FitchRatings

Tagging Info

Fitch Upgrades Interconexion Electrica S.A.'s IDR to 'BBB', Affirms National Scales at 'AAA(col)'

Ratings Endorsement Policy

30 May 2013 1:54 PM (EDT)

Fitch Ratings-Chicago-30 May 2013: Fitch Ratings has upgraded Interconexion Electrica S.A. E.S.P.'s (ISA) foreign and local currency Issuer Default Rating (IDR) to 'BBB' from 'BBB-'. The Rating Outlook for the international rating has been revised to Stable from Positive. Fitch has also affirmed Interconexion Electrica's local bonds listed at the end of this release at 'AAA(col)' and 'F1+(col)'. The Rating Outlook for all ratings is Stable.

ISA's upgrade reflects the company's strong financial profile, characterized by stable and predictable cash flows, and Fitch's expectation that credit metrics will remain at current levels for the medium term. The upgrade also reflects ISA's exit from the Autopistas de la Montana Project, which added significant uncertainty to the company's long-term capital structure.

KEY RATING DRIVERS

ISA's ratings reflect the company's low business risk profile, which is characteristic of the power transmission business, and the company's natural monopoly position and geographic diversification. The ratings are also underpinned by ISA's moderate leverage level, comfortable liquidity and strong interest coverage metrics.

TRANSMISSION BUSINESS' STABLE CASH FLOW

ISA's ratings reflect the company's low business risk level supported by its regulated income and natural monopoly position in the countries in which it has operations. ISA on a standalone basis accounted for 26% of total consolidated EBITDA. Most of the revenues from electric transmission operations in Colombia are regulated and its tariffs are reset every five years. Previous tariff resets have not resulted in significant changes, due to the balanced regulatory environment in Colombia, which aims at providing adequate returns on investment. During the last 12 months (LTM) ended March 31, 2013, electric transmission accounted for 80% of ISA's consolidated revenues and nearly 82% of ISA's consolidated EBITDA.

STRONG BALANCE SHEET SUPPORTS LEVERAGE INCREASE

ISA has a strong financial profile, which is characterized by solid cash flow generation, moderately low debt levels and healthy interest coverage. During 2012, the company reported, on a stand-alone basis, an EBITDA plus dividends of approximately USD362 million and total debt of USD780 million. This translates into a stand-alone leverage ratio of 2.2x. During the same period, ISA reported stand-alone interest coverage of approximately 4.4x.

ISA's consolidated credit metrics are somewhat affected by the increase in debt following the company's acquisition of Intervial in Chile. During 2013, ISA's consolidated financial metrics will be negatively affected by the EBITDA reduction of its subsidiary in Brazil. Nevertheless, ISA's consolidated financial profile is considered adequate and consistent with an investment grade rating. During 2012, ISA reported a consolidated leverage, as measured by total debt-to-EBITDA, of approximately 3.7x and an interest coverage ratio of 3.0x.

ROBUST LIQUIDITY

ISA's liquidity is considered strong and is characterized by healthy cash on hand levels, manageable debt amortization and adequate access to local and international capital markets. As of March 31, 2013, ISA had approximately USD1.5 billion of consolidated cash on hand, of which USD169 million were at the parent company level, and USD563 million of consolidated short-term debt. ISA's maturity profile is manageable, as its long-term debt amortization schedule is spread between 2013 and 2041. ISA's short-term debt has been approximately 18% of total debt over the years. In the medium term, ISA's liquidity position is expected to remain healthy as a result of the company's stable cash flow generation.

NEUTRAL EFFECT OF EARLY TERMINATION OF BRAZILIAN CONCESSION

The decision of ISA's subsidiary in Brazil, Companhia de Transmissao de Energia Eletrica Paulista S.A. (CTEEP; rated

'AA+(bra)' by Fitch), to accept the Brazilian government offer to early renew the concessions that expired between 2015 and 2017 had a neutral impact for ISA's credit quality. This given the low dividends ISA received from this subsidiary. Although during the next two years, ISA's consolidated financial profile will be impacted by the lower EBTIDA generation in Brazil, CTEEP is expected to repay a significant portion of its debt with the proceeds it receives from the renewal process.

The Brazilian government, through its Ministry of Mines and Energy (MME) offered CTEEP approximately BRL2.9 billion as upfront payment plus an additional non-defined amounts for the early renewal of its main concession. The MME's upfront payment is greater than CTEEP's stand-alone debt of approximately BRL2.4 billion as of year-end 2012, which should be enough for CTEEP to repay all its outstanding debt. Although ISA's financial results consolidate CTEEP, the company does not fully benefit from this subsidiary's cash flow generation given its ownership position.

RATING SENSITIVITIES
Although a positive rating action is not expected in the near future, a sustainable consolidated and stand-alone leverage below 2.0x, couple with maintaining a stable and predictable cash flow generation profile could lead to a positive rating outlook or upgrade.

A rating downgrade could be trigger by a sustained increase in leverage above 4.5x, either/or on a consolidated or stand-alone basis coupled with a deterioration of its cash flow stability and predictability. Also, significantly negative regulatory changes that impact the company's financial performance could lead to a negative rating action.

Fitch affirms the following issues at 'AAA(col)':

-- ISA's COP$2.7 trillion bond program.

Fitch affirms the following issues at 'F1+(col)':

-- ISA's COP$200 billion bond program.

Contact:

Primary Analyst
Lucas Aristizabal
Director
+1-312-368 3260
Fitch Ratings, Inc.
70 West Madison Street
Chicago, IL 60602

Secondary Analyst
Mario Irreno
Associate Director
+571-326-9999

Committee Chairperson
Glaucia Calp
Senior Director
+571 326 9999 Ext. 1110

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com' and 'www.fitchratings.com.co'

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' Aug. 8, 2012;
--'Parent and Subsidiary Rating Linkage' Aug. 8, 2012.

Applicable Criteria and Related Research:
Corporate Rating Methodology
Parent and Subsidiary Rating Linkage

Additional Disclosure
Solicitation Status