

### Research Update:

## Interconexión Eléctrica S.A. E.S.P. (ISA) Corporate Credit Rating Affirmed At 'BB+' For Plan To Acquire CINTRA Chile

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## Research Update:

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## Overview

- ISA recently announced an agreement for the acquisition of 60% of the shares of CINTRA Chile, controlling party of five concession toll roads.
- Despite a marginal deterioration in ISA's business and financial profiles, we see the current rating as still appropriate due to our views on the likelihood of Colombian government support.
- We are affirming the 'BB+' corporate credit rating on the company.
- The outlook is stable, reflecting our expectation that the company will maintain satisfactory financial and operational performance.

## Rating Action

On Feb. 3, 2010, Standard & Poor's Ratings Services affirmed its 'BB+' corporate credit rating on Colombia-based Interconexión Eléctrica S.A. E.S.P. (ISA). The outlook is stable.

## Rationale

On Dec. 28, 2009, Interconexión Eléctrica S.A. E.S.P. (ISA) announced that it had reached an agreement to acquire 60% of the shares of the Chile-based toll-road operator CINTRA Chile Ltd. (not rated). The acquisition is to be funded with a \$150 million bank loan, and \$150 million from cash on hand and a portion of the proceeds of a public offering of ISA shares that took place in December 2009. The debt will likely be repaid with ISA's own cash flow, as the company does not expect to receive dividends from CINTRA Chile in the upcoming years.

We believe the acquisition of CINTRA Chile will add geographic diversification from a stronger economy such as Chile's and will improve the diversity of its business profile as the company enters into a non-energy-related business line. However, although we believe that the company will benefit during 2010 from the expertise and know-how of CINTRA Spain's management as partners of ISA, we also expect that the addition of new business lines in which the company has no prior experience adds a degree of uncertainty to its business risk profile. This reflects ISA's objective of expanding its business through participation in bids for existing, brownfield, and/or greenfield toll roads that would require additional leverage. We believe that such strategy indicates a more aggressive business and financial profile, and that this could lead to higher leverage.

With the acquisition of CINTRA Chile, the company will operate five of

eight consecutive concessions along Route 5, the country's main north-south expressway and its main transportation column. These concessions are significant given that their zone of influence currently concentrates approximately half of the country's population and half of its GDP.

The 'BB+' rating on ISA is based on the company's stand-alone credit profile (SACP), which we still assess in the 'BB' category despite the deterioration in the company's business and financial profiles, and on our opinion that there is a "moderately high" likelihood that majority owner the Republic of Colombia (foreign currency BB+/Stable/B; local currency BBB+/Stable/A-2) would provide timely and sufficient extraordinary support to ISA in the event of financial distress.

The ratings on ISA reflect the company's dominant position as a transmission grid operator in Colombia; in the state of São Paulo, Brazil; and in Peru. The ratings further reflect its strategic importance in Colombia; natural monopoly and strong competitive position in the countries in which it operates; efficient operations; majority ownership by Colombia's government; and geographic diversification in the region. An aggressive financial policy characterized by continuing debt-funded acquisitions, foreign-exchange risk related to the company's foreign-currency-denominated debt, and increased exposure to more-volatile economies partially offset the company's strengths.

We expect the company will report EBITDA interest coverage and total debt to EBITDA through year-end 2009 of 2.3x and 2.1x, respectively, in line with our expectations. We believe the company will increase its leverage to finance part of its capital expenditure program, including CINTRA Chile's acquisition. Moreover, with CINTRA Chile's acquisition, ISA will have the higher debt that toll road concessionaires typically present. Nonetheless, we don't believe that CINTRA Chile's higher debt will hurt ISA's financial profile, because the \$2.1 billion in debt that the concessionaire currently has is nonrecourse to ISA. The debt is under different structures, and each toll road repays it with its own cash flow. However, we expect that ISA could incur additional debt in the next six to 24 months to buy the remaining 40% of CINTRA Chile's shares from CINTRA Spain. Also, we don't believe ISA will receive any dividend payments from the concessionaire, because it uses the cash flow the toll roads generate to cover its own operating and maintenance expenses and financial obligations.

### **Liquidity**

ISA has adequate liquidity. We expect that the company will report about \$500 million in cash by year-end 2009, enough to cover its \$480 million in short-term debt maturities. However, we believe it won't generate free operating cash flow in the next few years, due to the high capital expenditure requirements of its somewhat aggressive growth strategy. The company will most likely fund its growth plans mainly with additional debt because, we believe, it continues to have access to the financial markets.

## Outlook

The stable outlook reflects ISA's operations in a proven and stable regulatory framework, and its natural monopoly. We expect the company to maintain satisfactory financial and operational performance. A continued aggressive investment plan in other countries that is not accompanied by positive free cash flow generation, significantly pressuring the SACP, could result in a downgrade. A material improvement in the company's key financial ratios and a conservative and selective financial policy regarding new investments--in terms of profitability and impact on ISA's cash flow--coupled with demonstrated resilience to the risks it faces in the countries in which it operates, could lead us to upgrade ISA in the medium-to-long term.

## Related Research

- "2008 Corporate Criteria: Analytical Methodology," April 15, 2008

## Ratings List

Ratings Affirmed

Interconexión Eléctrica S.A. E.S.P. (ISA)  
Corporate Credit Rating BB+/Stable/--

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