FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Grupo Energia Bogota's Ratings at 'BBB'

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Fitch Ratings - Austin/Bogota - 01 Sep 2023: 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)', long-term senior unsecured debt rating at 'BBB' and 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 and the company's ongoing growth strategy and aggressive dividend policy, which will keep GEB's leverage averaging 3.5x over the medium to long term.

Fitch's base case incorporates, 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 4.0x in 2024 and 3.3x in 2025, which is commensurate with the 'BBB' category.

KEY RATING DRIVERS

Credit Metrics Stabilizing: Following the acquisitions of Elecnorte and five transmission concessions in Brazil in 2022, Fitch expects GEB's gross leverage to stabilize at 4.1x in 2023 before falling to 4.0x in 2024 and 3.3x in 2025. The gradual deleveraging is due to revenue increases at TGI and in the transmission business, as well as significant dividend payments from retained earnings at the company's Argo subsidiary in Brazil in 2025 and 2026. No major acquisitions or capital expenditures are assumed in the near term, apart from the transmission line La Colectora, which is expected to begin operations in 2025.

Solid Business Position: GEB's ratings reflect its diversified portfolio of regulated 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 has supported its subsidiaries through equity injections and guarantees, including expected guarantees for USD253 million to be extended to subsidiaries in Guatemala.

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 2023.

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 USD518 million in capex during 2023-2026 through its recently created subsidiary Enlaza S.A., in order 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 S.A. E.S.P. (BBB/Stable), 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 72% of GEB's dividends received from non-controlling interests in 2023.

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 believes 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 (BB+/Stable) consolidated profile.

DERIVATION SUMMARY

GEB's low business-risk profile is commensurate with its investment-grade rating and is comparable to 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 and has a more conservative capital structure. Fitch estimates Enel Americas' gross leverage will remain below 2.0x over the rating horizon, while Fitch projects GEB's leverage to average 3.5x 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. EPM's EBITDA has a higher participation in the competitive electricity generation business and its rating are 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 Negative Watch, reflecting the ongoing uncertainty surrounding the 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 business and geographic diversification and higher leverage.

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 and the implementation of new tariff frameworks;

--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 USD300 million per year between 2023-2026;

--No sizable acquisition is assumed over the rating horizon;

--Argo pays dividends from retained earnings of USD900 million between 2025-2026;

--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 revision 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.

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 mostly financed 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

Manageable Liquidity: GEB's liquidity remains 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 2023, the company held approximately USD354 million in cash and equivalents. Roughly USD178 million of the total was held at the holding company level. GEB faces near-term debt maturities of USD244 million in the remainder of 2023 and USD798 million in 2024. Fitch expects the company will be able to successfully refinance its upcoming maturities with a mix of bank and capital market resources.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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

FITCH RATINGS ANALYSTS

Julieta Seebach
Director
Primary Rating Analyst
+1 512 215 3743
julie.seebach@fitchratings.com
Fitch Ratings, Inc.
2600 Via Fortuna, Suite 330 Austin, TX 78746

Jose Luis Rivas
Senior Director
Secondary Rating Analyst

+57 601 241 3236
joseluis.rivas@fitchratings.com

Saverio Minervini
Senior Director
Committee Chairperson
+1 212 908 0364
saverio.minervini@fitchratings.com

MEDIA CONTACTS

Elizabeth Fogerty
New York
+1 212 908 0526
elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

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

National Scale Rating Criteria (pub. 22 Dec 2020)

Corporates Recovery Ratings and Instrument Ratings Criteria - Effective from 9 April 2021 to 13 October 2023 (pub. 09 Apr 2021) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Climate Vulnerability in Corporate Ratings Criteria (pub. 21 Jul 2023) (including rating assumption sensitivity)

Country Ceiling Criteria (pub. 24 Jul 2023)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (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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