Interconexion Electrica S.A. E.S.P. (/gws/en/esp/issr/88410941)

FitchRatings

Fitch Affirms ISA's IDR at 'BBB+'; Outlook Stable

Fitch Ratings-New York-08 May 2018: Fitch Ratings has affirmed Interconexion Electrica S.A. E.S.P.'s (ISA) long-term, foreign- and local-currency Issuer Default Ratings (IDRs) at 'BBB+'. The Rating Outlook is Stable. Fitch has also affirmed ISA's senior unsecured local bond and commercial paper program rating at 'AAA(col)' and 'F1+(col)', respectively.

ISA's ratings reflect the low business risk profile of the company, which is a characteristic of the power transmission business. The ratings incorporate the strong geographic and business diversification of its revenue source, which along with the high predictability of cash flows from operations translate into a strong financial profile. Also factored in ISA's ratings are its adequate liquidity position and its aggressive growth strategy.

KEY RATING DRIVERS

Low Business Risk Profile: ISA's low business risk is supported by regulated revenue as a natural monopoly in the countries where it operates. During 2017, around 77% of total revenues came from energy transmission business units in Colombia, Chile, Brazil, Peru and Bolivia. This business acts as a natural monopoly with no exposure to demand risk. ISA is the leader in this market in Colombia, with 68% of the electricity transmission network directly or through its fully owned subsidiaries Transelca S.A and ISA Intercolombia. ISA also participates in the road concessions in Chile, as well as telecom transportation in selected countries in Latin America, which also has no or limited exposure to volumetric risk.

Highly Predictable Cash Flow Generation: ISA's cash from operation stability stems from its strong and diversified portfolio of electricity transmission assets, along with its participation in other businesses that also have limited demand risk. ISA is not exposed to volume risk in the electricity transmission business since its revenues are not dependent on the amount of electricity transported but the availability of its transmission lines in each country where it operates. According to regulation framework in the different countries, in the electricity transmission business, ISA owns its transmission assets in Colombia and Chile, while maintaining long-term concessions in Peru, Brazil and Bolivia.

Manageable Regulatory Risk: ISA and its subsidiaries are exposed to regulatory risk as the vast majority of its revenues and EBITDA come from regulated businesses. Fitch believes that the regulatory risk in the countries where the company operates is low to moderate. ISA's diversified sources of revenues reflect an adequate resilience to withstand some adverse scenarios. ISA's ratings consider the reset of regulatory remuneration applicable to the transmission business in Colombia. The proposal puts some pressure on the profitability of the power transmission segment and would encourage more capex from market participants in order to maintain the value of the regulatory asset base. In Brazil, in line with Fitch's expectations, ISA's subsidiary CTEEP started to collect in 2017 the compensation from the early renewal of its concession that occurred in 2012. These compensation payments would last until 2025.

Aggressive Growth Strategy: ISA's growth strategy is based on its active participation in bidding for electric transmission and other infrastructure projects, as well as inorganic growth through the acquisition of stakes in companies that operate in ISA's core businesses. The company is still in the process of defining its new long-term growth target, after reaching in advance, in 2017, its past goal of tripling its net income of 2012 by 2020. Fitch expects the company will face pressure on FCF in the next two years, as ISA has estimated capex of around COP6.6 trillion between 2018 and 2019 on projects already granted to the company, mostly related to power transmission projects.

Adequate Credit Metrics: ISA has an adequate financial profile, and compares positively with other power transmission companies in the region. ISA's credit metrics reflect solid cash flow generation, moderate debt levels and adequate liquidity. In line with Fitch expectations, ISA's consolidated leverage rose to 4.3x in 2017, driven by higher Capex execution as well as more that COP1 trillion in M&A transactions in Brazil and Peru. Although Fitch anticipates that ISA's consolidated FCF will remain negative in the next few years because of the Capex requirements in granted projects, the agency expects a ISA's consolidated EBITDA growth be supported by the projects that the company is expected to bring online from 2018 and onwards, as well as the continuation of the collection of CTEEP compensation, which is expected to reach COP 1.3 billion annually. Therefore, ISA's leverage levels are expected to decline to around 3.5x from 2018, only including the current projects in execution.

Stand-Alone Approach: ISA's ratings are derived from the company's creditworthiness on a standalone basis, as it is considered a moderate linkage with the Colombian Government, that controls ISA with 51.4% stake in the company. ISA is a financially strong Government Related Entity (GRE), which has had no need for support. In addition, the regulatory framework is considered fair and balanced. Auction processes in the electricity transmission segment are competitive and open to different market participants. Minorities that own roughly 49% of the company are mostly controlled by private and institutional investors. Currently, seven out of nine ISA's board members are independent.

DERIVATION SUMMARY

ISA's rating of 'BBB+' is well-positioned relative to its closest peers in the region namely Transelec S.A (BBB/stable), Consorcio Transmantaro (BBB-/Stable) and Transmissora Alianca de Energia Eletrica S.A. (BB/Stable). All of these companies have low business risk profiles and predictable cash flow generation, which is a characteristic of the companies that participate in the regulated business of electricity transmission. Fitch rates ISA higher than Transelec and CTM given its geographic diversification and the more conservative capital structure, with leverage expectations around 3.5x in the medium term, including only projects in execution, while Transelec leverage is expected to remain in the 6.0x to 6.5x range and CTM close to 6x. Compared with TAESA, the main differentiation is the country where their main revenues are generated and the location of their assets. While ISA's operations are mostly located in investment-grade countries, Taesa's ratings are negatively affected by the country ceiling of Brazil (BB).

ISA is also well positioned among the national peers that participates in the electricity transmission business, such as Grupo Energia Bogota (GEB: BBB/AAA[col]/Stable) and Empresas Publicas de Medellin (BBB+/AAA[col]/Stable). Together, these companies own and operate around 95% of the electricity transmission network in Colombia. ISA and EPM's credit profiles benefit from a higher business and geographic diversification, as well as limited dependence on dividends received from their non-controlling stakes within their CFO structure.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within its Rating Case for the Issuer
--Revenue and EBITDA projected for 2018-2021 incorporates the development of projects already granted to the company.
--Changes in the regulatory remuneration of the power transmission business in Colombia have neutral effect on ISA's credit metrics.

--ISA's subsidiary CTEEP continues collecting cash compensation from the early renewal of its concession, totaling around COP1.3 trillion per year during 2018-2021.
--Capex for the next several years reflects the construction stage in new projects awarded to the company and subsidiaries.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action
--A positive rating action is not likely in the short- to medium-term given the company's credit metrics expectations and its growth strategy.
Developments That May, Individually or Collectively, Lead to Negative Rating Action
--A sustained increase in leverage above 4.5x on a consolidated or non-consolidated basis, as a result of a progressive deterioration in its cash generation, or increased debt levels above Fitch's base case scenario;
--Regulatory changes that put significant pressures on ISA's cash flow generation;
--A change in the company's strategy that results in a more aggressive one in terms of leverage, capex or acquisitions.

LIQUIDITY

Adequate Liquidity: ISA's liquidity is considered adequate and is characterized by healthy cash on hand, strong and predictable cash from operations, manageable debt amortization and strong access to local and international capital markets.

At the end of 2017, ISA had approximately COP1.5 trillion of consolidated cash on hand, of which COP361 billion was recorded at the holding level. This compares with around COP1.6 trillion in consolidated short-term debt, of which around COP113 billion was recorded at the holding level. Most of the debt maturities in the coming years are explained by debt at the subsidiaries, which should be served with a mix of internal cash generation and debt. For 2018 and 2019, Fitch expects an increase in ISA's financing needs, given the pressures projected in FCF because of capex requirements of projects already granted to the company.

ISA's maturity profile is manageable, as its long-term debt amortization schedule is spread until 2047. In October 2017, the Board of Directors approved the increase in the available local bond program to COP6.5 trillion from the current COP4.5 trillion. In the coming years, the proceeds of the issuances included in this program should contribute to finance capex and extend debt maturities.

FULL LIST OF RATING ACTIONS

Interconexion Electrica S.A. E.S.P.
-Long-term, foreign-currency IDR at 'BBB+';
-Long-term, local-currency IDR at 'BBB+';
-Local bond and commercial paper program at 'AAA(col)'/'F1+(col)'.

The Rating Outlook is Stable.

Contact:

Primary Analyst/
John Wiske
Associate Director
+1-212-908-9195
Fitch Ratings, Inc.
33 Whitehall St
New York, NY 10004

Secondary Analyst/
Jorge Yanes
Director
+57 1 484 6770 Ext 1170

Sergio Rodriguez, CFA
Senior Director
+52 81 8399 9100

Summary of Financial Statement Adjustments - Fitch excluded from the 2017 consolidated operating revenues and EBITDA analysis around COP1.2 trillion from CTEEP's compensation recorded as operating revenues. Also, it included around COP540 million in cash received from CTEEP's compensation as part of the adjusted EBITDA.

For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria
Corporate Rating Criteria (pub. 23 Mar 2018)
(https://www.fitchratings.com/site/re/10023785)
Government-Related Entities Rating Criteria (pub. 07 Feb 2018)
(https://www.fitchratings.com/site/re/10019302)
National Scale Ratings Criteria (pub. 07 Mar 2017)
(https://www.fitchratings.com/site/re/895106)
Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria (pub. 23 Jan 2018) (https://www.fitchratings.com/site/re/916483)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/site/dodd-frank-disclosure/10029860)
Solicitation Status (https://www.fitchratings.com/site/pr/10029860#solicitation)
Endorsement Policy (https://www.fitchratings.com/regulatory)

 In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the

offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.
For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001
Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO’s credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.