

Research Update:

Outlook On Nine Colombian Corporate And Infrastructure Entities Revised To Negative On Same Action On Sovereign

March 27, 2020

Rating Action Overview

- On March 26, 2020, S&P Global Ratings revised the outlook on Colombia to negative from stable and affirmed the 'BBB-' sovereign credit rating on it.
- As a result, we're revising the outlook on nine corporate and infrastructure entities to negative from stable because they're directly or indirectly linked with the sovereign. At the same time, we affirmed all ratings on these companies.
- The negative outlook on these companies reflects our view that there is a one-in-three chance that we can downgrade them if we were to cut our rating on Colombia to 'BB+' in the next 18 months. This could occur if the negative external shocks undermine Colombia's GDP growth prospects, contributing to worsening public finances, or pose further risks to Colombia's external liquidity.

Rating Action Rationale

The outlook revision on these nine corporate and infrastructure entities follows the revision on Colombia's sovereign rating outlook (see "Colombia Outlook Revised To Negative On Increased Risks To External Liquidity, Debt, And Growth; Ratings Affirmed" published on March 26, 2020) that incorporates our view that the recent drop in oil prices, compounded by the negative global impact of COVID-19, has weakened Colombia's external profile through lower export earnings and a wider current account deficit, and heightened concerns about its economic growth prospects.

Most of ratings on these entities are capped at the sovereign level. This is because they continue to be exposed to Colombia, in our view, given that they operate in what we conceive as highly regulated sectors (dependent on rate adjustments approved by the regulators) and that demand for their services are in some cases correlated to the country's GDP growth pace. Consequently, we believe the entities could suffer from heavier regulation in a sovereign stress scenario, and wouldn't generate or maintain sufficient cash to honor their financial obligations under a sovereign default scenario.

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We revised the outlook on the following entities:

- Emgesa S.A. E.S.P. (Emgesa);
- Enel Americas S.A. (Enel Americas);
- Gas Natural de Lima y Callao S.A. (Calidda);
- Grupo de Inversiones Suramericana S.A. (Grupo Sura);
- Grupo Energia Bogota S.A.E.S.P. (GEB);
- Interconexion Electrica S.A. E.S.P. (ISA);
- ISAGEN, S.A. E.S.P. (ISAGEN);
- Oleoducto Central, S.A. (OCENSA); and
- Transportadora de Gas Internacional S.A. E.S.P. (TGI).

The sovereign rating action triggered the same action on government-related entities (GRE) and subsidiaries. This is the case for GEB, which the city of Bogota controls, and ISA, in which the government of Colombia is a controlling shareholder. We believe these companies could be subject to government intervention in a distressed scenario. Therefore, our ratings on both entities are capped at the level of Bogota and Colombia, respectively. Outlook on both mirrors now on the ones on the shareholders.

As a result of the outlook revision on GEB, we took a similar rating action on its subsidiaries, TGI--the group's main cash contributor--and Calidda, because we believe there are no meaningful regulatory mechanisms or other structural barriers that restrict the parent from accessing the subsidiaries' cash flows in a scenario of distress.

We also revised the outlook on Ocesa to negative from stable following the same rating action on its parent company, Ecopetrol S.A. (BBB-/Negative/--). For more details on the rating action over the parent, please refer to "Ecopetrol S.A. Outlook Revised To Negative On Same Action On Colombia, 'BBB-' Ratings Affirmed".

Electricity generators will continue to be exposed to the Colombian regulatory framework.

ISAGEN sells about 35% of its energy to distributors, which have their rates set by the regulator. Therefore, we believe ISAGEN's ability to receive payments--in case of a regulatory interference in distributors' rates--could deteriorate. In addition, ISAGEN sells a portion of its output on the spot market, which we believe could also be at its floor in a context of recession. Therefore, ISAGEN's rating is limited to the one on the sovereign, in our view.

Corporation's performance correlated with Colombia's economic activity. We don't believe that Grupo Sura would survive a sovereign default stress test scenario, which makes it highly unlikely that we would rate the company above the long-term foreign currency rating on Colombia. Therefore, we revised the outlook on the company to negative. The rating cap and risk to Grupo Sura in a sovereign default scenario reflect the high correlation between the company's assets and dividends, and Colombia's economic growth.

Companies rated above the sovereign rating could suffer in a scenario of a downgrade. More than 30% of Enel Americas' EBITDA came from Colombia in 2019, followed by Brazil (about 40%), and Peru and Argentina (14% each). Although we believe that Enel Americas' debt repayment capacity remains stronger than those of the sovereigns where it operates, the company's sensitivity to deteriorating country risks is reflected in the negative outlook.

The rating action on EMGESA follows the one on Enel Americas, given that we expect the latter to support EMGESA under any foreseeable circumstance, including a hypothetical sovereign default of Colombia.

Outlook

The negative outlook on these entities reflects a potential downgrade in the next 18 months on Colombia. The ratings on the latter pose a limitation on credit quality of corporate and infrastructure entities, given their exposure to sovereign risk. Therefore, we expect the ratings on these entities to move in tandem with the sovereign ratings.

The recent drop in oil prices, along with the wider negative global impact of COVID-19, has weakened Colombia's external profile through lower export earnings and a wider current account deficit, and heightened concerns about its economic growth prospects.

For Enel Americas, which is currently rated above the sovereign rating on Colombia, if any negative rating action occurs on its main markets, a downgrade would be likely. Ratings on Emgesa are the same as on the parent, and would move in tandem with the latter.

Downside scenario

We would likely downgrade these companies in case of a similar rating action on Colombia. We could lower the sovereign ratings if the negative external shocks undermine GDP growth prospects, contributing to worsening public finances, or pose further risks to Colombia's external liquidity.

Upside scenario

We could revise the outlook to stable on these companies in case we take a similar action on the sovereign rating on Colombia, everything else remaining equal. The outlook revision to stable on Colombia could occur if timely and adequate policy measures successfully stabilize the economy, sustain GDP growth prospects, limit the increase in the general government's net debt burden, and contain risks to external liquidity.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Companies With Noncontrolling Equity Interests, Jan. 5, 2016
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Colombia Outlook Revised To Negative On Increased Risks To External Liquidity, Debt, And Growth; Ratings Affirmed, March 26, 2020
- Ecopetrol S.A. Outlook Revised To Negative On Same Action On Colombia, 'BBB-' Ratings Affirmed, March 26, 2020
- Bogota Outlook Revised To Negative Following Same Action On Colombia; 'BBB-' Ratings Affirmed , March 27, 2020

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Emgesa S.A. E.S.P.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Enel Americas S.A.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Gas Natural de Lima y Callao		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Grupo de Inversiones Suramericana S.A.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Grupo Energía Bogotá S.A. E.S.P.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Interconexion Electrica S.A. E.S.P. (ISA)		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
ISAGEN S.A. E.S.P		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Oleoducto Central, S.A.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Transportadora de Gas Internacional S.A. E.S.P.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--

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