FitchRatings

FITCH UPGRADES EMGESA'S IDR TO 'BBB'; OUTLOOK STABLE

Fitch Ratings-Chicago-16 May 2013: Fitch Ratings has upgraded EMGESA's Foreign and Local Currency Issuer Default Ratings (IDRs) to 'BBB' from 'BBB-'. This rating action applies to the company's senior unsecured COP$736.760 million notes due 2021. The Rating Outlook has been revised to stable from positive.

Fitch has also affirmed Emgesa's long-term national scale rating as well as the debt listed at the end of this release at 'AAA(col)'. The Rating Outlook is Stable.

KEY RATING DRIVERS

The rating action reflects the strong financial performance of the company, robust cash flow generation and the expectation of a moderate to low financial leverage after the Quimbo project begins operations in 2015. The upgrade also considers the company's asset diversification and growth strategy, the significant progress in the construction of the Quimbo project and the positive expected cash flows that will result from its completion in 2015.

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, 2013, the company had approximately 20% of Colombia's total installed generation capacity, and accounted for 20% 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 is currently in the midst of a large capital expenditure program that is mainly comprised of the Quimbo hydroelectric project (400 megawatt) at an estimated cost of USD837 million. The project is currently on line and within budget, with approximately 40% of the project completed as of March 31, 2013 despite facing several setbacks. The Quimbo plant is expected to start commercial operations by 2015. Capital expenditures of the project have been financed with a combination of 20% internally generated cash flows and 80% on balance sheet debt.

This leverage has been incorporated into the assigned ratings.

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, 2013, the company reported a moderate leverage ratio, as measured by total debt-to-EBITDA of 1.9 times (x). Fitch expects EMGESA's leverage ratio to increase to approximately around 2.5 xs before the Quimbo project starts commercial operations by 2015 and then decrease to below 2.0x.

Emgesa's liquidity position is considered robust with cash on hand of USD332 million, committed credit lines with banks of almost USD190 million, and short-term debt of USD37 million as of March 2013. 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 long-term debt of USD1.5 billion is mainly composed of bond issuances due between 2014 and 2027. Interest coverage, as measured by EBITDA-to-Interest expense was solid as of the LTM ended March 31, 2013 at 8.0x.

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.

Project Completion to Increase Cash Flow
EMGESA's cash flow generation is expected to benefit from a larger installed capacity. Following the completion of the Quimbo project, EMGESA's installed capacity will increase to nearly 3,314 MW. This should result in an EBITDA of around US$900 million and EBITDA margins of around 65%. In March 2013 LTM, the company's EBTIDA was USD787 million with a margin of 63.4%. Figures considered strong compared to their peer group.

Diversification of assets and Solid Future Growth Strategy
The rating incorporates prospective growth strategy which supports the construction and upgrading of projects of manageable magnitudes, make the company less exposed to changes in the hydrology system and weather conditions, maintaining a consistent capital structure and financial structure balance adequate, assuming operational and financial risks moderates.

Solid Business Position and Strategic Importance for Endesa Group
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, 2013, the company had approximately 20% of Colombia's total installed generation capacity, and accounted for 20% of the country's total generation.

Emgesa is indirectly controlled by Endesa S.A. (IDR 'A-' on Rating Watch Negative) 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 18.8% of Endesa's EBITDA in Latin America; 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; 'BBB-' 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 International.

RATING SENSITIVITIES

A negative rating action could result from a combination of the following factors; a steep decrease in electricity prices, coupled with low generation and poor electricity demand; a sustained increase in leverage above 4.0x as a result of investments in the Quimbo project and/or a change in the company's strategy that results in a more aggressive one in terms of leverage and capital expenditures.

Fitch affirms Emgesa's ratings as follows

--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)'.

Contact:

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

Secondary Analyst
Mario Irreno

Associate Director
+571 326 9999 ext. 1002

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. 12, 2011;
--'Parent and Subsidiary Rating Linkage' Aug. 12, 2011.

Applicable Criteria and Related Research
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=684460
Parent and Subsidiary Rating Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685552