Fitch Affirms Emgesa's IDR at 'BBB-'; Revises Outlook to Positive

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Fitch Ratings-Bogota-18 May 2012: Fitch Ratings has affirmed Emgesa's foreign and local currency Issuer Default Rating (IDR) at 'BBB-'. The Rating Outlook is revised to Positive from Stable.

Fitch has also affirmed Emgesa's long-term national scale rating at ‘AAA(col)’ with a Stable Outlook, as well as the debt listed at the end of this release.

Emgesa’s Positive Outlook reflects the company’s strong financial profile and Fitch’s expectation that debt increases to finance the El Quimbo project will not increase leverage significantly.

Emgesa's ratings reflect the company's strong competitive position, its diversified portfolio of generation assets, and successful business and commercial strategies. The ratings also reflect the operating support the company receives from its controlling shareholder (Endesa-Chile; Fitch IDR of 'BBB+') through the transfer of know-how, experience and best practices. The ratings also consider Emgesa's moderate exposure to hydrology and regulatory risk.

Solid Business Position
Emgesa's ratings are supported by the company's business position in Colombia as one of the largest generation companies in the country based on installed capacity and electric generation. As of March 31, 2012, the company had 20% of Colombia's total installed generation capacity, and accounted for 21% of the country's total generation. The combination of the company's low marginal cost hydro-electric generating based, along with its complementary watershed and some thermal generating capacity (85% hydro/15% thermal) make the company less exposed to changes in the hydrology system and weather conditions.

Emgesa's commercial strategy also matches its business profile and operating assets which provides more revenue stability, predictability and lowers risk. The company's commercial strategy has aimed at selling around 70% of its volume at contracted prices for a one- to three-year term. During 2011, the company sold 70% of its energy sales under medium-term contracts. Although the energy generation business is more vulnerable to changes in hydrology and in prices of both energy and fuel, Emgesa's administration has demonstrated strong and conservative management, which has resulted in reasonably stable cash flows over time.

Modest Financial Leverage and Robust Liquidity
Emgesa's credit profile is characterized by moderate leverage and strong interest coverage and is consistent with the assigned rating level. As of the last 12 months (LTM) ended March 31, 2012, the company reported a moderate leverage ratio, as measured by total debt-to-EBITDA of 1.7 times (x). Interest coverage, as measured by EBITDA-to-Interest expense was solid as of the LTM ended March 31, 2012 at 9.3x.

Emgesa's liquidity position is considered robust with cash on hand of USD253 million, committed credit lines with banks of almost USD200 million, and short-term debt of USD192 million as of March 2012. In April 2012, the company refinanced its short term debt - comprised by a club deal with local banks - through a new 10-year club deal. In Fitch's opinion, Emgesa's short-term financial needs rely on strong cash flow generation (average of USD354 million per year over the past four years) and broad access to financing sources. The company's debt of USD1.2 billion is mainly composed of bond issuances due between 2014 and 2024.

Although the company's dividend policy is a minimum of 50%, Emgesa's modest leverage together with solid cash generation have allowed the company to historically present a dividend pay-out-ratio of 100%, which is considered high, yet manageable.

El Quimbo Project to Increase Leverage Somewhat
Emgesa's expansion plan includes the construction of the El Quimbo hydroelectric plant, a 400 megawatt (MW) hydroelectric generation plant with an estimated investment of USD837 million. El Quimbo is expected to start commercial operations by December 2014. The company plans to finance 80% of the project with on-balance sheet debt, which will increase leverage to approximately 2.3x to 2.5x before the project starts commercial operations by the end of 2014. This leverage has been incorporated into the assigned ratings.

Emgesa's Strategic Importance for Endesa Group
Emgesa is indirectly controlled by Endesa S.A. (IDR: 'A-' on Rating Watch Negative), through its subsidiary Endesa Latinoamerica and Endesa Chile ('BBB+' IDR), which together control the company and have a 48.48% economic interest in the company. Endesa's relationship with Emgesa is positive because

of the transfer of know-how, technology integration and business practices. Emgesa is a sizable asset for the Endesa Group and represents 17% of Endesa's EBITDA in Latin America during the first quarter of 2012; the El Quimbo project should increase the relative size of Emgesa in the group once commercial operations commence.

Despite not having the control of Emgesa, Empresa de Energia de Bogota S.A. ESP. (EEB; 'BB+' IDR) also participates in the company, with 51.51% of economic rights. EEB also owns non-controlling majority participations in the electric distribution companies Codensa and Empresa de Energia de Cundinamarca, and in Colombia's largest natural gas pipeline transportation company, Transportadora de Gas Internacional.

A combination of conservative credit metrics, assets diversification and sustained growth in cash flows might result in a positive rating action. Conversely, a change in the company’s capital structure or funding strategy for Quimbo Project that result in higher financial leverage, a regulatory change that negatively affects Emgesa’s cash generation or a delay and lower than expected results in the construction of Quimbo could lead to a negative rating action.

Fitch affirms Emgesa’s ratings as follows

--Senior unsecured COP$736.760 million notes due 2021 at 'BBB-';
--COP$1.9 trillion bond program at 'AAA(col)';
--COP$250 billion bond issuance at 'AAA(col)';
--COP$600 billion commercial paper at 'F1+(col)'.

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

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' Aug. 12, 2011;
--'Parent and Subsidiary rating Linkage' Aug. 12, 2011;
--'Liquidity Considerations for Corporate Issuers' June 12, 2007.
--'Rating Oil and Gas Exploration and Production Companies' April 6, 2010.