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Summary:

Emgesa S.A. E.S.P.

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Table Of Contents

Rationale

Outlook

Standard & Poor's Base-Case Scenario

Business Risk

Financial Risk

Liquidity

Other Modifiers

Group Influence

Rating Above The Sovereign

Ratings Score Snapshot

Related Criteria And Research

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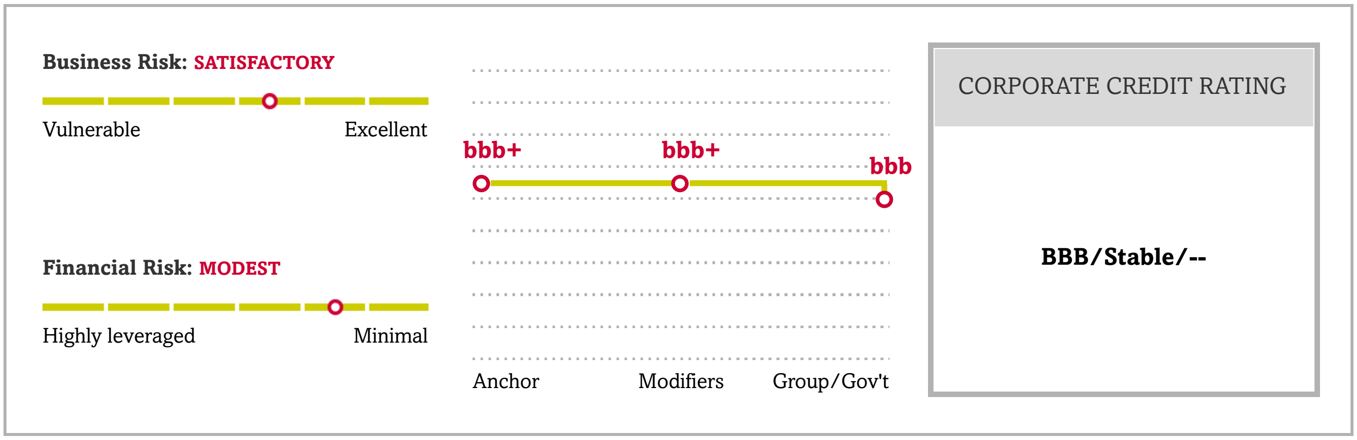

Rationale

Business Risk: Satisfactory	Financial Risk: Modest
• Favorable economic environment and growing demand for power in Colombia; • Leading market position as the second-largest power generator and largest electric distributor (through sister company CODENSA) in Colombia; • Low cost power generator; • Relatively large portfolio of short- and medium-term power sale contracts that helps to stabilize cash flow generation; • Exposure to weather conditions; • High competitive pressures from other large hydro power generators; • Favorable regulation for electric distribution; • Tariff revisions in September 2014 and January 2015; and • Efficient operations.	• Healthy financial metrics; • Relatively strong but somewhat volatile free cash flow generation due to exposure to weather conditions; and • High dividend payments.

Outlook: Stable

The stable outlook on Colombian power company Emgesa S.A. E.S.P. (Emgesa) reflects our expectations for 3% annual growth in demand for electricity in Colombia, Emgesa's and CODENSA S.A. E.S.P.'s (CODENSA; not rated) good operating performance, with a consolidated EBITDA margin at about 50% and total net debt to EBITDA of less than 2.0x in 2014 and 2015 despite relatively high capital expenditures (capex) and dividend payments.

Upside scenario

The rating on Colombia limits any potential upgrade on Emgesa because of the company's exposure to it in the event of a sovereign default.

Downside scenario

We could lower the rating if the company's cash flow generation significantly deteriorates or if it implements a more aggressive expansion plan leading to significantly higher debt, specifically, if total debt to EBITDA exceeds 3.0x.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics
• Annual 3% rise in electricity demand in Colombia in 2014 and 2015; • Annual power generation of about 12,000 gigawatt hours (GWh) in 2014; • Contracted sales for about 11,000 GWh; • Capex of about $600 million in 2014; and • 100% dividend payout.	We expect Emgesa's EBITDA (including CODENSA's) to reach $1.3 billion to $1.4 billion in 2014, and lead to an EBITDA margin of about 50%, total adjusted debt (net from cash surplus) to EBITDA of about 1.5x; and funds from operations (FFO) to total adjusted debt exceeding 40%.

Business Risk: Satisfactory

We view the company's credit quality as integrally linked with that of its sister company, Colombia's largest electric distribution company CODENSA, because of their significant integration, including shared management, support units, and ownership, and their intercompany loans to optimize cash allocation and diversify funding sources. Therefore, we follow a consolidated approach to assigning the rating.

Emgesa's "satisfactory" business risk profile is based on its satisfactory competitive position mainly due to its strong market position as the second-largest power generator in Colombia, low generation cost in a largely hydro-based electric system, CODENSA's leading market position as the largest electric distribution company in Colombia and favorable regulation. The satisfactory competitive position reflects the company's adequate diversification, which is due primarily to its ownership of 11 power plants and CONDENSA's diversified customer mix. Also, Emgesa benefits from adequate operating efficiency and strong profitability.

With a total installed capacity of 2,975 megawatts (MW), Emgesa provides about 20% of the country's energy through the national interconnected system. Additionally, CODENSA is the largest electric distribution company in Colombia serving about 2.9 million customers, which represent about 24% market share.

Financial Risk: Modest

Emgesa's "modest" financial risk profile mainly reflects the company's strong consolidated cash flow generation and healthy financial metrics (consolidated with those of CODENSA). Emgesa enjoys strong but somewhat volatile cash flow generation, aggressive capex and dividends while CODENSA has strong and stable cash flow generation, moderate capex and aggressive dividends. Therefore, we expect total net debt to EBITDA, FFO to net debt and free operating cash flow (FOCF) to net debt will be less than 2.0x, about 40%, and more than 20%, respectively, in 2014 and 2015.

These expectations include Emgesa's new 400MW hydroelectric plant QUIMBO, which we expect to be fully operational by 2015, and wil add about 2,200 GWh of low cost power generation per year, which should increase Emgesa's total power generation by about 15% to 20%. We do not expect a CONDENSA's tariff revision in September 2014 (for its commercialization segment) and January 2015 (for its distribution segment) to significantly affect its credit metrics as from 2015 onwards.

Liquidity: Adequate

We assess Emgesa's liquidity as "adequate." We expect consolidated sources to exceed uses by at least 1.2x in the next two years, which provides protection against adverse events. We also expect sources to exceed uses even if EBITDA were to decline by 20%. Our assessment of the company's liquidity also incorporates its good financial flexibility as evidenced by its fluid access to credit markets. It can also retain discretionary cash by reducing its significant dividends. In addition, Emgesa and CODENSA are in compliance with the covenants on their outstanding bonds.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash balance and short term investments of $794 million (Emgesa plus CODENSA) as of Dec. 31, 2013; and • FFO of $800 million to $900 million in 2014.	• Short-term maturities of $257 million as of Dec. 31, 2013; • Capex of about $600 million in 2014; and • 100% dividend payout policy, although flexible.

Other Modifiers

On an aggregate basis, the modifiers do not affect the rating.

Group Influence

Empresa Nacional de Electricidad S.A. Chile (Endesa Chile; BBB+/Stable/--) and Enersis S.A. (BBB+/Stable/--) jointly hold 48.5% of Emgesa's capital stock. Endesa Chile has the right to appoint a majority of Emgesa's board of directors, and, together with Enersis, holds 56.4% of Emgesa's voting shares. We consider Emgesa a strategically important subsidiary for Endesa Chile. CODENSA has a similar ownership structure and final controlling stakes, but through different holding companies.

Enersis S.A., a Chilean holding company with investments mainly in power generation and electricity distribution in Latin America, holds a 60% in Endesa Chile. Spanish utility Endesa S.A. (BBB/Stable/A-2) owns 60.6% of Enersis.

Rating Above The Sovereign

The rating on Colombia limits any potential upgrade on Emgesa because of the company's exposure to it in the event of a sovereign default.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/--

Business risk: Satisfactory

- **Country risk:** Moderately high
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/Leverage:** Modest

Anchor: bbb+

Modifiers

- **Diversification/Portfolio effect:** Neutral
- **Capital structure:** Neutral
- **Liquidity:** Adequate
- **Financial policy:** Neutral
- **Management and governance:** Satisfactory
- **Comparable rating analysis:** Neutral

Stand-alone credit profile : bbb+

- **Group credit profile:** bbb+
- **Entity status within group:** Strategically important
- **Rating above the sovereign:** (-1 notch from SACP)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	**bbb+**	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-