FITCH AFFIRMS EMPRESA DE ENERGIA DE BOGOTA'S (EEB) RATINGS AT 'BB'; OUTLOOK REVISED TO STABLE

Fitch Ratings-Chicago-19 November 2010: Fitch Ratings has affirmed Empresa de Energia de Bogota S.A. ESP's (EEB) foreign and local currency Issuer Default Ratings at 'BB'. The rating action applies to USD610 million of outstanding senior unsecured notes due 2014. Concurrently, Fitch has affirmed EPM's national scale rating at 'AA(col)' The Rating Outlook has been revised to Stable from Negative.

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 strong liquidity as well as the potential need for third-party financing to fund capital expenditures. The Stable Outlook reflects the expectation of a stable capital structure going forward, as cash flow from new projects could offsets possible increases in debt needed to fund capital investments.

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 largest electric generation company, Emgesa (Fitch IDR of 'AAA(col')), as well as in the country's largest electric distribution company, Codensa (IDR of 'AAA(col')), which operates in the city of Bogota. The company also owns a majority participation in Transportadora de Gas Internacional S.A. ESP (TGI; IDR of 'BB'), Colombia's largest natural gas pipeline transportation company, which provides natural gas to the country's major cities. Also, during 2010, the company acquired a majority participation in Empresa de Energia de Cundinamarca, a distribution company that operates in Bogota adjacent to Codensa.

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% hydro and 15% thermo.

Growth Strategy Demand for Funds:

EEB's growth strategy is considered aggressive and will require approximately US$750 million of capital investment over the next five years to carry it out. EEB has been funding a portion of its capital expenditures with cash on hand, which as of Sept. 30, 2010 amounted to approximately US$490 million. Yet, EEB is expected to either issue new debt, possibly at project level, or raise equity through an initial public offering (IPO) at TGI to fund the remaining capital expenditures. EEB's capital structure is now forecast to remain relatively stable given that the company has financed the initial phase of its capital investment program with cash on hand. This, together with the rapid entrance of new projects, will increase cash flow generation, which will support the company's ratings while it raises debt to finance other projects.

Moderate Leverage and Liquidity Position:

EEB's leverage is moderate and its liquidity is manageable. As of Sept. 30, 2010, the company reported approximately US$490 million of cash on hand and a manageable debt profile, as most of its debt matures in 2014. As of the last 12 months (LTM) ended Sept. 30, 2010, EEB's consolidated leverage as measured by total consolidated debt to EBITDA plus dividends received was 3.3 times (x). During this period, LTM consolidated EBITDA (USD195 million) plus dividends (USD310 million) equaled approximately US$505 million, and debt totaled US$1,649 million. EEB's debt primarily consists of USD780 million at the holding company and USD869 million at TGI as Codensa and Emgesa are not consolidated. Going forward, the company might require third-party financing to fund its expansion projects, i.e. its incursion into Peruvian gas transportation and Guatemala's electric transmission infrastructure.

Holding company debt at Sept. 30, 2010 totaled USD863 million, consisting mainly of US$610 million notes due 2014 and a US$100 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 approximate US$210 million; TGI does not, and is not expected to, pay dividends to EEB for the foreseeable future, yet it transfers funds to EEB through intercompany loan interest payments. Capital expenditures are expected to increase, which will pressure credit metrics.

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Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 16, 2010);
--'National Ratings - Methodology Update' (Dec. 18, 2006).

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National Ratings - Methodology Update
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=305544
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=546646