

Emgesa S.A. E.S.P.

Fitch Ratings affirmed Emgesa S.A. E.S.P.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB' on April 7, 2020. The Rating Outlook on the Foreign Currency IDR is Negative and the Local Currency IDR's Outlook is Stable. Fitch also affirmed the company's senior unsecured notes due 2021 at 'BBB' and its Long-Term National-Rating at 'AAA(col)' with a Stable Outlook.

Emgesa's ratings reflect the company's strong business model, supported by asset diversification, a solid competitive position and consistently strong cash flow from operations. The company maintains robust cash flows, which, along with expectations of limited capex execution, underpins Fitch's expectations for Emgesa to maintain low financial leverage in the medium term. The company's adequate liquidity position and strategic importance to its shareholders are also factored into the ratings.

Emgesa's ratings are constrained by Colombia's Country Ceiling of 'BBB'. The Negative Outlooks on the Foreign Currency rating reflects Colombia's Negative Outlook. Emgesa operates within Colombia and does not have substantial offshore cash or EBITDA from other countries.

Fitch considers Emgesa well prepared to face the current lockdown environment as a result of the coronavirus pandemic, given its conservative capital structure and strong liquidity position, supported by cash flow visibility. Between 80% and 85% of sales are supported by contracts with limited exposure to volumetric risk. The company recently secured a one-year committed credit line as a precautionary measure to bolster liquidity. Noncore capex will likely be delayed, with a focus only on maintenance requirements.

Key Rating Drivers

Solid Business Position: Emgesa's ratings factor in its robust business position in the electricity-generation market in Colombia. As of YE 2019, the company remained the country's largest generation company in terms of installed capacity and volume generated. The company has a well-diversified portfolio of 12 hydro and two thermal plants. Total capacity remains at 3,506MW, making up 20% of Colombia's generation matrix.

The scale and diversity of Emgesa's asset base gives it higher operational flexibility relative to smaller and less-diversified generation companies (gencos), and improves predictability for the operational cash flows.

Conservative Capital Structure: Fitch expects Emgesa to maintain positive FCF under normal hydrology conditions in the medium term, driven primarily by annual EBITDA of COP2.0 trillion–COP2.5 trillion. Emgesa's EBITDA could be spurred by possible higher spot prices in the short to medium term, amid growing electricity demand and relatively stable installed capacity in 2020–2021.

The company's FCF benefits from limited capex requirements through the medium term and its current dividend payout of 70%. This is reflected in low leverage metrics, which Fitch expects to remain below 1.5x for the rating horizon.

Moderate Business Risk: Emgesa's matrix size and diversification mitigate the risk of operating in the competitive electricity-generation business in Colombia, which depends on hydrology conditions as well as energy and fuel prices. Colombia's electricity sector operates under a shorter-term contract structure relative to other countries in the region, which exposes gencos to some recontracting risk.

Emgesa combines geographic diversification and backup thermal generation capacity totaling 409MW to mitigate the hydrological risk posed by a portfolio 88% weighted to hydro

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term Local Currency IDR	BBB	Stable	Affirmed April 7, 2020
Long-Term IDR	BBB	Negative	Affirmed April 7, 2020
National Long-Term Rating	AAA (col)	Stable	Affirmed April 7, 2020

[Click here for full list of ratings](#)

Applicable Criteria

[Corporate Rating Criteria – Effective from 27 March 2020 to 1 May 2020 \(March 2020\)](#)

[Parent and Subsidiary Rating Linkage \(September 2019\)](#)

[National Scale Ratings Criteria \(July 2018\)](#)

Related Research

[Colombian Gencos Resilient to Cash Flow Volatility \(April 2020\)](#)

[Fitch Affirms Emgesa's IDR at 'BBB'; Outlook Negative \(April 2020\)](#)

[Fitch Downgrades Ecopetrol, Ocesa and Al Candelaria, Affirms Other Colombian Corporates \(April 2020\)](#)

Analysts

Lincoln Webber
+1 646 582-3523
lincoln.webber@fitchratings.com

Jose Luis Rivas
+57 1 484-6770
joseluis.rivas@fitchratings.com

generation. The diversification in different basins allows the company to maintain stability in energy generation during severely dry seasons.

Exposure to Hydrological Risk: Fitch believes Emgesa’s commercial policy could expose it to cash flow volatility under adverse hydrology conditions or major disruptions at its plants, as the company might be forced to purchase energy in the spot market, where prices react to hydrology conditions. The commercial policy aims to maintain contract sales at 80%–85% of its sales mix to capture higher prices under low spot prices. Emgesa hedges this risk through geographic diversification of its generation matrix, operation of thermal assets and contractual energy purchases.

Standalone Approach: Fitch assesses Emgesa’s credit profile on a standalone basis. Fitch sees Emgesa as a strategic investment for its controlling shareholder, Enel S.p.A. (A–/Stable), through Enel Americas S.A. (A–/Stable), considering the importance of Enel’s Colombian operations on EBITDA. They make up roughly 21% of EBITDA generated in the region. The absence of legal ties, weak to moderate operational ties and the presence of an important minority shareholder weaken the parent-subsidary linkage.

Shareholder Dispute: Fitch will continue to monitor the arbitration process initiated by Grupo Energia Bogota S.A. E.S.P. against Enel Americas related to Emgesa’s dividend-distribution policy, as well as related-party transactions. Fitch believes visibility is limited on the potential impact of the arbitration’s resolution on Emgesa’s governance and its financial metrics. However, in general terms, Fitch believes Emgesa’s credit profile can withstand reasonable adverse resolution scenarios.

Financial Summary

(COP Mil., as of Dec. 31)	2018	2019	2020F	2021F
Gross Revenue	3,718,537	4,091,567	4,298,099	4,699,257
Operating EBITDAR Margin (%)	56.3	57.0	51.8	54.5
FCF	709,283	335,852	(81,437)	600,304
Total Adjusted Debt/Operating EBITDAR (x)	1.9	1.3	1.6	1.1
Operating EBITDAR/Interest Paid + Rents (x)	6.6	8.8	8.4	9.9

F - Forecast.

Source: Fitch Ratings, Fitch Solutions.

Rating Derivation Relative to Peers

Emgesa is well positioned relative to regional investment-grade electric company peers, including Isagen S.A. E.S.P. (BBB/Negative), Enel Generacion Chile S.A. (A–/Stable), Engie Energia Chile S.A. (BBB/Positive), Colbun S.A. (BBB/Positive) and AES Gener S.A. (BBB–/Stable). These companies benefit from predictable cash flow from operations, stemming from robust business profiles and conservative capital structures. Emgesa is rated a notch lower than Enel Generacion Chile and Enel Americas, because these companies maintain more diversified asset bases. Enel Generacion Chile has more than 6,000MW of installed capacity, with greater thermal assets and material participation in wind plants, which allow it to mitigate hydrological risks. Enel Generacion Chile maintains a conservative capital structure, with leverage consistently below 1.5x.

Emgesa’s ratings are in line with those of Engie and Colbun. Emgesa maintains a more conservative capital structure, with projected leverage trending toward 1.5x, while Fitch’s projection for Colbun is 2.5x–3.0x and around 2.0x for Engie, down from 3.0x in 2017. The Chilean peers benefit from a longer-term contractual position, with an average power purchase agreement remaining life of at least nine years, which mitigates recontracting risk. These contracts also have adequate indexation mechanisms that largely mitigate their exposure to fuel price volatility, which adds to the predictability of cash flow from operations.

Colombian generators are more exposed to recontracting risk, because electricity demand is mostly driven by the regulated market, which tends to purchase electricity with tenures of around three years. Part of Emgesa’s strategy focuses on extending the tenure of contracts

within the nonregulated market, but this segment represents around one-third of Colombian electricity demand.

Emgesa also compares well with electricity generation peers that have national ratings, namely Isagen, Empresas Publicas de Medellin E.S.P. (EPM) and Celsia Colombia S.A. E.S.P., all rated 'AAA(col)'. Emgesa has the highest installed capacity and most conservative capital structure within this group. Fitch projects Isagen's leverage is around 3.0x and expects Celsia Colombia to reduce leverage to 2.5x in the medium term. EPM's credit profile benefits from diversification across business sectors and geographies, which contributes to solid and predictable cash flows. EPM's ratings are nevertheless on Rating Watch Negative as a result of continued uncertainty regarding the development of its Hidroituango project.

Navigator Peer Comparison

Issuer	Business profile										Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Regulatory Risk	Commodity Price and Market Risk	Market	Asset Base and Operations	Profitability	Financial Structure	Financial Flexibility			
AES Gener S.A.	BBB-/Sta	a	bbb	bbb+	bbb-	bbb-	bbb-	bbb-	bbb+	bbb-	bbb-	bbb+	bbb-
Colbun S.A.	BBB/Pos	a+	bbb+	bbb+	bbb	bbb+	bbb	bbb+	bbb	bbb	bbb	bbb+	bbb+
Emgesa S.A. E.S.P.	BBB/Neg	bbb-	bbb	bbb+	bbb-	bbb	bbb	bbb	bbb	bbb+	bbb	a	bbb+
Enel Americas S.A.	A-/Sta	bbb-	a-	bbb-	bbb-	bbb	bbb	bbb	bbb+	bbb	a	a	a-
Enel Generacion Chile S.A.	A-/Sta	aa	bbb+	bbb+	bbb	bbb	bbb	bbb+	bbb	bbb+	bbb	a	a-
Engie Energia Chile S.A.	BBB/Pos	a+	bbb+	bbb+	bbb	bbb	bbb	bbb+	bbb	bbb	bbb	bbb	bbb+
Isagen S.A. E.S.P.	BBB/Neg	bbb-	bbb	bbb+	bbb	bbb	bbb	bbb	bbb	bbb	bbb	bbb	bbb-

Source: Fitch Ratings. Importance: Higher (Red), Moderate (Blue), Lower (Light Blue)

Name	IDR/Outlook	Business profile										Financial profile		
		Operating Environment	Management and Corporate Governance	Regulatory Risk	Commodity Price and Market Risk	Market	Asset Base and Operations	Profitability	Financial Structure	Financial Flexibility				
AES Gener S.A.	BBB-/Sta	4.0	1.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.0	0.0
Colbun S.A.	BBB/Pos	4.0	1.0	1.0	0.0	0.0	1.0	0.0	1.0	0.0	0.0	0.0	1.0	1.0
Emgesa S.A. E.S.P.	BBB/Neg	-1.0	0.0	1.0	-1.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	3.0	1.0
Enel Americas S.A.	A-/Sta	-3.0	0.0	-3.0	-2.0	-2.0	-2.0	-1.0	-1.0	0.0	1.0	0.0	1.0	0.0
Enel Generacion Chile S.A.	A-/Sta	5.0	0.0	0.0	-1.0	0.0	0.0	-1.0	-1.0	0.0	0.0	0.0	2.0	1.0
Engie Energia Chile S.A.	BBB/Pos	4.0	1.0	1.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Isagen S.A. E.S.P.	BBB/Neg	-1.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.0

Source: Fitch Ratings. Legend: Red = Worse positioned than IDR, Blue = In line with IDR, Light Blue = Better positioned than IDR

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Fitch considers a positive rating action unlikely in the near term, given business and geographic concentration in electricity generation in Colombia.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A steep decline in electricity prices, coupled with low generation and poor electricity demand that put significant pressure on EBITDA generation;
- Changes in regulation that pressures Emgesa's cash flow from operations;
- A sustained increase in leverage above 3.5x;
- A change in the company's strategy that results in a more aggressive policy in terms of leverage, capex or acquisitions;
- A downgrade of Colombia's Country Ceiling.

Liquidity and Debt Structure

Strong Liquidity: Fitch considers Emgesa's liquidity to be adequate, supported by a healthy cash balance, stable cash flow from operations, limited capex requirements and a manageable debt maturity profile. The company reported approximately COP284 billion in available cash and around COP246 billion in short-term debt at YE 2019, with approximately COP241 billion corresponding to local bonds due May 2020, which should be paid off using internally generated cash. Fitch expects the company will maintain positive FCF in the medium term, which will contribute to debt maturity payments.

The company reported COP2.9 trillion of financial debt as of YE 2019, down from around COP3.7 trillion at YE 2018, as the company used FCF to pay off current maturities. Emgesa's financial debt comprises COP2.2 trillion of local bond issuances (around 75% of total debt) and COP736.76 million of international bond issuance indexed to local currency due in January 2021 (around 25%), with the remainder from credit loans and leases. Emgesa's financial debt is fully expressed in local currency. Fitch considers Emgesa's debt refinancing risk to be low, given its moderate leverage, manageable debt profile and ample access to liquidity sources.

As of YE 2019, the company reported available uncommitted credit lines of COP3.9 trillion jointly with related company Codensa S.A., with proven access to local and international capital markets, which reinforces its liquidity position. The company has a manageable debt-amortization profile compared with its strong cash flow from operations capacity. A COP736.77 million international bond issuance matures in January 2021, and the company is assessing alternatives to refinance this maturity. The company recently contracted a 12-month committed credit line for USD65 million to support liquidity.

ESG Considerations

Environmental, Social and Governance (ESG) issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Liquidity and Debt Maturity Scenario with No Refinancing

Liquidity Analysis

(COP Mil.)	2020F	2021F	2022F	2023F
Available Liquidity				
Beginning Cash Balance	285,599	158,861	(287,680)	(700,501)
Rating Case FCF After Acquisitions and Divestitures	118,028	383,253	189,857	278,543
Total Available Liquidity (A)	403,627	542,114	(97,823)	(421,958)
Liquidity Uses				
Debt Maturities	(244,766)	(829,794)	(602,679)	(290,839)
Total Liquidity Uses (B)	(244,766)	(829,794)	(602,679)	(290,839)
Liquidity Calculation				
Ending Cash Balance (A+B)	158,861	(287,680)	(700,501)	(712,797)
Revolver Availability	0	0	0	0
Ending Liquidity	158,861	(287,680)	(700,501)	(712,797)
Liquidity Score (x)	1.6	0.7	(0.2)	(1.5)

F - Forecast.

Source: Fitch Ratings, Fitch Solutions, Emgesa S.A. E.S.P.

Scheduled Debt Maturities

(COP Mil.)	12/31/19
2020	244,766
2021	829,794
2022	602,679
2023	290,839
2024	242,639
Thereafter	725,530
Total	2,936,247

Source: Fitch Ratings, Fitch Solutions, Emgesa S.A. E.S.P.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Electricity generation remains around 14,500 gigawatt-hours during 2020–2023;
- Emgesa's commercial policy maintains contract sales between 80%–85% of total volume sales;
- Capex focused on existing assets;
- No material increase in installed capacity;
- Dividend payout ratio remains at 70%.

Financial Data

(COP Mil., as of Dec. 31)	2017	2018	2019	2020F	2021F	2022F
Summary Income Statement						
Gross Revenue	3,425,090	3,718,537	4,091,567	4,298,099	4,699,257	4,410,709
Revenue Growth (%)	(2.5)	8.6	10.0	5.0	9.3	(6.1)
Operating EBITDA (Before Income from Associates)	2,058,193	2,092,507	2,333,953	2,226,471	2,560,739	2,336,950
Operating EBITDA Margin (%)	60.1	56.3	57.0	51.8	54.5	53.0
Operating EBITDAR	2,058,193	2,092,507	2,333,953	2,226,471	2,560,739	2,336,950
Operating EBITDAR Margin (%)	60.1	56.3	57.0	51.8	54.5	53.0
Operating EBIT	1,847,746	1,876,046	2,091,722	1,978,154	2,312,639	2,085,813
Operating EBIT Margin (%)	53.9	50.5	51.1	46.0	49.2	47.3
Gross Interest Expense	(347,936)	(310,772)	(272,072)	(266,625)	(259,133)	(214,751)
Pretax Income (Including Associate Income/Loss)	1,453,358	1,568,214	1,823,539	1,725,096	2,067,072	1,884,629
Summary Balance Sheet						
Readily Available Cash and Equivalents	609,322	709,644	285,599	900,506	624,470	651,823
Total Debt with Equity Credit	4,220,729	3,924,137	2,927,586	3,623,930	2,747,590	2,547,590
Total Adjusted Debt with Equity Credit	4,220,729	3,924,137	2,927,586	3,623,930	2,747,590	2,547,590
Net Debt	3,611,407	3,214,493	2,641,987	2,723,424	2,123,120	1,895,767
Summary Cash Flow Statement						
Operating EBITDA	2,058,193	2,092,507	2,333,953	2,226,471	2,560,739	2,336,950
Cash Interest Paid	(375,206)	(314,964)	(265,948)	(266,625)	(259,133)	(214,751)
Cash Tax	(416,402)	(471,236)	(484,766)	(552,031)	(640,792)	(565,389)
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	0	0	0	0	0
Other Items Before FFO	62,045	163,477	(340,936)	0	0	0
Funds Flow from Operations	1,349,410	1,488,988	1,257,534	1,407,816	1,660,813	1,556,811
FFO Margin (%)	39.4	40.0	30.7	32.8	35.3	35.3
Change in Working Capital	(198,533)	80,110	126,123	(159,551)	(12,129)	8,724
Cash Flow from Operations (Fitch Defined)	1,150,877	1,569,098	1,383,657	1,248,264	1,648,685	1,565,535
Total Non-Operating/Nonrecurring Cash Flow	0	0	0			
Capex	(321,505)	(260,109)	(351,234)			
Capital Intensity (Capex/Revenue) (%)	9.4	7.0	8.6			
Common Dividends	(597,439)	(599,706)	(696,571)			
FCF	231,933	709,283	335,852			
Net Acquisitions and Divestitures	0	0	0			
Other Investing and Financing Cash Flow Items	(47,830)	(106,708)	56,535	0	0	0
Net Debt Proceeds	(240,667)	(524,517)	(746,900)	696,344	(876,340)	(200,000)
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	(56,564)	78,058	(354,513)	614,907	(276,036)	27,353
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	(918,944)	(859,815)	(1,047,805)	(1,329,701)	(1,048,381)	(1,338,182)
FCF After Acquisitions and Divestitures	231,933	709,283	335,852	(81,437)	600,304	227,353
FCF Margin (After Net Acquisitions) (%)	6.8	19.1	8.2	(1.9)	12.8	5.2
Coverage Ratios (x)						
FFO Interest Coverage	4.5	5.7	5.7	6.3	7.4	8.2
FFO Fixed-Charge Coverage	4.5	5.7	5.7	6.3	7.4	8.2
Operating EBITDAR/Interest Paid + Rents	5.5	6.6	8.8	8.4	9.9	10.9
Operating EBITDA/Interest Paid	5.5	6.6	8.8	8.4	9.9	10.9

Leverage Ratios (x)

Total Adjusted Debt/Operating EBITDAR	2.1	1.9	1.3	1.6	1.1	1.1
Total Adjusted Net Debt/Operating EBITDAR	1.8	1.5	1.1	1.2	0.8	0.8
Total Debt with Equity Credit/Operating EBITDA	2.1	1.9	1.3	1.6	1.1	1.1
FFO Adjusted Leverage	2.5	2.2	1.9	2.2	1.4	1.4
FFO Adjusted Net Leverage	2.1	1.8	1.8	1.6	1.1	1.1

F - Forecast.

Source: Fitch Ratings, Fitch Solutions.

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



Factor Levels	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Regulatory Risk	Business Profile			Financial Profile			Issuer Default Rating	
					Commodity Price and Market Risk	Market	Asset Base and Operations	Profitability	Financial Structure	Financial Flexibility		
aaa												AAA
aa+												AA+
aa												AA
aa-												AA-
a+	■									■		A+
a	■											A
a-	■		■	■			■	■	■		■	A-
bbb+	■		■	■	■		■	■				BBB+
bbb	■	■	■	■	■	■	■	■				BBB
bbb-	■	■	■	■	■	■	■	■				BBB-
bb+	■				■							BB+
bb	■											BB
bb-	■											BB-
b+	■											B+
b	■											B
b-	■	■										B-
ccc+												CCC+
ccc												CCC
ccc-												CCC-
cc												CC
c												C
d or rd												D or RD

Operating Environment

bbb	Economic Environment	bbb	Average combination of countries where economic value is created and where assets are located.
bbb-	Financial Access	bbb	Average combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
b-	Systemic Governance	bb	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'bb'.
ccc+			

Regulatory Risk

a	Independence	a	Strong regulatory independence from central government.
a-	Balance	a	Balanced framework between end users' and sector participants' needs. It seeks low tariffs for users and attractive return on capital.
bbb+	Transparency	bbb	The tariff-setting procedure is transparent and includes the participation of industry players.
bbb	Recourse of Law	bbb	Procedures to appeal regulatory rulings are clear but long processing periods. Companies can oppose or comment on regulations.
bbb-	Timeliness of Cost Recovery	bbb	Moderate lag to recover capital and operating costs.

Market

a-	Consumption Growth Trend	bbb	Customer and usage growth in line with industry averages.
bbb+	Customer Mix	bbb	Somewhat diversified customer base.
bbb	Geographic Location	bbb	Beneficial location or reasonable locational diversity.
bbb-	Supply Demand Dynamics	bb	Uncertain outlook for prices and rates.
bb+			

Profitability

a	Volatility of Profitability	bbb	Stability and predictability of profits in line with utility peers.
a-	Free Cash Flow	a	Structurally neutral to positive FCF across the investment cycle.
bbb+			
bbb			
bbb-			

Financial Flexibility

a	Financial Discipline	bbb	Less conservative policy but generally applied consistently.
a-	Liquidity (Cash+CFO)/S-T Debt	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bbb+	FFO Interest Coverage	a	5.5x
bbb	FX Exposure	a	Profitability potentially exposed to FX but efficient hedging in place. Debt and cash flows well-matched.
bbb-			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Management and Corporate Governance

a-	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
bbb+	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bbb	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bbb-	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bb+			

Commodity Price and Market Risk

bbb+	Price and Volume Risk	bb	High price risk exposure and/or long and uncertain cost pass-throughs. Company operates with some exposure to spot price volatility.
bbb	Counterparty Risk	bbb	Weighted average credit quality of actual and potential offtakers is in line with 'BBB' rating.
bbb-			
bb+			
bb			

Asset Base and Operations

a-	Asset Diversity	bbb	Good quality and/or reasonable scale diversified assets.
bbb+	Reliability of Operations and Cost Position	bbb	Reliability and cost of operations at par with industry averages with moderate operating losses.
bbb	Exposure to Environmental Regulations	bbb	Limited or manageable exposure to environmental regulations.
bbb-	Capital and Technological Intensity of Capex	bbb	Moderate reinvestment requirements in established technologies.
bb+			

Financial Structure

aa-	FFO Leverage	a	<2.5x
a+	FFO Net Leverage	a	<2.0x
a	Total Debt With Equity Credit/Op. EBITDA	a	<2.5x
a-			
bbb+			

Credit-Relevant ESG Derivation

				Overall ESG	
Emgesa S.A. E.S.P. has 12 ESG potential rating drivers					
key driver	0	issues	5		
driver	0	issues	4		
potential driver	12	issues	3		
not a rating driver	1	issues	2		
	1	issues	1		

Showing top 6 issues

For further details on Credit-Relevant ESG scoring, see page 3.

Credit-Relevant ESG Derivation

Emgesa S.A. E.S.P. has 12 ESG potential rating drivers

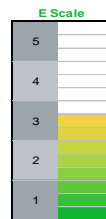
- ➔ Emgesa S.A. E.S.P. has exposure to energy productivity risk but this has very low impact on the rating.
- ➔ Emgesa S.A. E.S.P. has exposure to water management risk but this has very low impact on the rating.
- ➔ Emgesa S.A. E.S.P. has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ Emgesa S.A. E.S.P. has exposure to extreme weather events but this has very low impact on the rating.
- ➔ Emgesa S.A. E.S.P. has exposure to access/affordability risk but this has very low impact on the rating.
- ➔ Emgesa S.A. E.S.P. has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

				Overall ESG Scale
key driver	0	issues	5	
driver	0	issues	4	
potential driver	12	issues	3	
not a rating driver	1	issues	2	
	1	issues	1	

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	Emissions from operations	Asset Base and Operations; Regulatory Risk; Profitability; Financial Structure
Energy Management	3	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Asset Base and Operations; Commodity Price and Market Risk; Profitability; Financial Structure
Water & Wastewater Management	3	Water usage in operations; water utilities' financial targets for water quality, leakage and usage	Asset Base and Operations; Regulatory Risk; Profitability
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste including pollution incidents; discharge compliance; sludge, coal ash	Asset Base and Operations; Regulatory Risk; Profitability
Exposure to Environmental Impacts	3	Networks' exposure to extreme weather events - negative (e.g. risk of drought and flooding) or positive (e.g. additional return on resilience capex)	Asset Base and Operations; Commodity Price and Market Risk; Profitability



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

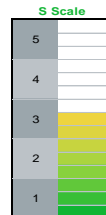
The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

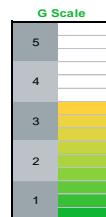
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Regulatory-driven access and affordability targets of utility services	Asset Base and Operations; Regulatory Risk; Profitability
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Regulatory Risk; Profitability
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability; Financial Structure; Financial Flexibility
Employee Wellbeing	2	Worker safety and accident prevention	Financial Flexibility
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Profitability; Financial Structure



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

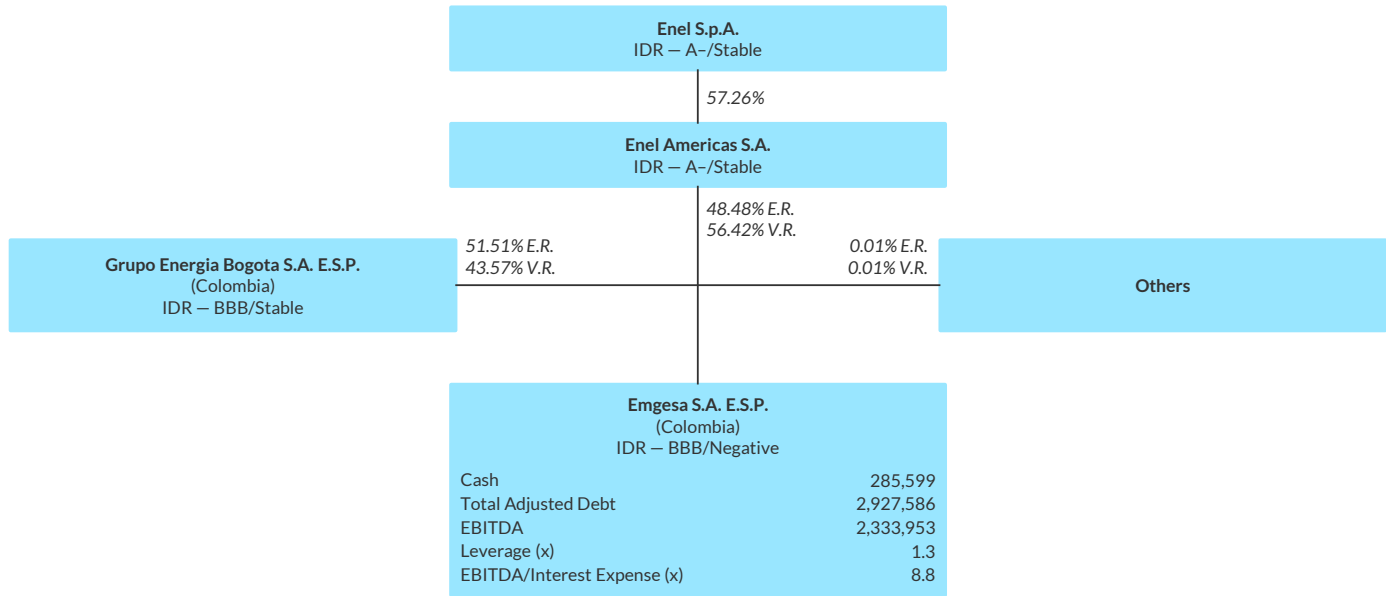


CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "low er" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram

Organizational Structure – Emgesa S.A. E.S.P.
(COP Mil., as of Dec. 30, 2019)



IDR – Issuer Default Rating. E.R. – Economic rights. V.R. – Voting rights.
Source: Fitch Ratings, Fitch Solutions, Emgesa S.A. E.S.P.

Peer Financial Summary

Company	Issuer Default Rating	Financial Statement Date	Gross Revenue (USD Mil.)	Operating EBITDAR Margin (%)	FFO Margin (%)	FFO Fixed Charge Coverage (x)	FFO Adjusted Leverage (x)
Emgesa S.A. E.S.P	BBB						
	BBB	2019	1,247	57.0	102.0	1.3	8.8
	BBB	2018	1,258	56.3	240.0	1.9	6.6
	BBB	2017	1,160	60.1	79.0	2.1	5.5
Isagen S.A. ESP	BBB						
	BBB	2018	897	56.3	73.0	3.0	1.5
	BBB-	2017	796	50.2	72.0	2.9	3.5
	BBB-	2016	901	32.5	25.0	4.1	2.1
Empresas Publicas de Medellin E.S.P. (EPM)	BBB						
	BBB	2019	5,596	33.5	(460.0)	3.4	3.8
	BBB	2018	5,519	29.7	(698.0)	4.5	3.6
	BBB+	2017	5,062	31.0	(832.0)	3.7	4.2
AES Gener S.A.	BBB-						
	BBB-	2019	2,412	34.5	(236.0)	4.7	5.0
	BBB-	2018	2,647	33.5	(252.0)	3.7	5.4
	BBB-	2017	2,437	32.6	(167.0)	4.3	4.3
Colbun S.A.	BBB						
	BBB	2019	1,487	46.9	50.0	2.4	8.8
	BBB	2018	1,571	43.5	43.0	2.3	9.3
	BBB	2017	1,548	44.7	229.0	2.4	7.9

Source: Fitch Ratings, Fitch Solutions.

Reconciliation of Key Financial Metrics

(COP Mil., as reported)	12/31/19
Income Statement Summary	
Operating EBITDA	2,333,953
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	2,333,953
+ Operating Lease Expense Treated as Capitalised (h)	0
= Operating EBITDAR after Associates and Minorities (j)	2,333,953
Debt & Cash Summary	
Total Debt with Equity Credit (l)	2,927,586
+ Lease-Equivalent Debt	0
+ Other Off-Balance-Sheet Debt (p)	0
= Total Adjusted Debt with Equity Credit (a)	2,927,586
Readily Available Cash [Fitch-Defined]	285,599
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	285,599
Total Adjusted Net Debt (b)	2,641,987
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	0
Interest Received	15,231
+ Interest (Paid) (d)	(265,948)
= Net Finance Charge (e)	(250,717)
Funds From Operations [FFO] (c)	1,257,534
+ Change in Working Capital [Fitch-Defined]	126,123
= Cash Flow from Operations [CFO] (n)	1,383,657
Capital Expenditures (m)	(351,234)
Multiple applied to Capitalised Leases	0.0
Gross Leverage (x)	
Total Adjusted Debt/Op. EBITDAR^a (a/j)	1.3
FFO Adjusted Gross Leverage (a/(c-e+h-f))	1.9
<i>Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
FFO Leverage ((l+p)/(c-e+h-f))	1.9
<i>(Total Debt + Other Debt)/(FFO - Net Finance Charge - Pref. Div. Paid)</i>	
Total Debt With Equity Credit/Op. EBITDA* [x] (l/k)	1.3
CFO-Capex/Total Debt with Equity Credit (%)	0.4
Net Leverage (x)	
Total Adjusted Net Debt/Op. EBITDAR^a (b/j)	1.1
FFO Adjusted Net Leverage (b/(c-e+h-f))	1.8
<i>Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
FFO Net Leverage ((l+p-o)/(c-e+h-f))	1.8
<i>Total Adjusted Net Debt/(FFO - Net Finance Charge - Pref. Div. Paid)</i>	
Total Net Debt/(CFO - Capex) ((l-o)/(n+m))	2.6
CFO-Capex/Total Net Debt with Equity Credit (%)	0.4
Coverage (x)	
Op. EBITDAR/(Interest Paid + Lease Expense)^a (j/-d+h)	8.8
Op. EBITDA/Interest Paid^a (k/(-d))	8.8
FFO Fixed Charge Cover ((c+e+h-f)/(-d+h-f))	5.7
<i>(FFO + Net Finance Charge + Capit. Leases - Pref. Div. Paid)/(Gross Int. Paid + Capit. Leases - Pref. Div. Paid)</i>	
FFO Gross Interest Coverage ((c+e-f)/(-d-f))	5.7
<i>(FFO + Net Finance Charge - Pref. Div. Paid)/(Gross Int. Paid - Pref. Div. Paid)</i>	

^aEBITDA/R after Dividends to Associates and Minorities.

Source: Fitch Ratings, Fitch Solutions, Emgesa S.A.E.S.P.

Fitch Financial Adjustments – Summary Financials

(COP Mil., as reported)	Reported Values 12/31/19	Sum of Fitch Adjustments	Adjusted Values
Income Statement Summary			
Revenue	4,091,567	0	4,091,567
Operating EBITDAR	2,334,826	(873)	2,333,953
Operating EBITDAR after Associates and Minorities	2,334,826	(873)	2,333,953
Operating Lease Expense	0	0	0
Operating EBITDA	2,334,826	(873)	2,333,953
Operating EBITDA after Associates and Minorities	2,334,826	(873)	2,333,953
Operating EBIT	2,092,595	(873)	2,091,722
Debt & Cash Summary			
Total Debt With Equity Credit	3,017,876	(90,290)	2,927,586
Total Adjusted Debt With Equity Credit	3,017,876	(90,290)	2,927,586
Lease-Equivalent Debt	0	0	0
Other Off-Balance Sheet Debt	0	0	0
Readily Available Cash & Equivalents	287,545	(1,946)	285,599
Not Readily Available Cash & Equivalents	0	1,946	1,946
Cash-Flow Summary			
Preferred Dividends (Paid)	0	0	0
Interest Received	20,533	(5,302)	15,231
Interest (Paid)	(272,072)	6,124	(265,948)
Funds From Operations [FFO]	1,514,571	(257,037)	1,257,534
Change in Working Capital [Fitch-Defined]	126,123	0	126,123
Cash Flow from Operations [CFO]	1,640,694	(257,037)	1,383,657
Non-Operating/Non-Recurring Cash Flow	0	0	0
Capital (Expenditures)	(351,234)	0	(351,234)
Common Dividends (Paid)	(696,571)	0	(696,571)
Free Cash Flow [FCF]	592,889	(257,037)	335,852
Gross Leverage (x)			
Total Adjusted Debt/Op. EBITDAR ^a	1.3		1.3
FFO Adjusted Leverage	1.7		1.9
FFO Leverage	1.7		1.9
Total Debt With Equity Credit/Op. EBITDA ^a	1.3		1.3
CFO-Capex/Total Debt with Equity Credit (%)	42.7		35.3
Net Leverage (x)			
Total Adjusted Net Debt/Op. EBITDAR ^a	1.2		1.1
FFO Adjusted Net Leverage	1.5		1.8
FFO Net Leverage	1.5		1.8
Total Net Debt/(CFO - Capex)	2.1		2.6
CFO-Capex/Total Net Debt with Equity Credit (%)	47.2		39.1
Coverage (x)			
Op. EBITDAR/(Interest Paid + Lease Expense) ^a	8.6		8.8
Op. EBITDA/Interest Paid ^a	8.6		8.8
FFO Fixed Charge Coverage	6.5		5.7
FFO Interest Coverage	6.5		5.7

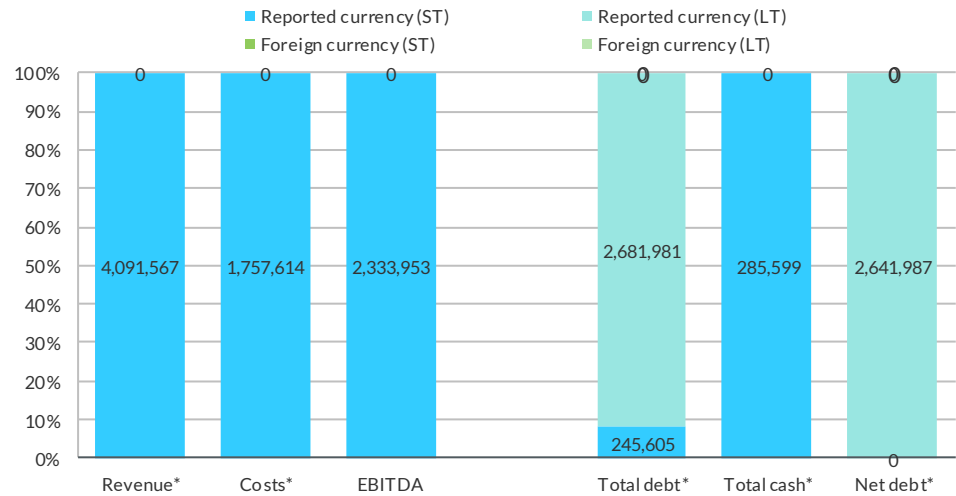
^aEBITDA/R after Dividends to Associates and Minorities.
Source: Fitch Ratings, Fitch Solutions, Emgesa S.A. E.S.P.

FX Screener

Emgesa has no material exposure to FX volatility, as 100% of its financial debt is denominated in local currency and its U.S. dollar debt exposure is fully hedged. A portion of its revenues from its reliability charge are denominated in U.S. dollars and match with costs expressed in dollars. The effect of FX volatility on capex is limited, as no sizable capex program is pending in the short term.

Fitch FX Screener

(Emgesa S.A. E.S.P. — BBB/Stable. LTM Dec-19. COPm)



* Post hedge, absolute figures displayed are Fitch’s analytical estimates, based on publicly available information
Source: Fitch Ratings

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