FitchRatings

RATING ACTION COMMENTARY

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

Wed 28 Aug, 2024 - 4:15 p. m. ET

Fitch Ratings - New York/Bogota - 28 Aug 2024: 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. The ratings also reflect Fitch's expectations for GEB's credit metrics to remain in line with its rating level over the medium term. Additionally, the ratings 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.

Fitch's base case incorporates short-term EBITDA pressures and expects GEB's gross leverage to be approximately 4.1x in 2024, with a subsequent deleverage to an average of 3.5x, aligning with the 'BBB' category.

KEY RATING DRIVERS

Uptick in Leverage: The appreciation of the Colombian peso against the U.S. dollar through 2024 has adversely impacted Gas Natural de Lima y Callao S.A. (Cálidda) (BBB/Stable) due to FX exposure. Along with less dividends to be received from Enel Colombia (estimated at USD202 million), Fitch expects EBITDA generation to fall in 2024. This will be partially offset by increased revenue in the transmission business, significant dividend payments from Enel Colombia in 2025 (USD283 million) and from retained earnings from the Argo subsidiary in Brazil in 2024 and 2025.

Contracted demand at TGI is expected to fall in 2025, resulting in less revenue from the gas transportation business. No major acquisitions are anticipated in the near term.

Consequently, Fitch expects gross leverage to rise to 4.1x in 2024, then gradually decrease to 3.9x in 2025 and 3.5x in 2026.

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 Colombian electricity transmission business and in the electricity generation and distribution businesses through its associate, Enel Colombia. It also has controlling stakes in energy assets that 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 Cálidda, the largest natural gas distribution company in Peru.

GEB is rated above Colombia's Country Ceiling (BBB-) because its applicable Country Ceiling is that of Perú (A-). This is due to the significant EBITDA generated by its Peruvian subsidiary, Cálidda, and the dividends from its 40% stake in the Peruvian transmission companies Consorcio Transmantaro (BBB/Stable Outlook) and Red Energia de Peru, which together are sufficient to cover GEB's estimated consolidated foreign currency interest payments.

Stable Cash Flow Generation: GEB's operations benefits from business diversification through its participation in companies with low business-risk profiles and stable, predictable cash flow. Most GEB subsidiaries operate as regulated monopolies with limited volume risk in their respective sectors. TGI is GEB's most important asset, expected to contribute 47% of EBITDA from controlled companies in 2024.

GEB fully controls TGI and faces no limitation to its cash generation. The electricity transmission business at the holding level is expected to increase its EBITDA contribution in the medium term. GEB plans to invest approximately USD637 million in capex from 2024 to 2027 to complete projects granted by the government's planning unit.

Portfolio of High Credit Quality: GEB is an operating holding company that primarily derives cash from its subsidiaries and non-controlling stakes. GEB's cash flow benefits from dividends received from a portfolio of mostly investment-grade companies or those with the highest national scale ratings. This predictable dividend stream mitigates the structural subordination of the dividends to the debt service at GEB's level.

Enel Colombia S.A. E.S.P. (BBB/Stable), the second largest electricity generation company and the main distribution company in Colombia, will make up 53% of GEB's dividends received from non-controlling interests in 2024. The rating incorporates the granting of guarantees and other support instruments to Contugas S.A.C. and Transportadora de Energía de Centroamérica S.A. (TRECSA) for the execution of loan agreements and/or other credit facilities for up to USD430 million.

Regulatory Risk: Fitch considers GEB's exposure to regulatory risk to be low to moderate, given the company's concentration in regulated businesses within Colombia and recent attempts by President Petro to control public service regulations. Currently, tariff structures in Colombia have maintained their technical criteria that balances both companies' and end-clients' interests. Any regulatory changes must not cause hardship and must provide financial stability to all market players. This risk is partially offset by GEB's geographic diversification and the solid business position of its subsidiaries.

Standalone Credit Profile: GEB's credit profile aligns with its 'BBB' rating and is not capped by the credit profile of its controlling owner, Bogota, Capital District (Bogota). Fitch believes regulatory ring-fencing mechanisms, material minority shareholders, and strong governance practices reduce the parent's capacity to extract value from its stronger subsidiary.

GEB operates with independence and autonomy, positively affecting its ratings. Under Fitch's "Parent-Subsidiary Rating Criteria," these factors allow Fitch to rate GEB two notches above 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 Empresas Publicas de Medellin E.S.P. (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 Cálidda, 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 USD320 million per year between 2024-2027;

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

--Dividends received from non-controlling interests of USD465 million annually on average between 2024-2027;

--Dividends paid to shareholders 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, 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.

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 2024, the company held approximately USD539 million in cash and equivalents and an estimated CFO for 2024 of around USD730 million. GEB faces near-term debt maturities of USD430 million in the remainder of 2024 and USD175 million in 2025. 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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

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

Eva Rippeteau
Director
Primary Rating Analyst
+1 212 908 9105
eva.rippeteau@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Juan David Medellin
Associate Director
Secondary Rating Analyst
+57 601 241 3227
juandavid.medellin@fitchratings.com

Natalia O'Byrne
Senior Director
Committee Chairperson
+57 601 241 3255
natalia.obyrne@fitchratings.com

MEDIA CONTACTS

Eleis Brennan
New York
+1 646 582 3666
eleis.brennan@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

Metodología de Calificación de Finanzas Corporativas (pub. 02 Dec 2021)

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

Metodología de Vínculo de Calificación entre Matriz y Subsidiaria (pub. 13 Jul 2023)

Country Ceiling Criteria (pub. 24 Jul 2023)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Government-Related Entities Rating Criteria (pub. 09 Jul 2024)

Metodología de Calificación de Entidades Relacionadas con el Gobierno (pub. 23 Jul 2024)

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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