FITCH AFFIRMS EEB'S IDRS AT 'BBB'; NATIONAL SCALE AT 'AAA(COL)'; OUTLOOK STABLE

Fitch Ratings-New York-27 October 2015: Fitch Ratings has affirmed Empresa de Energia de Bogota E.S.P.'s (EEB) ratings as follows:

--Foreign and local currency Issuer Default Ratings (IDRs) at 'BBB';
--International senior unsecured debt at 'BBB';
--National scale long-term ratings at 'AAA(col)'.

The Rating Outlook is Stable.

KEY RATING DRIVERS

EEB's ratings reflect the company's stable cash flow generation, strong business position, expectations for leverage in-line with the rating level, as well as its solid liquidity position. The ratings also 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 consider 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)'), both of which operate in the city of Bogota. The company also fully owns Transportadora de Gas Internacional S.A. ESP (TGI; IDR 'BBB'), 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 augurs 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% thermoelectric.

Company Transitioning to IFRS: The company is transitioning to international financial reporting standards (IFRS), so the latest 12 month (LTM) calculations are inaccurate in measuring the company's financial performance. Comparable 2015 and 2014 results will not be available until the company publishes full-year 2015 results in early 2016. As the company has disclosed first-half 2015 (1H15) and 1H14 financial results in IFRS format, these are the most relevant year-over-year (YoY) comparisons that can be analyzed for income statement and cash flow performance.

Leverage Expected to Remain 3.0x-3.5x on Sustained Basis: EEB's improving financial performance in recent years led to significant leverage improvements as Total Debt/EBITDA declined to 2.5x in 2013 from 3.6x in 2011. As of year-end 2014, the company's leverage levels had risen to 3.3x, mainly due to the acquisition of TGI's 31.92% equity stake which raised the company's debt an additional USD645 million. This credit metric was calculated after adjusting for the approximately COP700 billion in dividends that were received in 2014 rather than in 2015, in anticipation of net worth tax changes in Colombia.

On an adjusted basis, Fitch is forecasting that the company will end 2015 with gross leverage of 3.7x Total Debt/EBITDA on a local currency basis. This was calculated adding the nearly COP700 billion in dividends received in 2014, which ordinarily would have been declared in 2015, to Fitch's 2015 adjusted EBITDA forecast. As of June 2015, the company reported approximately USD3.1 billion in financial debt outstanding. EEB has since prepaid USD175 million of the TGI acquisition debt, so Fitch is projecting that the company will end the year with approximately USD3 billion in debt (nearly entirely denominated in U.S. dollars). Due to the depreciation of the Colombian Peso, leverage in local peso terms is expected to rise to 3.7x despite the overall decrease in financial debt.

Long term, Fitch is projecting the company to average approximately USD900 million in adjusted EBITDA per year during the 2016-2019 period. This would translate to gross leverage of 3.0x-3.5x, which is in-line with the rating category.

Solid Dividend Stream: The vast majority of the holding company's cash flow is generated from dividends received from investments in Emgesa, Codensa and, starting with 2014, TGI. Annual dividends to the holding company had averaged approximately USD280 million annually in recent years, but the payout increased significantly starting in 2013 when the holding company received USD430 million in dividends as Red de Energia del Peru began to pay out dividends and Codensa increased its payments. On a normalized basis, dividends from subsidiaries were essentially flat in 2014 versus 2013. Fitch is conservatively forecasting dividend receipts of approximately COP800 billion (USD250 million-USD300 million) going forward.

Owner with Solid Credit Quality: EEB's majority shareowner, District Capital of Bogota (Bogota DC; foreign currency IDR 'BBB'), has a solid, investment grade credit profile. The parent's solid credit quality could mitigate shareholder pressure to significantly increase dividend payouts from EEB. Fitch's forecast is for 70% dividend payouts over the next five years. Bogota DC owns 76.3% of EEB.

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 from EEB for generator Isagen. Fitch's base case assumes the company will ramp-up capex spending in 2015-2018 to USD2.9 billion versus USD2 billion spent in 2010-2014. The company is searching for growth opportunities both in Colombia and the rest of Latin America, with a renewed focus on growing its Electricity Transmission business. Significantly large acquisitions hold the potential for negative rating actions if financed mostly with incremental debt.

Going forward, EEB expects to use debt and capital injections at its subsidiaries' level, cash on hand, and a portion of its internal cash flow generation to finance its expansion projects. Fitch's forecast incorporates the aggressive capex expectations, projecting leverage to settle in the 3.0x-3.5x level in the near- to medium-term.

RATING SENSITIVITIES
Negative: Future developments that could, individually or collectively, lead to negative rating actions include:
--Leverage reaches 3.5x or above on a sustained basis;
--Negative regulatory developments that could lead to deteriorating credit profiles and/or reduced dividend flows from key subsidiaries;
--Influence from the company's shareowners that results in a suboptimal financial/operational strategy that could hurt the group's credit quality;

--Large acquisitions financed mostly with incremental debt resulting in the deterioration of the consolidated capital structure.

Positive: 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 2.5x gross leverage.

LIQUIDITY AND DEBT STRUCTURE
Manageable Debt Service: Most of the company's USD3.1 billion in debt matures starting in 2021. Holding company debt as of June 30, 2015 totaled USD823 million, consisting mainly of USD750 million of notes due 2021, and the balance from a loan from Corporacion Andina de Fomento (CAF). It should be noted that the syndicated loan used to fund the purchase of the TGI equity stake is held in an offshore SPV, with the debt expected to be absorbed by TGI in 2016. Following debt prepayments, incremental net debt from this transaction at the TGI level should total approximately USD219 million.

The company's liquidity requirements are manageable. As of June 30, 2015, the company reported approximately USD600 million of cash on hand, with USD100 million in cash and equivalents at the holding company level. This compares favorably versus USD156 million in short-term debt on a consolidated basis and USD34 million at the holding company level. The company is looking to refinance its EEB USD750 million bonds due in 2021 as part of a liability management program. This would push out its long-term maturity schedule given the USD750 million TGI notes come due in 2022.

KEY ASSUMPTIONS
-- Dividend receipts of approximately COP800 billion/year (USD250 million-USD300 million) going forward;
-- Long-term, company to average approximately USD900 million in adjusted EBITDA (operating EBITDA plus dividends received) per year during the 2016-2019 period;
--Capex spending in 2015-2018 totaling approximately USD2.9 billion;
--Long-term leverage in the 3.0x-3.5x range.

Fitch has affirmed the following ratings:

--Foreign and local currency IDRs at 'BBB';
--International senior unsecured debt at 'BBB';
--Long-term National scale rating at 'AAA(col)'.

The Rating Outlook is Stable.

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Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362