MOODY'S

Rating Action: Moody's affirms Grupo Energia Bogota's Baa2 ratings; outlook changed to negative from stable

27 Apr 2023

New York, April 27, 2023 -- Moody's Investors Service (Moody's) affirmed the Baa2 issuer and debt ratings assigned to Grupo Energia Bogota S.A. E.S.P. ("GEB" or "Issuer"). The outlook on the ratings changed to negative from stable.

Affirmations:

..Issuer: Grupo Energia Bogota S.A. E.S.P.

.... Issuer Rating, Affirmed Baa2

.... Baseline Credit Assessment, Affirmed baa3

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

Outlook Actions:

..Issuer: Grupo Energia Bogota S.A. E.S.P.

....Outlook, Changed To Negative From Stable

RATINGS RATIONALE

GEB's ratings outlook change to negative from stable follows the outlook change to negative on the ratings of the Bogota, Distrito Capital (Colombia) ("Bogotá"; Baa2 negative). Bogotá is the support provider for GEB, which entails a rating uplift under our analytical framework for Government Related Issuers (GRIs). For more information on Bogotá, please visit: https://ratings.moodys.com/ratings/600068116

The rating action also incorporates the uncertainty on GEB standalone credit quality stemming from the government attempts to further interfere on regulated electricity tariffs that would negatively impact the company's consolidated financial performance, and the recent regulatory changes for the gas transportation business in Colombia, particularly as related to compensation on foreign rate exposure, at a time when GEB is already facing higher borrowing costs, inflationary pressures and still large investment requirements.

The Baa2 issuer rating assigned to GEB reflects the application of Moody's joint default analysis (JDA) framework for government related issuers (GRIs), which takes into account the following four input factors: i) a baseline credit assessment (BCA) of baa3 as a measure of GEB's standalone creditworthiness, ii) the Baa2 rating of the Bogotá as GEB's support provider, as well as iii) our estimates of Strong implied government support in the case of financial distress and iv) a Moderate dependence between GEB and Bogotá. These assumptions consider the company's linkages with the District of Bogotá, which owns 66% of GEB. These also reflect the strategic and essential nature of the services provided, the government control and direction of the company, which under our framework translates into a one-notch rating uplift from the BCA of baa3.

GEB's standalone credit profile benefits from its operationally and geographically diversified portfolio in the energy sector, with significant equity interests in controlled and noncontrolled subsidiaries that conduct their electric and natural gas operations, mainly in Colombia, but also in Peru, Brazil and Guatemala. GEB's key controlled subsidiaries with investment-grade profiles, contributed 44%, of total EBITDA in 2022, generating relatively stable cash flow streams for GEB. Nonetheless, its credit quality is constrained by the structural subordination of its parent-only debt, which constituted nearly 49% of total consolidated debt as of December 2022, and its dependence on subsidiaries' cash upstream to cover capital requirements and debt service at the holding company level.

GEB's consolidated credit metrics have been relatively stable and consistently in line with investment grade issuers over the last few years. In 2022, Moody's calculates cash interest coverage (measured as [CFO pre-W/C + interest]/interest expense) was at 4.1x, while leverage measured by the ratio of (CFO pre-W/C)/debt was at 16.8% in the same period. However, Moody's anticipates some deterioration in cash flows in 2023 and 2024, because of higher financing costs and the anticipated lower return on investments in the gas transportation business. Although approximately 62% of the total debt have fixed-interest rates, which mitigates the impact of the higher interest rate environment, the changes imposed by new regulation in Colombia drove the need to contract additional hedging instruments for protection of foreign currency mismatches. Management expects to recover at least part of those incremental costs, but the final outcome is yet unknown.

The rating's base case incorporates a cash interest coverage ratio in the range of 2.8x and 3.5x over the next 12-18 months with (CFO pre-W/C)/debt between 14% and 16%. Further government interference as to delay or reduce regulated tariffs would add negative pressure on those metrics and particularly, while the inflation and interest rates remain high.

Liquidity position is currently adequate. GEB also has a long history of access to debt financing, and its credit ratings reflects a manageable debt maturity profile. The capital spending program for the 2023-27 period contemplates investments up to $1.2 billion, including mainly organic transmission and gas distribution projects to be financed with debt and/or internal cash flow generation. On the other hand, GEB's dividend policy is quite aggressive with a 70% minimum dividend payout ratio after certain liquidity reserves are met.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Governance considerations were a key driver of today's rating action, given Moody's view of the credit linkages between GEB and its controlling shareholder, Bogotá. Social considerations were also relevant, given the perception of a deterioration in the regulatory environment for utility services in Colombia with potential negative impact for GEB's credit metrics.

GEB's Credit Impact Score is (CIS-3), indicating that its ESG attributes have a limited impact on the current rating with potential for future negative impact over time. The score incorporates Moody's view of the issuer significant exposure to social risks because of growing public concern over affordability of electricity, leading to ongoing adverse regulatory intervention. It also reflects a view of moderate exposure to environmental and governance risks, given the business profile on the energy sector and government-owned control.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the negative outlook, an upgrade in the ratings of GEB in the near term is unlikely. However, the outlook could be stabilized if Bogotá's – the support provider - rating outlook is stabilized. The stabilization of the outlook would also require cash interest coverage ratios above 3.5x on a sustained basis and our assessment that government or regulatory interference is immaterial to the company's credit profile.

Conversely, a downgrade of Bogotá's rating would trigger a downgrade on the ratings of GEB Negative regulatory or government intervention that leads to a material impact on GEB's financial performance would also trigger a downgrade. For example, if GEB records cash interest coverage ratios below 3.0x or (CFO pre-W/C)/debt below 14%, with dividends above the minimum legal requirement on projected and sustained basis would also exert downward pressure. A downgrade of the Government of Colombia's rating (Baa2 stable) would also lead to a downgrade on the ratings of Bogotá.

The methodologies used in these ratings were Regulated Electric and Gas Utilities published in June 2017 and available at https://ratings.moodys.com/rmc-documents/68547, and Government-Related Issuers Methodology published in February 2020 and available at https://ratings.moodys.com/rmc-documents/64864. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on https://ratings.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on https://ratings.moodys.com.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Adrian Garza
VP - Senior Credit Officer
Project & Infra Finance Group
JOURNALISTS: 1 888 779 5833
Client Service: 1 212 553 1653

Cristiane Spercel
Senior Vice President/Manager
Project & Infra Finance Group
JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

---

the information contained herein or the use of or inability to use any such information, even if MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY’S.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY’S IN ANY FORM OR MANNER WHATSOEVER.

Moody’s Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody’s Corporation (“MCO”), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody’s Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody’s Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody’s Investors Service also maintain policies and procedures to address the independence of Moody’s Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody’s Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading “Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy.”

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s SF Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.