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Research Update:

Empresa de Energia de Bogota S. A. E. S. P. 'BBB-' Credit Rating Affirmed, Outlook Remains Stable

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Overview

- Colombia-based energy holding group Empresa de Energia de Bogota's financial performance was in line with our expectations.
- We are affirming our 'BBB-' corporate credit rating on the company.
- The stable outlook reflects our expectation that the company will continue to increase its cash-flow generation and manage its debt prudently, amid its geographic expansion.

Rating Action

On May 6, 2013, Standard & Poor's Ratings Services affirmed its ratings on Empresa de Energia de Bogota S.A.E.S.P. (EEB), including its 'BBB-' corporate credit rating (see list). The outlook is stable.

Rationale

The corporate credit rating on EEB reflects its "intermediate" financial risk profile, "satisfactory" business risk profile and "adequate" liquidity. The rating also reflects EBB's geographic and business line diversification mostly in regulated markets that provide stable and predictable cash flows and dividends from its minority ownership in Emgesa S.A. E.S.P. (BBB-/Watch Pos/--) and Codensa S.A. E.S.P. (not rated). The rating also incorporates Colombia's favorable institutional and regulatory framework, which contributes to the stability of the energy sector. In our view, EEB's geographical expansion to growing markets, such as Peru and Guatemala, will result in continued double-digit revenue growth and strong and stable profitability.

The rating on EEB reflects its 'bbb-' stand-alone credit risk 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, 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.

EEB benefits from operating in regulated markets that allow monopolies, resulting in the company's EBITDA margins of 50% on average. EEB's revenues have increased in the past 12 months due to improving operating performance of its consolidated subsidiaries, Transportadora de Gas Internacional S. A. E.S.P. (TGI; BBB-/Stable/--) and Gas Natural de Lima y Callao S.A. (Calidda) (BBB-/Stable/-). EEB continues to heavily invest in Trecsa, its electricity transmission subsidiary operating in Guatemala, in Calidda and Contugas, its natural gas distribution companies in operating Peru, and in Colombia directly through EEB in the electricity transmission sector. TGI contributes 44% of EEB's total operating revenues and 67% of its EBITDA (excluding dividends), providing a high degree of stability and predictability to EEB's consolidated revenues, as 80% of its consolidated revenue base comes from fixed-capacity payments with an average term of more than eight years.

We believe that in the intermediate term EEB will rely less on dividend payments from Emgesa and Codensa and other entities–in which EEB is a minority shareholder--as its subsidiaries in Peru and Guatemala and its new investments in Colombia begin to generate operating revenues, coupled with increased revenues from its existing electricity transmission business in Colombia.

EEB's financial performance has been in line with our expectations. According to our calculations, for the 12 months ended March 31, 2013, EEB posted EBITDA interest coverage ratio of 4.6x, total debt to EBITDA of 4.3x, and funds from operations (FFO) to total debt of 37.4%. The total debt-to-EBITDA plus dividends ratio is 2.5x. Due to the stability of the dividend cash flows--thanks to the shareholder agreement with Endesa, the operating owner of Emgesa and Codensa, to distribute 100% of its net profit--and that dividends represent around 40% of EEB's EBITDA generation, we consider them in our debt to EBITDA calculation. During the same period, EEB posted revenues of COP1.661 trillion, a 13.8% increase over the same period of 2012. The EBITDA increase was due to TGI's and Calidda's higher operating income.

As a result of expected revenue growth of about 20% during 2013, due to the expansion of TGI and Calidda, the start of Contugas' operations, and an increase in dividends from Emgesa and Codensa. We expect the company to report EBITDA interest coverage of about 3.7x, total debt to EBITDA plus dividends of about 3.2x, and FFO to total debt of about 20% by the year-end. These ratios don't include Emgesa's and Codensa's debt.

EEB is an integrated energy group with interests in the natural gas and electricity sectors and operations in Colombia, Peru, and Guatemala. The largest stakeholder of EEB is the District of Bogota (BBB-/Stable/--) with an interest of 76.2%. 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 generation of energy and in the transportation and distribution of natural gas as a result of its diversification strategy in 2007.

Liquidity

We assess the company's liquidity as "adequate" under our criteria, based on the following assumptions:

- We expect a sources-to-uses ratio of 1.57x in 2013 and 2.5x in 2014 based on our expectation of FFO to exceed COP1.04 trillion in 2013 and to be approximately COP1.256 trillion in 2014.
- 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.

As of March 31, 2013, the company reported cash and short-term investments of approximately COP797.3 billion, which compares favorably with short-term debt of COP84 billion.

We expect EEB's capital expenditures to be high—at COP1.234 trillion for 2013 and COP1.016 trillion for 2014--given Contugas', Cálidda's, Trecsa's, and TGI's continued expansion and EEB's other projects. The company has raised additional debt to finance its expansion strategy and future capital expenditures, because its internal cash-flow generation won't be sufficient to cover them. However, we consider the company's expansion capital expenditures to be flexible.

Outlook

The stable outlook reflects our expectation that EEB's financial risk profile will remain unchanged. We expect a 20% increase in operating revenue during 2013 and the debt to EBITDA-plus-dividends ratio of about 3.2x and FFO to debt of 20.5% due to the anticipated high capital expenditures in 2013 and 2014. We expect that EEB will continue to manage its debt prudently.

An upgrade could occur due to stronger-than-expected revenue growth which will result in lower new debt to finance its projects coupled with an upgrade of its controlling shareholder, the city of Bogotá. However, higher-than-expected debt that cause the company's financial risk profile to deteriorate and pressure its liquidity, resulting in consolidated debt to EBITDA (including dividends from Emgesa and Codensa) of more than 4.0x and FFO to interest coverage of less than 3.0x, could lead us to lower the rating.

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009
- Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008

- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Ratings List

Ratings Affirmed

Empresa de Energia de Bogota S. A. E. S. P.	
Corporate Credit Rating	BBB-/Stable/--
Senior Unsecured	BB+

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.