FitchRatings

Fitch Expects to Rate Empresa de Energia de Bogota's USD610MM Issuance, Upgrades IDRs to 'BB+'

Ratings
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Fitch Ratings-Chicago-03 November 2011: Fitch Ratings has upgraded Empresa de Energia de Bogota's (EEB) foreign and local currency Issuer Default Ratings (IDRs) to 'BB+' from 'BB'. The rating action applies to USD610 million of debt outstanding. Fitch expects to rate EEB's proposed USD610 million of senior unsecured bond issuance 'BB+'. Fitch has also upgraded the company's national scale rating to 'AA+(col)' from 'AA(col)'. The Rating Outlook for all ratings is Stable.

The ratings upgrades reflect EEB's recent USD420 million equity issuance, which strengthens its capital structure and mitigates the company's needs to increase debt levels to fund capital investments. The proceeds from the equity issuance will be used to fund EEB's subsidiaries' capital expenditure programs. The rating actions also reflect EEB's improving credit metrics and capital structure. Going forward, EEB's cash flow generation will benefit from the completion of several projects by its subsidiaries. Proceeds from the proposed USD610 million debt issuance are expected to be used to refinance existing debt.

EEB's ratings reflect the company's diversified portfolio of assets with low business risk and stable and predictable cash flow generation. The ratings also reflect the company's moderate leverage and liquidity. The Stable Rating Outlook reflects the expectation of a stable capital structure going forward as cash flow from new projects come online.

Stable Cash Flow Generation and Solid Business Position:

EEB's ratings reflect the company's diversified portfolio of assets, which have a low business-risk profile, and stable and predictable cash flow generation. EEB's low business-risk profile stems from its diversified portfolio of energy assets, which for the most part operate as regulated natural monopolies. EEB owns non-controlling majority participations in Colombia's second largest electric generation company, Emgesa (IDR 'BBB-' by Fitch), as well as in the country's largest electric distribution company, Codensa (IDR 'AAA(col)' by Fitch), which operates in the city of Bogota.

The company also owns a majority participation in Transportadora de Gas Internacional S.A. ESP (TGI), Colombia's largest natural gas pipeline transportation company, which provides natural gas to the country's major cities. The company also owns a majority participation in Empresa de Energia de Cundinamarca, a distribution company that operates in Bogota adjacent to Codensa. During 2011, EEB acquired a minority participation in Promigas S.A. ESP (IDR 'BBB-' by Fitch) and a controlling interest in Gas Natural de Lima y Callao S.A.. EEB also recently won a long-term concession to build, own and operate 850 km of transmission line in Guatemala.

All of EEB's assets are in a strong competitive position, which bodes well for the company's credit profile. The electricity and gas distribution and transmission/transportation businesses are regulated natural monopolies with stable cash flow generation and low leverage. The electricity generation business in Colombia is competitive, given the country's significant low-cost hydroelectric generation and overcapacity. EEB's energy generation business is also competitively well-positioned, given its low-cost profile and capacity generation mix of 85% hydroelectric and 15% thermo electric.

Aggressive Growth Strategy:

EEB's growth strategy is considered somewhat aggressive. The company's expected capital investments for the 2011 through 2013 period amount to approximately USD1.3 billion. Not included in this capital investment expectation are the company's stated intentions to participate in future bidding processes for green-field electricity transmission assets and a possible privatization of electricity distribution companies in Colombia. EEB has been funding a portion of its capital expenditures with short-term debt and cash on hand, which as of June 30, 2011 amounted to approximately US$402 million. June 30, 2011 pro forma net debt to EBTIDA would drop to approximately 2.0 times (x) as a result of the equity issuance. In the long term, the company's consolidated leverage level is expected to decline to approximately 2.5x to 2.0x as its expansion projects start operations.

Moderate Leverage and Liquidity Position:

EEB's leverage is moderate and its liquidity is manageable. As of June 30, 2011, the company reported approximately USD402 million of cash on hand, of which USD63 million was at EEB and USD219 million at TGI. EEB's debt profile is manageable, as most of its debt matures in 2014. As of the last 12 months (LTM) ended June 30, 2011, EEB's consolidated leverage as measured by total consolidated debt to EBITDA plus dividends received was 3.4x. During this period, LTM consolidated EBITDA plus dividends equaled approximately USD525 million and debt totaled USD1.9 billion. Going forward, the company expects to use its cash on hand and proceeds from the recent equity issuance to finance its expansion projects, namely its investments in Peruvian gas transportation and Guatemalan electric transmission infrastructure.

Holding company debt at June 30, 2011 totaled USD846 million, consisting mainly of USD610 million notes due 2014 and a USD100 million loan from Corporacion Andina de Fomento (CAF). The vast majority of the holding company's cash flow is generated from dividends received from investments in Emgesa and Codensa. Annual dividends to the holding company average approximate USD280 million per year; TGI has not historically paid dividends to EEB, yet, it transfers funds to EEB through intercompany loan interest payments.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology', Aug. 12, 2011;
--'National Ratings Criteria', Jan. 19, 2011.

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