

Rating Action: Moody's affirms ISA's Baa2 rating; withdraws BCA

23 Sep 2021

New York, September 23, 2021 -- Moody's Investors Service ("Moody's") has today affirmed the Baa2 issuer rating of Interconexión Eléctrica S.A. E.S.P. (ISA). At the same time, Moody's has withdrawn the company's baseline credit assessment (bca) of baa2, because it is no longer classified as Government-Related Issuers (GRI). The outlook on the rating remains stable.

Affirmation:

..Issuer: Interconexión Eléctrica S.A. E.S.P.

.... Issuer Rating, Affirmed Baa2

Outlook Actions:

..Issuer: Interconexión Eléctrica S.A. E.S.P.

....Outlook, Remains Stable

RATINGS RATIONALE

This rating action follows Ecopetrol S.A. (Ecopetrol, Baa3 negative) acquisition of the 51.4% controlling stake in ISA from the Government of Colombia (GOC, Baa2 negative). As a result, Moody's no longer rates ISA under the Government-Related Issuers Methodology as Moody's does not normally designate subsidiaries of a GRI as also being GRIs. The removal of the GRI status has no rating implications on ISA and its Issuer Rating has been affirmed accordingly. Moody's will continue to consider any benefits from indirect GOC ownership, as well as support from Ecopetrol as a strategic shareholder on a qualitative basis.

ISA's Baa2 issuer rating affirmation considers that the company's standalone credit quality remains unchanged, which is supported by its position as one of the largest transmission companies in Latin America with its diversified operations through its subsidiaries located primarily in Colombia (Government of Colombia, Baa2 negative), Brazil (Government of Brazil, Ba2 stable), Chile (Government of Chile, A1 negative) and Peru (Government of Peru, Baa1 stable) with exposure to different regulatory regimes. The business diversification also considers its participation in toll roads and fiber optics businesses. Furthermore, the issuer rating captures ISA's modest leverage, as reflected in a 3-year average FFO to Net Debt ratio of about 20% as of June 2021, which is expected to gradually improve following the execution of its substantial capital investment program through 2023.

In spite of the change in control and the relatively lower credit quality of the new controlling shareholder, the rating incorporates continuity of ISA's long-term business strategy and corporate governance structure.

The stable outlook reflects Moody's expectation of that the company will prudently manage its capital investment program and dividends distribution such that interest coverage and FFO/net debt remain above 4.5x and 20%, respectively.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Upward pressure on ISA's rating could derive from continued diversification or higher representation of operations in higher rated countries carrying commensurate leverage profiles. A positive rating action would require clear evidence of deleveraging such that prospective interest coverage and FFO/net debt exceed 6.0x and 30%, respectively, on a sustainable basis.

Downgrade rating pressure could derive from Moody's perception of higher risk in ISA's business portfolio, such as the deterioration in the credit quality of the sovereign ratings of the countries in which ISA holds substantial operations or a perception of lower support from their regulatory regimes. Deterioration in the credit quality of the shareholder coupled with the relaxation of ISA's governance standards or more aggressive financial policy and dividend distributions could all exert negative pressure on ISA's ratings. Negative rating

pressure could also result from a more aggressive capital spending plan, or if the company faces significant delays or cost overruns that significantly postpone or dent the recovery of its key credit metrics. Quantitatively, ISA's rating could be downgraded should its FFO/net debt decrease below 15%, interest coverage ratio falls below 3.0x or retained cash flow/net debt falls below 4%.

Headquartered in Medellin, Interconexion Electrica S.A. E.S.P. (ISA) is an operating holding company with businesses in the electricity transmission, toll roads, telecommunications, and systems management sectors. The company is headquartered in Colombia and holds direct and indirect ownership stakes in a portfolio of subsidiaries located in Colombia, Brazil, Chile and Peru.

Ecopetrol, 88.5% owned by the government of Colombia, is the largest integrated oil and gas company in the country. The company has three business segments, namely exploration and production, refining activities and transportation and logistics. Its gross production averaged close to 640 mboed in 2020, and total assets amounted to \$40 billion at June 30, 2021.

The principal methodology used in this rating was Regulated Electric and Gas Networks published in March 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1059225. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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Aneliza Crnugelj
Asst Vice President - Analyst
Infra Finance Group
JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

Cristiane Spercel
Senior Vice President/Manager
Infra Finance Group
JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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