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Research Update:

Transportadora de Gas Internacional 'BBB-' Rating Affirmed; Outlook Remains Stable

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Overview

- During the first half of 2014, Colombia-based natural gas transportation company, TGI's performance was in line with our expectations as it has expanded its capacity and increased the volume transported and continued to generate a stable and predictable revenue stream.
- We are affirming our 'BBB-' corporate credit rating on TGI.
- The rating action and stable outlook reflects our expectation that the company's debt to EBITDA will peak at about 3.4x in 2015 and quickly drop to 2.9x in 2016 as it deleverages with its own cash flow generation.

Rating Action

On Aug. 28, 2014, Standard & Poor's Ratings Services affirmed its 'BBB-' corporate credit rating on Transportadora de Gas Internacional S.A. E.S.P. (TGI). The outlook is stable.

Rationale

The rating on TGI reflects its status as a core subsidiary of its parent EEB. TGI's 'bbb-' stand-alone credit profile reflects its "satisfactory" business risk profile, "significant" financial risk profile and "adequate" liquidity.

Empresa de Energia de Bogota S. A. E. S. P. (EEB; BBB-/Stable/--) recently announced the $880 million acquisition of 31.92% of TGI's shares, which were previously held by The Rohatyn Group (formerly Citi Venture Capital International; CVCI). EEB now holds 99.97% of TGI. The company partially financed the acquisition with about $616 million in debt issued through a newly created special purpose vehicle (SPV), which holds TGI's 31.92% stake as guarantee. We expect this entity to merge with TGI about 12 months after the acquisition. At that time, we expect TGI to use its cash on hand to partially prepay about $300 million of its debt.

As a result of the company's future merger with the SPV that will initially issue the debt, we expect TGI's leverage to increase temporarily in 2015 to approximately 3.7x debt to EBITDA, from 2.8x as of Dec. 31, 2013. This ratio should drop to below 3.0x in 2016. We believe TGI has the financial flexibility to absorb this significant debt increase without weakening its creditworthiness. In our key credit ratios, we adjust debt by subtracting 75% of cash and short term investments from gross debt.

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, it's integral to the group strategy, and has a strong long-term commitment from EEB's senior management. Because there are no meaningful regulatory mechanisms or other structural barriers that restrict access by EEB to the assets and cash flow of TGI, we align the issuer credit rating (ICR) on TGI with that on the parent.

The rating on TGI reflects its 'bbb-' SACP, which considers the stability and predictability of its cash-flow stream, the company's position as a monopoly in the markets in which it operates, and the high credit quality of its clients. The rating also incorporates Colombia's favorable institutional and regulatory framework, which contributes to the stability of the energy sector. Limited business and client diversity partly offset these strengths.

TGI's "satisfactory" business risk profile is based on our view of the company's significant competitive position with a 52% market share in Colombia, and cash flow stability and predictability, because its contracts are fixed and have an average life of more than eight years. Take-or-pay revenues represent 82% of the company's total contracts, which we view as a positive. TGI benefits from stable profitability, with EBITDA margins consistently above 70%.

We have revised TGI's financial risk profile to "significant" from "intermediate" to incorporate the increase in leverage in our updated projections. We have reviewed our projections to incorporate the payment of dividends for about Colombian peso (COP) $506 billion in 2014 and for the reduction in the prepayment of the SPV debt in 2015 to $90 million from $300 million. The large percentage of fixed contracts strengthens TGI's financial risk profile, and about 80% of its EBITDA is denominated in dollars, which partially offsets foreign-exchange risk. The company's key financial metrics continued to improve in the last 12 months, reflecting a boost in cash flow from the Cusiana II expansion project, an increase in regulated tariffs, and a drop in interest costs.

TGI's financial performance has been in line with our expectations. According to our calculations, for the 12 months ended June 30, 2014, the company posted an EBITDA interest coverage ratio of 4.8x, debt to EBITDA of 2.9x, and funds from operations (FFO) to debt of 21%. During the same period, TGI posted revenues of COP 939.8 billion, an 18% increase over the same period in 2013. The EBITDA increase was mainly due to higher transported volumes as a result of higher gas-based electricity generation in Colombia.

By the end of 2014, we expect the company to report EBITDA interest coverage of about 5.0x, debt to EBITDA of about 3.0x, and FFO to debt of about 20%.

Liquidity

We view the company's liquidity as "adequate." Under our base-case scenario, sources should cover uses by 1.5x in 2014 and by 1.3x in 2015.

Liquidity sources

- As of June 30, 2014, the company reported cash and short-term investments of approximately COP$120.8 billion;
- Short term loans with EEB for $350 million (about COP$677.6 billion) as of June 30, 2014; and
- FFO generation of about COP$400 billion in 2014.

Liquidity uses

- Working capital outflows of about COP$43 billion;
- Capital expenditures (capex) of COP$204 billion due to business expansion; and
- Dividend payment of COP$506 billion.

Outlook

The stable outlook reflects our expectation that the company's debt to EBITDA will peak in 2015 to about 3.7x due to the announced merger with the SPV, and will return to less than 3.0x by 2016 as it reduces debt with own cash flow generation. We expect FFO to debt to drop to about 15% in 2015 from about 20% in 2014, and to recover to 23% by 2016.

Upside scenario

A positive rating action on EEB would lead to a positive rating action on TGI.

Downside scenario

A negative rating action on EEB would lead to a negative rating action on TGI.

Ratings Score Snapshot

Corporate Credit Rating: BBB-/Stable/--

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Very 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-

- Group Credit profile: bbb-
- Entity status within group: Core (No impact)

Related Criteria And Research

Related Criteria

- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013

Ratings List

Ratings Affirmed

Transportadora de Gas Internacional S.A. E.S.P.

Corporate Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-

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