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Research Update:

Grupo Energia Bogota S.A.E.S.P. 'BBB-' Credit Rating Affirmed; Outlook Remains Stable

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Overview

- Financial performance of Colombia-based energy company, GEB, remains in line with our expectations.
- We're affirming our 'BBB-' issuer credit rating on GEB.
- The stable outlook on GEB for the next 24 months reflects our view that it will continue investing in the existing projects in the portfolio, while seeking for new investments opportunities, mostly in Colombia and Peru, where most of GEB's operations are based.

Rating Action

On Sept. 28, 2018, S&P Global Ratings affirmed its 'BBB-' issuer credit rating on Grupo Energia Bogota S.A. E.S.P. (GEB). The outlook remains stable. At the same, the group's stand-alone credit profile (SACP) remains unchanged at 'bbb-'.

Rationale

The 'BBB-' issuer credit rating on GEB reflects our view that it will continue seeking growth opportunities in Latin America, mostly in Colombia and Peru, where the group has the bulk of its operations in natural gas distribution and transmission, and electricity transmission. The group also benefits from a steady dividend flow from its investments in the electricity generation, distribution, and natural gas transmission. These, together with new debt and the divestments of non-core assets, such as of Promigas S.A., will help the group fund the planned investments. We expect GEB to continue present debt to EBITDA between 3.0x and 3.5x in the next 24 months.

Our rating on the group also incorporates our view that the city of Bogotá (BBB-/Stable/--) would have incentives to provide timely and sufficient extraordinary support to GEB in case of a financial distress. This is because Bogota is GEB's major shareholder, and the city receives the dividend flows from this subsidiary to finance some infrastructure investments. Although the city has reduced its stake in the group recently, we still expect Bogota to remain GEB's controlling shareholder.

We believe GEB operates under favorable and stable regulatory frameworks, allowing the group to obtain an adequate return over its investments. GEB is

one of the largest integrated energy groups in Latin America with interests in the natural gas and electricity sectors and operations in Colombia, Peru, Brazil, and Guatemala. Through its subsidiaries and minority investments, GEB holds leading positions in most of the markets that it serves, particularly in the cities of Bogota and Lima, which are two of the largest metropolitan areas in Latin America. GEB is the second-largest operator of transmission lines and the largest operator in the gas transportation sector in Colombia. It is the only natural gas distributor in Lima, Peru.

Our base-case projections consider the following assumptions:

- An average exchange rate of COP2,875 per \$1 in 2018, and COP2,975 per \$1 in 2019, according to our estimates.
- Revenue growth of 6%-9% annually in 2018 and 2019, given the performance of GEB's natural gas transportation, distribution, and electricity transmission businesses.
- Dividends from affiliates of between COP750 billion and COP800 billion annually in 2018 and 2019, mostly from its electric power affiliates, Emgesa S.A. E.S.P. (BBB/Stable/--) and Codensa.
- We expect investments to be around COP1.3 trillion in 2018 and about COP1.5 trillion in 2019 mostly in the natural gas transport and distribution.
- Dividend payout of 70% of the group's net income.

Based on these assumptions, we arrive at the following credit figures and metrics:

Credit Metrics		
	2018E	2019E
EBITDA (bil. COP)	2,400-2,600	2,500-2,700
Debt to EBITDA (x)	3.0-3.5	3.0-3.5
FFO to debt (%)	17-22	17-22
FOCF to debt (%)	0-5	0-5

E--expected

Liquidity

GEB's liquidity remains adequate, reflecting our expectation that the company will--under a scenario in which investments are at their minimum level--present sources of cash exceeding its uses by about 20%. Even if EBITDA were to decline 15%, sources will still exceed the uses of cash. We believe GEB is one of the leading companies in Colombia, signaling easy access to capital markets and satisfactory standing in credit markets. Given that two of the three major ratings agencies rate GEB at investment, it doesn't have to comply with financial covenants.

Principal Liquidity Sources:

- Cash position of COP1.3 trillion, as of June 30, 2018; and

- Expected cash flow generation of COP1.6 trillion in the next 12 months.

Principal Liquidity Uses:

- Debt maturities of COP145 billion in the next 12 months;
- Minimum investments of COP1.2 trillion in the next 12 months; and
- Dividend distribution, around COP1.1 trillion, which the group can reduce if needed.

Outlook

The stable outlook on GEB for the next 24 months reflects our view that it will continue investing in the existing projects in the portfolio, while seeking for new investments opportunities, mostly in Colombia and Peru.

Downside scenario

Given that GEB is controlled by the city of Bogotá, any negative rating action on the municipality would result in a similar rating action on GEB, given that both have 'BBB-' ratings. In addition, if GEB were to present debt to EBITDA consistently above 4.5x, as a result either from more aggressive investment strategy or the sharp fall of the Colombian peso—given that around 85% of GEB's debt is in dollars, we could lower the ratings and revise the SACP downwards.

Upside scenario

We don't envision an upgrade in the short term, because the ratings on GEB are at the same level as those on Bogotá, and the latter acting as a rating cap on the group. However, we could revise the SACP upwards if we believe that GEB will be able to present debt to EBITDA below 3.0x and a free operating cash flow to debt above 5%, which could be a result of the startup of the new investments and a more conservative growth strategy.

Ratings Score Snapshot

Corporate Credit Rating: BBB-/Stable/--

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: 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-

Likelihood of extraordinary support from Bogota: High

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Midstream Energy Industry, Dec. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Rating Affirmed

Grupo Energia Bogota S.A. E.S.P.

Issuer Credit Rating	BBB-/Stable/--
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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