



## Fitch Affirms Empresa de Energia de Bogota SA ESP's IDRs at 'BBB' & National Scale at 'AAA(col)'

Fitch Ratings-Chicago-19 October 2016: Fitch Ratings has affirmed Empresa de Energia de Bogota S.A. E.S.P.'s (EEB) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) and international senior unsecured debt at 'BBB'. Fitch also has affirmed EEB's national long term rating at 'AAA(col)'. The Rating Outlook is Stable.

A full list of rating actions follows at the end of this release.

### KEY RATING DRIVERS

EEB's ratings reflect the company's stable cash flow generation, strong business position, its solid liquidity as well as expectations for credit metrics in-line with the rating level over the medium term. The ratings also reflect EEB's reliance on dividends from its financially solid subsidiaries to service its debt and the company's new, balanced growth strategy.

#### Stable Cash Flow Generation:

EEB's ratings incorporate the company's diversified portfolio of assets, which have a low business-risk profile, and stable and predictable cash flow generation. EEB owns non-controlling majority participations in Colombia's second largest electric generation company, Emgesa S. A. (Fitch IDR 'BBB'), as well as in the country's largest electric distribution company, Codensa S.A. (National Long-Term Rating 'AAA(col)'). 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 smaller-sized investments in Colombia, Peru and Guatemala.

#### Solid Business Positions:

All of EEB's companies are in a strong competitive position and operate in lower business risk environment, which bodes well for the company's credit profile. The company operates at the holding level in the electric transmission business and it has controlling position in companies that participates in the gas distribution and transportation businesses, which are regulated natural monopolies with stable cash flow generation. During 2015, more than 60% of the EBITDA plus dividends received came for these operations.

#### Predictable Dividend Stream:

The vast majority of cash dividends received at holding company is generated from investments in Emgesa and Codensa. During 2015, the company reported COP 687 billion in cash dividends from non-controlling stakes. Emgesa's 'BBB' ratings reflect the company's strong business model, supported by asset diversification, solid competitive position and conservative commercial strategy. Codensa 'AAA(col)' rating reflect the company's low business risk profile supported by its regulated revenues, as well as the solid track record of its credit metrics, with low leverage and ample liquidity. Historically, the dividends payout ratio of these companies has been closed to 100%, which is expected to continue over the medium term.

Fitch expects EEB will divest its stakes in Interconexion Electrica S.A. and Promigas S.A. as recently announced by the company, which Fitch views would slightly weaken EEB's credit profile, under a Fitch assumption that EEB dividends the proceeds to its shareholders. EEB has not yet announced any use of proceeds. These companies represent around 3% of the EEB's EBITDA plus dividends received.

#### Moderate Leverage Increase

Fitch expects EEB's leverage will be in the 3.5x to 4x range over the next two years, trending below 3.5x by 2019. These metrics are consistent with the rating level. Leverage levels are projected to be elevated in the next few years given the aggressive Capex to be executed in the transmission business, as well as the ongoing impact of local currency depreciation on the company's debt structure and a still demanding dividend policy at the holding company. It is important to note the 51.5% economic interests in Emgesa and Codensa are not

consolidated. At end of June 30, 2016, the company closed with around COP 7.9 trillion in financial debt, reflecting in an adjusted leverage of 3.5x.

#### New Corporate Strategy Released

The ratings affirmation factor in the expectation that EEB will execute the new corporate strategy and will maintain the solid financial profile of the company. EEB will focus to grow through its current affiliates concentrated in natural monopolies and M&A activities at the holding level may be limited in the medium term.

#### KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for EEB include:

EEB revenues and EBITDA growth mostly reflects expansion in the operations at EEB holding level and TGI following the projects executed by the companies.

Dividends received by EEB reach COP 700 to 800 billion per year.

The company executes around USD 1.6 billion in consolidated capex until 2020.

Leverage levels remains in a range of 3.5x to 4.0x until 2018, trending below 3.5x afterwards.

#### RATING SENSITIVITIES

A negative rating action could result for any combination of the following factors; leverage levels over 3.5x on a sustained basis as a result of an aggressive growth strategy of the investment portfolio; influence from the company's shareowners results in a sub-optimal financial or operational strategy that could weaken the group's credit quality; significantly large acquisitions financed mostly with incremental debt.

A positive rating action or Outlook is unlikely in the near to medium term given the company's current credit metrics and capex expectations. It would be viewed positively if the company significantly reduces its leverage for a sustained period of time to 2.5x or below.

#### LIQUIDITY

EEB's liquidity is considered solid, supported by high cash on hand, predictable cash flow from operations and a manageable debt amortization profile. As of June,30 2016, the company reported COP 1.2 trillion in cash, with COP 378 billion in cash at the holding company level. This compares favorably with COP 704 billion of short-term debt on a consolidated basis and COP 221 billion at the holding company level. Nevertheless, Fitch expects most of the debt amortization in the medium term will be refinanced given the projected pressures in FCF generation over the next couple of years, due to elevated Capex requirements..

The next sizable consolidated debt amortization are scheduled in 2019, when credit loans to TGI (USD 219 million) and Contugas (USD 342 million) come due. Then, sizable amortization starts in 2021 with the maturities of the USD 749 million bonds issued by EEB.

#### FULL LIST OF RATING ACTIONS

Fitch has affirmed EEB's ratings as follows:

- Foreign and local currency Long-Term IDRs 'BBB'; Outlook Stable;
- International senior unsecured debt at 'BBB';
- National scale long-term ratings at 'AAA(col)'.

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Date of Relevant Rating Committee: Oct. 18, 2016

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

### **Applicable Criteria**

Criteria for Rating Non-Financial Corporates (pub. 27 Sep 2016) (<https://www.fitchratings.com/site/re/885629>)

### **Additional Disclosures**

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