S&P Global
Ratings

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Seven Colombian Corporate And Infrastructure Entities Downgraded On Same Sovereign Action, Rating On One Entity Affirmed

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- On May 19, 2021, S&P Global Ratings lowered its sovereign credit rating on Colombia to 'BB+' from 'BBB-' and assigned a stable outlook.
- As a result, we're lowering the ratings on seven domestic corporate and infrastructure entities and assigning a stable outlook because they're directly or indirectly linked to the sovereign. We're also affirming the rating on one project.
- The stable outlook on these companies mirrors the one on Colombia, because we expect ratings on these entities to move in tandem with the one on the sovereign.

SAO PAULO (S&P Global Ratings) May 20, 2021—S&P Global Ratings downgraded the following companies to 'BB+' from 'BBB-' and assigned a stable outlook:

- Ecopetrol S.A.;
- Grupo de Inversiones Suramericana S.A. (Grupo Sura);
- ISAGEN, S.A. E.S.P.; and
- Oleoducto Central, S.A. (OCENSA).

Although the following two entities have ratings above that on Colombia, we downgraded them to 'BBB-' from 'BBB' and assigning a stable outlook:

- Enel Americas S.A. ; and
- Emgesa S.A. E.S.P.

The ratings on both entities are higher than on the sovereign, mainly because of the potential support they would receive in case of financial distress from their parent companies -- Enel SpA (BBB+/Stable/A-2) in the case of Enel Americas, and Enel Americas for Emgesa.

We also lowered the issue-level ratings on A.I. Candelaria Spain to 'B+' from 'BB-'. This is because we still see a notch differential due to its total reliance on subordinated dividend payments from its sole investment, OCENSA, which distributes them after funding its operating and financial needs.

Finally, we affirmed the 'AA' rating on Sociedad Concesionaria Vial Montes de María S.A.S. (Puerta de Hierro). The outlook remains stable.

The latter rating action follows the withdrawal of a the government's fiscal reform proposal amid high spending pressures, resulting in a sharply lower likelihood of Colombia improving its fiscal position following a recent and marked deterioration. Given high external vulnerability, comparably weak economic profile--balanced by adequate institutions and monetary credibility--Colombia's debt will stabilize at around 60% of GDP during 2021-2024 and will post relatively wide fiscal deficits. These factors are no longer consistent with an investment-grade foreign currency rating (please refer to "Colombia Long-Term Foreign Currency Rating Lowered To 'BB+' On Persistent Fiscal Weakness; Outlook Stable", published on May 19, 2021, for further details).

This is because they continue to be exposed to Colombia, in our view, given that they operate in what we conceive as highly regulated sectors (dependent on rate adjustments approved by the regulators) and that demand for their services is in some cases correlated to the country's GDP growth pace. Consequently, we believe the entities could suffer from heavier regulation in a sovereign stress scenario, and wouldn't generate or maintain sufficient cash to honor their financial obligations under a sovereign default scenario.

This is the case for Ecopetrol, of which Colombia's government is a controlling shareholder. Therefore, ratings on the company and its subsidiaries move in tandem with those on the sovereign. In our view, the final rating on Ecopetrol is capped at the level of the 'BB+' foreign currency rating on Colombia, given our expectation that the government could have a tendency to increase taxes or dividends if it faces fiscal or external stress, which could restrict Ecopetrol's financial flexibility. Additionally, our assessment that the company has a very strong link with the government also limits the rating. As a result of the downgrade of Ecopetrol, we took a similar rating action on its subsidiary, OCENSA, because we don't believe there are meaningful regulatory mechanisms or other structural barriers that restrict the parent from accessing the subsidiaries' cash flows in a scenario of distress. In addition, Ecopetrol is OCENSA's main client, representing more than 80% of its revenue in 2020.

Moreover, we lowered the issue-level rating on Candelaria's notes, given 100% of its equity interests in OCENSA and its total reliance on subordinated dividend payments from the latter entity, which distributes them after funding its operating and financial needs. In addition, given that OCENSA is not publicly traded, it might be difficult for Candelaria to liquidate its investment if needed, and for us to forecast asset valuations relative to debt with certainty. The rating on Candelaria's notes also captures the existing governance principles contained in the shareholders' agreement whereby Candelaria holds veto powers over OCENSA's material decisions such as business plans, large investments, and changes to the dividends policy.

Isagen sells about 35% of its energy to distributors, which have their rates set by the regulator. Therefore, we believe payments to Isagen--in case of a regulatory interference in distributors' rates--could deteriorate. In addition, Isagen sells a portion of its output on the spot market, which we believe could also be at its regulatory floor amid recession. Therefore, the sovereign rating caps the rating on Isagen, in our view.

We believe that Grupo Sura wouldn't pass a Colombian sovereign default stress test scenario. The sovereign rating cap and risk to Grupo Sura in a sovereign default scenario reflect the high correlation between the company's assets and dividends, and the country's economy, because around 40% of assets operate mostly in this country. The company is exposed to Colombia's financial system because Grupo Sura has a stake in Bancolombia, which represents an approximately 25% of the dividend stream. In our view, this limits the rating on Grupo Sura to the sovereign level because we deem highly likely that a sovereign default would entail a significant shock to the country's financial system.

We expect around 35% of Enel Americas' EBITDA to come from Colombia in 2021, followed by

Brazil (about 45%), Peru (15%), and Argentina (5%). Although we believe that Enel Americas' debt repayment capacity remains stronger than those of the sovereigns where it operates, mainly because of the potential support it would receive from its parent company Enel in case of financial distress, the company's downgrade reflects its sensitivity to deteriorating country risks.

The rating action on Emgesa follows the one on Enel Americas, given that the former plays an important role in the latter's strategy in Latin America. Therefore, we expect the latter to support Emgesa under any foreseeable circumstance, including a hypothetical sovereign default of Colombia.

We affirmed the rating on Puerta de Hierro as it reflects the guarantor's creditworthiness. This is because Puerta de Hierro's notes benefit from an irrevocable financial guarantee for interest and make-whole premium payment, in respect to the maximum guaranteed principal amount and for up to $350 million on principal, from Development Finance Corp. (DFC). However, we revised downwards the project's operations phase stand-alone credit profile to 'bb+' from 'bbb-' because we consider the creditworthiness of the project's main offtaker (Agencia Nacional de Infrastructura) to be one notch below our 'BBB-' local currency rating on Colombia for the following reasons:

- There are no cross-default clauses linking these obligations with sovereign debt;
- We view the reporting of 'Vigencias Futuras' and other contingent liabilities as transparent because the government explicitly recognizes payment obligations and contingent liabilities that arise from this transaction. However, the government doesn't report these 4G-related obligations as sovereign debt.

Outlook

The stable outlook on these entities mirrors that on Colombia. The ratings on the latter pose a limitation on credit quality of corporate and infrastructure entities, given their exposure to sovereign risk. Therefore, we expect the ratings on these entities to move in tandem with the sovereign ratings in the next 12 to 18 months.

The stable outlook on Enel Americas mirrors that on Brazil and Colombia, its two main markets. Ratings on Emgesa are the same as on the parent, and would move in tandem with the latter.

The stable outlook on Puerta de Hierro's notes reflects our expectation of full coverage for the debt repayment given DFC's financial guarantee. Therefore, the outlook on project's notes reflects that on the U.S. Moreover, the stable outlook reflects the guarantee coverage of over 60% stemming from the appreciation of the Colombian peso.

Downside scenario

In the next 12-18 months, we would downgrade these companies in case of a similar rating action on Colombia. We could lower the sovereign ratings if the potential long-term damage caused by the pandemic, other domestic developments, or new external shocks, prevent the Colombian economy from recovering in 2021 and results in lower-than-expected GDP growth in subsequent years. A perceived deterioration in Colombia's institutional effectiveness, such as the inability to find political and social consensus to sustain growth and the country's fiscal profile, could also translate into a downgrade.

We might also downgrade Enel Americas in case of a negative rating action on Brazil or if we believe that the company has become a less integral subsidiary for Enel. In such a case, we will also downgrade Emgesa.

We could lower the rating on Puerta del on Hierro in the next 12-24 months if DFC's credit quality weaken, which could happen if we lower the rating on the U.S. or the relationship between the U.S. government and DFC weakens.

Upside scenario

In the next 12-18 months, we could upgrade these companies if we take a similar action on the sovereign rating on Colombia, while everything else remains equal. This can occur if there is faster-than-expected economic growth, coupled with structural fiscal measures, which reduce Colombia's fiscal financing gap, lower the debt burden, and strengthen public finances. A larger and more diverse export sector, helping to reduce external vulnerability and strengthen economic resilience, could also result in the upgrade over the middle to long term.

In the next 18 months, we could raise the rating on Puerta de Hierro's notes if we either raise the rating on the U.S. or if we believe the relationship between the U.S. government and DFC strengthens.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Methodology For Companies With Noncontrolling Equity Interests, Jan. 5, 2016
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Operations Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Key Credit Factors For Road, Bridge, And Tunnel Project Financings, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Framework Methodology, Sept. 16, 2014
- Criteria | Corporates | Project Finance: Project Finance Transaction Structure Methodology, Sept. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Project Finance: Project Finance Construction Methodology, Nov. 15, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- Criteria | Corporates | Project Finance: Project Finance Construction And Operations Counterparty Methodology, Dec. 20, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Colombia Long-Term Foreign Currency Rating Lowered To 'BB+' On Persistent Fiscal Weakness; Outlook Stable, May 19, 2021

Ratings List

Ratings Lowered And Outlook Change	To	From
AI Candelaria (Spain), S.A.		
Senior Secured	B+	BB-
Ecopetrol S.A.		
Corporate Credit Rating	BB+/Stable/--	BBB-/Negative/--
Senior Unsecured	BB+	BBB-
Emgesa S.A. E.S.P.		
Corporate Credit Rating	BBB-/Stable/--	BBB/Negative/--
Senior Unsecured	BBB-	BBB
Enel Americas S.A.		
Corporate Credit Rating	BBB-/Stable/--	BBB/Negative/--
Senior Unsecured	BBB-	BBB
Grupo de Inversiones Suramericana S.A.		
Corporate Credit Rating	BB+/Stable/--	BBB-/Negative/--
Isagen S.A. E.S.P		
Corporate Credit Rating	BB+/Stable/--	BBB-/Negative/--
Oleoducto Central, S.A.		
Corporate Credit Rating	BB+/Stable/--	BBB-/Negative/--

Ratings Lowered And Outlook Change	To	From
Ratings Affirmed		
Sociedad Concesionaria Vial Montes de Maria S.A.S.		
Senior Secured	AA/Stable	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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