# Fitch Affirms Interconexion Electrica S.A.'s IDR at 'BBB', Affirms National Scales at 'AAA(col)'

28 May 2014 1:54 PM (EDT)

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Fitch Ratings-Chicago-27 May 2014: Fitch Ratings affirms Interconexion Electrica S.A. E.S.P.'s (ISA) foreign and local currency Issuer Default Rating (IDR) at 'BBB''. The Rating Outlook for the international rating is Stable. Fitch has also affirmed Interconexion Electrica's local bonds listed at the end of this release at 'AAA(col)' and 'F1+(col)'. The Rating Outlook for all ratings is Stable.

The ratings of Interconexion Electrica S.A. (ISA) reflect the company's strong financial profile characterized by stable and predictable cash flows, comfortable liquidity levels and adequate credit metrics will remain at current levers for the medium term. The ratings are underpinned by ISA's low business risk profile, which is characteristic of the power transmission business and reflects the company's natural monopoly position and geographic diversification

Transmission' Business with Stable and Predictable Cash Flow

ISA's ratings reflect the company's low business risk level supported by its regulated income and natural monopoly position in the countries in which it has operations. During the last 12 months (LTM) ended March 31, 2014 electric transmission accounted for 68.% of ISA's consolidated revenues and nearly 65% of ISA's consolidated EBITDA. ISA on a standalone basis accounted for 30% of its consolidated EBITDA for the same LTM period. Most of the revenues from electric transmission operations in Colombia are regulated and its tariffs are reset every five years. Previous tariff resets have not resulted in significant changes, due to the balanced regulatory environment in Colombia, which aims at providing adequate returns on investment.

Adequate Credit Metrics

ISA has a strong financial profile, which is characterized by solid cash flow generation, moderately debt levels and healthy interest coverage. During 2013, the company reported, on a standalone basis, an EBITDA of approximately USD314 million and total debt of USD741 million. This translates into a standalone leverage ratio of 2.3 times (x). During the same period, ISA reported standalone interest coverage of approximately 4.5(x), metrics considered strong for its ratings levels.

ISA's consolidated credit metrics were somewhat affected last years by the increase in debt following the company's acquisition of Intervial in Chile and the EBITDA reduction of its subsidiary in Brazil. Despite these, ISA’s consolidated credit metrics remain in line with the assigned rating and consistent with an investment grade rating. During 2013, ISA reported a consolidated leverage, as measured by total debt-to-EBITDA, of approximately 4.3x and an interest coverage ratio of 2.2x. In medium term, consolidated leverage should moderate to levels around 4.0x.

## Strong Liquidity Position

ISA's liquidity is considered strong and is characterized by healthy cash on hand levels, manageable debt amortization and adequate access to local and international capital markets. As of March 31, 2014, ISA had approximately USD955 million of consolidated cash on hand, of which USD252 million were at the parent company level, and USD356 million of consolidated short-term debt. ISA's maturity profile is manageable, as its long-term debt amortization schedule is spread between 2014 and 2041. ISA's short-term debt has been approximately 18% of total debt over the years. In the medium term, ISA's liquidity position is expected to remain healthy as a result of the company's stable cash flow generation.

## Neutral Effect of Early Termination of Brazilian Concession

The decision of ISA's subsidiary in Brazil, Companhia de Transmissao de Energia Eletrica Paulista S.A. (CTEEP; rated 'AA+(bra)' by Fitch), to accept the Brazilian government offer to early renew the concessions that expired between 2015 and 2017 had a neutral impact for ISA's credit quality. This given the low dividends ISA Capital received from this subsidiary. Although during the next two years, ISA's consolidated financial profile will be impacted by the lower EBITDA generation in Brazil, CTEEP is expected to repay a significant portion of its debt with the proceeds it receives from the renewal process.

The Brazilian government, through its Ministry of Mines and Energy (MME) in 2013 paid USD1.3 billon as a compensation for assets built from 2000 onwards, 50% was paid in January and the remaining 50% will be paid in monthly payments through 2015. ISA expects to receive the compensation related to assets executed before 2000 and improvements executed between 2000 and 2012, which should be enough for CTEEP to repay all its outstanding debt. Although ISA's financial results consolidate CTEEP, the company does not fully benefit from this subsidiary's cash flow generation given its ownership position.

## RATING SENSITIVITIES

Fitch considers a positive rating action unlikely in the near term. However, a sustainable consolidated leverage below 3.0x, couple with maintaining a stable and predictable cash flow generation profile could lead to a positive rating outlook or upgrade.

On the other hand, the main factors that individually or collectively could lead to a negative rating action are:

--- 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 high debt requirements increased levels debt above Fitch case scenario.

--- Significantly negative regulatory changes that impact the financial performance of the company could result in a negative rating action.

Fitch affirms the following issues at 'AAA(col)':

-- ISA's COP$2.7 trillion bond program.

Fitch affirms the following issues at 'F1+(col)':

-- ISA's COP$200 billion bond program.

Contact:

Primary Analyst
Lucas Aristizabal
Director
+1-312-368 3260
Fitch Ratings, Inc.
70 West Madison Street
Chicago, IL 60602

Secondary Analyst
Mario Irreno
Associate Director
+571-326-9999

Committee Chairperson
Glaucia Calp
Senior Director
+571 326 9999 Ext. 1110

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

Additional information is available at 'www.fitchratings.com' and 'www.fitchratings.com.co'

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' Aug. 8, 2012;
--'Parent and Subsidiary Rating Linkage' Aug. 8, 2012.

**Applicable Criteria and Related Research:**
Corporate Rating Methodology
Parent and Subsidiary Rating Linkage

**Additional Disclosure**
Solicitation Status