Fitch Affirms Emgesa’s IDR at ‘BBB’; Outlook Stable

Fitch Ratings has affirmed the foreign and local currency Issuer Default Ratings (IDRs) for Emgesa S.A. E.S.P. (Emgesa) at ‘BBB’. This rating applies to the company's senior unsecured COP$736.760 million notes due 2021. Fitch has also affirmed Emgesa's long-term national scale rating and debt ratings at 'AAA(col)'. The Rating Outlook is Stable. A full list of debt ratings follows at the end of this release.

KEY RATING DRIVERS

Emgesa’s ratings reflect the company’s strong financial performance, robust cash flow generation and the expectation of a moderate financial leverage after the Quimbo project is finished. Also factored into the ratings are the positive expected cash flows that will result from Quimbo’s completion during the first half of 2015, the company’s asset diversification, growth strategy and solid competitive position.

Solid Business Position
Emgesa's ratings are supported by the company's business position as one of the largest generation companies in Colombia (based on installed capacity and electric generation). As of March 31, 2014, the company had 19.1% of Colombia's total installed generation capacity and accounted for 20.3% of the country's total generation. The combination of Emgesa's low marginal cost hydro-electric generating based, along with its complementary watershed and some thermal generating capacity (85.1% hydro and 14.9% thermal), make the company less exposed to severe weather conditions and hydrology risk.

Strong Operational Results
Emgesa's commercial strategy 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 2013, the company sold 72% 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. EBITDA margins have been strong, varying from 58.8% to 62.7% in the last five years, a period in which the country experienced severe hydrology conditions.

Moderate Financial Leverage
Emgesa is in the midst of building Quimbo hydroelectric project (400 megawatt). Due to higher than expected capital expenditures in social and environmental items, the company adjusted its construction budget upwards by approximately 30%, increasing to USD1.093 billion from the original USD837 million. The higher investment needs will be financed with additional debt. Maximum expected leverage will increase to 3.0x from 2.5, which is still within acceptable levels for the current rating category.

As of the last 12 months (LTM) ended March 31, 2014, the company reported a moderate leverage ratio, as measured by total debt-to-EBITDA of 2.1 times (x). Quimbo is expected to start commercial operations in 2015. The project is being funded with internally generated cash flow and via financial debt. Following Quimbo's start of commercial operations in mid-2015, leverage is expected to decrease reaching 2.0x by 2016.

Robust Liquidity Position
Emgesa's liquidity position is comfortable. In March 2014, Emgesa reported a stock of cash and marketable securities of USD290 million, credit lines available for USD750 million and operating cash flow (FCO) from USD524 million, more than enough to cover the USD195 million of current debt maturities and interest associated with debt.

The company's long-term debt of USD1.6 billion is mainly composed of local bond issuances with maturities between 2014 and 2027. Interest coverage, as measured by EBITDA-to-Interest expense in cash flow, was solid as of the LTM ended March 31, 2014 at 6.3x.

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 3.442 MW. This should result in an EBITDA of approximately US900 million and EBITDA margin close to 65%. In March 2014 LTM, the company’s EBTIDA was USD772 million with a margin of 62.7%.

Strategic Importance for Endesa Group
Emgesa is indirectly controlled by Enel S.p.A.(IDR ‘BBB+’ Outlook Stable) which in turn controls Endesa S.A. (IDR 'BBB+'/ Outlook Stable) since 2009, through Endesa’s subsidiary Enersis (IDR ‘BBB+’ /Outlook Stable) and Endesa Chile (IDR 'BBB+'/ Outlook Stable), which together control the company and have a 48.48% economic interest in the company and 56.4% of voting rights. Endesa's relationship with Emgesa is considered positive because of the transfer of know-how, technology integration and business practices. Emgesa is a sizable asset for the Endesa and represents 35% of Endesa's EBITDA in Latin America. 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 and 43.6% of voting 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

Fitch considers a positive rating action unlikely in the near term. However, a material improvement in credit metrics that could be sustained over time and more conservative dividend policy would be seen as positive to the credit.

On the other hand, the main factors that individually or collectively could lead to a negative rating action are:

--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 debt ratings as follows:

--COP$2.7 trillion bond program at 'AAA(col)';
--COP$250 billion bond issuance at 'AAA(col)';
--COP$736.760 million notes due 2021 at 'BBB'.

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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. 5, 2013.