

### Research Update:

## Empresa de Energía de Bogotá S.A. E.S.P. (EEB) 'BB+' Corporate Credit Rating Affirmed; Outlook Stable

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## Research Update:

# Empresa de Energía de Bogotá S.A. E.S.P. (EEB) 'BB+' Corporate Credit Rating Affirmed; Outlook Stable

## Overview

- EEB's key financial ratios are stronger than we had expected, as a result of the financing of subsidiary TGI's expansion projects with cash on hand.
- We are affirming our ratings on the company, including the 'BB+' corporate credit rating.
- The outlook is stable.
- We expect the company will continue to post satisfactory financial indicators.

## Rating Action

On June 1, 2010, Standard & Poor's Ratings Services affirmed its 'BB+' corporate credit rating on Empresa de Energía de Bogotá S.A. E.S.P. (EEB). The outlook is stable.

## Rationale

The 'BB+' long-term 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. We assess EEB's stand-alone credit profile (SACP) to be in the 'BB' category.

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 Bogotá Distrito Capital, the capital city of Colombia; and the city's strong and stable shareholder position (81.5% ownership), which exerts ongoing influence on the company's strategic and business plans.

EEB's SACP reflects its highly leveraged financial profile, its dependence on subsidiaries and related companies for dividend payments, and an aggressive growth strategy, which will require additional funds. Foreign-exchange risk is also a consideration because EEB's debt is denominated in U.S. dollars. However, dollar-denominated revenues, particularly at subsidiary Transportadora de Gas Internacional S.A. E.S.P. (TGI; BB/Stable/--), partially mitigate this risk. Also, some of EEB's fixed-asset investments contain a dollar-adjusted component, and it uses derivative instruments to hedge approximately 82% of its interest payments.

The company's diversified energy portfolio and the proven and stable

regulatory framework in which it operates partially offset EEB's credit weaknesses. The rating also reflects increasing electricity and natural gas consumption, which should support long-term demand growth.

For the 12 months ended March 31, 2010, EEB posted EBITDA-plus-dividends interest coverage, total debt-to-EBITDA plus dividends, and funds from operations plus dividends-to-total debt ratios of 4.2x, 2.6x, and 26.7%, respectively. These were stronger than we expected, because the company has financed TGI's capital expenditures, particularly the expansion of the Cusiana pipeline, with cash on hand, instead of its intended debt financing. Despite a debt increase to finance EEB's new expansion projects for transmission lines in Guatemala and for a natural gas distribution system in Peru, we expect the debt-to-EBITDA plus dividends ratio to be maintained at about 3.1x as a result of EBITDA growth derived from the start-up of the Cusiana and Ballena projects. These ratios don't include the debt of EEB's uncontrolled subsidiaries. An inordinate use of debt at these subsidiaries could hurt the company's financial performance.

We base our corporate credit rating on EEB on its ability to meet its financial obligations from distributions from its noncontrolled subsidiaries, which have proven to be, and are expected to remain, stable. We also consider the stable cash flow the company derives from its electricity transmission (EEB) and natural gas transportation (TGI) activities.

## **Liquidity**

EEB's liquidity position is adequate. As of March 31, 2010, the company registered cash and short-term investments of approximately \$342.7 million and free operating cash flow of \$171.2 million, which compare favorably with short-term debt of \$77.1 million. We believe that the tenor of EEB's debt maturity profile mitigates short- and medium-term refinancing risks. The next major maturity, for \$610 million, is in 2014.

For 2010, we expect capital expenditures related to the expansion of the Cusiana pipeline and EEB's other expansion investments to pressure the company's free operating cash flow. Still, EEB should be able to finance these investments with both cash on hand, additional debt, and through the capitalization of TGI in 2010. Future dividend payments are subject to cash availability. During 2009, the company paid dividends of approximately \$150 million.

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

## **Outlook**

The stable outlook on EEB reflects our expectation of consistent financial performance during the next 24 months. Potential deterioration of cash flow protection ratios--driven by a substantial deterioration in dividend distributions from a major related company or lower cash-flow generation from the electricity transmission/natural gas transportation businesses--or higher indebtedness to finance its expansion projects could pressure the rating

downward. Ratings would also be affected by rating changes on Bogotá Distrito Capital or a significant improvement in the company's financial ratios.

## Related Criteria And Research

- "2008 Corporate Criteria: Our Rating Process," 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 RatingsDirect on the Global Credit Portal subscribers at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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