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Research Update:

Empresa de Energia de Bogota 'BBB-' Ratings Affirmed; Outlook Remains Stable

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Research Update:

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Overview

- On April 4, 2014, Colombia-based energy holding group Empresa de Energia de Bogota announced that it would acquire the remaining 31.92% share of its subsidiary Transportadora de Gas Internacional (TGI), partially financing the transaction with debt.
- We are affirming our 'BBB-' corporate credit rating on the company.
- The rating action and stable outlook reflect our expectation that the company's total debt to EBITDA will remain less than 3.0x in 2014 and 2015 in spite of potential future acquisitions.

Rating Action

On May 8, 2014, Standard & Poor's Ratings Services affirmed its 'BBB-' ratings on Empresa de Energia de Bogota S.A.E.S.P. (EEB). The outlook is stable.

Rationale

The rating reflects the company's "satisfactory" business risk profile, "intermediate" financial risk profile and "adequate" liquidity.

EEB recently announced the $880 million acquisition of 31.92% of TGIs shares, which were previously held by The Rohatyn Group (formerly Citi Venture Capital International, CVCI). After the acquisition, EEB will hold 99.97% of TGI. The company will finance the acquisition in part with $616 million in debt issued through a newly created special purpose vehicle (SPV) which will hold TGI's 31.92% stake as guarantee. We expect this entity to merge with TGI about 12 months after the acquisition. At that time, we expect TGI to use its cash on hand to partially prepay about $300 million.

As a result, we would expect EEB's leverage to increase temporarily to approximately 2.8x net debt to adjusted EBITDA from 2.0x times in the last twelve months as of March 31, 2014. We expect this ratio to narrow to a net debt to adjusted EBITDA of 2.4x in 2015 once TGI merges with the SPV. These ratios consider an adjusted EBITDA that includes the company's dividend cash flows from its equity investments, Emgesa S.A. E.S.P. (BBB/Stable /--) and Codensa S.A. E.S.P. (not rated). EEB is dependent on these dividends as they represent about 40% of its adjusted EBITDA.

The rating on EEB reflects its 'bbb-' stand-alone credit profile (SACP). The rating also reflects our opinion that there is a high likelihood that the city of Bogota, Bogota Distrito Capital (BBB-/Stable/--), would provide timely and sufficient extraordinary support to EEB in the event of financial distress given current links between the two entities. In accordance with our criteria for government-related entities (GREs), the government's support is based on our assessment of EEB's important role as Bogota's integrated energy provider, its very strong link with the government due to its majority shareholder position (76.3%), and the city's influence on the company's strategic and business plans.

The rating on EEB's senior unsecured debt reflects its structural subordination relative to the company's priority liabilities at the subsidiary level.

The company's "satisfactory" business risk profile reflects EBB's strong competitive position mainly due to its low risk regulated businesses in the favorable institutional and regulatory framework in Colombia, where the company generates more than 90% of its consolidated EBITDA. In addition, the company's satisfactory competitive position reflects its adequate to strong scale, scope and diversification, which mainly reflects its important presence in the Colombian electric and natural gas markets, and its adequate operating efficiency.

EEB enjoys moderate geographic and business line diversification in regulated markets that provide a stable and predictable cash flow generation. The company also benefits from a relatively large dividend stream coming mainly from its minority ownership in Colombian electric companies Emgesa and Codensa.

The company's "intermediate" financial risk profile reflects its relatively strong and stable cash flow generation and good financial metrics, adequate liquidity and good financial flexibility. We expect the company to report EBITDA interest coverage of about 6.0x, net debt to adjusted EBITDA of about 2.8x, and funds from operations (FFO) to total debt of about 30% by year-end 2014.

We also expect EEB's strategy to extend its geographic footprint in Colombia and the rest of the region, as it has announced its interest in making several acquisitions including Colombian electricity generator company ISAGEN, S.A. E.S.P. (BBB-/Stable/--). However, it shouldn't affect its overall creditworthiness. We base this assumption on our expectation that any potential acquisition would be limited to companies within its areas of expertise. If the company acquires entities that extend its reach in weaker markets, we don't expect these smaller acquisitions to affect the company's business risk profile. We also expect new potential acquisitions to be structured in a way that result in a net debt to EBITDA ratio less than 3.0x.

EEB is an integrated energy group with interests in the natural gas and electricity sectors, and operations in Colombia, Peru, and Guatemala. District of Bogota holds 76.2%. of EEB. The majority of EEB's investments are concentrated in natural monopolies regulated by the government. EEB participates, either directly or indirectly, in the transmission and

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generation of energy and in the transportation and distribution of natural gas following its diversification strategy implemented in 2007.

Liquidity

We view the company's liquidity as "adequate." Under our base-case scenario, sources should cover uses by 1.3x in 2014.

Liquidity sources

- As of March 31, 2014, the company reported cash and short-term investments of approximately Colombian peso (COP) 1.8 trillion;
- FFO generation of about COP1.4 trillion;
- Dividends from its subsidiaries of about COP850 billion in 2014; and
- Debt issuance at SPV level of COP1.2 trillion.

Liquidity uses

- Working capital outflows of about COP50 billion;
- Capital expenditures (capex) of COP800 billion;
- Dividend payment of COP590 billion; and
- Acquisition of remaining shares in TGI for COP1.701 trillion.

We expect EEB's 2014 capex to be a high COP800 billion given its subsidiaries', Contugas', Cálidda's, Trecsa's, and TGI's, continued expansion and EEB's other transmission projects.

In our view, the tenor of EEB's debt maturity profile mitigates short- and medium-term refinancing risks. The next major maturity, of more than $100 million, is in 2019.

The company has raised additional debt to finance its expansion strategy and future capex, because its internal cash flow generation won't be sufficient to cover them. However, we consider the company's expansion capex to be flexible.

Outlook

The stable outlook reflects our expectation that EEB's financial risk profile will remain unchanged. We expect a 15% increase in operating revenue during 2014 and a net-debt-to-EBITDA ratio of about 2.8x and FFO to debt of 30% due to the anticipated high capex and additional debt from the acquisition of TGIs minority stake. We expect leverage ratios to improve in 2015 to a net-debt-to-EBITDA ratio of about 2.4x and FFO to debt of 35% after the partial prepayment of the debt using TGI's cash on hand. We incorporate our expectation that EEB will continue its prudent debt management.

Upside scenario

We could raise the ratings on stronger-than-expected revenue growth, which will limit the need for additional debt to finance its projects, following an upgrade of its controlling shareholder, the city of Bogotá.

Downside scenario

However, a continued increase in debt from additional acquisitions or capex needs that lead to a deterioration in the company's financial risk profile or pressure its liquidity, resulting in net debt to EBITDA of more than 3.5x and FFO to debt of less than 23%, could cause us to lower the rating.

Rating Score Snapshot

Corporate Credit Rating: BBB-/Stable/--

Business risk: Satisfactory
- Country risk: Moderately high
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Intermediate
- Cash flow/Leverage: Intermediate

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)

Related Criteria And Research

Related Criteria

- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings List

Ratings Affirmed

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

Corporate Credit Rating	BBB-/Stable/--
Senior Unsecured	BB+

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