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Research Update:

Empresa de Energia de Bogotá S.A. E.S.P. 'BB+' Corporate Credit Rating Affirmed; Outlook Remains Stable

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Overview

- EEB's key financial ratios are stronger than we had expected, as a result of higher EBITDA plus dividends received during 2010 and lower debt.
- We are affirming our ratings on the company, including the 'BB+' corporate credit rating with a stable outlook.
- We expect that, despite strong capital expenditure requirements for 2011, EEB will continue to increase its cash flow generation and maintain its liquidity position.

Rating Action

On June 21, 2011, Standard & Poor's Ratings Services affirmed its ratings, including the 'BB+' corporate credit rating, on Empresa de Energía de Bogotá S.A. E.S.P. (EEB). At the same time, we affirmed our 'BB' rating on EEB's $610 million in notes. The 'BB' rating on the notes reflects the structural subordination of the parent's creditors to the subsidiaries'. The outlook remains stable.

Rationale

The 'BB+' corporate credit rating on EEB reflects our opinion that there is a high likelihood that Bogotá 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, our view of a high likelihood of extraordinary government support is based on our assessment of EEB's important role as Bogota's integrated energy provider and its very strong link with this city, the capital of Colombia; and the city's strong and stable shareholder position (81.5%), which exerts ongoing influence on the company's strategic and business plans.

We assess EEB's stand-alone credit profile (SACP) to be in the 'BB' category. The company's business risk profile limits the SACP until it consolidates its new business units and expands its geographic outreach, including completing the new expansion projects for transmission lines in Guatemala and a natural gas distribution system in Peru. The company's diversified energy portfolio and the proven and stable regulatory framework in which it operates partially offset EEB's credit weaknesses, in our view.

The SACP on EEB also reflects an improved financial profile. Under our base-case scenario, we expect EEB's cash-flow generation to increase rapidly during 2011-2013, resulting in an improvement of its key financial metrics, such as EBITDA-plus-dividends interest coverage, total debt-to-EBITDA plus dividends, and funds from operations (FFO) plus dividends-to-total debt ratios of 5.4x, 2.1x, and 27%, respectively. The SACP also reflects increasing electricity and natural gas consumption, which should support long-term demand growth.

As part of its business growth strategy, during first-quarter 2011, EEB acquired from Ashmore Energy International (AIE) a 66% stake in the Peruvian electric distribution company Gas Natural del Perú (Cálidda; not rated) and a 15.6% participation in Colombian gas transportation company Promigas S.A. E.S.P. (not rated). EEB's acquisitions totaled $348 million and were funded through its own cash flow. With these acquisitions, EEB strengthened its position in natural gas transportation in Colombia and Peru, where the operating companies hold a quasi-monopolistic position.

In our view, EEB has redefined its strategy consistent with being an operating holding group with revenue growth driven mainly by its consolidated subsidiary Transportadora de Gas Internacional S.A. E.S.P. (TGI; BB/Stable/--) and two noncontrolled companies, EMGESA S.A. E.S.P. (Emgesa; BBB-/Stable/--) and Codensa S.A. E.S.P. (not rated), on which EEB relies on for strong dividend payments.

For the 12 months ended March 31, 2011, EEB posted EBITDA-plus-dividends interest coverage, total debt-to-EBITDA plus dividends, and FFO plus dividends-to-total debt ratios of 3.9x, 3.4x, and 24.3%, respectively. These metrics seem slightly weakened when compared to the prior year's numbers, but the first-quarter 2011 metrics do not fully incorporate the dividends EEB received from its subsidiaries during the last quarter of 2010, following a national taxation change. We believe that operating income will continue to improve as a result of the consolidation of recently acquired assets and additional revenues from TGI's Cusiana Phase I expansion of its transportation system.

Despite EEB's new expansion projects for transmission lines in Guatemala and a natural-gas distribution system in Peru, we expect the debt-to-EBITDA plus dividends ratio to remain at about 3.4x through year-end 2011 mainly driven by EBITDA growth resulting from the start-up of the Cusiana and Ballena projects. These ratios don't include the debt of EEB's uncontrolled subsidiaries.

Liquidity

EEB's liquidity position is adequate. As of March 2011, the company reported cash and short-term investments of approximately $575 million; we expect free operating cash flow of $400 million for the next 12 months, which compares favorably with short-term debt of $70 million and expected capital expenditures of approximately $600 for the year. EEB has a smooth maturity schedule for the next 12 to 24 months, with nearly no debt amortization until

2014, when the $610 million bonds it issued in 2007 come due. We expect that the company will refinance this obligation in a timely manner.

The company has adequate covenant headroom under the covenants on its senior unsecured notes due 2014, which stipulate a total debt-to-EBITDA ratio of 4.5x and an EBITDA interest coverage ratio of 2.25x.

Outlook

The stable outlook reflects our expectation that EEB will maintain satisfactory business and operational performance. Our base-case scenario predicts a fall to a 60% dividend-adjusted EBITDA margin for 2011 and a 68% dividend-adjusted EBITDA margin by 2012. We base these figures on a temporary increase in operating costs as the company incorporates recent acquisitions into its operations, and lower expected dividends received compared with relatively large dividends in 2010. However, we expect its key financial metrics will remain stable during 2011 and 2012. The consolidation of new business units and a wider geographical outreach could lead us to raise the ratings on EEB in the medium term. However, a scenario of highly debt-financed expansions that cause the company's financial risk profile to deteriorate and pressure its liquidity, resulting in a consolidated debt-to-EBITDA ratio of more than 4.0x and an FFO-to-interest coverage ratio of less than 3.0x, could lead us to lower the ratings.

Related Criteria And Research

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

Ratings List

Ratings Affirmed

Empresa de Energia de Bogota, S. A. E. S. P. (EEB)	
Corporate Credit Rating	BB+/Stable/--
Senior Unsecured	BB

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.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.