

RATING ACTION COMMENTARY

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

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Fitch Ratings - Bogota - 01 Sep 2023: 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 strong linkage with its parent company, Grupo Energia Bogota S.A. (GEB; BBB/Stable), given GEB's medium to high operational and strategic incentives to support TGI. The ratings also consider the company's strong business position in the natural gas transportation sector, moderate exposure to regulatory risk, as well as conservative capital structure. TGI's ratings consider the exposure to re-contracting risk amid the shortening of the contractual cycle, due to the low supply of long-term gas supply contracts.

KEY RATING DRIVERS

Parent-Subsidiary Linkage: Fitch believes TGI's standalone credit profile (SCP) is capped by Colombia's 'BBB-' country ceiling, as 100% of its 2022 EBITDA was generated in Colombia. The company's ratings receive a one-notch uplift considering GEB's medium to high operational and strategic incentives to support TGI, equalizing their ratings, 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 2022 operating EBITDA, reinforced by the tangible support received through the 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 to remain a strategic focus for GEB's growth going forward.

Low Business Risk: TGI is the leading natural gas transportation company in Colombia, making up roughly 55% of the country's transported volume. The company's scale, geographic footprint and highly firm contracted position provide predictability to its cash flow generation. Fitch expects TGI's contracted capacity to gradually decline in the medium term to match the current volumes effectively transported. However, the volumes transported will probably be at higher tariffs to guarantee fair remuneration given the company's investments and operating expenses.

TGI's moderate off-taker concentration with four distribution and marketing customers represented roughly 80% of its YTD revenues as of June 2023, and is characteristic of the natural gas transportation business. Colombian transportation companies tend to have a more stable consumption pattern supported by residential consumption.

Regulatory Framework Credit Neutral: Fitch believes that recent regulatory changes on the natural gas transportation tariff framework in Colombia will be credit neutral for TGI. The increase of the regulatory Weighted Average Cost of Capital (WACC) to 11.88% from August 2023 will partially ease the anticipated pressures on TGI's revenue stream. Additionally, the 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 will offset the impact of a lower WACC. TGI is awaiting the final resolution that is expected to recognize the hedging costs to mitigate its exposure to FX risk, as well as the assets that will end their regulatory useful life after the resolution is in effect.

FCF Neutral to Positive: Fitch expects TGI's FCF to be neutral to positive over the rating horizon, which strengthens its financial flexibility. Fitch's base case includes EBITDA generation pressures over the medium to long term, given the expected reduction in contracted capacity, while capex considers existing assets, in-construction projects and those more likely to be executed by TGI. Capex is expected to amount USD259 million over the 2023-2026 period. The dividend pay-out-ratio is expected to average 90% of the company's last year net income. FCF pressures could stem from sizable projects or M&A activities.

Financial Discipline to Remain: Fitch expects TGI's financial discipline to remain over the rating horizon. The company has demonstrated a clear commitment to maintain a conservative capital structure commensurate with investment grade rating. Between 4Q22 and 1Q23, TGI repurchased USD202 million of its USD750 million senior unsecured notes, mainly funded with internal resources. Gross leverage declined to 3.0x as of YE 2022 and is expected to remain below 2.5x from 2024.

Fitch assumes the intercompany loan with GEB will be partially replaced by a COP-denominated bank loan. The company contracted derivative instruments to hedge its exposure to FX risk stemming from the change of gas transportation tariffs to COP from USD applied as of June 1st 2023.

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+/Negative). TGI is also well positioned relative 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; A-/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 ranges between 3.5x and 4.0x over the rating horizon. Promigas' business diversification combines natural gas transportation and distribution, as well electricity distribution, which strengthens its business position.

However, TGI's rating are one notch below TGP, as this company has higher EBITDA visibility, with revenues derived from long-term ship or pay contracts with an average remaining life of around nine 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 concession agreement.

TGI's ratings also reflect its strong strategic and medium operational incentives of GEB, rated 'BBB'/Stable, to support the company. Therefore, Fitch considers it unlikely that both companies will have different credit profiles. Since 2007, TGI maintains a USD370 million shareholder loan due 2023 with its parent company GEB, which increases the prospects of future support if needed.

KEY ASSUMPTIONS

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

--TGI's contracted capacity gradually declines as contracts expire to match effective transported volumes;

--New tariff framework in place;

--Capex intensity of 12% during 2023-2026 period, including maintenance of existing assets and the construction of expansion projects;

--FX hedging costs recognized in tariff;

--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 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, 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

Liquidity is Not a Concern: The company reduced its cash-on-hand to USD57 million as of June 2023 from USD135 million as of June 2022, following the partial repurchase of its senior unsecured notes due 2028 by USD202 million. Fitch projects the company will rebuild its cash position to approximately USD100 million by YE 2023, and that it will remain relatively stable over the medium term.

TGI's short-term debt is made up of a USD370 million intercompany loan with GEB, which ranks *pari-passu* with the outstanding USD548 million senior unsecured notes. TGI has publicly disclosed its intension to replace its USD370 million intercompany loan with a long-term bank loan once it expires in December 2023. Fitch will assess the terms of the new financing instrument, as well as its impact on the company's capital structure and liquidity position.

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.

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

TGI ratings are linked to the credit profile of Grupo Energia Bogota S.A. E.S.P. (GEB)

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

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Corporate Hybrids Treatment and Notching Criteria \(pub. 12 Nov 2020\)](#)

[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 - Effective from 28 October 2022 to 3 November 2023 \(pub. 28 Oct 2022\) \(including rating assumption sensitivity\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub. 16 Jun 2023\)](#)

[Climate Vulnerability in Corporate Ratings Criteria - Effective from 21 July 2023 to 3 November 2023 \(pub. 21 Jul 2023\) \(including rating assumption sensitivity\)](#)

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

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