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Ratings

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

Primary Credit Analyst:
Vinicius Ferreira, Sao Paulo + 55 11 3039 9763; vinicius.ferreira@spglobal.com

Secondary Contacts:
Marcelo Schwarz, CFA, Sao Paulo (55) 11-3039-9782; marcelo.schwarz@spglobal.com
Matheus Gusman, Sao Paulo; matheus.f@spglobal.com

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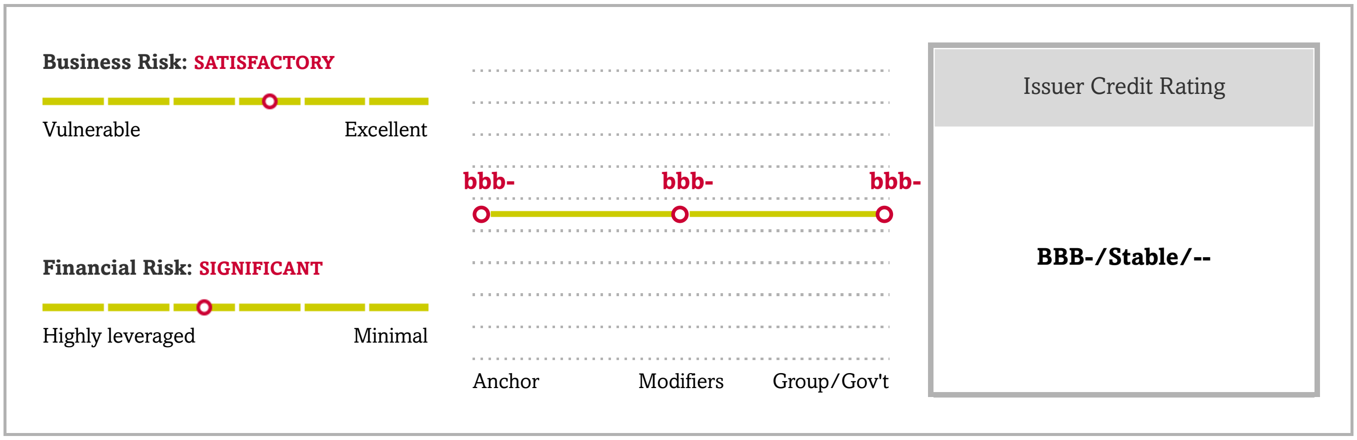


Credit Highlights

Overview

Key strengths	Key risks
Geographic diversification helps GEB to mitigate regulatory exposure to a single jurisdiction.	Moderate exposure to exchange rate fluctuations given its debt position in U.S. dollars.
Stable and predictable cash flow generation due to its presence in regulated businesses.	Rate reset for its main subsidiary to hamper the group's profitability from 2021 on.

Large portfolio of companies that benefit from favorable regulatory frameworks.Grupo Energia Bogota S.A.E.S.P. (GEB or the group) either controls or participates in an extensive portfolio of regulated utility companies in Colombia, Peru, Brazil, and Guatemala. Although we consider that the group somewhat diversified, it derives the bulk of its EBITDA from the natural gas transportation and distribution segments, with the remainder coming from power transmission. In addition, the group receives stable dividend flows of about COP950 billion-COP1.05 trillion from its investments in power generation and distribution projects. We view all these entities as operating under favorable and predictable regulatory frameworks that allow adequate returns over their investments.

GEB continues to actively seek new growth opportunities. The group has been seeking new growth opportunities throughout the region, focused on regulated activities that assure stable and resilient cash flow generation and, therefore, dividends to GEB.

This year, GEB made two major acquisitions:

- 50% stake in the Brazilian transmission line company Argo Energia S.A. (Argo; not rated) that has a portfolio of three concessions with an overall length of 1,470 kilometers (km) and 11 substations. This transaction has not been closed yet, because there are some regulatory approvals pending, but we expect that to occur in the first quarter of 2020.
- 100% of the Peru-based electric power group Electrodunas and its three subsidiaries: Dunas Energia S.A.A. (not rated) that distributes electric power, Cantalloc Peru Holdings S.R.L. (not rated) that is an operations and maintenance service provider, and PPC Peru Holdings S.R.L. (not rated) that develops projects in the cogeneration, distributed generation, and electricity efficiency areas. The distributor has about 240,000 clients in its concession area that represents 4% of the electricity consumption in Peru.

In our view, these acquisitions did not affect the group's consolidated credit metrics. We expect Electrodunas to contribute recurring EBITDA of about COP100 billion to GEB once it is consolidated for a full year in 2020. Argo's acquisition will demand a disbursement of around $850 million-$900 million to GEB, but considering GEB's will only own half of it, it won't be consolidated into the groupś financials. We don't expect Argo to make material dividend contributions to GEB until 2022. This is because it still has assets under construction in this period, and the existing debt at the company's level restricts dividend distributions at 25% of previous year's net income.

Rate reset at the Colombian gas transportation segment. GEB's main subsidiary is Transportadora de Gas Internacional S.A. E.S.P. (TGI: BBB-/Stable/--), which contributes with 58% of consolidated operating EBITDA. TGI will pass through a rate reset to customers in 2021.

In our view, the rate reset process could result in lower cash flows for TGI from 2021 onwards, because the regulator is proposing to reduce the regulatory WACC (weighted average cost of capital) that it uses to calculate the remuneration to TGI for investments. We've already incorporated a drop in TGI's EBITDA of about 20% in our base case.

Outlook: Stable

The stable outlook on GEB for the next 24 months reflects our view that it will continue investing in the existing projects in its portfolio, while seeking new investment opportunities in Latin America.

Downside scenario

Given that the city of Bogotá controls GEB, any negative rating action on the municipality would result in a similar rating action on the company, given that we rate both 'BBB-'. In addition, if GEB were to post debt to EBITDA consistently above 4.5x, as a result of either a more aggressive investment strategy or the sharp fall of the Colombian peso (given that about 80% of GEB's debt is in dollars), we could lower the ratings and revise the stand-alone credit profile (SACP) downwards.

Upside scenario

We do not envision an upgrade in the next 24 months, because the ratings on GEB are at the same level as those on Bogotá, and the latter limits our ratings on the group.

However, we could revise the SACP upwards if we believe that GEB will be able to have debt to EBITDA below 3.0x and free operating cash flow (FOCF) to debt above 5%, which could result from the startup of the new investments and a more conservative growth strategy.

Our Base-Case Scenario

Assumptions	Key Metrics

- An average exchange rate of COP3,400 per $1 in 2020 and in 2021, according to our estimates.
- Revenue growth between 10%-15% in 2020, mainly from the consolidation of Electrodunas in Peru that we expect to contribute with about COP100 billion.
- TGI's EBITDA to drop 20% from 2021 on.
- Dividends from affiliates of between COP950 billion and COP1.05 trillion annually in 2020 and 2021, mostly from its electric power affiliates, Emgesa S.A. E.S.P. (BBB/Stable/--) and Codensa (not rated). We also consider dividends from Argo from 2020 onwards, but we don't expect it to make a material contribution until 2022, due to assets under construction and restrictions due to existing debt conditions.
- Investments of about COP 1.3 trillion annually in 2020 and 2021, mostly for natural gas transport and distribution.
- A dividend payout near 70% of previous year's net income.

	2020E	**2021E**
EBITDA (Trillion COP)	2.9-3.3	3.0-3.4
Debt/EBITDA (x)	3.5-4.0	3.5-4.0
FFO/debt (%)	15-20	15-20
FOCF/debt (%)	0-5	2.5-7.5

Base-case projections

After the acquisitions GEB performed this year, we expect the group's credit metrics to slightly worsen, with debt to EBITDA between 3.5x-4.0x in the next two years, compared with our previous expectations that this metric would not surpass 3.5x.

In terms of its main consolidated companies, we expect Gas Natural de Lima y Callao – Calidda (BBB-/Stable/--) to continue growing internally and expanding its network, while TGI will undergo a tariff review process under a new methodology that the Colombian regulator is discussing, which could hurt its revenues and cash flow generation once implemented.

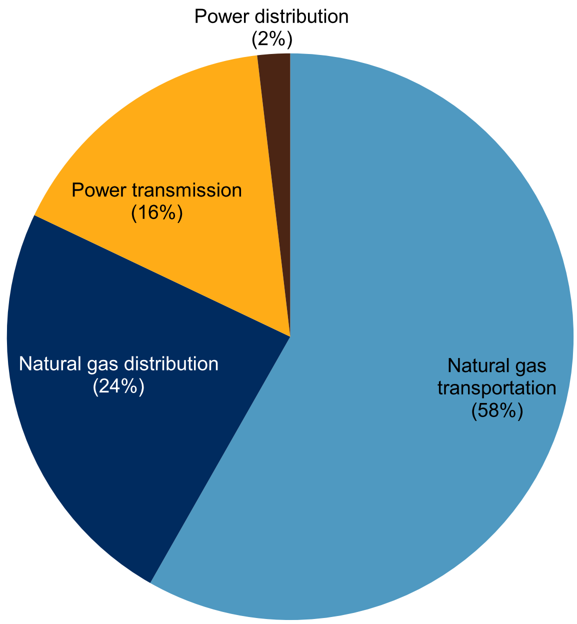
We believe that GEB's debt to EBITDA has peaked, as the group made significant acquisitions recently. Once the acquisitions are consolidated, we expect the group's credit metrics to improve because of rising cash flow generation from Electrodunas and higher dividend distributions from Argo once its construction phase ends in 2022 and there are no dividend upstream restrictions from the existing financing.

Company Description

GEB is a leading energy company based in Colombia that is engaged in natural gas transportation and distribution and electricity distribution, transmission, and generation in Colombia, Peru, Brazil, and Guatemala. With its affiliates, the group has 4.1 million clients in power distribution, 3.3 million clients in natural gas distribution, 13,948 km of transmission lines, 4,288 km of gas pipelines, and 3,500 megawatts (MW) of power generation installed capacity. The group is controlled (65%) by Bogotá Distrito Capital (BBB-/Stable/--), the government of the city of Bogotá.

Chart 1

Expected Operating EBITDA Breakdown By Business Line
% of total EBITDA



Source: S&P Global Ratings.

Business Risk: Satisfactory

We believe GEB operates under favorable and stable regulatory frameworks in Colombia, Brazil, and Peru, where its assets are concentrated, 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, some of the largest metropolitan areas in Latin America with over seven and 12 million inhabitants, respectively. GEB is the second largest operator of transmission lines and the largest operator in the gas transportation sector in Colombia. It's the only natural gas distributor in Lima, Peru.

In the natural gas transportation and power transmission segments, we consider that the company benefits from the strong predictability of cash flows. For example, 96% of total revenues from natural gas transportation are under availability contracts, and it has a long average tenor in its contracts. Furthermore, we consider regulation as favorable in the countries where GEB operates these business segments, with tariff schemes that cover investments and operation and maintenance costs, with clear methodologies, and institutional stability.

GEB's power transmission segments has a degree of jurisdiction diversification, with operations (either directly or indirectly) in Colombia, Peru, Guatemala, and Brazil, reaching 13,948 km of transmission lines.

Natural gas distribution (Calidda) and power distribution also benefit from favorable regulatory frameworks in Peru and Colombia. Calidda has had a natural monopoly in the regions of Lima and Callao for 33 years, and these regions are the most densely populated and developed areas of Peru. Furthermore, the tariff structure for Calidda guarantees a 12% return on capital expenditures (capex) and operating costs for a period of four years, which increases predictability.

Finally, GEB also benefits from dividend flows from its unconsolidated investments, with Emgesa and Codensa as the most relevant ones. After the construction period for Argo ends in 2022 and its dividend distribution restriction ends, we expect the recently acquired asset to play a more important role in dividend distributions to GEB.

Peer comparison

Table 1

Grupo Energia Bogota S.A.E.S.P. -- Peer Comparison						
Industry Sector: Electric						
	Grupo Energia Bogota S.A.E.S.P.	**Transportadora de Gas Internacional S.A. E.S.P.**	**Interconexion Electrica S.A. E.S.P. (ISA)**	**ISAGEN, S.A. E.S.P.**	**Infraestructura Energetica Nova S. A. B. de C. V.**	**Enel Americas S.A.**
Ratings as of Oct. 10, 2019	BBB-/Stable/--	BBB-/Stable/--	BBB-/Stable/--	BBB-/Stable/--	BBB/Negative/--	BBB/Stable/--
	--Fiscal year ended Dec. 31, 2018--					
(Mil. $)						
Revenue	1,232.5	441.7	1,994.1	816.3	1,368.6	13,184.1
EBITDA	778.7	334.9	1,441.9	458.9	769.3	3,456.6
Funds from operations (FFO)	571.1	212.8	836.8	369.2	616.4	2,400.1
Interest expense	161.3	87.0	341.9	98.1	134.2	778.4
Cash interest paid	139.5	82.1	250.9	89.7	95.8	462.5
Cash flow from operations	456.0	163.9	744.5	88.4	529.8	1,496.5
Capital expenditure	346.5	65.5	681.7	22.0	445.6	1,521.3
Free operating cash flow (FOCF)	109.5	98.4	62.8	66.4	84.1	(24.8)
Discretionary cash flow (DCF)	(234.5)	10.3	(511.2)	66.4	(235.1)	(616.8)
Cash and short-term investments	356.1	46.8	468.8	26.3	51.8	2,034.0
Debt	2,608.6	1,118.9	4,976.7	1,342.4	3,042.9	7,881.6
Equity	4,001.9	844.2	5,834.1	1,820.8	4,753.8	8,831.9

Table 1

Grupo Energia Bogota S.A.E.S.P. -- Peer Comparison (cont.)						
Adjusted ratios						
EBITDA margin (%)	63.2	75.8	72.3	56.2	56.2	26.2
Return on capital (%)	12.0	12.0	13.0	13.6	9.3	20.0
EBITDA interest coverage (x)	4.8	3.8	4.2	4.7	5.7	4.4
FFO cash interest coverage (x)	5.1	3.6	4.3	5.1	7.4	6.2
Debt/EBITDA (x)	3.3	3.3	3.5	2.9	4.0	2.3
FFO/debt (%)	21.9	19.0	16.8	27.5	20.3	30.5
Cash flow from operations/debt (%)	17.5	14.7	15.0	6.6	17.4	19.0
FOCF/debt (%)	4.2	8.8	1.3	4.9	2.8	(0.3)
DCF/debt (%)	(9.0)	0.9	(10.3)	4.9	(7.7)	(7.8)

GEB's peers consist of companies in the energy sector in Latin America that we rate in the 'BBB' category. All of them enjoy a satisfactory business risk profile stemming from their leading positions in different segments of energy value chain and some geographic diversity within the region.

In our view, GEB compares well in terms of scale with ISA and IENova, and has similar credit metrics to its peers. The exception would be Enel Americas, which is much larger in terms of size and has less debt, and thus we rate it one notch higher than the rest of the peers.

Financial Risk: Significant

Our assessment of GEB incorporates our view that the group's leverage will peak in 2020, while absorbing the recent acquisitions--Electrodunas, which is consolidated, and Argo, which will contribute with dividends--resulting in debt to EBITDA between 3.5x and 4.0x in 2020 and 2021. We also believe that GEB will continue seeking growth opportunities in Latin America in the segments it already operates in--natural gas and electricity transmission and distribution--but regardless, we expect these credit metrics to improve after 2021.

Financial summary

Table 2

Grupo Energia Bogota S.A.E.S.P. -- Financial Summary						
Industry Sector: Electric						
	--Year ended Dec. 31--					
(Mil. $)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**
Revenue	1,498.0	1,232.5	1,198.7	1,043.2	1,077.2	1,093.8
EBITDA	709.5	778.7	775.6	818.0	663.4	719.4
Funds from operations (FFO)	499.7	571.1	456.6	638.1	477.8	561.6
Interest expense	183.3	161.3	161.8	144.2	135.4	125.6

Table 2

Grupo Energia Bogota S.A.E.S.P. -- Financial Summary (cont.)

Industry Sector: Electric

	--Year ended Dec. 31--					
(Mil. $)	**2019***	**2018**	**2017**	**2016**	**2015**	**2014**
Cash interest paid	156.4	139.5	193.7	151.1	124.9	143.5
Cash flow from operations	234.3	456.0	640.8	458.6	316.2	1,030.6
Capital expenditure	375.9	346.5	383.9	307.3	358.6	335.2
Free operating cash flow (FOCF)	(141.6)	109.5	256.9	151.3	(42.5)	695.4
Discretionary cash flow (DCF)	(490.4)	(234.5)	(47.6)	40.3	(389.2)	446.7
Cash and short-term investments	412.8	356.1	574.4	515.9	361.7	764.3
Gross available cash	412.8	356.1	574.4	515.9	361.7	764.3
Debt	2,934.9	2,608.6	2,462.0	2,299.9	2,475.8	2,324.7
Equity	3,897.7	4,001.9	4,008.7	3,776.1	3,343.3	3,782.5
Adjusted ratios						
EBITDA margin (%)	47.4	63.2	64.7	78.4	61.6	65.8
Return on capital (%)	12.8	12.0	12.2	11.6	13.9	12.0
EBITDA interest coverage (x)	3.9	4.8	4.8	5.7	4.9	5.7
FFO cash interest coverage (x)	4.2	5.1	3.4	5.2	4.8	4.9
Debt/EBITDA (x)	4.4	3.3	3.2	2.8	3.7	3.2
FFO/debt (%)	16.0	21.9	18.5	27.7	19.3	24.2
Cash flow from operations/debt (%)	7.7	17.5	26.0	19.9	12.8	44.3
FOCF/debt (%)	(4.4)	4.2	10.4	6.6	(1.7)	29.9
DCF/debt (%)	(15.5)	(9.0)	(1.9)	1.8	(15.7)	19.2

*Data as of Sept. 30.

Liquidity: Adequate

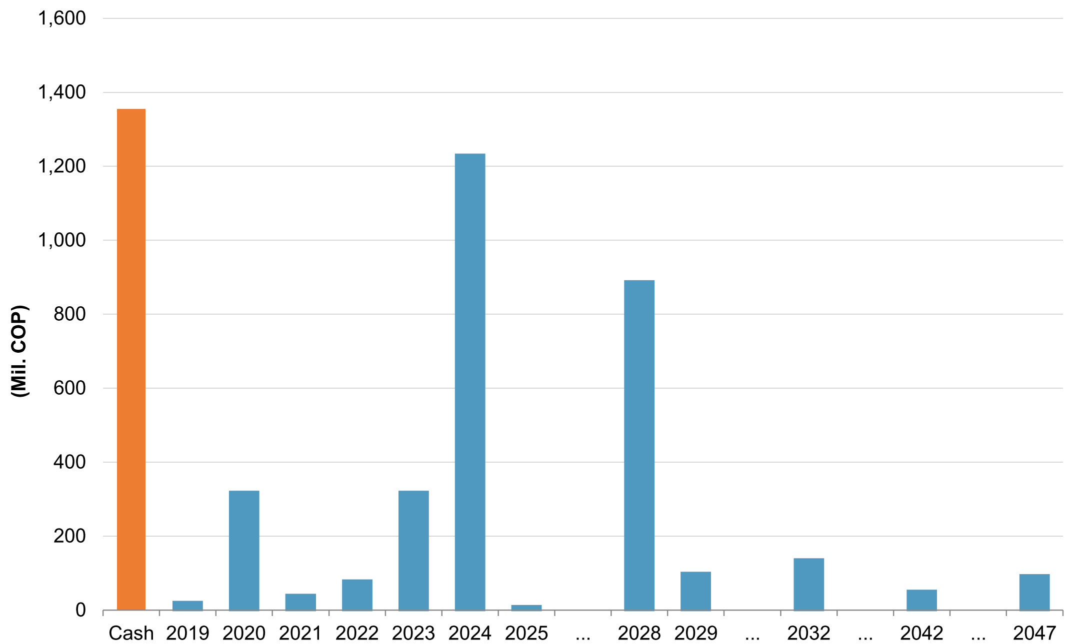
GEB's liquidity remains adequate, reflecting our expectation that the company will--in a scenario in which investments are at their minimum level--have sources of cash exceeding its uses by about 20%. Even if EBITDA were to decline 15%, sources will still exceed uses of cash. We believe GEB is one of the leading infrastructure 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 investment grade, it doesn't have to comply with financial covenants

Principal Liquidity Sources	Principal Liquidity Uses
• Cash position of COP1.4 trillion as of Sept. 30, 2019; • Cash flow generation of about COP2 trillion in the next 12 months; and • Undrawn credit facilities of COP1.9 trillion.	• Debt maturities of COP1.5 trillion in the next 12 months (as of September 2019); • Maintenance investments of COP500.0 billion in the next 12 months; and • Minimum dividend distributions.

Debt maturities

Chart 2

Debt Amortization Schedule
As of September 2019



Source: S&P Global Ratings.

GEB has a mostly smooth amortization profile, with some concentration when there is a notes bullet payment, such as the bond at TGI's level in 2028. However, we understand that the group has demonstrated capacity to refinance debt.

We still believe that the group has moderate exposure to foreign currency debt, as about 80% of total debt is in U.S. dollars. However, at the same time, about 70% of GEB's consolidated EBITDA is linked to dollars, acting as a natural hedge for part of the debt. Because of that, we believe that the group has a moderate exposure to exchange rate variations, and we expect this exposure to fall as the group replaces its debt in foreign currency with other debt in local currency. Despite this moderate exposure, we will still closely monitor the impact of foreign exchange variations on GEB's credit metrics.

Government Influence

Our rating on the group also incorporates our view that the city of Bogotá would have incentive to provide timely and sufficient extraordinary support to GEB in case of 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 the municipality to remain GEB's controlling shareholder.

Environmental, Social, And Governance

Despite the risk of political influence of the city of Bogota, its controlling shareholder, the company has been gradually improving its governance standards. At least four out of the nine members of its board of directors are independent, and Bogota's mayor is no longer a board member. We believe this is positive for governance and shows the company's willingness to shield its strategy from political interference, usually related to changes in the city's administration.

We believe that GEB plays an important role in lowering CO_2 emissions by guaranteeing the gas supply and increasing the reliability of the gas-fired electricity systems in the countries where it operates.

Reconciliation

Table 3

Reconciliation Of Grupo Energia Bogota S.A.E.S.P. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. COP)

	--Fiscal year ended Dec. 31, 2018--					
Grupo Energia Bogota S.A.E.S.P. reported amounts						
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
	9,625,802.0	12,556,451.0	1,704,859.0	1,302,494.0	2,528,359.0	1,111,013.0
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	(220,964.0)	--
Cash taxes paid: Other	--	--	--	--	--	--
Cash interest paid	--	--	--	--	(453,036.0)	--
Accessible cash and liquid investments	(1,156,310.0)	--	--	--	--	--
Dividends received from equity investments	--	--	822,550.0	--	--	--
Nonoperating income (expense)	--	--	--	1,141,113.0	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	369,514.0
Noncontrolling interest/minority interest	--	436,604.0	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	950.0	950.0	--	--
Working capital: Taxes	--	--	--	--	--	220,964.0
Working capital: Other	--	--	--	--	--	1,398.0
Operating cash flow: Taxes	--	--	--	--	--	(220,964.0)

Table 3

Reconciliation Of Grupo Energia Bogota S.A.E.S.P. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. COP) (cont.)

Operating cash flow: Other	--	--	--	--	--	(1,398.0)
Total adjustments	(1,156,310.0)	436,604.0	823,500.0	1,142,063.0	(674,000.0)	369,514.0
S&P Global Ratings' adjusted amounts						
	Debt	**Equity**	**EBITDA**	**EBIT**	**Funds from operations**	**Cash flow from operations**
	8,469,492.0	12,993,055.0	2,528,359.0	2,444,557.0	1,854,359.0	1,480,527.0

Ratings Score Snapshot

Issuer 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)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb-

- **Related government rating:** BBB-
- **Likelihood of government support:** High (no impact)

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

Related Research

- Bulletin: Grupo Energia Bogota's Acquisition Of Transmission Line Is In Line With Growth Strategy, Nov. 25, 2019
- Bulletin: Grupo Energia Bogota's Acquisition Expands Its Footprint In Latin America And Won't Weaken Credit Metrics, Aug. 8, 2019

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	**bbb-/bb+**	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of December 12, 2019)*	
Grupo Energia Bogota S.A.E.S.P.	
Issuer Credit Rating	BBB-/Stable/--
Issuer Credit Ratings History	
29-Sep-2016	BBB-/Stable/--

Ratings Detail (As Of December 12, 2019)*(cont.)	
03-Sep-2015	BBB-/Negative/--
04-Sep-2012	BBB-/Stable/--
Related Entities	
Gas Natural de Lima y Callao S.A. (Calidda)	
Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-
Transportadora de Gas Internacional S.A. E.S.P.	
Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.