

# RatingsDirect®

---

## Research Update:

# Interconexion Electrica S.A. E.S.P. (ISA) 'BBB' Credit Rating Affirmed, Outlook Remains Stable

### Primary Credit Analyst:

Maria del Sol S Gonzalez, CFA, New York (1) 212-438-4443;  
maria.gonzalezcosio@standardandpoors.com

### Secondary Contacts:

Stephanie Alles, Mexico City (52) 55-5081-4416; stephanie.alles@standardandpoors.com  
Jose Coballasi, Mexico City (52) 55-5081-4414; jose.coballasi@standardandpoors.com

## Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

## Research Update:

# Interconexión Eléctrica S.A. E.S.P. (ISA) 'BBB' Credit Rating Affirmed, Outlook Remains Stable

## Overview

- We are affirming our 'BBB' corporate credit rating on Colombia-based electricity transmission company ISA.
- The stable outlook reflects our expectation that ISA's investments will continue to boost profitability while its expansion won't compromise the company's key financial ratios.

## Rating Action

On Aug. 24, 2015, Standard & Poor's Ratings Services affirmed its 'BBB' corporate credit rating on Interconexión Eléctrica S.A. E.S.P. (ISA). The outlook remains stable.

## Rationale

The rating on ISA reflects its "satisfactory" business risk profile, which benefits from a stable and generally predictable business environment in the countries in which the company operates. In addition, ISA holds a strong market position thanks to its control of a majority of Colombia's and Peru's electricity transmission grids. The stand-alone credit profile also reflects ISA's "intermediate" financial risk profile, which is supported by its key financial ratios.

ISA's "satisfactory" business risk profile reflects the company's competitive position in Colombia, Brazil, Peru, and Chile due to limited competitive pressures, given the nature of the electric transmission business, and natural monopoly in ISA's business units. The company has adequate geographic and business diversification as the largest energy transmission company with a nationwide footprint in Colombia. Given the considerable capital costs involved in building competing networks, we consider electricity transmission as a natural monopoly.

Additionally, the company has adequate operating efficiency based on its experience in building and operating transmission facilities, and the economies of scale that it has developed, which allow it to secure new expansion bids. The rating on ISA also reflects our view of Colombia's favorable institutional and regulatory framework, which contributes to the stability of the energy sector.

ISA's "intermediate" financial risk profile reflects the company's sufficient

internal cash flow to fund its capital expenditures (capex) in Brazil and Colombia. We expect the company's credit metrics to improve in the next two years as its net debt to EBITDA improves to about 2.5x and funds from operations (FFO) to debt to 22% by the end of 2015. We expect the company's FFO to increase to about Colombian peso (COP) 1.64 billion in 2016. As of June 30, 2015, adjusted net debt to EBITDA was 3.5x and FFO to debt 17%. The company has no significant foreign exchange risk in their debt.

Our base case assumes:

- EBITDA growth of 20% in 2015 and 6% in 2016. Gross margins of about 50% in 2015, 2016, and afterwards; and
- Capex according to ISA's investment plan.

Based on these assumptions, we arrive at the following credit measures for 2015 and 2016, respectively;

- Net debt to EBITDA of 2.5x and 2.3x;
- FFO to debt of 22% and 25%; and
- Interest coverage of about 5.0x.

The rating also incorporates our assessment that there is a "moderate" likelihood that the government of Colombia (foreign currency: BBB/Stable/A-2; local currency: BBB+/Stable/A-2) would provide timely support to ISA, if needed, because the company generates significant cash flow and debt outside of Colombia. As the company's primary shareholder, the Colombian government holds a 51.4% (directly, indirectly the government holds 68.56%) stake in ISA. However, according to our government-related entity criteria, ISA has a "limited" link to the government given the independence of its management and corporate practices.

## **Liquidity**

We assess ISA's liquidity as "adequate." We expect sources to exceed uses by at least 1.2x in the next 12 months, which provides protection against adverse market conditions. Additionally, our view reflects ISA's very good credit standing in the capital markets and with the domestic banks. Our analysis also incorporates the company's ability to adjust capex and dividend payments in our analysis.

Principal Liquidity Sources:

- Cash and equivalents (about COP1.88 trillion as of June 30, 2015)
- FFO generation of COP1.5 trillion in 2015
- ISA's May debt issuance for COP500 billion

Principal Liquidity Uses:

- Short-term debt maturities of COP1.18 billion in 2015) as of June 30, 2015
- Capex for about COP600 billion in 2015
- Dividend payment of about COP250 billion in 2015

## Outlook

The stable outlook on ISA reflects our expectation that its key financial metrics will continue to strengthen in 2015 and 2016.

### Downside scenario

If ISA were to engage in large debt-financed acquisitions that weaken its financial risk profile, resulting in a consolidated net debt to EBITDA of more than 4.5x and FFO to debt of less than 23%, we could lower the rating.

### Upside scenario

An improvement in our view of ISA's business risk profile, which could be triggered by an increase in its operating margin, or a financial performance above our expectations, particularly, a consolidated FFO to total debt above 35% and total net debt to EBITDA of less than 2.5x, could lead to an upgrade following the upgrade of Colombia.

## Ratings Score Snapshot

Corporate Credit Rating: BBB/Stable/--

- Business risk: Satisfactory
- Country risk: Moderately high
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb

Modifiers:

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

Related government rating: BBB

Likelihood of government support: Moderate (no impact)



Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).