

CREDIT OPINION

23 August 2022

Update

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RATINGS

Interconexión Eléctrica S.A. E.S.P.

Domicile	Colombia
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Interconexión Eléctrica S.A. E.S.P.

Update to credit analysis

Summary

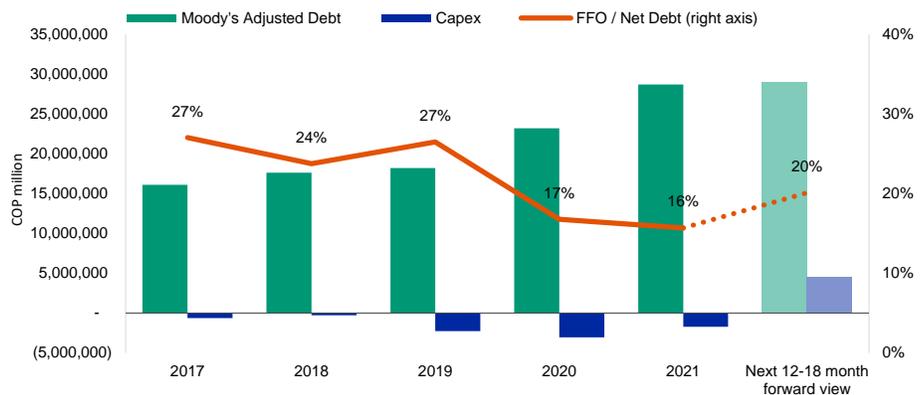
Interconexión Eléctrica S.A. E.S.P.'s (ISA, Baa2 stable) credit profile reflects its position as one of the largest transmission companies in Latin America and its diversified operations through its subsidiaries located in [Colombia](#) (Baa2 stable), [Brazil](#) (Ba2 stable), [Chile](#) (A1 negative) and [Peru](#) (Baa1 stable), with exposure to different regulatory regimes. The company also participates in toll roads businesses. Furthermore, the issuer rating captures ISA's adequate leverage, as reflected in a 3-year average FFO to Net Debt ratio of about 18% as of June 2022.

The credit view further reflects [Ecopetrol S.A.](#) (Ecopetrol, Baa3 negative)'s 51.4% ownership in ISA and the links with the Government of Colombia (GOC). Moody's continues to consider any benefits from indirect GOC ownership following [Ecopetrol's acquisition in September 2021](#), as well as support from Ecopetrol as a strategic shareholder on a qualitative basis.

ISA continues to execute an important investment cycle, above historical levels. We expect consolidated debt to peak at around COP28-30 trillion in the next 12-18 months from an average balance of COP19 trillion in 2016-21. On the other hand, the cash flow generation is likely to increase as a consequence of new operations, with funds from operations (FFO)-to-net debt expected to remain around 19%-21% in the period.

Exhibit 1

Delayed deleveraging due to recent investments in Latin America



Source: Moody's Financial Metrics™, Moody's Investors Service

## Credit strengths

- » Diversified geographic profile with majority of cash flows derived from the very stable transmission business
- » Relative lowly leveraged capital structure
- » Strong market share in strategic sectors essential to the economies where it operates

## Credit challenges

- » Substantial capital spending program, exposing the company to delays and cost overrun risks, typical to projects under construction
- » Potential uncertainty on the remuneration for Colombian and Brazilian transmission lines
- » Appetite for growth and M&A activity that could pressure leverage

## Rating outlook

The stable outlook reflects Moody's expectation of that the company will prudently manage its capital investment program and dividends distribution such that interest coverage and FFO/net debt remain above 4.5x and 20%, respectively.

## Factors that could lead to an upgrade

Upward pressure on ISA's rating could derive from continued diversification or higher representation of operations in higher-rated countries carrying commensurate leverage profiles. A positive rating action would require clear evidence of deleveraging such that prospective interest coverage and FFO/net debt exceed 6.0x and 30%, respectively, on a sustainable basis.

## Factors that could lead to a downgrade

Downgrade rating pressure could derive from Moody's perception of higher risk in ISA's business portfolio, such as the deterioration in the credit quality of the sovereign ratings of the countries in which ISA holds substantial operations or a perception of lower support from their regulatory regimes. Deterioration in the credit quality of the shareholder coupled with the relaxation of ISA's governance standards or a more aggressive financial policy and dividend distributions could all exert negative pressure on ISA's ratings. Negative rating pressure could also result from a more aggressive capital spending plan, or if the company faces any significant delays or cost overruns that significantly postpone or dent the recovery of its key credit metrics. Quantitatively, ISA's rating could be downgraded if:

- » FFO/net debt decrease below 15%
- » interest coverage ratio fall below 3.0x
- » retained cash flow/net debt fall below 4%

## Key indicators

Exhibit 2

### Interconexión Eléctrica S.A. E.S.P. (consolidated)

	LTM Jun-22	2021	2020	2019	2018	2017
FFO Interest Coverage	2.8x	3.2x	4.0x	5.4x	5.3x	5.6x
Net Debt / Fixed Assets	58%	56%	53%	46%	48%	45%
FFO / Net Debt	16%	16%	17%	27%	24%	27%
RCF / Net Debt	7%	4%	11%	19%	12%	21%

Source: Moody's Financial Metrics™, Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

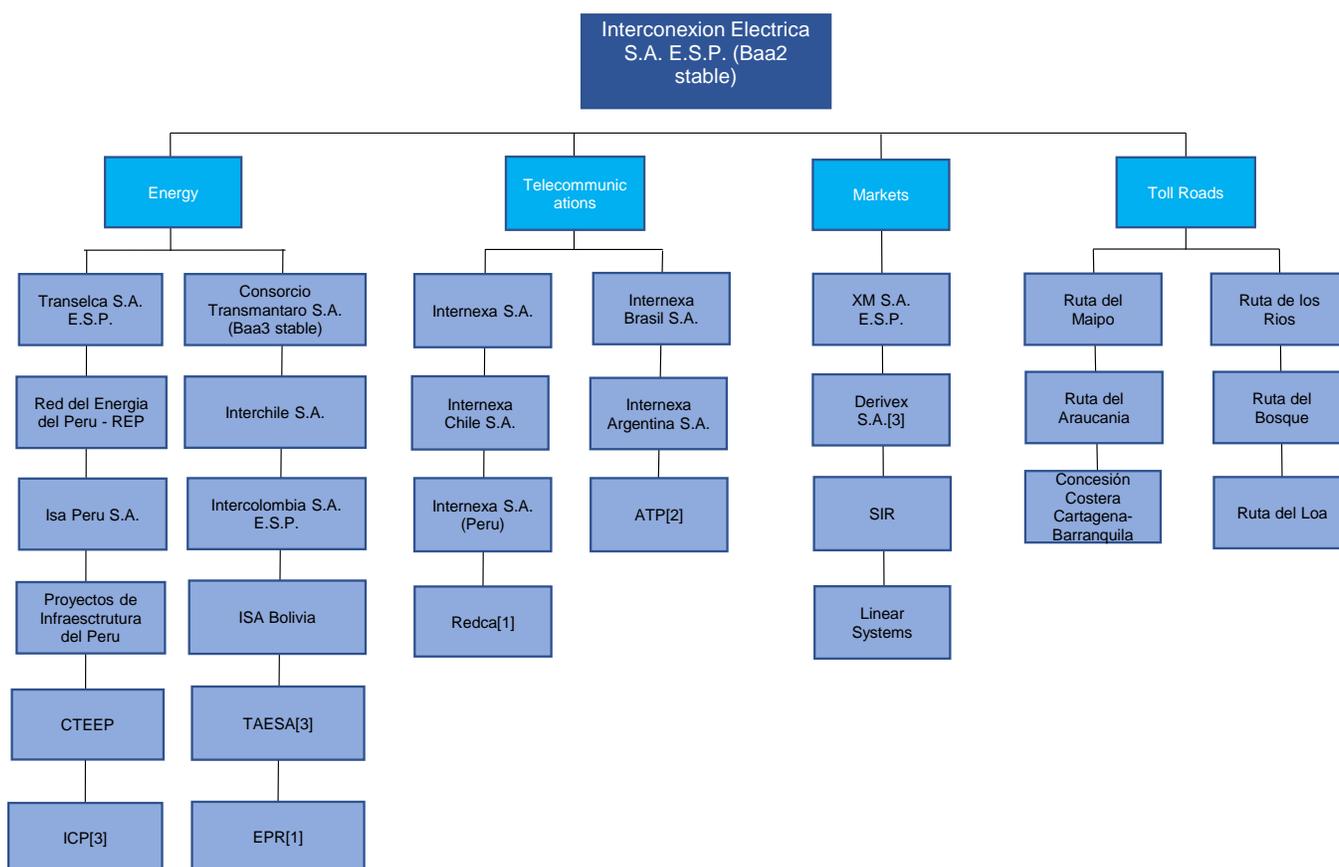
## Profile

Headquartered in Medellin, Interconexión Eléctrica S.A. E.S.P. (ISA) is an operating holding company with businesses in the electricity transmission, toll roads, telecommunications, and systems management sectors. The company is headquartered in Colombia, and holds direct and indirect ownership stakes in a portfolio of subsidiaries located in Colombia, Brazil, Chile and Peru. In the last twelve months ended in June 2022, the company reported net sales of COP13 trillion according to Moody's standard adjustments.

ISA is a Mixed Utility Company with state and private shareholders. [Ecopetrol S.A.](#) (Ecopetrol, Baa3 negative) is ISA's majority or controlling shareholder, holding 51.4% of the capital stock, followed by [Empresas Públicas de Medellín E.S.P.](#) (EPM, Baa3 stable) with a 8.8% stake, local institutional investors (27.3% stake), natural persons (3.2% stake) and foreign investment funds (9.3% stake).

Exhibit 3

### ISA's organizational structure



[1] Investments in Financial Instruments: EPR y Redca

[2] Investments in Associates or with significant influence: ATP

[3] Investments with Joint Control: ICP, Taesa and Derivex

Source: ISA

## Detailed credit considerations

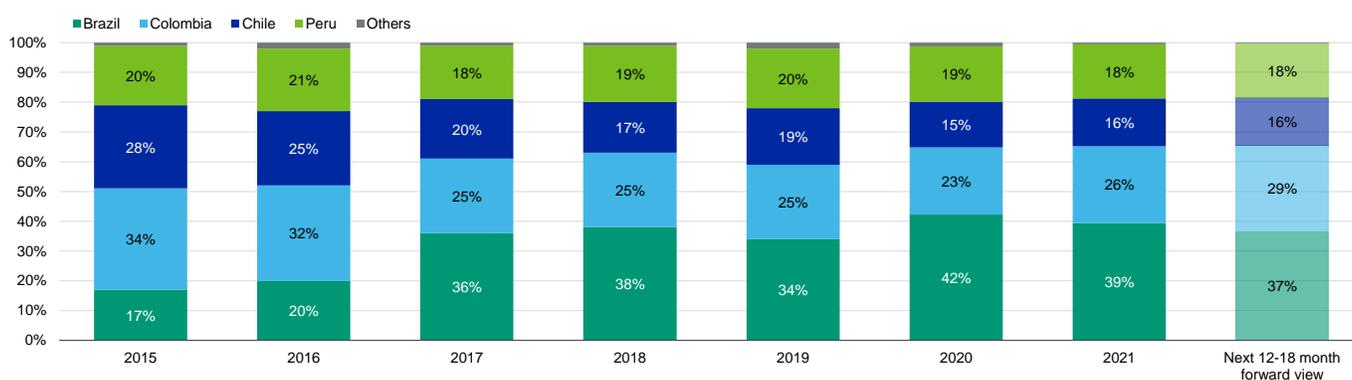
### Geographic diversification is credit positive; Colombian operations carry higher credit quality while Brazil weighs on the consolidated view

ISA's credit profile benefits from the geographic diversification of operating in four different countries with different regulatory regimes. Over the course of the last five years, as a result of its large investment cycle, the operations in Brazil have increased in overall representation to 39% of the consolidated EBITDA in 2021, with the contribution of Colombian operations declining from 34% in 2015 to 26% in 2021. We expect the share of Colombian operations to remain relatively stable going forward representing 25% to 30% of ISA's consolidated EBITDA. We see the company's credit quality somewhat linked to the sovereign-related risks of the countries where it operates.

The ramping up of transmission operations in Brazil and Chile have also increased the business contribution to EBITDA, reducing toll road stake to 15.5% in 2021 from 28% in 2015. The toll road business, has historically been concentrated in Chile, with recent expansion in Colombia's fourth generation toll road concessions program (4G).

Exhibit 4

#### We expect ISA's EBITDA breakdown by country to remain overall stable in the next 12 to 18 months



Source: ISA and Moody's Investors Service

The diversification is generally positive, but the overall view is that the Colombian operations carry the highest credit quality. The credit quality of the Brazilian operations, through Companhia de Transmissão de Energia Elétrica Paulista S.A. (ISA CTEEP) is viewed as somewhat linked to the sovereign rating of Brazil. The credit profile of Peruvian transmission company [Consortio Transmantaro S.A.](#) (Baa3 stable) is constrained by leverage.

ISA's 2030 corporate strategy strives to expand the group's footprint outside Colombia, in countries and regions with constructive regulatory frameworks. It also focuses on improving profitability and achieving efficiencies in its core businesses. The strategy also includes procurement of synergies, given the group's significant investment programs in Colombia, Brazil, Peru and Chile, as well as pursuing investment opportunities via partnerships (particularly if ISA is the controlling party).

### Large scale and leading domestic footprint underpin a solid business profile in Colombia

ISA is the leading transmission company in Colombia, responsible for approximately 70% of the overall transmission capacity in the country. The company's business profile is enhanced by the very high reliability of its infrastructure, presenting availability ratios of 99.8%, which is highly positive for the availability-based revenue profile of its contracts. The company's assets are held in perpetuity, and tariffs are subject to periodic reviews.

The portfolio of Colombian transmission lines is managed through a contractual management agreement with the company's subsidiary Intercolombia. With the objective of separating ISA's Colombian transmission operations from other businesses, the actual management of the transmission assets is undertaken by its own subsidiary and the assets remain the property of ISA as an operating holding company. The contractual operating and maintenance agreement, which has the stamp of the system grid's operator, XM S.A. E.S.P (another ISA subsidiary), establishes a cost plus mechanism, where Intercolombia holds an operating margin over incurred costs,

with the remaining cash flow allocated to ISA. Independent of the fact that Intercolombia holds no financial debt, the contractual arrangement mitigates any structural subordination risks.

### Update to regulatory review processes

We continue to view the regulatory framework and environment in Colombia as overall credit positive. However, there has been a substantial delay in the tariff review process by the regulator (Comisión de Regulación de Energía y Gas - CREG), in particular because of the potential for methodological changes. The resolution is expected to be effective starting in 2024 and is applicable to around 60% of ISA's revenues in Colombian transmission assets.

In Brazil, in April 2021, the regulator ANEEL approved the reprofiling of RBSE ("Basic Network Existing System") payments, which are related to the indemnification of the transmission companies with contracts renewed in 2013. ANEEL's decision aimed to reduce tariff pressures arising from the effects of the coronavirus pandemic, and the indemnification payments will now occur in eight years (instead of five) and will be lower in the 2021/2022 and 2022/2023 cycles. However, the net present value of the operation will be maintained given the higher WACC. ISA CTEEP's concession agreement has annual permitted revenues ("RAP") of BRL2.3 billion, of which BRL1.6 billion refers to the RBSE, representing around 80% of the group's operational RAP, on a consolidated basis - or 70%, including unconsolidated assets.

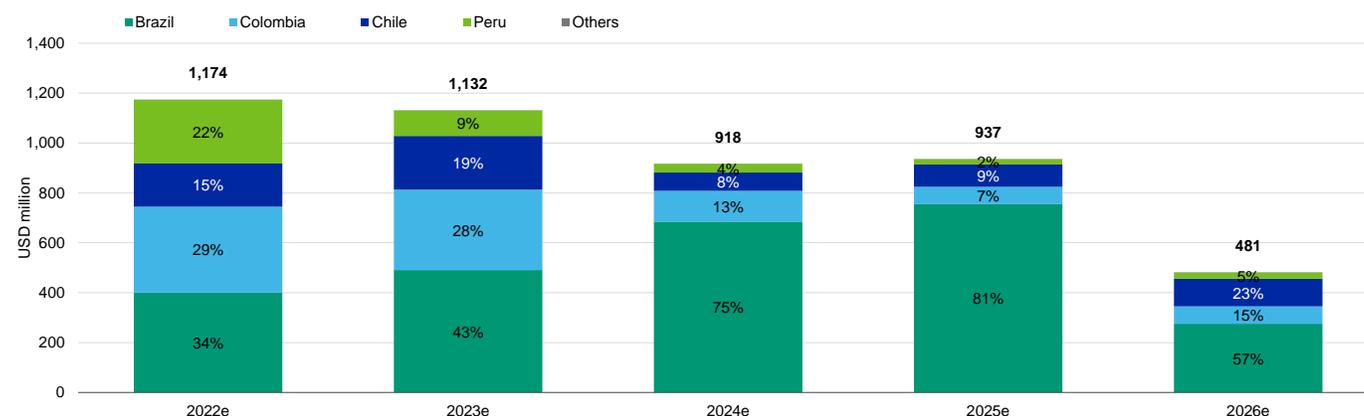
Also, in 2020 ANEEL recognized in ISA CTEEP a result of the positive outcome of the Periodic Tariff Review (RTP) granted in 2018 following the extension of the concession agreement 059. Therefore, the resolution has a retroactive effect as of 2018 and considers the redefinition of all elements comprising the remuneration: O&M and Regulatory WACC, which went from 6.64% to 7.71%.

### Expansion program to strain free cash flow generation in the short term

The company is undergoing a substantial capital investment program, sized at around COP9 trillion (USD 2.3 billion) in the next 12-18 months. We expect the intensive capital spending program to lead to a negative free cash flow generation. However, ISA is primarily investing on energy transmission assets (75%-80% of the projected Capex for the period), that benefits from its predictable cash flow generation. The toll road business responds for the remaining 20%-25% expenditures.

Exhibit 5

#### Capital spending to strain free cash flow in the medium term



Source: ISA and Moody's Investors Service

In June 2022, ISA was awarded through its Brazilian subsidiary ISA CTEEP two of the thirteen lots that were offered in a public tender by the regulator ANEEL. The awarded projects involve an investment estimated by ANEEL of more than USD 780 million that the company expects to finance with a combination of debt and internal cash generation.

The first lot is located in the States of [Minas Gerais](#) (B2 stable) and Espírito Santo and consists of the construction of 1,139 km of transmission lines, two new substations and six expansions with an estimated investment of USD 730 million and maturity in September 2027. Through this project, renewable energies will be transmitted, contributing to the decarbonization of the country's

energy matrix. The second lot has an estimated investment of USD50 million and consists of the construction of a new substation, located in the [State of Sao Paulo](#) (Ba2 stable) and maturity in March 2026.

### Key credit metrics to remain adequate for the rating category

The credit view recognizes the higher debt as the company executes its investment program, but also the expectation that revenue and cash flow will increase as the projects under construction begin operations. In addition, the continued devaluation of the Latin American currencies compared to the US dollar also weigh on the debt as 45% of the consolidated debt is USD denominated as of June 2022. This currency risk is somewhat mitigated since 20% of the Colombian revenues and 15% of the Chilean revenues are denominated in USD.

We expect FFO/net debt to remain between 19% and 21% over the next 12-18 months as the newer operations continue to ramp up at the same time Moody's adjusted interest coverage averages 3.5x to 4.0x. The significant expansion plan will continue to strain leverage in the period and new investments and acquisitions could weaken the company's credit quality. We expect ISA's consolidated debt to EBITDA to peak at 4.0x in 2022 (compared to 4.05x reported in June 2022), gradually decreasing to 3.5x in the next 2 years and to 3.0x in the long term, with a comfortable cushion to the 4.5x threshold to financial covenants.

### Ecopetrol's acquisition in September 2021 had no rating implications on ISA

In September 2021, [Ecopetrol S.A.](#) (Ecopetrol, Baa3 negative) concluded the acquisition of the 51.4% controlling stake in ISA from the [Government of Colombia](#) (GOC, Baa2 stable). As a result, Moody's no longer rates ISA under the [Government-Related Issuers Methodology](#) as Moody's does not normally designate subsidiaries of a GRI as also being GRIs. The removal of the GRI status had no rating implications on ISA and its Issuer Rating had been affirmed accordingly in September 2021. Moody's continues to consider any benefits from indirect GOC ownership, as well as support from Ecopetrol as a strategic shareholder on a qualitative basis.

ISA's Baa2 issuer rating considers that the company's credit quality remains unchanged following the acquisition, which is supported by its position as one of the largest transmission companies in Latin America. In spite of the change in control and the relatively lower credit quality of the new controlling shareholder, the rating incorporates continuity of ISA's long-term business strategy and corporate governance structure.

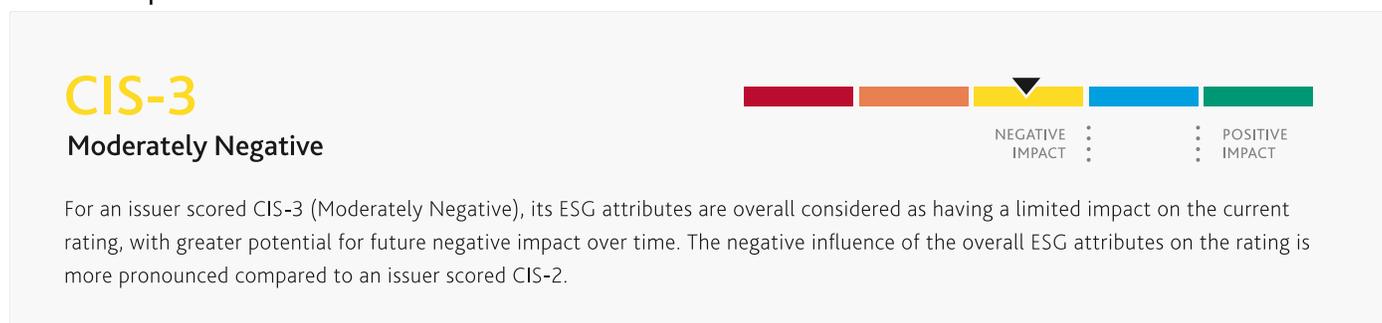
ISA has a well-defined corporate governance structure and its Bylaws expressly state that the Board of Directors should be chaired by an independent member, as had been the case in practice for the past eighteen years. Also, currently seven out of the nine Board members are independent.

## ESG considerations

### INTERCONEXION ELECTRICA S.A. E.S.P.'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 6

#### ESG Credit Impact Score



Source: Moody's Investors Service

ISA's ESG Credit Impact Score is moderately negative (**CIS-3**), where its ESG attributes are overall considered as having a having a moderately impact on the current rating. Its score reflects moderately negative exposure to social risks balanced by neutral environmental and governance risks.

Exhibit 7

## ESG Issuer Profile Scores



Source: Moody's Investors Service

### Environmental

We assess ISA's exposure to environmental risks as neutral (**E-2** issuer profile score) mainly driven by its low exposure across the various subfactors such as physical climate risk, carbon transition and natural capital. The neutral score is a reflection of the company's geographically diversified business more concentrated in electricity transmission lines.

### Social

Exposure to social risks is moderately negative (**S-3** issuer profile score) reflecting the moderate risk to demographics and societal trends that increase public concern over affordability issues that could lead to adverse regulatory political intervention. These risks are partially balanced by neutral to low exposure to customer relations, human capital, health and safety, and responsible production related risks.

### Governance

Governance risk is neutral (**G-2** issuer profile score) mainly due to moderate exposure to policies & procedures given the ownership concentration. Also, our governance score also considers a neutral to low exposure to internal controls risks and financial strategy risk due to relative low leverage and volume exposure.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on [Moody's.com](https://www.moodys.com). In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

### Liquidity analysis

ISA carries an adequate liquidity profile. As of June 2022, ISA reported a consolidated cash position of COP4.8 trillion compared to COP2.0 trillion of debt maturities in the next 12 months. At the holding level, the company reported cash on hand of COP1.1 trillion compared to COP64 billion of debt maturities in the next 12 months. On a consolidated basis, ISA's maturity profile is manageable, with an average tenor of reported debt to EBITDA of 4.05x as of June 2022.

ISA reported consolidated financial debt of COP28,9 trillion as of June 2022, an increase of 3.4% compared with December 2021, mainly as a consequence of the exchange rate effect. If this exchange rate effect had not occurred, debt as of June 2022 would have declined, since the net debt movements were mainly negative, including (i) the prepayment of COP 357,790 million in liabilities from road concessions in Chile; (ii) ISA CTEEP issued bonds in the local market for COP 551.590 million mainly for refinancing; (iii) [Consorcio Transmantaro](#) refinanced its 2023 international bond through the issuance of an international corporate bond issuance of USD 500 million; and (iv) ISA in Colombia reduced its liabilities in COP 120,000 million.

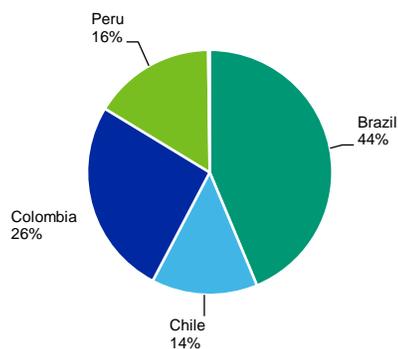
ISA has a track record of relatively high dividend distributions, of around 40%-50% payout. In 2021, the company performed an extraordinary distribution of COP3 billion in the year, resulting in a 80% payout.

### Structural considerations

Management's foreign-exchange rate risk policy strives to minimize the exposure to currency volatility by trying to incur debt in proportion to the consolidated cash flow stream. The mismatch exists as the underlying subsidiaries carry different leverage profiles, largely as a function of as to where they are within their capital investment cycle.

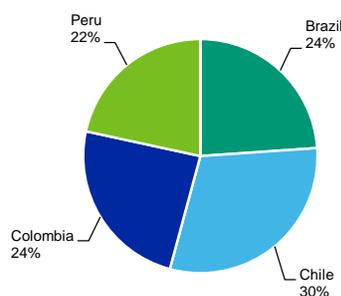
As of June 2022, around 45% of ISA's consolidated debt was denominated in US dollars - largely backed by the Peruvian transmission concessions, which currently are more leveraged than the consolidated profile. On the other hand, Brazilian operations are less leveraged. Consequently, debt incurred in BRL represents 24% of the total, while EBITDA derived from Brazil represented 44% of total in Q2 2022. On a consolidated basis, ISA does not have material financial hedges.

Exhibit 8  
EBITDA breakdown by country  
As of Q2 2022



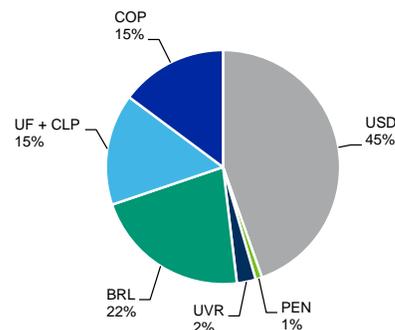
Source: ISA and Moody's Investors Service

Exhibit 9  
Debt breakdown by country  
As of Q2 2022



Source: ISA and Moody's Investors Service

Exhibit 10  
Debt breakdown by currency  
As of Q2 2022



Source: ISA and Moody's Investors Service

## Rating methodology and scorecard factors

We evaluate ISA under our [Regulated Electric and Gas Networks](#) rating methodology published in April 2022. As depicted in the grid below, the current scorecard indicated outcome is Baa2, in line with the assigned rating. The scorecard indicated outcome in Moody's next 12-18 month forward view is Baa1, reflecting the expectation that revenue and cash flow will increase as the projects under construction begin operations.

Exhibit 11

### Rating factors

Interconexión eléctrica S.A. E.S.P. (consolidated)

Regulated Electric and Gas Networks Industry <sup>[1][2]</sup>	Current LTM 6/30/2022		Moody's 12-18 Month Forward View As of 8/19/2022 <sup>[3]</sup>	
Factor 1 : Regulatory Environment and Asset Ownership Model (40%)	Measure	Score	Measure	Score
a) Stability and Predictability of Regulatory Regime	Baa	Baa	Baa	Baa
b) Asset Ownership Model	Aa	Aa	Aa	Aa
c) Cost and Investment Recovery (Ability and Timeliness)	Baa	Baa	Baa	Baa
d) Revenue Risk	Aa	Aa	Aa	Aa
<b>Factor 2 : Scale and Complexity of Capital Program (10%)</b>				
a) Scale and Complexity of Capital Program	Ba	Ba	Ba	Ba
<b>Factor 3 : Financial Policy (10%)</b>				
a) Financial Policy	Baa	Baa	Baa	Baa
<b>Factor 4 : Leverage and Coverage (40%)</b>				
a) FFO Interest Coverage (3 Year Avg)	3.5x	Baa	3.5x - 4x	Baa
b) Net Debt / Fixed Assets (3 Year Avg)	59.3%	A	57% - 60%	A
c) FFO / Net Debt (3 Year Avg)	17.7%	Baa	19% - 21%	A
d) RCF / Net Debt (3 Year Avg)	9.2%	Baa	11% - 13%	Baa
<b>Rating:</b>				
Scorecard-Indicated Rating from Grid Factors 1-4		Baa2		Baa1
<b>Rating Lift</b>			<b>0</b>	
a) Scorecard-Indicated Outcome		Baa2		Baa1
b) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' Financial Data and Incorporate Moody's Global Standard Adjustments for Non-Financial Corporations

[2] As of 6/30/2022

[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions or divestitures

Source: Moody's Financial Metrics™

## Ratings

Exhibit 12

Category	Moody's Rating
<b>INTERCONEXION ELECTRICA S.A. E.S.P.</b>	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
<b>Parent: Ecopetrol S.A.</b>	
Outlook	Negative
Issuer Rating -Dom Curr	Baa3
Senior Unsecured	Baa3

Source: Moody's Investors Service

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