Fitch Ratings

04 Oct 2019 | Affirmation

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

Fitch Ratings-New York-04 October 2019: 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 ongoing growth strategy, which will postpone GEB's deleverage beyond 2019.

KEY RATING DRIVERS

Solid Business Position: GEB's ratings reflect its diversified portfolio of businesses, mostly comprised of companies with solid market position and credit profiles. The company maintains direct operation in the electricity transmission business in Colombia and has controlling stakes in energy assets, which operate as regulated natural monopolies within their served areas. 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. It also owns a natural gas distribution company in Peru called Contugas and electricity transmission companies in Guatemala, TRECSA and Brazil. GEB has supported its subsidiaries through equity injections and guarantees.

Stable Cash Flow Generation: GEB's operations benefits from its business diversification, given its participation in companies that maintains a low business-risk profile, and stable and predictable cash flow generation. GEB subsidiaries are for the most part regulated monopolies within their relevant area with limited volumetric risk. TGI is the most important asset for GEB, concentrating more than 42% of its consolidated EBITDA generation plus dividends expected for 2019. GEB fully controls TGI and has no limitation to its cash generation. TGI is exposed to recontracting risk, given that around 33% of its contracted capacity will expire by the end of 2020. GEB's electricity transmission business carried at the holding level is expected to gradually gain higher participation in the EBITDA mix in the medium term, as the company will be executing around USD645 million in capex during 2019-2023 to complete projects granted by the government's planning unit.

Portfolio of High Credit Quality: GEB is an operating holding company that derives most of its cash from operations from its subsidiaries and non-controlling stakes. GEB's cash flow from operations benefits from dividends received from its portfolio of non-controlling stakes, mostly comprised by investment-grade companies or companies with the highest national scale rating. This has resulted in a predictable source of dividends for GEB and also mitigates the structural subordination of the dividends stream to the debt service at GEB's level. Emgesa (BBB IDR), the largest electricity generation company in Colombia, and Codensa (AAA[col] National Long Term Rating), the country's second-largest electric distribution company, concentrate the majority of dividends received by GEB, representing 65% during 2018. GEB owns non-controlling majority participations in these companies and maintains a shareholder agreement with Enel Americas (A-/Stable). In 2017, GEB initiated an arbitrage process against Enel Americas, amid a dispute mainly regarding dividend payments and expansion projects.

Sizable Growth: Further incorporated in the GEB's ratings are the company's capex plans in the medium term, as well as equity injections to its weaker subsidiaries and M&A activities. All coupled with a still demanding dividend policy. Fitch expects the company to record neutral to negative FCF over the rating horizon, resulting from ongoing expansion projects. GEB's ratings factor in the expectations that consolidated leverage will remain in the 3.5x to 4.0x range over the rating horizon, which is above the 'bbb' category per Fitch sector navigator for Latin American utilities, but this is compensated by the GEB low business risk profile and high EBITDA predictability.

In August 2019, GEB announced the acquisition of Dunas Energia S.A.A. (DESAA) for USD210 million, as well as two related electricity companies in Peru, that serve around 240,000 users. The transaction was mainly funded with debt in local currency. Fitch considers this acquisition as neutral for GEB's credit profile, since GEB's consolidated leverage will not increase materially with the transaction, while the company strengthen its EBITDA generation with around USD35 million to USD40 million of incremental EBITDA, that is expected to be highly stable, given the strong operating indicators of the electricity distribution operation.

Stand-Alone Approach: GEB's ratings are derived from the company's creditworthiness on a standalone basis, as the linkage with Bogota Distrito Capital (BBB/Outlook Negative), which maintains a controlling 65.68% stake of GEB, is considered weak to moderate under Fitch's Government Related Entities (GRE) Criteria. GEB is a financially strong GRE, which has had no need for support. GEB is an operating holding company that operates under a commercial law status, independent of its controlling shareholder.

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. (A-/Stable), Empresas Publicas de Medellin S.A E.S:P. (EPM; BBB/Negative), AES Gener (BBB-/Stable) and Promigas (BBB-/Stable). GEB's ratings are two notches below Enel Americas, as the latter has a strong diversified and geographic footprint in South America, as well as it has a more conservative capital structure. Fitch estimates Enel Americas gross leverage will be 1.6x in 2019 and will remain below that level thereafter, not considering any acquisitions, while Fitch projects GEB leverage to be in the range of 3.5x to 4.0x over the rating horizon.

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 is rated one notch above AES Gener and Promigas. GEB's operating environment and exposure to regulated business bodes well for its credit quality in comparison with AES Gener, which operates in a more competitive environment. Also, Fitch projected leverage for GEB is in the range of 3,5x to 4.0x, slightly lower that AES Gener, for which Fitch expects leverage metrics to average 4.0x. Promigas is also rated one notch below GEB in the international scale, given its lower level of business and geographic diversification and its higher leverage levels over the medium term compared to GEB.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- GEB's revenues and EBITDA 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 refinances COP900 billion bridge loan taken for Grupo Dunas' acquisition in August 2019;
- No material asset acquisitions or divestitures over the next three years.

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

- Gross leverage levels sustainably above 4x;
- 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, predictable cash flow from operations and proven access to bank and capital markets, through the holding company and its subsidiaries. At end of June 2019, the company reported around COP1 trillion of available cash, while debt amortization scheduled for the second half of the year reached COP1.5 trillion that included USD342 million of a syndicated loan at Contugas level that was refinanced to 2024, and USD40 million at TGI's level that was already repaid. After these transactions, GEB's debt maturity is very manageable for 2020 to 2022, with consolidated debt amortizations below COP200 billion in each year. This excludes around COP900 billion of a 12 months bridge loan taken by GEB to finance the acquisition of DESAA and other two companies in August 2019 that is planned to be replaced with a long-term debt structure. Also, during 2019, GEB refinanced its USD749 million syndicated loan formerly due in 2023 to 2024, also reducing financing costs.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3. ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

FULL LIST OF RATING ACTIONS

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

Fitch has affirmed GEB's ratings as follows:

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

Contact:

Primary Analyst
Saverio Minervini
Director
+1-212-908-0364
Fitch Ratings, Inc.
33 Whitehall St.
New York, NY 10004

Secondary Analyst
Jorge Yanes
Director
+571-484-6770

Committee Chairperson
Lucas Aristizabal
Senior Director
+1-312-368-3260

Summary of Financial Statement Adjustments - Recovery provisions and one-time impairments were excluded from operating revenues and expenses.

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

[Corporate Rating Criteria (pub. 19 Feb 2019)]
[Government-Related Entities Rating Criteria (pub. 25 Oct 2018)]
[National Scale Ratings Criteria (pub. 18 Jul 2018)]
[Parent and Subsidiary Rating Linkage (pub. 27 Sep 2019)]
[Sector Navigators (pub. 23 Mar 2018)]

Additional Disclosures

[Dodd-Frank Rating Information Disclosure Form]
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