FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Transportadora de Gas Internacional's Ratings at 'BBB'; Outlook Stable

Mon 12 Sep, 2022 - 16:13 ET

Fitch Ratings - New York/Bogota - 12 Sep 2022: Fitch Ratings has affirmed Transportadora de Gas Internacional S.A. E.S.P.'s (TGI) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB'. Fitch has also affirmed TGI's long-term senior unsecured debt rating at 'BBB'. The Rating Outlook on the IDRs is Stable.

TGI's ratings reflect the company's strong business position, its moderate exposure to regulatory risk, and expectations of moderate leverage over the medium term. TGI's ratings also reflect its exposure to fluctuations in the Colombia peso that could pressure its credit metrics in the medium term. Also factored into the ratings is the strong linkage with its parent company, Grupo Energia Bogota S.A. (GEB; BBB/Stable), which almost fully controls TGI.

KEY RATING DRIVERS

Parent-Subsidiary Linkage: Fitch considers TGI's standalone credit profile (SCP) is capped by the country ceiling of Colombia at 'BBB-', as 100% of its 2021 EBITDA was generated in this country. The company's ratings receive a one-notch uplift considering the medium to high operational and strategic incentives of GEB to support TGI, equalizing its ratings to that of GEB, as per Fitch's Parent-Subsidiary linkage criteria.

These incentives consider GEB's nearly 100% ownership of TGI, the substantial financial contribution to GEB, making up roughly 44% of GEB's 2021 EBITDA, reinforced by the tangible support received through the deeply subordinated USD370 million intercompany loan that GEB extended to TGI which increases the prospects of future support. Additionally, investments in Colombia and in midstream businesses, such as TGI's, is expected continue to be a strategic focus for GEB's growth going forward.

Low Business Risk: TGI is the market leader in natural gas transportation in Colombia, making up roughly 55% of Colombia's transported volume. Its highly contracted position and limited exposure to volume risks gives predictability to the company's cash flow generation. Approximately 85% of its revenues stems from fixed charges, that is, not related to the volume of transported gas. TGI's moderate off-taker concentration with four distribution and marketing customers representing roughly 80% of its YTD revenues as of June 2022 is characteristic of the natural gas transportation business. These companies tend to have a more stable consumption pattern supported by residential consumption. Nevertheless, some tranches of its pipeline are underutilized due to the decline of some of the Colombia's main fields.

New Regulatory Framework Credit Neutral: Fitch considers the new regulatory tariff methodology for the gas transportation business is credit neutral for TGI. The negative effect of the reduction of the regulatory weighted average cost of capital to 10.94% in COP from 15.5% average in USD, will be offset by the positive impact of recognition of past investments in tariff as well as of those assets that met regulatory useful life before 2021 at 60% of its replacement value.

The conversion of the dollar-based tariff into Colombian pesos from Oct. 1, 2022 will increase TGI's foreign exchange (FX) risk exposure, as 100% of its debt is USD-denominated. The company is expected to hedge this risk with derivative instruments, whose costs have the potential to pressure TGI's cash flow. The company is waiting for the approval of the tariff file presented to the regulator during the 2Q22 which includes the expenses from hedging operations.

FCF Neutral to Positive: Fitch expects TGI's FCF to be neutral to positive over the rating horizon, which strengthen its financial flexibility. Fitch base case for TGI includes pressures in EBITDA generation in the medium to long-term, given the regulatory reset and reduction in contracted capacity, while capex considers existing assets, in-construction projects and those more likely to be executed by TGI. FCF pressures could stem from additional projects or M&A activities, such as the participation in the project to develop the second liquefied natural gas (LNG) terminal in Colombia, for which TGI has stated it is assessing the terms of the auction process.

Leverage Increases: TGI's gross leverage is expected to reach 3.8x in 2022 and 3.7x in 2023, mainly driven by the replacement of the USD370 million intercompany loan from GEB with a bank loan. Fitch's base case scenario assumes the new instrument will not be subordinated and rank pari-passu with the outstanding USD750 million senior unsecured notes. Medium-term leverage is forecasted to remain below 3.5x from 2024. The company's ability to replenish its contracted capacity and maintain a healthy capital structure will be key to preserve its SCP in the medium to long term.

DERIVATION SUMMARY

TGI maintains an investment-grade credit profile, with strong and predictable EBITDA generation, characteristic of pure natural gas transportation companies such as Transportadora de Gas del Peru S.A. (TGP; BBB+/Stable). TGI is also well positioned related to regional peers that operate in the Natural Gas Distribution segment or LNG, such as Gas Natural de Lima y Callao (BBB/Stable), Promigas S.A. E.S.P. (BBB-/Stable) and Gas Natural Quintero (GNLQ; BBB+/Stable).

TGI is rated one notch above Promigas, given its more conservative capital structure, with leverage levels below 3x over the rating horizon, while Promigas' leverage will be 3.8x in 2022 and 3.4x in 2023. Nevertheless, Promigas' business diversification that combines natural gas transportation and distribution, as well electricity distribution strengthens its business position. On the other hand, TGI's ratting are one notch below TGP, as this company has a higher EBITDA visibility, with revenues that derives from long-term ship or pay contracts with an average remaining life of around 13 years, while TGI's average contract length is four years. TGI has stronger credit metrics than GNLQ, however this is mitigated by GNLQ's lack of exposure to price or volume risk and the longer term of its concession agreement.

TGI's ratings also reflect its strong strategic and medium operation incentives of GEB, rated 'BBB'/Stable, to support the company. Therefore, Fitch considers it unlikely that both companies will have different credit profiles. Currently, TGI maintains a USD370 million shareholder loan due 2022 with its parent company GEB that Fitch does not consider financial debt for TGI.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

--The shareholder loan with GEB is replaced by a bank loan in local currency;

--TGI's contracted capacity of approximately 600mmcfd in 2022 declining to 550mmcfd from 2023;

--Capex intensity of 12% during 2022-2025 period, including maintenance of existing assets and the construction of expansion projects;

--FX hedging costs assumed by TGI;

--Payout ratio of 90% of previous year 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, absent any rating constraints from its parent company, GEB, or Colombia's country ceiling;

--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 GEB's ratings;

--TGI executes higher than expected investments, resulting in sustained gross leverage levels of 4.0x or above on a sustained basis;

--Influence from the company's shareowner that result in a sub-optimal financial/operational strategy that could hurt the company's credit quality;

--GEB's credit quality deterioration that leads to extracting material cash flow from TGI.

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

Strong Liquidity: TGI's liquidity remains strong, supported by cash on hand, predictable cash from operation and a manageable debt maturity schedule, with the vast majority of the current balance maturing in 2028. As of June 30, 2022, the company had USD135 million of cash-on-hand with no senior debt maturing in the short-term. TGI has publicly disclosed its intension to replace the USD370 million subordinated intercompany loan from GEB by a bank loan after expiration in December 2022. Although a material effect on TGI's credit profile is not expected, Fitch will assess the final terms of the new financing instrument and its impact on the company's capital structure.

ISSUER PROFILE

TGI is the market leader in natural gas transportation in Colombia. The company operates 4,033 kilometers of natural gas transportation pipelines in Colombia's Andean region that is around 55% of the Colombia's natural gas transportation infrastructure. TGI transports natural gas through its pipelines to the main cities in Colombia, namely Bogota, Medellin and Cali.

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
Transportadora de Gas Internacional S.A. ESP (TGI)	LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
	LC LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
senior unsecured	LT	BBB	Affirmed	BBB

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Hybrids Treatment and Notching Criteria (pub. 12 Nov 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

Transportadora de Gas Internacional S.A. ESP (TGI)	EU Endorsed, UK Endorsed

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