

# RatingsDirect®

---

## Summary:

# Interconexion Electrica S.A. E.S.P. (ISA)

### Primary Credit Analyst:

Jose Coballasi, Mexico City (52) 55-5081-4414; jose\_coballasi@standardandpoors.com

### Secondary Contact:

Monica D Ponce, Mexico City (52) 55-5081-4454; monica\_ponce@standardandpoors.com

## Table Of Contents

---

Rationale

Outlook

Related Criteria And Research

## Summary:

# Interconexion Electrica S.A. E.S.P. (ISA)

**Credit Rating:** BBB-/Stable/--

## Rationale

Standard & Poor's Ratings Services' ratings on Interconexion Electrica S.A. E.S.P. (ISA) reflect the company's stand-alone credit profile (SACP), which we assess at 'bbb-'. In our view, the SACP reflects the company's "satisfactory" business risk profile due to a stable and generally predictable business environment and regulatory framework in the countries in which it operates. In addition, ISA holds a strong market position by controlling 81% of Colombia's and 78% of Peru's transmission segments and its diversification into telecom and toll-road sectors, which support its business risk profile and profitability. The SACP also reflects ISA's "significant" financial risk profile due to its aggressive financial policy. The company partially funds its acquisitions with debt and there is the potential for new toll road projects in Colombia which could require the company to secure additional debt.

The ratings also incorporate our assessment that there is a "low" likelihood that the Colombian government would provide timely support to ISA, if needed as the company has a substantial portion of cash flow and debt now outside of Colombia. As its primary shareholder, the Colombian government holds a 51.4% stake in ISA. However, based on our government-related entity criteria, we also assess ISA to have a limited link to the government, given the independence of its management and corporate practices and its "limited importance" in meeting Colombia's key economic, social, and political objectives. A private entity could easily undertake ISA's operations.

ISA plans to reach \$3.5 billion in revenues by 2016 and to generate 80% of these outside of Colombia. Its noncore business segment will provide the remainder of the revenues. In order to achieve this goal, we expect the company to expand its electric transmission and toll road operations throughout Latin America, primarily in Colombia, Brazil, Peru, Chile, and Panama. During 2011, in line with its strategy, ISA completed its acquisition of a Chilean toll road operator, CINTRA Chile Ltd. (now called Intervial). The company funded the acquisition through an intercompany loan from Intervial. We believe this acquisition will increase ISA's geographic and business diversification, as the company expands into a non-energy-related business line.

In its aim to cut electricity prices by about 20% for end users, the Brazilian government recently approved provisional measure 579 (MP 579) and related regulations, which offered electric utilities with concessions coming due between 2015 and 2017 the option for an early renewal for up to 30 years in exchange for a compensation payment and a significant reduction in prices and tariffs. The objective was to finance about 65% of the price reduction to end users through lower concession prices and tariffs, while the remainder 35% would come from the elimination or reduction of certain sector charges and taxes.

The companies that accepted the proposal will receive a new price or tariff from January 2013 onwards that aims to cover, among other things, operations and maintenance expenses, charges and taxes, and a compensation payment

from the government equivalent to the unamortized value of the concession assets. The government will pay part of the unamortized value of the concession assets upfront and finance the remainder for up to 30 years, although final terms are still under negotiation. These payments should partly offset the expected lower electricity prices and tariffs.

ISA is the controlling shareholder of CTEEP-Companhia de Transmissão de Energia Elétrica Paulista (CTEEP) which recently announced it had accepted the government's proposal. Our ratings on ISA incorporate the expectation that its total debt to EBITDA will remain below 4.0x. In light of the recent events in Brazil, we are currently reviewing our base-case scenario for ISA. Based on preliminary figures, we expect the upfront compensation payments for the unamortized value of the concession assets of about R\$2.9 billion to be sufficient to significantly reduce CTEEP's debt (R\$2.4 billion). This payment should offset the drop in EBITDA due to lower tariffs. CTEEP's operations account for about 44% of ISA's revenues and 50% of its EBITDA. Although the company's investment plan is under review, we believe that CTEEP's acceptance of the MP 579 confirms ISA's commitment to maintaining its presence in Brazil.

ISA is a regional holding group with headquarters in Colombia engaged in the construction, operation, and management of linear infrastructure systems, including electric power transmission, telecommunications transport, and toll roads.

### **Liquidity**

We believe ISA's liquidity to be "adequate." The company does not have financial covenants on its debt. As of Sept. 30, 2012, the company had about \$984 million in cash and short-term investments, which compares favorably to the \$784 million in debt maturities it has for the next 12 months. For the 12 months ended Sept. 30, 2012, free operating cash flow, was about \$740 million.

### **Outlook**

The outlook reflects our expectation that ISA's key financial metrics will remain stable. We believe that compensation under MP 579 will allow ISA to reduce debt at its Brazilian operations in order to offset the expected reduction in EBITDA. We might raise the ratings if macroeconomic indicators and the institutional framework within the countries where ISA operates continue to strengthen. In addition, ISA's ability to expand and diversify, while posting a consolidated FFO to total debt above 30%, and total debt to EBITDA below 3.0x, could lead to an upgrade. However, if ISA were to commit to highly debt-financed acquisitions that deteriorate its financial risk profile, resulting in a consolidated debt-to-EBITDA ratio above 4.0x and an FFO-to-interest coverage ratio below 3.0x, we could lower the rating.

### **Related Criteria And Research**

Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010

Enhanced Methodology And Assumptions For Rating Government-Related Entities, June 29, 2009

Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, 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 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).