FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms GEB's Ratings at BBB; Outlook Stable

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Fitch Ratings - New York - 23 Sep 2021: Fitch Ratings has affirmed Grupo Energia Bogota S.A. E.S.P.'s (GEB) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB'. Fitch has also affirmed GEB's Long-Term national scale rating at 'AAA(col)' and its long-term senior unsecured debt rating at 'BBB' and the local bond rating at 'AAA(col)'. The Rating Outlook on the IDRs and National Scale Rating is Stable.

GEB's ratings reflect the company's stable cash flow generation, strong business position, and adequate liquidity as well as expectations for credit metrics in line with the rating level over the medium term. The ratings also reflect GEB's reliance on dividends from its financially solid subsidiaries to service its debt as well as the company's ongoing growth strategy and aggressive dividend policy, which will limit GEB's deleveraging to the mid-3x level over the rating horizon.

Fitch's base case incorporates an approximately USD65 million decline in Transportadora de Gas Internacional's (TGI; BBB/Stable) EBITDA in 2021 from 2020 due to contract expiration, which is offset by back dividends received from Emgesa S.A. E.S.P. (BBB/Negative) and Codensa (AAA[col]/Stable) and an expected future increase in the dividend payout ratio to GEB to 90% from 70%. Fitch expects GEB's gross leverage to be between 3.2x and 3.4x over the rating horizon, which is commensurate with the 'BBB' category.

KEY RATING DRIVERS

Enel Merger Credit Positive: Fitch believes the agreement between GEB and Enel Americas S.A. (A-/Stable) to merge some of their operating subsidiaries in Colombia and Central America is credit positive for GEB as it will add COP965 billion (~USD257 million) of catch-up dividends for GEB in 2021 and 2022, increase the future dividend payout ratio to GEB to 90% from 70%, give GEB access to renewable electricity and settle a longstanding dispute between the companies. Under the merger, Emgesa, Codensa and Enel Green Power in Colombia and Central America will merge. GEB will own approximately 42.5% and Fitch estimates it will represent roughly USD272 million of dividends to GEB in 2022, over half of its non-controlled dividends. The merger will close in 1Q22, pending approval from the Superintendency of Corporations (Spanish: Superintendencia de Sociedades).

Solid Business Position: GEB's ratings reflect its diversified portfolio of businesses, mostly comprised of companies with solid market position and credit profiles. The company operates in the electricity transmission business in Colombia and has controlling stakes in energy assets, which operate as regulated natural monopolies within their served areas. GEB fully owns TGI S.A. ESP (BBB/Stable), Colombia's largest natural gas transportation company and has 60% stake in Gas Natural de Lima y Callao S.A.'s (BBB/Stable), the largest natural gas distribution company in Peru.

GEB also owns a natural gas distribution company in Peru, Contugas, and Electrodunas, an electric utility in the same country. In electricity transmission, it owns TRECSA and EEBIS in Guatemala and a 50% stake in Argo and 100% stake in GEBBRAS in Brazil. GEB has supported its subsidiaries through equity injections and guarantees, including USD253 million in total guarantees of TRECSA's and EEBIS' debt.

Stable Cash Flow Generation: GEB's operations benefit from its business diversification, given its participation in companies that maintain a low business-risk profile, and from stable and predictable cash flow generation. GEB subsidiaries are, for the most part, regulated monopolies within their relevant business segment with limited volume risk. TGI is the most important asset for GEB and is expected to make up nearly half of its EBITDA from controlled companies in 2021. GEB fully controls TGI and has no limitation to its cash generation. GEB's electricity transmission business carried at the holding level is expected to gradually gain higher participation in the EBITDA mix in the medium term, as the company will be executing around USD550 million in capex during 2021-2024 to complete projects granted by the government's planning unit.

Portfolio of High Credit Quality: GEB is an operating holding company that derives most of its cash from operations from its subsidiaries and non-controlling stakes. GEB's cash flow from operations benefits from dividends received from its portfolio of non-controlling stakes, mostly comprised of investment-grade companies or companies with the highest national scale rating. This has resulted in a predictable source of dividends for GEB, and mitigates the structural subordination of the dividends stream to the debt service at GEB's level. Emgesa, the largest electricity generation company in Colombia, and Codensa, the second-largest electricity distribution company, made up the 77% of GEB's dividends received as of June 2021.

Sizable Growth: Further incorporated in GEB's ratings are the company's capex plans in the medium term, as well as equity injections to its weaker subsidiaries and M&A activities. This is in addition to a still demanding dividend policy. Fitch expects the company to record negative FCF over the rating horizon, resulting from ongoing expansion projects. GEB's ratings factor in expectations that consolidated leverage will average 3.3x over the rating horizon, which is in line with the 'BBB' category per Fitch's Latin American Utilities Sector Navigator.

Standalone Approach: GEB's ratings are derived from the company's creditworthiness on a standalone basis. The company's linkage with Bogota Distrito Capital (BB+/Stable), which maintains a 65.68% controlling stake in GEB, is considered weak to moderate under Fitch's Government Related Entities (GRE) Criteria and allows for GEB's ratings to be up to two notches higher than its controlling shareholder. GEB is a financially strong GRE, which has had no need for support. GEB is an operating holding company that operates under a commercial law status, independent of its controlling shareholder.

DERIVATION SUMMARY

GEB's low business-risk profile is commensurate with its investment-grade rating and is comparable with that of Enel Americas S.A. (A-/Stable), AES Andes (BBB-/Stable) and Promigas (BBB-/Stable). GEB's ratings are two notches below Enel Americas, as the latter has a strong diversified and geographic footprint in South America, as well as it has a more conservative capital structure. Fitch estimates Enel Americas gross leverage will remain around 1.5x in the short to medium term, not considering any acquisitions, while Fitch projects GEB's leverage to average 3.3x over the rating horizon as increased cash flow from its underlying businesses is paid out in dividends.

GEB's ratings are two notches above those of EPM (BB+/Rating Watch Negative), as GEB compensates its higher dependence on dividends received from non-controlling stakes with core businesses with high cash flow predictability, such as electricity transmission and natural gas transportation, while EPM's EBITDA has a higher participation in the competitive business of electricity generation and its rating is linked to that of its owner, the City of Medellin (BB+/Stable). GEB's national scale rating of 'AAA(col)'/Stable is in line with that of EPM, which is rated 'AAA(col)'/Rating Watch Negative. EPM's ratings are on Rating Watch Negative, reflecting the ongoing uncertainty surrounding the execution of Ituango Hydroelectric project.

GEB is rated one notch above AES Andes and Promigas. GEB's operating environment and exposure to regulated business bodes well for its credit quality in comparison with AES Andes, which operates in a more competitive environment. Promigas is also rated one notch below GEB in the international scale, given its lower level of business and geographic diversification and its higher leverage levels over the medium term compared to GEB.

KEY ASSUMPTIONS

--GEB's revenues and EBITDA projected performance reflect expansion in the operations at GEB holding company level, along with TGI and Calidda, following the projects executed by the companies;

--GEB's capex execution in the medium term incorporates projects already granted to the company, coupled with the ones with higher probability of being executed;

--No material asset acquisitions or divestitures over the next three years;

--Majority of the previous year's net income paid out in shareholder dividends.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A positive rating action or Outlook movement is unlikely in the near to medium term given the company's expectations of EBITDA pressures and potential elevated capex in the medium term;

--The company reduces its leverage below 2.5x on a sustained basis after the regulatory tariff reset and the company's investment program is completed;

--GEB's credit rating upgrade could also be positive for TGI's rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A negative rating action on the company's majority owner, the City of Bogota;

--Gross leverage levels sustainably above 4.0x;

--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;

--Material cost overruns or delays in the start of operations of sizable projects that pressure GEB's credit metrics.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: Historically, GEB's liquidity has been adequate, supported by high cash on hand, predictable cash flow from operations and proven access to bank and capital markets, through the holding company and its subsidiaries. As of June 2021, the consolidated company, including controlled companies, held COP1.6 trillion (approximately USD430 million) in cash and equivalents. Roughly USD290 million of the total was held at the holding company level.

As of June 2021, the company had limited consolidated near-term debt maturities, with USD116 million, USD30 million and USD329 million due in the remainder of 2021, 2022 and 2023, respectively. At the holding level, there are no debt maturities until 2024 when USD533 million is due, comprised mostly of a USD449 million syndicated bank loan. On a consolidated basis, USD922 million is due in 2024, which also includes a USD355 million syndicated loan owed by Contugas.

ISSUER PROFILE

GEB is an energy operating holding company with direct operations and stakes in electricity generation, distribution and transmission, as well as natural gas transportation and distribution. GEB's revenues and EBITDA generation are mainly derived from Colombia, but the company also has stakes in companies in Peru, Brazil, and Guatemala. The company operates in the Colombian electricity transmission business at the holding level and maintains controlling and non-controlling stakes in the other businesses.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR

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Grupo Energia Bogota S.A. E.S.P. (GEB)	LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
	LC LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
	Natl LT	AAA(col) Rating Outlook Stable	Affirmed	AAA(col) Rating Outlook Stable
• senior unsecured	LT	BBB	Affirmed	BBB
• senior	Natl	AAA(col)	Affirmed	AAA(col)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

Corporate Rating Criteria (pub. 21 Dec 2020) (including rating assumption sensitivity)

National Scale Rating Criteria (pub. 22 Dec 2020)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Grupo Energia Bogota S.A. E.S.P. (GEB)	EU Endorsed, UK Endorsed

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