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CREDIT OPINION
18 October 2022

Update

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RATINGS

Transportadora de Gas Internacional

Domicile	Bogota, Distrito Capital, Colombia
Long Term Rating	Baa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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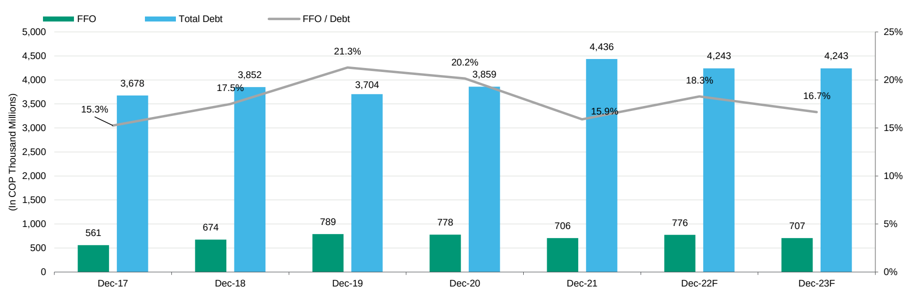
Transportadora de Gas Internacional

Update to credit analysis

Summary

Transportadora de Gas Internacional's (TGI, Baa3 stable) credit profile benefits from the company's highly capacity-based revenue profile, which limits the impact of volatility in the transportation volume of natural gas resulting from the variable hydrological conditions in Colombia (Baa2 stable). Despite a fundamentally stable operating profile, TGI's key credit metrics will be affected by the tariff update that results in a decrease of return on investments, with the weighted average cost of capital (WACC) reduced to 10.94% (before tax) from 15% and a change in tariff currency from US dollars to Colombian pesos, among other changes. This currency change will expose TGI to foreign-exchange volatility, given that the company's debt is US dollar denominated and following the new regulation it will lack US dollar-indexed revenue. We expect TGI to manage the foreign-exchange exposure by hedging, increasing the cost of debt, but mitigating the potential impact of currency volatility.

Exhibit 1
Depreciation of the Colombian peso against the US dollars could weaken credit metrics in 2022-23



Sources: TGI financial statements and Moody's Investors Service

Credit strengths

- Highly capacity-based revenue profile
- Entrenched position and large scale (owns more than 50% of the national pipeline network)

Credit challenges

- Lower weighted average life of contracts as a result of market dynamics
- Lower regulated return on investments and exposure to currency risk, following the most recent regulatory changes
- High concentration of off-takers

Rating outlook

The stable rating outlook reflects our view that TGI will maintain a stable base of firm capacity revenue, which will provide a cash flow floor that supports its current and expected debt levels. Furthermore, the stable outlook takes into consideration our expectation that the company's will hedge its foreign-exchange exposure and funds from operations (FFO)/debt will be sustained above 12% in the next 12-18 months.

Factors that could lead to an upgrade

We could upgrade TGI's rating if the company's long-term contracted position and overall strategy lead us to expect:

- FFO/debt at or above 20% on a sustained basis
- an interest coverage ratio at or above 4.5x on a sustained basis

Factors that could lead to a downgrade

We could downgrade TGI's rating if we assess that a less credit-supportive regulatory environment or if additional debt incurred to fund growth opportunities is not compensated by a more creditor-friendly financial policy. Quantitatively, we could downgrade the company's rating if FFO/debt remains below 12% on a sustained basis and the interest coverage ratio remains below 3.0x on a sustained basis.

Key indicators

Exhibit 2
Transportadora de Gas Internacional

	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	LTM Jun-22
(FFO + Interest) / Interest	3.5x	3.7x	4.6x	4.2x	4.0x	4.1x
FFO / Debt	15.3%	17.5%	21.3%	20.2%	15.9%	16.1%
(FFO - Dividends) / Debt	7.1%	10.1%	13.9%	10.5%	4.9%	4.1%

All ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations.
Sources: TGI Financial Statements and Moody's Financial Metrics™

Profile

Headquartered in Bogota, TGI is a natural gas transportation company that operates 4,033 kilometers (km) of natural gas pipelines in Colombia. The system operates mainly with natural gas from the Ballena/Chuchupa and Cusiana/Cupiagua basins.

TGI's operations are regulated by the Comision de Regulacion de Energia y Gas (CREG), which sets maximum tariffs for capacity-based and volume-based contracts, subject to review every five years, although the last one was delayed. The company also has a 31.42% ownership stake in Contugas (remaining shares owned by Grupo Energia Bogota S.A. E.S.P. [GEB, Baa2 stable]), a company that holds a concession in Peru (Baa1 stable) to operate and maintain 291 km of gas pipelines and a 1,023-km distribution network.

GEB owns TGI through its 99.99% interest in the company. The District of Bogota (Baa2 stable) is the majority shareholder of GEB, with a 65.7% interest. GEB also holds a portfolio of operational transmission lines in Colombia, and material controlling and noncontrolling equity interests in energy companies domiciled in Colombia, Peru, Guatemala (Ba1 stable) and Brazil (Ba2 stable).

Detailed credit considerations

Tariff review will increase TGI's exposure to foreign-exchange volatility and refinancing risk

TGI's business is regulated and subject to contractual tariff caps as established by regulation. The tariff review process was delayed by more than five years. In 2016, the regulator initiated market consultations on a series of potential methodological changes following several rounds of feedback from market participants. Finally, the tariff review concluded with the following changes impacting TGI:

- **Return on investments to decrease as WACC is reduced to 10.94% (before tax) from 15%.** This change will impact TGI's financial performance although it had already been considered in our base case assumptions and it is partially offset by other tariff adjustments.
- **Change in tariff currency from US dollars to Colombian pesos**. Given the lack of US dollar-denominated revenue, TGI will have exposure to foreign-exchange volatility given the fact that its debt in denominated in US dollars.
- **Changes to asset value recognition once they reach the end of 'regulatory useful life' of 20 years (Vida Útil Normativa [VUN]). For those that have already met VUN, assets recognized at 60% of replacement value according to a third-party expert and those that will reach VUN in the future will have no value.** Around 65% of TGI's assets will reach VUN at the end of 2027. Given that TGI's senior unsecured notes have maturity date in November 2028, this change introduces a higher refinance risk in the medium-term because of uncertainty on TGI's ability recover investments on its regulatory asset base. Moody's acknowledges that the company has challenged this modification and formally requested the regulator to revise this change.

Ballena Barranca contract expiration affected revenue

TGI operates in a regulated environment with a revenue base that is largely based on firm capacity, which provides visibility and a revenue floor. Historically, more than 90% of TGI's revenue has been derived from firm capacity contracts, limiting the company's exposure to volume risks. As of June 2022, TGI has contracted 69.1% of its available capacity. TGI's weighted average remaining contract life is 4.8 years, with around 35% of the company's current contracted capacity expiring in 2024. We expect a lower weighted average remaining life of contracts given that the market has evolved and off-takers have reduced the contract terms to between one and three years.

TGI faced contract expirations for the Ballena-Barranca pipeline, which in 2019 accounted for around 25% of the company's total revenue. The contracts expired in 2020 and its capacity was only partially contracted. This contract expiration contributed to a deterioration in TGI's financial performance in 2021.

The lack of new gas field developments in the La Guajira region makes it further difficult for the company to renew these contracts. As a result, transportation volumes in that specific section of the pipeline have been declining, in line with the reduction in useful life of the existing fields. Going forward, a 10% average annual decline in transport volumes is expected in La Guajira. The market has reduced its dependence on this source and natural gas has been sourced from Cusiana and Cupiagua. In the near future, TGI expects that its system will get interconnected with the Atlantic Coast system, which will translate into better natural gas flows between both systems.

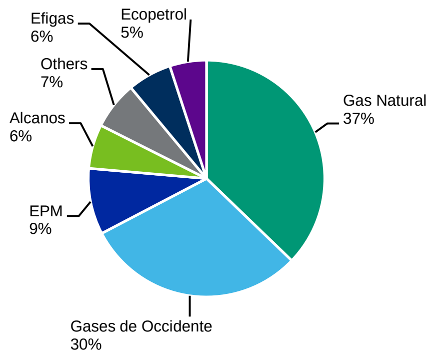
High concentration of off-takers

TGI revenue concentration has increased through the years. In 2020, around 50% of TGI's revenue was derived from Gas Natural S.A. E.S.P. and Gases de Occidente S.A. E.S.P., companies that distribute natural gas in more than 300 cities in Colombia, including Bogota and Cali. As of September 2022, this share increased to 67%, while the top three off-takers accounted for 76% of revenue. However, the strategic importance of the pipeline infrastructure that delivers the natural gas needed by these off-takers decreases recontracting risks.

Exhibit 3

TGI's revenue is concentrated (67%) in two off-takers

Revenue per off-taker year-to-date September 2022



Source: TGI

Footprint is strategic, but long-term natural gas supply likely to be more dependent on imports

A report published in July 2022 by the planning authority Unidad de Planeación Minero Energética (UPME) estimates that demand for natural gas will continue to grow in Colombia. UPME expects a 1.17% increase in average daily demand between 2021 and 2023. Between March 2022 and December 2036, it estimates a 9.5% increase in demand. These expectations reinforce the strategic importance of TGI's infrastructure and its entrenched position as the leading pipeline network in the country, transporting more than 50% of the total natural gas demand in Colombia. This strategic importance protects the company against competitive threats and provides further growth opportunities, which may arise as a result of the government's objective to increase the reliability of the system and expand the current national natural gas transportation network.

Long-term growth trends in consumption of natural gas are leading to the procurement of re-gasification facilities that will facilitate gas imports.

High foreign-exchange exposure, given the US dollar-denominated debt and lack of dollar revenue, will lead to a deterioration in credit metrics

Despite the economy recovery in 2021 after the impact of the pandemic in 2020, TGI presented a deterioration in credit metrics led mainly by the Ballena Barranca contract expiration. Cash interest coverage, measured as (FFO + interest expense)/interest expense, declined to 4.0x in 2021 from 4.2x in 2020, while FFO/debt declined to 15.9% from 20.2%. As of June 2022, these metrics remain close to the 2021 levels at 4.1x and 16.1%, respectively. Because TGI has a dividend payout ratio of 90%, retained cash flow/debt declined to 4.9% in 2021 from 10.5% in 2020.

In the second quarter of 2022, US dollar-denominated revenue accounted for 77% of TGI's total revenue. Under the new tariff regulation, TGI's exposure to foreign exchange volatility will significantly increase given the lack of US dollar-denominated revenue. While TGI plans to hedge this exposure with derivatives, the cost of debt will increase. As a result, we project that cash interest coverage will drop to 2.9x in 2022 and 2.4x in 2023, assuming an estimated cost of the hedge of $60 million per year.

While FFO will also be negatively impacted by the hedge cost, we expect this impact to be mitigated by inflation indexation of the tariffs, amid the high inflation rates in Colombia. We expect FFO/debt to be around 18.3% in 2022 and 16.8% in 2023. TGI's capital spending plan considers investments in priority projects under the natural gas supply plan, such as a transportation system (IPAT) and micro LNG. These are expected to be funded with internal cash flow generation, thus we do not expect additional pressures on TGI's financial metrics driven by the capital expenditure program.

TGI recently closed an early partial cash tender offer for its 5.55% senior notes due 2028 (notes), in which the company purchased $134.55 million in aggregate principal, reducing the notes' balance to about $615.4 million from $750 million. The tender offer expires on 24 October, unless extended or terminated earlier for a total amount up to $150 million. The tender offer is credit positive for TGI because it reduces leverage and refinancing risk, as well as the foreign exchange (FX) exposure introduced by recent regulatory changes that changed US dollar-denominated tariffs to Colombian peso-denominated tariffs.

Liquidity analysis

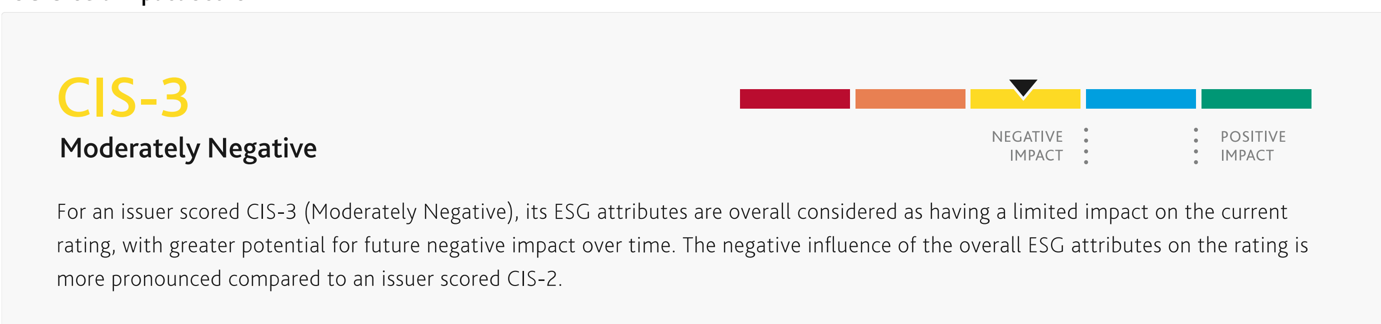
TGI has strong liquidity over the next 12 to 18 months. The company's next significant obligation is a $370 million intracompany loan payment due in December 2022, which will be refinanced in local currency to decrease the exposure to foreign currency. The other significant maturity is the 5.550% Senior Notes due November 2028 (Notes). As of June 2022, the company held a cash balance of COP556,839 million (around $135 million) in addition to uncommitted credit facilities of COP2,983,085 million.

Despite that TGI will use cash on hand for the tender offer, we expect that TGI will maintain adequate liquidity with cash balance of at least $40 million by year-end in addition to in addition to uncommitted credit facilities.

ESG considerations

Transportadora de Gas Internacional's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 4
ESG Credit Impact Score



Source: Moody's Investors Service

Transportadora de Gas Internacional's (TGI) ESG Credit Impact Score is moderately negative (**CIS-3**), indicating that its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. Its score reflects moderately negative exposure to environmental, social and governance risks.

Exhibit 5
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

TGI's exposure to environmental risks is moderately negative (**E-3** issuer profile score) mainly driven by its moderate exposure to natural capital; waste and pollution; carbon transition, such as lower gas demand as countries transition to net zero economies; and physical climate risks such as floods, droughts, sea level rise among others. Our score also incorporates neutral to low exposure to water management.

Social

Exposure to social risks is moderately negative (**S-3** issuer profile score) reflecting the moderate exposure to health and safety; demographics and societal trends; and responsible production that increase public concern over environmental, social, or affordability issues that could lead to adverse regulatory political intervention. These risks are partially balanced by neutral to low exposure to customer relations and human capital.

Governance

Governance risk is moderately negative (**G-3** issuer profile score) due to moderate exposures to financial strategy and risk management; and board structure, policies and procedures, with a majority shareholder that is a government-related issuer that could influence decision-making. Our governance score also considers a neutral to low exposure to management credibility and track record; organizational structure; as well as compliance and reporting risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Methodology and scorecard

We evaluate TGI on the basis of our Natural Gas Pipelines rating methodology, published in July 2018.

Exhibit 6

Rating factors

Transportadora de Gas Internacional

Natural Gas Pipelines Industry Scorecard [1][2]	Current LTM 6/30/2022		Moody's 12-18 Month Forward View As of 10/13/2022 [3]	
Factor 1 : Market Position (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Demand Growth	Baa	Baa	Baa	Baa
b) Competition	Aa	Aa	Aa	Aa
c) Volume Risk & Throughput Trend	Baa	Baa	Baa	Baa
Factor 2 : Quality of Supply Source (10%)				
a) Supply Source	Ba	Ba	Ba	Ba
Factor 3 : Contract Quality (30%)				
a) Firm Revenues	Aa	Aa	Aa	Aa
b) Contract Life	Ba	Ba	Ba	Ba
c) Shipper Quality / Recontracting Risk	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (45%)				
a) (FFO + Interest) / Interest	4.1x	Baa	2.4x	B
b) FFO / Debt	16.1%	Baa	16.8%	Baa
c) (FFO - Dividends) / Debt	4.1%	B	10.4%	Ba
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa3
b) Actual Rating Assigned				Baa3

[1] All ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2022(L). [3] This represents our forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

Ratings

Exhibit 7

Category	Moody's Rating
TRANSPORTADORA DE GAS INTERNACIONAL	
Outlook	Stable
Senior Unsecured	Baa3
PARENT: GRUPO ENERGIA BOGOTA S.A. E.S.P.	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2

Source: Moody's Investors Service

Exhibit 8
Cash flow and credit metrics

(In COP Thousand Millions)	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	LTM Jun-22
As Adjusted						
EBITDA	**991**	**1,012**	**1,197**	**1,317**	**1,171**	**1,227**
FFO	**561**	**674**	**789**	**778**	**706**	**753**
- Div	300	286	273	372	489	562
RCF	**261**	**387**	**516**	**406**	**216**	**191**
FFO	561	674	789	778	706	753
+/- Other	135	(47)	2	4	20	36
CFO Pre-WC	**696**	**627**	**791**	**782**	**725**	**790**
+/- ΔWC	73	(72)	62	24	(57)	92
CFO	**769**	**555**	**852**	**807**	**668**	**882**
- Div	300	286	273	372	489	562
- Capex	204	197	225	180	96	39
FCF	**265**	**72**	**354**	**255**	**82**	**281**
Debt / EBITDA	3.7x	3.8x	3.1x	2.9x	3.8x	3.8x
Revenue	1,221	1,313	1,538	1,683	1,440	1,539
Cost of Good Sold	193	236	269	286	229	250
Interest Expense	228	248	221	243	233	246
Net Income	455	402	402	503	376	376
Total Assets	7,639	8,142	8,234	8,822	9,925	10,075
Total Liabilities	5,215	5,399	5,350	5,673	6,627	6,812
Total Equity	2,424	2,743	2,884	3,149	3,297	3,263

All figures and ratios are calculated using our estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 9
Peer comparison

	Transportadora de Gas Internacional Baa3 stable			Promigas S.A. E.S.P. Baa3 stable			Infraestructura Energetica Nova S.A.P.I de CV Baa3 stable			GNL Quintero S.A. Baa2 stable		
	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Dec-20	FYE Dec-21	LTM Jun-22
Revenue (in USD millions)	457	385	396	1,303	1,386	1,449	1,261	1,841	2,066	228	236	260
EBITDA (in USD millions)	358	313	316	533	524	544	779	893	923	177	179	205
FFO Interest Coverage	4.2x	4.0x	4.1x	3.6x	3.9x	3.8x	4.3x	3.4x	3.4x	3.2x	3.3x	4.0x
FFO / Debt	20.2%	15.9%	16.1%	14.6%	14.0%	15.4%	13.4%	12.9%	14.0%	9.9%	10.6%	14.1%
RCF / Debt	10.5%	4.9%	4.1%	7.7%	6.9%	8.1%	13.4%	12.9%	14.0%	3.5%	4.2%	7.2%
Debt / Capitalization	47.1%	47.6%	48.8%	56.1%	55.0%	55.2%	41.5%	38.4%	34.6%	84.6%	82.0%	77.9%
EBITDA / Interest Expense	5.4x	5.0x	5.0x	5.2x	5.4x	4.9x	4.8x	4.3x	4.6x	3.5x	3.6x	4.4x

All figures and ratios are calculated using our estimates and standard adjustments. FYE = Financial year end. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted debt breakdown

(In COP Thousand Millions)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	LTM Jun-22
As Reported Debt	**2,512**	**2,586**	**2,492**	**2,589**	**3,017**	**3,129**
Operating Leases	61	63	0	0	0	0
Non-Standard Adjustments	1,104	1,202	1,213	1,270	1,419	1,538
Moody's - Adjusted Debt	**3,678**	**3,852**	**3,704**	**3,859**	**4,436**	**4,667**

All figures and ratios are calculated using our estimates and standard adjustments. FYE = Financial year end. LTM = Last 12 months.
Source: Moody's Financial Metrics™

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