medium term. The ratings also reflect EEB's reliance on dividends from its financially solid subsidiaries to service its debt and the company's new growth strategy.

KEY RATING DRIVERS

Solid Business Position: EEB's ratings consider the company's diversified portfolio of assets, which have a low business-risk profile, and stable and predictable cash flow generation. EEB's low business-risk profile stems from its diversified portfolio of energy assets, which for the most part operate as regulated natural monopolies. EEB owns non-controlling majority participations in Colombia's second-largest electric generation company, Emgesa (BBB IDR), as well as in the country's second-largest electric distribution company, Codensa (AAA(col) NLTR), that operates in the city of Bogota. The company also fully owns Transportadora de Gas Internacional S.A. ESP (TGI; BBB IDR), Colombia's largest natural gas pipeline transportation company, among other assets in Colombia, Peru and Guatemala.

Stable Cash Flow Generation: EEB's portfolio of assets has a low business-risk profile, and stable and predictable cash flow generation; most of the companies are regulated monopolies within its relevant area with limited volumetric risk. More than 65% of the EEB's EBITDA plus dividends comes from operations controlled by the company, in which TGI is the most important asset. EEB fully controls TGI and reallocates funds with EEB according to cash needs. EEB's electricity transmission business carried at the holding level is expected to gain higher participation in the EBITDA mix in the medium term, as the company will be executing more than USD800 million in capex during 2017-2021 to complete projects granted by the government's planning unit.

Stable Dividend Stream: The vast majority of cash dividends received at the holding company level are generated from investments in Emgesa and Codensa. During 2016, around 79% of its reported cash dividends from non-controlling stakes came from these companies. Emgesa's and Codensa's solid credit profile and long track record of high dividend pay-out ratio mitigate the structural subordination of the dividends stream to the debt service at EEB's level.

EEB's ratings factor in the expectation that dividends received will be somewhat pressured in 2018 and onwards as the company expects to complete the divestment of its stakes in Interconexion Electrica S.A. and Promigas S.A. in the following months. EEB has yet to announce the use of the proceeds from these asset sales, which during 2016 accounted for approximately 3% of EEB's EBITDA after dividends. Prospective credit metrics would be slightly weakened under a scenario in which the proceeds of the transaction are fully paid in dividends to its shareholders.

Moderate Leverage Increase: The ratings affirmation factor in expectation that EEB's total leverage will be in the 3.5x-4x range over the next two years, trending below 3.5x by 2019. This incorporates the capex and EBITDA associated with the projects currently underway. Leverage levels are projected to be elevated in the next few years given the aggressive capex needed in the transmission business, capitalization of some of its controlling stakes, and a still demanding dividend policy.

Additional credit pressures metrics could arise from the execution of a more ambitious long-term growth strategy. EEB announced a goal of reaching revenue of COP35 trillion by 2025, which includes its consolidated revenues, along with the one of its non-controlling stakes. EEB would focus on growth through its current affiliates concentrated in natural monopolies, both organic and by actively participating in projects offered in the region. M&A activities are not ruled out given the company's goal to maintain high annual revenue growth.

DERIVATION SUMMARY

EEB's low business-risk profile is commensurate with its investment-grade rating and is comparable with that of Empresas Publicas de Medellin S.A E.S:P. (EPM; BBB+/Stable), Enel Americas S.A. (BBB+/Stable), and AES Gener (BBB-/Rating Watch Negative). Like EPM and Enel Americas, EEB's business risk is low, since its operations include a significant participation of regulated businesses, reflected in high cash flow stability and predictability. EEB's ratings are nevertheless one notch below EPM

and Enel Americas, given the group's structural subordination to debt at its operating companies, mainly Emgesa, Codensa and TGI. EEB's operating environment and exposure to regulated business bodes well for its credit quality in comparison with AES Gener, which is rated one notch lower and operates in a more competitive environment.
Compared to EPM and Enel Americas, EEB's ratings factor in the company's higher dependence on dividends received from its non-controlling stakes to serve the debt at the holding company level, along with the expectation of high capex reflected in total leverage levels in the 3.5x-4x range during 2017 and 2018. This capital structure is somewhat weaker than that of Enel Americas, which is expected to maintain leverage levels below 2x, and EPM's projected leverage of 3.1x between 2018 and 2020. Regarding support from its shareholders, EEB is rated on a standalone basis, as the linkage with the Bogota District is considered weak-to-moderate.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:

- EEB's revenues and EBITDA growth mostly reflect expansion in the operations at EEB holding company level, along with TGI and Calidda, following the projects executed by the companies.
- The company spends around USD1.8 billion in consolidated capex between 2017 and 2020.
-EEB divests its stakes in ISA and Promigas between late 2017 and 2018.
-Leverage levels remain in the range of 3.5x-4.0x until 2018, trending below 3.5x afterwards.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to 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. It would be viewed positively if the company significantly reduces its leverage for a sustained period of time to 2.5x or below.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action
-Leverage levels over 3.5x on a sustained basis as a result of an aggressive growth strategy for the investment portfolio.
-influence from the company's shareowners results in a sub-optimal financial or operational strategy that could weaken the group's credit quality.
-Significantly large acquisitions financed mostly with incremental debt.

LIQUIDITY

Solid Liquidity: EEB's liquidity is considered adequate, supported by high cash on hand and predictable cash flow from operations. As of June, 30 2017, the company reported COP1.7 trillion of available cash. This compares favorably with COP483 billion in consolidated debt maturities between 2H17 and the whole of 2018. Cash balances increased during 2017 as the company issued COP650 billion in the local market with maturities up to 25 years in order to finance its ambitious capex program in the next few years. The cash balance will increase further in the following months as a result of EEB's announced divestiture of its stakes in Promigas, ISA and other minor portfolio items.

As of the end of June 2017, EEB's consolidated debt maturities profile showed some concentration, with 54% of around COP9 trillion of financial debt coming due between the remainder of 2017 and 2021, mostly in 2019 and 2021. The company's debt profile will improve further when it completes the announced refinancing of its next sizable maturity, USD342 million at its subsidiary, Contugas S.A.C., due in 2019. After that, sizable amortization starts in 2021 with the maturities of the USD749 million bonds issued by EEB. Fitch believes the company has financial flexibility through its ample access to local and international capital markets with which to finance its ambitious capex program and to continue improving its debt profile.

FULL LIST OF RATING ACTIONS

Fitch has affirmed the following ratings:

Empresa de Energia de Bogota S.A. E..S.P.

--Long-Term Foreign and Local Currency IDRs at 'BBB';
--International senior unsecured debt at 'BBB';
--National scale long-term rating at 'AAA(col)';
--Local Bond Issuance at 'AAA(col)'.

The Rating Outlook is Stable.

Contact:

Primary Analyst
Lucas Aristizabal
Senior Director
+1-312-368-3260
Fitch Ratings, Inc.
70 W. Madison Street
Chicago, IL 60602

Secondary Analyst
Jorge Yanes
Director
+571-484-6770

Committee Chairperson
Daniel R. Kastholm, CFA
Managing Director
+1-312-368-2070

Summary of Financial Statement Adjustments:
- FX losses at TGI's level of USD110 million due in October 2017 are included in EEB's consolidated debt.
- EEB's dividends payable to the Bogota District are excluded from EEB's financial debt.

Media Relations: Benjamin Rippey, New York, Tel: +1 646 582 4588, Email: benjamin.rippey@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Corporate Rating Criteria (pub. 07 Aug 2017) (https://www.fitchratings.com/site/re/901296)
National Scale Ratings Criteria (pub. 07 Mar 2017) (https://www.fitchratings.com/site/re/895106)
Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016) (https://www.fitchratings.com/site/re/886557)

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