FitchRatings

Fitch Upgrades Empresa de Energia de Bogota S.A. E.S.P.'s IDR to 'BBB'; Outlook Stable

Ratings Endorsement Policy

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Fitch Ratings-New York-28 October 2014: Fitch Ratings has taken the following ratings actions for Empresa de Energia de Bogota S.A. E.S.P.'s (EEB):

--Upgraded the foreign and local currency Issuer Default Ratings (IDRs) to 'BBB' from 'BBB-';
--Upgraded the international senior unsecured debt ratings to 'BBB' from 'BBB-';
--Affirmed the national long-term ratings at 'AAA(COL)'.

The Rating Outlook is Stable.

EEB's ratings reflect the company's stable cash flow generation, strong business position, moderate and improving leverage as well as the company's solid liquidity position. The ratings reflect EEB's reliance on dividends from its subsidiaries to service its debt and the company's aggressive growth strategy.

STABLE CASH FLOW GENERATION

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 (Fitch IDR of 'BBB'), as well as in the country's largest electric distribution company, Codensa (IDR 'AAA(col)'), which operates in the city of Bogota. The company also fully owns Transportadora de Gas Internacional S.A. ESP (TGI), Colombia's largest natural gas pipeline transportation company, among other assets in Colombia, Peru and Guatemala.

SOLID BUSINESS POSITION

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 86% hydroelectric and 14% thermo electric.

MODERATE LEVERAGE

EEB's improving financial performance has contributed to moderate leverage and the company's liquidity requirements are manageable. As of June 30, 2014, the company reported approximately USD1.1 billion of cash on hand, with USD396 million in cash and equivalents at the holding company level. The company's consolidated leverage, as measured by total consolidated debt-to-EBITDA plus dividends received, was 2.6x during the LTM ended June 30, 2014, which is essentially flat with 2013 and 2012 leverage figures. During the LTM, EEB generated about USD961 million of consolidated EBITDA plus dividends, which represents a 6% increase versus 2013 and a 32% improvement versus 2012. This compares with about USD2.5 billion of total consolidated debt.

MANAGEABLE DEBT SERVICE

Most of the company's debt matures starting in 2021. Holding company debt as of June 30, 2014 totaled USD1.2 billion, consisting mainly of USD749 million of notes due 2021, a balance of USD86 million from a USD100 million loan from Corporacion Andina de Fomento (CAF), and a COP223,000 million (approximately USD110 million bridge loan) used to fund the purchase of a 31.92% equity stake in TGI which was repaid in the third quarter. The company did close on a syndicated loan totaling USD645 million to fund the latter purchase. This debt is held in an offshore SPV, not the parent company, with the debt expected to be absorbed by TGI in 2015.

DIVIDEND INCOME GROWING

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 have averaged approximately USD280 million annually in recent years, but the payout increased significantly in 2013 when the holding company received USD430 million in dividends as Red de Energia del Peru began to payout dividends and Codensa increased payments. Dividend receipts are expected to noticeably improve as TGI, which has not historically paid dividends, declared dividends for the first time in 2014. Fitch is estimating that TGI will pay out approximately USD100 million in common dividends per year during 2015-2018.

OWNER'S IMPROVED CREDIT QUALITY

EEB's majority shareowner, District Capital of Bogota (Bogota DC; foreign currency IDR 'BBB'), has an improving credit profile. The improved credit quality of the company's parent reduces shareholder pressure to significantly increase dividend payouts from EEB. Fitch is forecasting 70% dividend payouts over the next four years. Bogota DC owns 76.3% of EEB. Bogota DC's LT IDR was upgraded to 'BBB' from 'BBB-' by Fitch in January 2014 as a result of the 'sound financial performance that Bogota has shown over the past years, as well as manageable debt metrics'.

AGGRESSIVE GROWTH

EEB's growth strategy is considered aggressive, though a major acquisition in Colombia is unlikely in the near- to medium-term as the Colombian regulators have blocked any potential bids for generator Isagen from EEB. Fitch's base case assumes the company will ramp-up capex spending in 2014-2017 to USD2.3 billion as it searches for growth opportunities both in Colombia and the rest of Latin America. The company spent USD1.8 billion in capex (excluding acquisitions) during 2010-2013. The incremental capex expectations assume primarily green-field investments in the transmission and natural gas segments. Significantly large acquisitions hold the potential to result in negative rating actions if financed mostly with incremental debt.

Going forward, EEB expects to use debt at its subsidiaries' level, cash on hand and a portion of its internal cash flow generation to finance its expansion projects. Given the aggressive capex forecast, Fitch expects leverage, defined as gross debt-to-adjusted EBITDA, to settle in the 3x level in the near- to medium-term. In the long term, Fitch expects the company's consolidated leverage level to decline to approximately 2.0x-2.5x as its expansion projects start operations.

RATING SENSITIVITIES

A negative rating action or Outlook would be considered if leverage reached 3.5x on a sustained basis. It would also be viewed negatively if influence from the company's shareowners results in a suboptimal financial/operational strategy that could hurt the group's credit quality. Finally, significantly large acquisitions hold the potential to result in negative rating actions if financed mostly with incremental debt, and the ensuing consolidated capital structure deteriorates.

A positive rating action or Outlook is unlikely in the near- to medium-term given the company's aggressive growth/capex expectations. It would be viewed positively if the company significantly reduces its leverage for a sustained period of time to below the 2x level.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (May 28, 2014).

Applicable Criteria and Related Research:
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage

Additional Disclosure
Solicitation Status