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Research Update:

Empresa de Energia de Bogota And Subsidiaries Outlook Revised To Negative From Stable, 'BBB-' Ratings Affirmed

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Overview

- We have revised our projections on Colombia-based energy company EEB as a result of sharp depreciation in Colombian peso against the U.S. dollar.
- We are affirming our 'BBB-' corporate credit rating on EEB and its rated subsidiaries (TGI and Calidda) and we are changing the outlook to negative from stable.
- The negative outlook reflects the risk that EEB's financials could remain weak relative to our current assessment of its financial risk profile in 2016.

Rating Action

On Sept. 3, 2015, Standard & Poor's Ratings Services affirmed its 'BBB-'corporate credit and senior unsecured debt rating on Empresa de Energia de Bogota S.A. E.S.P. (EEB) and its subsidiaries Transportadora de Gas Internacional S.A. E.S.P. (TGI) and Gas Natural de Lima y Callao S.A. (Calidda) . The outlook on all ratings is negative.

Rationale

The negative outlooks on EBB and its subsidiaries reflect our view that further depreciation of the Colombian peso against the U.S. dollar and/or weakness in its EBITDA generation could lead to further weakness in its key financial ratios.

The rating on EEB continues to reflect its 'bbb-' stand-alone credit profile (SACP), which stems from our view of its "satisfactory" business risk profile. We now assess its financial risk profile as "significant" and its financial policy as "neutral".

The rating also reflects our opinion that there is a high likelihood that the city of Bogota, (Bogota Distrito Capital; BBB-/Stable/--), would provide timely and sufficient extraordinary support to EEB in the event of financial distress, given the link between the two entities. In accordance with our criteria for government-related entities (GREs), the government's support is based on our assessment of EEB's important role as Bogota's integrated energy provider, its very strong link with the government due to its majority shareholder position (76.3%), and the city's influence on the company's strategic and business plans.

The rating on EEB's senior unsecured debt reflects the diversity of EEB's assets both geographically and in the industries in which its subsidiaries participate. We believe this provides EEB with greater opportunities for asset dispositions, transfers, or recapitalization of subsidiaries in the event of financial distress. EEB also has operating assets at the holding company and its debt is fairly concentrated at its subsidiary Transportadora de Gas Internacional S.A. E.S.P. (TGI; BBB-/Negative/--), which are mitigants of its structural subordination.

Under our group rating methodology, we consider TGI to be "core" to its parent, EEB. This reflects our view that it's highly unlikely that EEB would sell TGI, as it is integral to the group's strategy and has strong long-term commitment from EEB's senior management. Because there are no meaningful regulatory mechanisms or other structural barriers that restrict EEB's access to TGI's assets and cash flow, we align the issuer credit rating (ICR) on TGI with that on the parent.

We consider Calidda a "strategically important" subsidiary of EEB because it's unlikely that EEB would sell Calidda in the near term. The company is important for the group's long-term strategy, successful in its business line, and the senior group management has made a long-term commitment to this subsidiary. In our opinion, EEB will continue to support Calidda, mainly through its business expertise and its commitment to prudent financial management. Therefore the ratings on Calidda are limited by the ratings on EEB.

EEB "satisfactory" business risk profile reflects its low risk regulated businesses and the favorable institutional and regulatory framework in Colombia, where the company generates about 90% of its consolidated EBITDA. The company's satisfactory competitive position reflects its adequate to strong scale, scope, and diversification, which mainly reflect its important presence in the Colombian electric and natural gas markets, and its adequate operating efficiency. EEB enjoys moderate geographic and business line diversification in regulated markets, which provide stable and predictable cash flow generation. The company also benefits from a relatively large dividend stream, mainly from its ownership in Colombian electric companies Emgesa S.A. E.S.P. (BBB/Stable/--) and CODENSA S.A. E.S.P. (not rated) and gas distribution company Gas Natural Fenosa (not rated).

We have revised our assessment of the company's financial risk profile to "significant," in line with our projected key financial ratios. The depreciation of the Colombian peso against the U.S. dollar has prompted us to revise our financial expectations for EEB. Debt leverage has increased substantially in the past few months as a consequence of the depreciation because more than 95% of the company's debt is denominated in dollars.

We now expect the company to report an adjusted debt to EBITDA ratio of 5.9x and funds from operations (FFO) to adjusted debt ratio of 11.2% by year end 2015. However, given that about 40% EEB's consolidated revenues and EBITDA are denominated in U.S. dollars and some of the group's sales are linked to tariffs with a U.S. dollar component, we believe that the issuer's key financial ratios should improve to 4.2x and 16.7% by year end 2016. We also note that dividends from its equity investment will be low in 2015 a result of the tax reform in Colombia and the possibility that the issuer could reduce debt if it completes its plan to sell a minority share in TGI.

These ratios consider an adjusted EBITDA that includes the company's dividend cash flows from its equity investments, Emgesa S.A. E.S.P., CODENSA S.A. E.S.P., Gas Natural Fenosa, Promigas (not rated) and other smaller investments, which represent about 50% of its adjusted EBITDA. Debt is adjusted by decreasing the unrestricted cash from total debt.

Our base case assumes:

- Our expectations consider continued organic growth in Colombia and Peru. They also consider dividend income from the issuer's equity investments. In 2016, we expect a significant increase in dividends from Emgesa and Codensa.
- Consolidated EBITDA margins at about 43%, in line with the last 18 months years;
- Based on these assumptions, we arrive at the following credit measures for 2015 and 2016, respectively;
- Debt to EBITDA of 5.9x and 4.2x; and
- FFO to debt of 11% and 17%.

We now view its financial policy as neutral. We believe that EEB's current investment and financial plan provides sufficient visibility regarding its financial management in the coming years. Therefore we believe that there is now a low probability of "event risk". The majority of EEB's investments in the period between 2015 and 2019 will be directed towards electricity in Colombia and the group will continue to seek opportunities in the natural gas segment and overseas.

EEB is an integrated energy group with interests in the natural gas and electricity sectors, and operations in Colombia, Peru, and Guatemala. The city of Bogota holds 76.2% of EEB. The majority of EEB's investments are concentrated in natural monopolies regulated by their respective governments.

Liquidity

We view the company's liquidity as "adequate." Under our base case scenario, sources should cover uses by 1.2x in 2015 and 2016. Our assessment incorporates our view that EEB has flexibility to reduce capital expenditures and dividend payments if needed.

Principal Liquidity Sources

- Cash and short-term investments (about COP1,540 billion as of June 30, 2015);
- FFO generation of about Colombian peso (COP) 1,075 million in 2015 and COP1,659 million in 2016.

Principal Liquidity Uses

- Debt maturities (COP450 billion as of June 30, 2015);
- Capex for COP1,400 billion and COP1,200 billion;
- Dividend payments.

Outlook

The negative outlook reflects our view that EEB's key financial ratios could remain weak relative to its current rating category in the next few years. This could be the result of further depreciation in the Colombian peso and lower EBITDA generation from economic weakness in its key markets. The outlook on TGI and Calidda mirrors the outlook on EEB.

Upside scenario

We could revise the outlook back to stable if the issuer's financial performance in 2016 is in line with our expectations.

Downside scenario

Continued weakness in the issuer's key financial ratios in 2016, resulting in sustained debt to EBITDA of more than 4.5x and FFO to debt of less than 13%, could lead to a downgrade.

Related Criteria And Research

Related Criteria

- Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Group Rating Methodology - November 19, 2013
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

- Rating Each Issue, April 15, 2008

Ratings List

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Ratings Affirmed; CreditWatch/Outlook Action
                                        To                  From
Empresa de Energia de Bogota S. A. E. S. P.
Transportadora de Gas Internacional S.A. E.S.P.
Gas Natural de Lima y Callao S.A. (Calidda)
 Corporate Credit Rating                BBB-/Negative/--   BBB-/Stable/--

Ratings Affirmed
Empresa de Energia de Bogota S. A. E. S. P.
 Senior Unsecured                       BBB-

Transportadora de Gas Internacional S.A. E.S.P.
 Senior Unsecured                       BBB-
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