

RATING ACTION COMMENTARY

Fitch Affirms Interconexion Electrica at 'BBB'; Outlook Negative

Fri 21 Mar, 2025 - 2:20 PM ET

Fitch Ratings - Rio de Janeiro/Bogota - 21 Mar 2025: 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' with a Negative Rating Outlook, and affirmed ISA's USD330 million senior unsecured notes due 2033 at 'BBB'. Fitch has also affirmed the company's National Long- and Short-Term ratings at 'AAA(col)' and 'F1+(col)', respectively, as well as the ratings on its local issuance programs. The Outlook is Stable.

ISA's ratings are supported by its low business risk profile, typical of the power transmission sector, and strong geographic and business diversification. These factors, along with high cash flow predictability, contribute to a robust financial profile. The ratings also consider ISA's adequate liquidity and aggressive growth strategy.

Fitch rates ISA two notches above its parent company, Ecopetrol (BB+/Negative), due to ISA's strong business and financial profile. The Negative Outlook on ISA's ratings reflects Ecopetrol's outlook, following Fitch's criteria for parent and subsidiary linkages.

KEY RATING DRIVERS

Low Business Risk Profile: ISA's ratings reflect its low business-risk profile stemming from its stable cash flow generation, typical of electric transmission companies. Fitch anticipates over 80% of ISA's consolidated EBITDA derives from regulated transmission grids over the rated horizon, and over 18% from concession roads in Colombia and Chile that have mechanisms to ensure minimum income or extend concession periods if traffic is low. The telecom business is expected to contribute less than 2% to ISA's consolidated EBITDA.

Parent-Subsidiary Linkage: ISA's credit profile is commensurate with its current 'BBB' rating and not capped by the credit profile of its controlling owner, Ecopetrol. Per Fitch's "Parent and Subsidiary Linkage Rating Criteria," Ecopetrol owns more than 51% of ISA, and

linkage should be considered in the assessment. Regulatory ring-fencing mechanisms, material minority shareholders and a track record of strong governance practices prevent Ecopetrol's capacity to extract value from its stronger subsidiary. In Fitch view, ISA's funding and cash management policies are managed autonomously from Ecopetrol, and the expectation is that ISA will maintain its independency.

All these factors combined, ISA's ratings result in a consolidate plus two approach to an IDR of 'BBB'. A change in ISA's corporate governance, business or financial strategy may put downward pressure on the company, particularly in the event of a structural increase in its dividend payout ratio. A negative action on Ecopetrol's ratings would impact ISA's ratings to preserve the two-notch differential.

Investments Enhance Leverage: Fitch anticipates EBITDA leverage will peak at 4.5x during 2026 versus 3.7x in 2024, combined with EBITDA interest coverage around 4.0x over the rating horizon. The company's free cash flow will remain negative during 2025-2027 as a consequence of the capex program coupled with a dividend payout ratio of 50%. ISA's committed grid-focused investment program will reach COP22.2 trillion from 2025-2028, approximately 83% concentrated in regulated transmission grids and 14% allocated to road concessions. Brazil will account for 52% of the investments, while Chile, Colombia, Peru and Panama will represent 18%, 15%, 11% and 4%, respectively.

Geographic Diversification: ISA's cash flow generation is diversified across Latin America. Over the rated horizon, Fitch estimates approximately 38% of the company's consolidated EBITDA will come from Brazil (BB/Stable) and 27% from Colombia (BB+/Negative). Chile (A-/Stable) will represent nearly 15% and Peru (BBB/Stable) almost 20%. Less than 1% of ISA's consolidated cash generation will come from Panama (BB+/Stable) and Bolivia (CCC-).

Manageable Regulatory Risk: ISA's businesses and geographic diversification effectively hedge its exposure to regulatory risk, as most of its revenues are derived from regulated transmission grids. The company's cash flow generation exhibits resilience against some adverse regulatory scenarios. An upcoming regulatory reset in Colombia for transmission business is expected during 2025-2026. Although there is limited visibility on the final tariff scheme that will be approved in Colombia, Fitch believes the final outcome will not significantly pressure ISA's financial metrics, as the reset is included in the company's consolidated revenues.

Applicable Country Ceiling: ISA's applicable Country Ceiling is that of Peru's which is 'A-', as the cash flow generated by Peruvian subsidiaries covers more than 4.0x the company's hard currency gross interest expense in Fitch's forecast horizon. Therefore, a lowering of Peru's

Country Ceiling has the potential to affect ISA's ratings, particularly in a multiple-notch downgrade scenario of the Country Ceiling.

PEER ANALYSIS

ISA's credit profile compares with peers in the region, such as Transelec S.A. (BBB/Stable), Consorcio Transmantaro S.A. (CTM; BBB/Stable), Sociedad de Transmision Austral S.A. (STA; BBB/Stable), Empresa de Transmision Electrica, S.A. (ETESA; B/Stable), Alupar Invercion S.A. (BB+/Stable), and Transmissora Alianca de Energia Eletrica S.A. (Taesa; BB+/Stable). All these companies benefit from a low business risk profile and predictable cash flow.

ISA's ratings are constrained by the linkage between the company and Ecopetrol. As per Fitch's methodology, a stronger subsidiary can be rated a maximum of two notches above the consolidated profile if a weak linkage is established.

ISA's higher rating than those of Taesa, Alupar and ETESA is mainly a result of its geographic diversification. Most of ISA's operations are in Colombia, Brazil, Chile and Peru, while Taesa's and Alupar's operations are concentrated in Brazil and their ratings are negatively affected by Brazil's 'BB+' Country Ceiling. ETESA's ratings reflect the delay in coupon payment, lowering the Government Related Entity (GRE) score to 15 from 50 with Panama (BB+/Stable).

ISA has a similar scale of operations and EBITDA generation compared to Redeia Corporacion S.A. (A-/Stable). Redeia is the sole transmission system operator and electricity transmission network owner in Spain (A-/Positive). It also has transmission activities in Latin America and provides telecommunications services. Like ISA, Redeia's regulated electricity business accounts for approximately 80% of consolidated EBITDA.

KEY ASSUMPTIONS

--Revenue and EBITDA projected for 2025-2027 incorporate the development of already granted projects;

--Changes in the Colombia power transmission business' regulatory remuneration with a neutral effect on ratings;

--Electricity transmission business continues to account for more than 80% of ISA's consolidated EBITDA over the rating horizon;

- COP22.2 trillion total capex between 2025 and 2028 for new projects awarded to ISA and its subsidiaries;
- Dividend distributions at 50% of the previous year's net income over the rating horizon;
- Road concessions in Chile extended until March 2026 (Rios) and December 2026 (Araucania);
- The Basic Network of Existing Systems in Brazil (Rede Basica do Sistema Existente; RBSE) included as part of Isa's EBITDA.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A sustained increase in leverage above 4.5x on a consolidated or nonconsolidated basis, as a result of progressive deterioration in cash generation or increased debt levels above Fitch's base case scenario;
- Regulatory changes that put significant pressure on ISA's cash flow;
- A change in the company's business and financial strategy, particularly with regard to dividend distribution practices, as well as changes in corporate governance practices;
- A negative rating action on Ecopetrol;
- A multi-notch downgrade of Peru's Country Ceiling.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Although a positive rating action is unlikely in the short to medium term, given the company's credit metric expectations and growth strategy, one may be considered if total consolidated leverage is below 2.5x;
- The Negative Outlook can be revised to Stable if Ecopetrol's Outlook is revised to Stable from Negative

LIQUIDITY AND DEBT STRUCTURE

As of December 2024, cash on hand reached more than COP5.900 trillion, reflecting the company's internal cash flow generation characterized by healthy cash on hand, strong and predictable CFO, manageable debt amortizations, and increased access to local and international capital markets. The analysis incorporates approximately 37% of restricted cash, kept to cover contractual obligations mainly on the road concession business. Cash on hand plus CFO is expected to cover ISA's short-term debt by more than 1.25x, which is commensurate with investment-grade companies.

ISA's maturity profile is manageable, as its long-term debt amortization schedule is spread until 2056. At the holding company level, ISA's debt maturities for 2025 consist of local bond issuances which are manageable, in Fitch's view.

ISSUER PROFILE

ISA is a Colombian holding company focused on energy transmission, road concessions and telecommunications, with operations in six countries. It is the largest energy transmission company in Latin America. Ecopetrol owns more than 51% of ISA's shares.

SUMMARY OF FINANCIAL ADJUSTMENTS

--EBITDA adjusted by the cash component of the RBSE revenues;

--Restricted cash from road concessions reclassified as available cash and equivalents.

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

ISA is rated two notches above Ecopetrol's consolidated profile (BB+/Negative). A change in Ecopetrol's credit profile has the potential to affect ISA's ratings.

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 ↕
<input type="text"/>	<input type="text"/>			<input type="text"/>
Interconexion Electrica S.A. E.S.P.	LT IDR	BBB	Affirmed	BBB
	LC LT IDR	BBB	Affirmed	BBB
	Natl LT	AAA(col)	Affirmed	AAA(col)
	Natl ST	F1+(col)	Affirmed	F1+(col)
senior unsecured	LT	BBB	Affirmed	BBB
senior unsecured	Natl LT	AAA(col)	Affirmed	AAA(col)
senior unsecured	Natl ST	F1+(col)	Affirmed	F1+(col)

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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 \(pub. 22 Dec 2020\)](#)

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

[Metodología de Vínculo de Calificación entre Matriz y Subsidiaria \(pub. 13 Jul 2023\)](#)

[Corporate Rating Criteria \(pub. 06 Dec 2024\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 06 Dec 2024\)](#)

[Metodología de Calificación de Finanzas Corporativas \(pub. 14 Feb 2025\)](#)

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](#)

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ENDORSEMENT STATUS

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

EU Endorsed, UK Endorsed

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