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RATING ACTION COMMENTARY

Fitch Affirms Grupo Energia Bogota S.A. E.S.P.'s Ratings at 'BBB'

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Fitch Ratings - New York/Bogota - 12 Sep 2022: 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 the 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 keep GEB's leverage at 4.0x or over in 2022 and 2023. Fitch's base case incorporates the cost of new transmission acquisitions announced in 2022, TGI's EBITDA growth from the new useful asset life tariff recognition and catch-up dividends of COP437 billion (approximately USD107 million) from Enel Colombia paid in 2022. Fitch expects GEB's gross leverage to be 3.8x in 2024 and 3.3x in 2025, which is commensurate with the 'BBB' category.

KEY RATING DRIVERS

M&A Pressures Credit Metrics: Fitch views GEB's recent acquisitions of Elecnorte and five transmission concessions in Brazil as credit negative during the rating horizon. GEB's gross leverage is expected to increase to 4.2x in 2022 from 3.2x in 2021 and decline to 4.0x in 2023 and 3.8x in 2024 due to transmission business growth in Colombia, additional revenue at TGI due to the aggregate impact of the change in WACC, investment recognition and expected tariff adjustments, as well as consolidated debt amortization at the GEB level. In August 2022, GEB acquired five transmission concessions in Brazil with a total investment of USD821 million, capitalized 37.5% by Gebbras, a GEB subsidiary and 62.5% by Argo (JV between GEB and Red Electrica Brasil, a sub of Red Electrica Corporation S.A. [A-/Stable]).

The concessions will not be consolidated within GEB's results and Argo will retain dividends until 2025 or 2026, at which time roughly CO482 billion (approximately USD121 million) will be paid. The acquisition requires a USD460 million outlay by GEB to be funded with a five-year syndicated loan. This follows the acquisition of 100% of the shares of Elecnorte, a transmission system in the La Guajira region for USD119 million and the consolidation of COP275 billion in debt (approximately USD67 million). The EBITDA of Elecnorte is estimated to be COP75 billion (approximately USD17.8 million) in 2023 for an implied enterprise multiple of 10.4x. While these acquisitions add stable cash flow in the long term, they increase GEB's credit metrics in the short to medium term.

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 Transportadora de Gas Internacional S.A. ESP (BBB/Stable), Colombia's largest natural gas transportation company and has a 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 in Guatemala, a 50% stake in Argo in Brazil and Elecnorte in Colombia. GEB has supported its subsidiaries through equity injections and guarantees, including a guarantee of TRECSA's USD110 million private placement and of USD143 million in loans for TRECSA and EEBIS.

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 45% its EBITDA from controlled companies in 2022. 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 gain higher participation in the EBITDA mix in the medium term, as the company will be executing around USD525 million in capex during 2022-2024 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.

Enel Colombia, created from the merger of Emgesa, the largest electricity generation company in Colombia, and Codensa, the second-largest electricity distribution company, will make up the 85% of GEB's dividends received from non-controlling interests in 2022, including a COP437 billion catch-up dividend. In 2023, it is expected to be roughly 75% of dividends from non-controlling interests.

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 in 2022 and 2023, resulting from ongoing expansion projects. GEB's ratings factor in expectations that consolidated leverage will fall below 4.0x by 2024 and thereafter, which is in line with the 'BBB' category per Fitch's Latin American Utilities Sector Navigator.

Standalone Credit Profile: GEB's credit profile is commensurate with its current 'BBB' rating and not capped by the credit profile of its controlling owner, the City of Bogota. Fitch considers the presence of regulatory ring-fencing mechanisms, material minority shareholders and a track record of strong governance practices diminish the parent's capacity to extract value from its stronger subsidiary. GEB continues to be managed with independence and autonomy which is positively incorporated in the ratings. Under Fitch's Parent-Subsidiary Rating Criteria, the assessment of these factors allows Fitch to rate GEB two notches above the City of Bogota's consolidated profile.

Fitch has the expectation that GEB will maintain its operational independence and dividend distribution practice, which has historically been approximately 70% of its net income. A change in GEB's corporate governance, business or financial strategy may put downward pressure on the company, particularly in the event of a structural increase in its dividend payout ratio.

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. (BBB+/Stable), AES Andes (BBB-/Stable) and Promigas (BBB-/Stable). GEB's ratings are one notch 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 3.8x 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)'/Outlook 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 bode 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 on the international scale, given its lower level of business and geographic diversification.

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, averaging roughly USD320 million per year between 2022-2025;

--Elecnorte acquisition in 2022 at a cost of roughly USD112 million and is consolidated in GEB's financial statements;

--Five transmission concession lines in Brazil acquired in 2022 at a cost of approximately USD460 million, funded with a new five-year syndicated USD loan;

--Argo pays dividends from retained earnings of BRL950 million in 2025, of which GEB receives 50% (approximately COP375 billion, approximately USD91 million);

--Effective tax rate of 20% following Colombian tax reform;

--Dividends equal to approximately 70% of the previous year's net income.

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 2022, the consolidated company, including controlled companies, held COP1.4 trillion (approximately USD313 million) in cash and equivalents. Roughly USD56 million of the total was held at the holding company level. As of June 2022, the company had manageable consolidated near-term debt maturities, with USD165 million, USD392 million and USD742 million due in the remainder of 2022, 2023 and 2024, respectively. At the holding level, there are no debt maturities until 2024 when USD342 million is due, comprised mostly of a USD300 million syndicated bank loan.

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.

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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

GEB is rated two notches above the City of Bogota's consolidated profile (BB+/Stable). A change in the City of Bogota's credit profile has the potential to affect GEB's rating.

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
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 unsecured	Natl LT	AAA(col)	Affirmed	AAA(col)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Country Ceilings Criteria (pub. 01 Jul 2020)

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

National Scale Rating Criteria (pub. 22 Dec 2020)

Corporate Rating Criteria (pub. 15 Oct 2021) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 01 Dec 2021)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.3 (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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