Interconexion Electrica S.A. E.S.P.

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB+

Local Currency

Long-Term IDR	BBB+
COP3.3 Trillion Senior Unsecured Local Bond Program	AAA(col)
COP200 Billion Commercial Paper Program	F1+(col)

IDR – Issuer Default Rating. FC – Foreign currency. LC – Local currency.

Rating Outlooks

Long-Term FC IDR	Stable
Long-Term LC IDR	Stable

Financial Data

Interconexion Electrica S.A. E.S.P.

(COP Mil.)	12/31/16	12/31/15
Revenue	6,611	5,271
EBITDA	3,288	2,797
EBITDA Margin (%)	49.7	53.1
FFO	8,406	2,047
FCF	(1,003)	117
Cash and Marketable Securities	1,119	1,029
Total Adjusted Debt	12,567	10,922
Total Adjusted Debt/EBITDAR (x)	3.8	3.9
FFO-Adjusted Leverage (x)	1.4	4.1
Operating EBITDA/ Interest Paid and Lease Expenses (x)	3.7	3.8

Related Research

Fitch Affirms ISA's IDR at 'BBB+'; Outlook Stable (May 2017)

Fitch Revises Outlook on Various Colombian Corporates to Stable (March 2017)

Fitch Upgrades ISA's IDR to 'BBB+'; Outlook Stable (May 2016)

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Key Rating Drivers

Low Business Risk: Interconexion Electrica S.A. E.S.P.'s (ISA) low business risk is supported by regulated revenue as a natural monopoly in the countries where it operates. During 2016, around 74% of total adjusted revenue, excluding revenue recognition of COP5.5 trillion at the subsidiary Companhia de Transmissao de Energia Eletrica Paulista S.A. (CTEEP) in Brazil, was from energy transmission business units in Colombia, Brazil, Peru and Bolivia, acting as a natural monopoly not exposed to demand risk.

Predictable Cash Flow Generation: ISA's cash flow generation is predictable, supported by the regulated nature of the company's main sources of revenue. ISA's business diversification contributes to operational stability as the company mitigates its exposure to regulatory risk. ISA's consolidated cash flow from operations will further benefit from collections during 2017–2025 of around COP5.5 trillion. This amount is from CTEEP as of a 2012 valuation and related to the compensation from the early renewal of its concession in 2012.

Aggressive Growth Strategy: Fitch's forecast considers ISA's ambitious growth strategy of aiming to triple net income by 2020 from 2012 figures. Incorporated into the ratings is ISA's growth strategy, based on active participation in bidding for electric transmission and other infrastructure projects, and inorganic growth through the acquisition of stakes in companies that operate in ISA's core businesses.

Adequate Credit Metrics: The company has an adequate financial profile, positively comparing with other power transmission companies in the region. ISA's credit metrics reflect solid cash flow generation, moderate debt levels and adequate liquidity. Fitch expects leverage will rise between 4.0x–4.5x in 2017, trending toward 3.5x in the medium term. This is due to ISA executing significant capex in the next few years along with more than COP1 trillion in acquisitions of company stakes in Brazil and Peru that should be completed in 2017.

Adequate Liquidity Position: Liquidity is considered adequate and consists of healthy cash on hand levels, strong cash from operations, manageable debt amortization and adequate access to capital markets. For 2017, Fitch expects an increase in ISA's financing needs, given the pressures projected in FCF because of capex requirements and acquisitions during the year. In the absence of additional sizable capex, FCF should turn neutral or positive in the medium term.

Rating Sensitivities

Negative Rating Action: The main factors, individually or collectively, that could lead to a negative rating action are a sustained increase in leverage above 4.5x, on a consolidated or non-consolidated basis; regulatory changes placing significant pressure on cash flow generation; and a change in the company's strategy resulting in a more aggressive plan in terms of leverage, capex or acquisitions. A downgrade in Colombia's sovereign rating and country ceiling could stress ISA's foreign currency ratings.

Positive Rating Action: A positive rating action is not likely in the short to medium term given the company's current credit metrics and growth strategy.

Financial Overview

Scheduled Debt Maturities

(COP Mil., As of Dec. 31, 2016)	
2017	1,564,280.7
2018	1,516,791.9
2019	1,754,618.7
2020	2,519,984.4
2021	N.A.
Thereafter	5,115,748.7
Total Debt Maturities	**12,471,424.5**

N.A. – Not available.
Source: Company filings, Fitch.

Liquidity and Debt Structure

ISA's debt maturity profile is manageable and long-term debt amortization is spread until 2042. The company's short-term debt represented around 13% of total debt as of year-end 2016. In the medium term, liquidity is expected to remain adequate as a result of the company's stable cash flow generation and proven access to long-term financing. ISA has ample access to financial and credit markets. In April 2017, ISA sold COP700 billion of local bonds with maturities up to 25 years, improving its debt maturity profile.

In line with Fitch expectations, the increase in EBITDA, following the expansion in its asset base in the transmission business, kept leverage levels stable, despite capex increases because of construction in key infrastructure projects. As of year-end 2016, on a consolidated basis, ISA's financial debt was around COP12.5 trillion. EBITDA, excluding revenue recognition of COP5.5 trillion in ISA's subsidiary CTEEP, closed around COP3.3 trillion in 2016. Consequently, leverage reached 3.8x, an adequate level for the rating category.

Fitch expects ISA's leverage, on a consolidated basis, will be around 4.0x–4.5x in 2017, with a tendency to reduce leverage in the following years, depending on new projects granted to the company in the future.

Liquidity Summary

(COP Mil., As of Dec. 31)	2015	2016
Total Cash and Cash Equivalents	1,029,250.0	1,167,353.0
Short-Term Investments	0.0	215,570.0
Less: Not Readily Available Cash and Cash Equivalents	0.0	263,106.0
Fitch-Defined Readily Available Cash and Cash Equivalents	**1,029,250.0**	**1,119,817.0**
Availability Under Committed Lines of Credit	0.0	0.0
Total Liquidity	**1,029,250.0**	**1,119,817.0**
Plus: Fitch Forecast 2017 FCF (Post Dividend)	—	(1,845,397.9)
Total Projected 2017 Liquidity	—	**(725,580.9)**
Liquidity Score	—	0.3
LTM EBITDA	2,796,699.0	3,287,798.0
LTM FCF	116,594.0	(1,003,048.0)

Source: Company filings, Fitch.

Cash Flow Analysis

ISA and its subsidiaries are a well-integrated group of companies. ISA at times supported the subsidiaries through subordinated intercompany loans and direct support for project developments in the subsidiaries. In addition, ISA fully controls companies representing more than 50% of consolidated revenues and EBITDA. For the other companies, ISA controls between 60%–70% of the total equity.

During 2016, ISA recorded adjusted revenue, of COP6.6 trillion. This was driven by the start of operations in transmission assets, increasing the regulatory asset base, and higher growth in the Producer Price Index, which adjusts the company's regulated revenue. ISA's diversified sources of revenue reflect an adequate resilience to withstand some adverse regulatory scenarios in the countries where it operates.

On a consolidated basis, the company has a diversified source of revenue, both geographically and by business units. In addition, 74% of revenue and EBITDA is derived from energy transmission, which is a regulated business with no demand risk, providing for predictable and stable cash flow generation. The execution of sizable capex in the next two years associated

Related Criteria

Criteria for Rating Non-Financial Corporates (March 2017) with recent transmission projects is likely to create some pressure in FCF generation. The company's growth strategy includes active participation in bidding processes for transmission projects in selected countries in the region, and acquisition of stakes in companies participating in the same regulated industries of ISA's core businesses. In the medium term, FCF will depend on the number and size of projects granted to the company.

FX Screener

The *Fitch FX Screener* chart displays Fitch's estimates of long- and short-term reported local currency and foreign currency (FC) for ISA along with EBITDA interest coverage and EBITDA gross leverage. The chart illustrates relative proportions rather than specific figures, thereby acknowledging the limitations of calculating the currency splits for a given financial year.

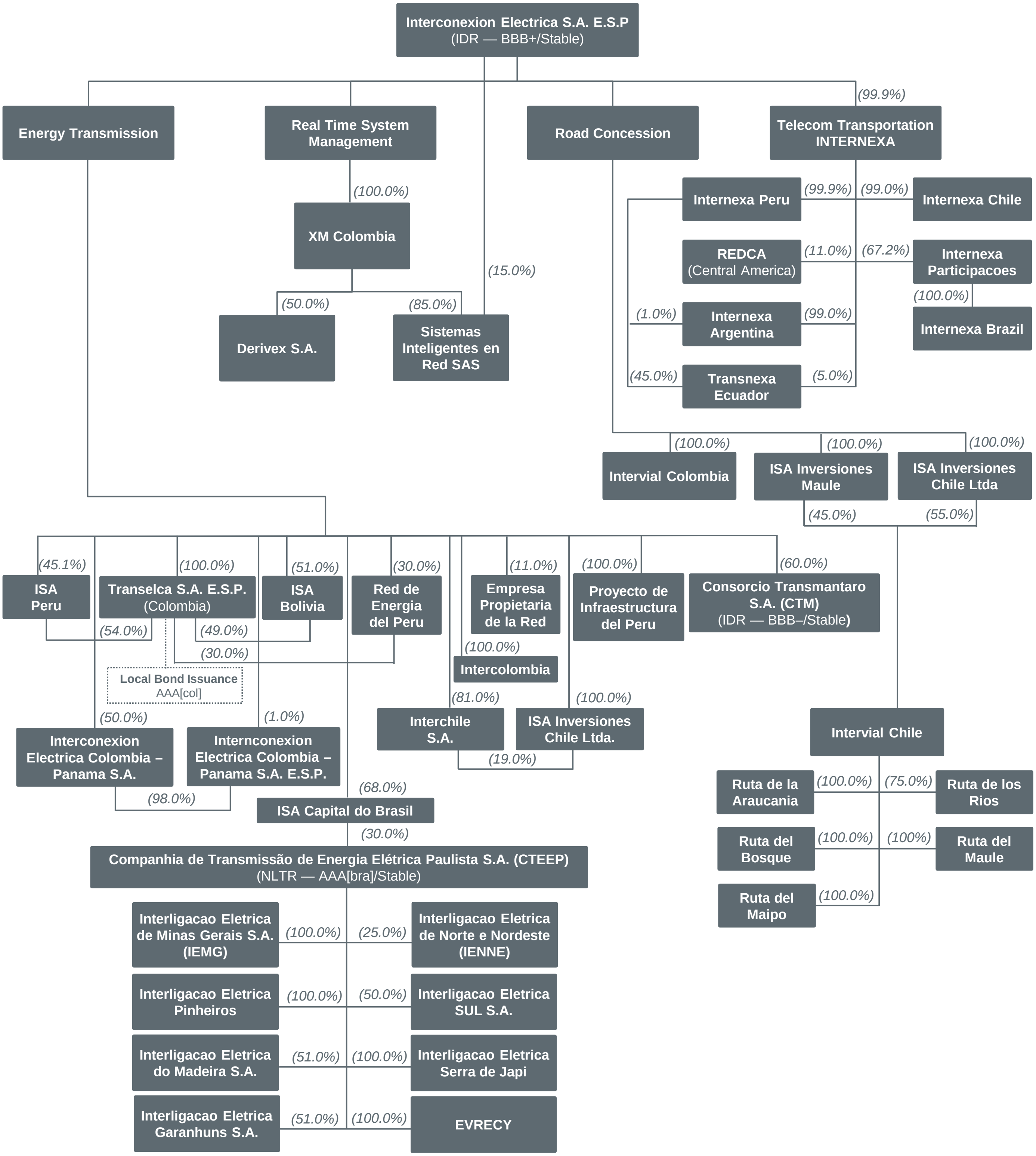
Fitch analysts make estimates, sometimes with information from management, as to the actual FC receipts or FC-linked income relative to costs. Within the screener's debt columns, the short-term FC debt, usually in U.S. dollars, is highlighted, because in a volatile currency market, this debt has to be physically repaid with FC using cash or accommodative refinancing in the bond or bank market.

ISA has some exposure to FC risk as financial debt on a consolidated basis consists of 30.9% in U.S. dollar-denominated debt, 20.0% in Colombian pesos and the balance in different Latin American currencies. The company has no material financial hedge as it tries to match cash flow with debt obligation in each currency. The FC exposure is partially mitigated by revenue denominated in U.S. dollars, mainly from Peru and some revenue in Colombia derived from the auction process of the Colombian Mining and Energy Planning Unit.

Fitch FX Screener - Foreign to Reported Currency Stress Test - Absolute Variation
(Interconexion Electrica S.A. E.S.P. — BBB+/Stable, LTM Dec-16)

*EBITDA after Dividends to Associates and Minorities
Source: Fitch

Organizational Structure — Interconexion Electrica S.A. E.S.P.
(As of Dec. 31, 2016)



IDR – Issuer Default Rating. NLTR – National Long-Term Rating.
Source: Interconexion Electrica S.A. E.S.P.

Key Forecast Assumptions

Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate.

Key Fitch forecast assumptions include:

- Revenue incorporates the development of projects already granted to the company.
- Changes in the regulatory remuneration of the power transmission business in Colombia do not have a material effect over credit metrics.
- Capex for the next several years reflect the construction stage in new projects awarded to the company and subsidiaries.
- Leverage levels around 4x in 2017, trending below 4x afterward.

Forecast Summary — Interconexion Electrica S.A. E.S.P.

	Historical		Fitch Forecast		
(COP Mil., As of Dec. 31)	2015	2016	2017	2018	2019
Summary Income Statement					
Gross Revenue	5,270,649	6,610,536	7,069,172	7,476,108	7,867,886
Revenue Growth (%)	34.4	25.4	6.9	5.8	5.2
Operating EBITDA	2,796,699	3,287,798	3,852,211	4,671,997	4,919,158
Operating EBITDA Margin (%)	53.1	49.7	54.5	62.5	62.5
Operating EBITDAR	2,796,699	3,287,798	3,852,211	4,671,997	4,919,158
Operating EBITDAR Margin (%)	53.1	49.7	54.5	62.5	62.5
Operating EBIT	2,281,129	2,750,830	3,091,345	3,839,552	4,068,058
Operating EBIT Margin (%)	43.3	41.6	43.7	51.4	51.7
Gross Interest Expense	(952,822)	(1,024,706)	(1,023,793)	(1,248,366)	(1,202,969)
Pretax Income	1,480,332	7,469,893	2,067,552	2,591,186	2,865,089
Summary Balance Sheet					
Readily Available Cash	1,029,250	1,119,817	1,531,323	1,614,270	1,636,263
Total Debt with Equity Credit	10,922,279	12,471,424	16,907,144	16,590,352	15,235,734
Total Adjusted Debt with Equity Credit	10,922,279	12,567,380	16,907,144	16,590,352	15,235,734
Net Debt	9,893,029	11,351,607	15,375,821	14,976,082	13,599,471
Summary Cash Flow Statement					
Operating EBITDA	2,796,699	3,287,798	3,852,211	4,671,997	4,919,158
Recurring Associate Dividends Less Distributions to NCI	—	—	61,801	103,021	106,092
Cash Interest Paid	(741,549)	(879,919)	(1,023,793)	(1,248,366)	(1,202,969)
Implied Interest Cost (%)	7.3	7.5	7.0	7.5	7.6
Cash Interest Received	111,596	54,603	0	0	0
Cash Tax	(502,850)	(75,436)	(587,985)	(659,292)	(775,503)
Other Items Before FFO	382,755	6,019,850	0	0	0
FFO	2,046,651	8,406,896	2,302,234	2,867,360	3,046,778
FFO Margin (%)	38.8	127.2	32.6	38.4	38.7
Change in Working Capital	107,254	(6,726,313)	70,528	(125,368)	(120,698)
Cash Flow from Operations (Fitch Defined)	2,153,905	1,680,583	2,372,762	2,741,992	2,926,079
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—
Capex	(1,740,453)	(2,364,620)	—	—	—
Capital Intensity (Capex/Revenue) (%)	33.0	35.8	—	—	—
Common Dividends	(296,858)	(319,011)	—	—	—
Net Acquisitions and Divestitures	—	—	—	—	—
Capex, Dividends, Acquisitions and Other Items Before FCF	(2,037,311)	(2,683,631)	(6,660,081)	(2,342,253)	(1,549,468)
FCF After Acquisitions and Divestitures	116,594	(1,003,048)	(4,287,319)	399,739	1,376,611
FCF Margin After Net Acquisitions (%)	2.2	(15.2)	(60.6)	5.3	17.5
Other Investing and Financing Cash Flow Items	(36,051)	(92,929)	263,106	0	0
Net Debt Proceeds	(364,923)	1,234,080	4,435,719	(316,792)	(1,354,619)
Net Equity Proceeds	—	—	0	0	0
Total Change in Cash	(284,380)	138,103	411,506	82,947	21,992
Coverage Ratios (x)					
FFO Interest Coverage	3.6	10.5	3.2	3.3	3.5
FFO Fixed-Charge Coverage	3.6	10.5	3.2	3.3	3.5
Operating EBITDAR/Interest Paid + Rents[a]	3.8	3.7	3.8	3.8	4.2
Operating EBITDA/Interest Paid[a]	3.8	3.7	3.8	3.8	4.2
Leverage Ratios (x)					
Total Adjusted Debt/Operating EBITDAR[a]	3.9	3.8	4.3	3.5	3.0
Total Adjusted Net Debt/Operating EBITDAR[a]	3.5	3.5	3.9	3.1	2.7
Total Debt with Equity Credit/Operating EBITDA[a]	3.9	3.8	4.3	3.5	3.0
FFO-Adjusted Leverage	4.1	1.4	5.1	4.0	3.6
FFO-Adjusted Net Leverage	3.7	1.2	4.0	3.3	2.7

[a]EBITDA/R after dividends to associates and minorities. NCI – Noncontrolling interests.

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