S&P Global
Ratings

RatingsDirect®

Research Update:

Transportadora de Gas Internacional S.A. E.S.P. 'BBB-' Ratings Affirmed; Outlook Remains Stable

Primary Credit Analyst:
Vinicius Ferreira, Sao Paulo + 55 11 3039 9763; vinicius.ferreira@spglobal.com

Secondary Contact:
Marcelo Schwarz, CFA, Sao Paulo (55) 11-3039-9782; marcelo.schwarz@spglobal.com

Table Of Contents

Research Update:

Transportadora de Gas Internacional S.A. E.S.P. 'BBB-' Ratings Affirmed; Outlook Remains Stable

Overview

- We expect Colombia-based natural gas transportation company TGI to continue expanding its network and maintain a debt to EBITDA of 3.5x-4.0x, while will remains as the most important subsidiary to its parent, GEB.
- We're affirming the 'BBB-' ratings on TGI.
- The stable outlook on the company reflects our expectation that it will be integral for GEB's strategy. Therefore, its outlook reflects that on its parent.

Rating Action

On Sept. 28, 2018, S&P Global Ratings affirmed its 'BBB-' issuer credit rating on Transportadora de Gas Internacional S.A. E.S.P. (TGI). The outlook remains stable. The company's 'bbb-' stand-alone credit profile (SACP) remains unchanged. At the same time, we affirmed our 'BBB-' issue-level ratings on TGI's senior unsecured debt.

Rationale

The rating affirmation reflects our view that TGI remains as the most important subsidiary of Grupo Energia Bogota S.A.E.S.P. (GEB; BBB-/Stable/--) because the former is integral to the parent's current and future growth strategy. Therefore, in our view, GEB is committed to support TGI under any circumstance. In addition, because there are no meaningful regulatory mechanisms or other structural barriers that restrict GEB's access to TGI's assets and cash flow, we align the credit rating on TGI with that on the parent.

In addition, TGI's 'bbb-' SACP incorporates our view of Colombia's institutional and regulatory framework as favorable and predictable, which together with TGI's contract profile, contributes to the stability and predictability of the company's cash flow stream. TGI's contracts are with creditworthy counterparties and have an average remaining term of about eight years. In addition, around 95% of TGI's revenues (of which 65% are indexed to dollars) come from regulated rates that are reviewed at least every five years. Our analysis also incorporates the company's strong presence in the Colombian natural gas transportation segment, with around 60% of the local network under management, and responsible for transporting almost half of the natural gas consumed in Colombia. On the other hand, TGI has very narrow client diversification because six clients represent almost 90% of the company's revenues.

In the next two years, we expect TGI to continue performing its investments to expand the existing network, but still maintaining debt to EBITDA at 3.5x-4.0x while generating free operating cash flow. Our base-case scenario incorporates the following assumptions for the next two years:

- An average exchange rate of COP2,875 per $1 in 2018 and COP2,975 per $1 in 2019 and inflation of 3.5% and 3.2%, respectively, according to our estimates.
- Total capacity of about 800 million cubic feet per day (Mmcfd) in 2018 and increasing to about 840 Mmcfd by the end of 2019, out of which around 92% will be contracted and not subject to volume risk.
- We don't expect changes in the current rates for the fixed charges or for the rates exposed to volume.
- Total costs and expenses, most of which are denominated in Colombian pesos, will increase in line with the inflation rate.
- Capital expenditures of about $75 million in 2018 and about $160 million in 2019.
- We assumed that TGI will present a dividend payout of 85% of its net income to GEB in the next two years.

Under these assumptions, we arrived at the following credit measures and metrics:

Credit Metrics

	2018E	2019E
Revenues (mil. $)	430-460	450-480
EBITDA (mil. $)	320-340	340-360
Debt to EBITDA (x)	3.6-4.0	3.5-3.9

E--expected

Liquidity

TGI's liquidity remains adequate, in our view. We believe TGI presents sources of cash that will be able to surpass its uses by around 30%. Even if EBITDA were to decline 15%, sources will remain higher than uses of cash. This, in our view, provides protection to the company under adverse events, and points to its ability to absorb high-impact, low-probability events with limited need for refinancing. We also believe TGI has wide access to the capital markets and a satisfactory standing in credit markets, as seen in its bond trading at par value. The company doesn't have financial covenants as long as its rating is at the investment-grade level.

Principal sources of cash:

- Cash position of $21.6 million, as of June 30, 2018; and
- Expected cash flow generation of $225 million in the following 12 months.

Principal uses of cash:

- Minimum investments of around $80 million in the next 12 months; and
- Dividend payments at around $120 million in the next 12 months, which the company can reduce if required.

If two of the three major rating agencies downgrades the company to speculative grade, TGI would need to comply with a net debt to EBITDA up to 4.8x, for which the company currently has a large cushion.

Outlook

The stable outlook on TGI mirrors the one on GEB for the next 24 months, because we expect TGI to remain the most important subsidiary of the group.

Downside scenario

We could downgrade TGI if we were to take a negative rating action on GEB. We could revise TGI's SACP downwards if we believe that the company's growth strategy is more aggressive in the form of debt-financed investments that result in a debt to EBITDA consistently above 4.5x, or if the company's sources of cash exceed its uses by less than 20% in the following 12 months.

Upside scenario

We don't envision an upgrade of TGI in the next 24 months because the city of Bogota's credit quality limits that of GEB. We could revise TGI's SACP upwards if the maturity of the existing investments translate into higher profitability and, therefore, resulting in debt to EBITDA consistently below 2.5x.

Ratings Score Snapshot

Corporate Credit Rating: BBB-/Stable/--

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Low
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb-

Modifiers:
- Diversification/Portfolio effect: Neutral (No impact)
- Capital structure: Neutral (No impact)
- Liquidity: Adequate (No impact)
- Financial policy: Neutral (No impact)
- Management and governance: Fair (No impact)
- Comparable rating analysis: Neutral (No impact)

Stand-alone credit profile: bbb-

TGI importance to GEB: Core (No impact)

Issue Ratings--Subordination Risk Analysis

The 'BBB-' issue-level rating on to TGI's existing and future bond issuances are at the same level as the issuer credit rating, reflecting our view that the company doesn't have a significant amount of secured debt on its capital structure, and it relies solely on the operating cash flows of its activities to amortize the existing debt.

Capital structure

TGI's debt breakdown is the following:
- The $750 million bond issued in 2012 with final maturity in 2022, which is subject to refinancing though the company's future bond issuance of the same amount;
- The $370 million intercompany loan that GEB provided to TGI due 2022; and
- About $50 million in financial leases and bank loans.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Midstream Energy Industry, Dec. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Transportadora de Gas Internacional S.A. E.S.P.'s Proposed $750 Million Senior Unsecured Notes Rated 'BBB-', April 16, 2018

Ratings List

Ratings Affirmed

Transportadora de Gas Internacional S.A. E.S.P.	
Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.