FitchRatings

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

Fitch Ratings-New York-09 October 2018: Fitch Ratings has affirmed Grupo Energia Bogota S.A. E.S.P.'s (GEB) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB'. Fitch has also affirmed GEB's National long-term rating and local bond issuance at 'AAA(col)'. The Rating Outlook is Stable.

GEB'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 GEB's reliance on dividends from its financially solid subsidiaries to service its debt and the company's ambitious growth strategy.

KEY RATING DRIVERS

Solid Business Position: GEB's ratings reflect its diversified portfolio of businesses, mostly comprised by companies with solid market position and credit profiles. The company maintains direct operation in the electricity transmission business in Colombia and have controlling and non-controlling relevant stakes in energy assets, which for the most part operate as regulated natural monopolies.

GEB fully owns Transportadora de Gas Internacional S.A. ESP (TGI; BBB IDR) Colombia's largest natural gas transportation company and has 60% stake in Gas Natural de Lima y Callao S.A.'s (Calidda; BBB/Stable), the largest natural gas distribution company in Peru. GEB also 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). The company complements its corporate structure with energy assets in Peru, Guatemala and Brazil. GEB has had to support this Peruvian and Central American operations through equity injections and guarantees for a longer than expected ramp-up stage.

Stable Cash Flow Generation: GEB's operations have a low business-risk profile, and stable and predictable cash flow generation; the companies are regulated monopolies within its relevant area with limited volumetric risk. TGI is the most important asset for GEB, with around 65% of its consolidated EBITDA generation. GEB fully controls TGI and reallocates funds with GEB according to cash needs. GEB'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 2018-2022 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 GEB's investments in Emgesa and Codensa. During 2017, around 78% of its reported cash dividends from non-controlling stakes came from these companies, a slightly reduction from the years before since both companies decided to reduce its dividend payment to around 70% of net income. Emgesa's and Codensa's solid credit profile and still long track record of high dividend pay-out ratio mitigate the structural subordination of the dividends stream to the debt service at GEB's level.

During 2017, GEB completed its announced divestment of its minor stake in ISA, while GEB's stake in Promigas is in the process of divestiture. These transactions are expected to further limit the dividends received growth in the medium term, GEB still have not announced the use of proceeds of Promigas' stake divestments.

Ambitious Growth Strategy: Further incorporated in the GEB's ratings are the company's Capex plans in the medium term, coupled with equity injections to its weaker subsidiaries and the still demanding dividend policy. Fitch expects the company to record negative FCF until 2020, including only projects underway and the ones more prone to be executed by GEB or its subsidiaries.
Fitch expects GEB's leverage levels to be maintained in the neighbourhood of 3.5x in the medium term, similar to the level recorded at end of June 2018 and adequate for its rating category. Additional pressures to credit metrics could arise from the execution of a more ambitious long-term growth strategy. M&A activities are not ruled out

given the company's goal to maintain high annual revenue growth. Execution risk for sizable projects is an ongoing credit concern for companies in the sector.

DERIVATION SUMMARY

GEB's low business-risk profile is commensurate with its investment-grade rating and is comparable with that of Enel Americas S.A. (BBB+/Stable), Empresas Publicas de Medellin S.A E.S:P. (EPM; BBB/Negative), and AES Gener (BBB-/Stable). Like Enel Americas, GEB's business risk is low, since its operations include a significant participation of regulated businesses, reflected in high cash flow stability and predictability. GEB's ratings are nevertheless one notch below Enel Americas, as this company has a stronger and more diversified asset base in Latin American markets, as well as it has a more conservative capital structure, with projected leverage to average 2.5x from 2018-2021 after a sizable acquisition in 2018, while Fitch projects GEB leverage to be in around 3.5x during that years.

GEB's ratings are in line with those of EPM, as GEB compensate its higher dependence on dividends received from non-controlling stakes with core businesses with high cash flow predictability, such as electricity transmission and natural gas transportation, while EPM's EBITDA has a higher participation in the competitive business of electricity generation. EPM's ratings are on Rating Watch Negative, reflecting the ongoing uncertainty surrounding the execution of Ituango Hydroelectric project. GEB'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 as it operates in a more competitive environment.

In the national scale, GEB 'AAA(col)' are in line with other market players in regulated businesses such as EPM, Promigas and ISA. All of these issuers have a strong cash flow generation, coupled with adequate financial metrics and ample access to long-term financing to finance its Capex program.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer
--GEB Revenues and EBITDA's projected performance reflect expansion in the operations at GEB holding company level, along with TGI and Calidda, following the projects executed by the companies.
--GEB's Capex execution in the medium term incorporates projects already granted to the company, coupled with the ones with higher probability of being executed.
--GEB completes the divestment of its stake in Promigas in 2019. Proceeds of the transaction are partially used to fund the company's Capex plan.
--The company refinances the USD342 million debt due 2019 at Contugas' level.

RATING SENSITIVITIES

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.
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.
--Material cost overruns or delays in the start of operations of sizable projects that pressures GEB's credit metrics.

LIQUIDITY

Adequate Liquidity: GEB's liquidity is considered adequate, supported by high cash on hand and predictable cash flow from operations. As of June 30, 2018, the company reported around COP1.3 trillion of available cash. This figure is in line with the GEB's scheduled maturities for the second half 2018 and the whole 2019 and it includes a significant debt maturity coming due in Sept. 30, 2019, USD342 million through its subsidiary Contugas S.A.C. GEB has stated that it will be refinancing and extending the maturity of this obligation in the short term. GEB has proven access to refinance consolidated financial debt to pursue a more manageable debt maturity profile. Early in 2018, the company replaced its USD750 million international bond issuance due in 2022 with a syndicated facility due in 2023. In addition, GEB's subsidiary TGI announced a new bond issuance due 2028 to fully replace its 2022 obligation, which is the next sizable consolidated debt amortization following the one of Contugas.

During 2018, GEB has funded its Capex program and dividend policy with a combination of cash balance and CFO generation, coupled with the company's divestiture of its stake in ISA, for which it received close to COP200 billlion. The cash balance will increase further in the following months as a result of GEB's announced divestiture of its stake in Promigas. GEB reported COP2.2 trillion in available credit facilities, which serves as an additional liquidity source.

FULL LIST OF RATING ACTIONS

Grupo Energia Bogota S.A. E.S.P.
--Long-Term Foreign and Local Currency IDRs at 'BBB';
--National scale long-term rating at 'AAA(col)';
--Local Bond Issuance at 'AAA(col)'.

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria

Corporate Rating Criteria (pub. 23 Mar 2018) (https://www.fitchratings.com/site/re/10023785)
Government-Related Entities Rating Criteria (pub. 07 Feb 2018) (https://www.fitchratings.com/site/re/10019302)
National Scale Ratings Criteria (pub. 18 Jul 2018) (https://www.fitchratings.com/site/re/10038626)
Parent and Subsidiary Rating Linkage (pub. 16 Jul 2018) (https://www.fitchratings.com/site/re/10036366)
Sector Navigators (pub. 23 Mar 2018) (https://www.fitchratings.com/site/re/10023790)

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