S&P Global
Ratings

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Emgesa S.A. E.S.P.

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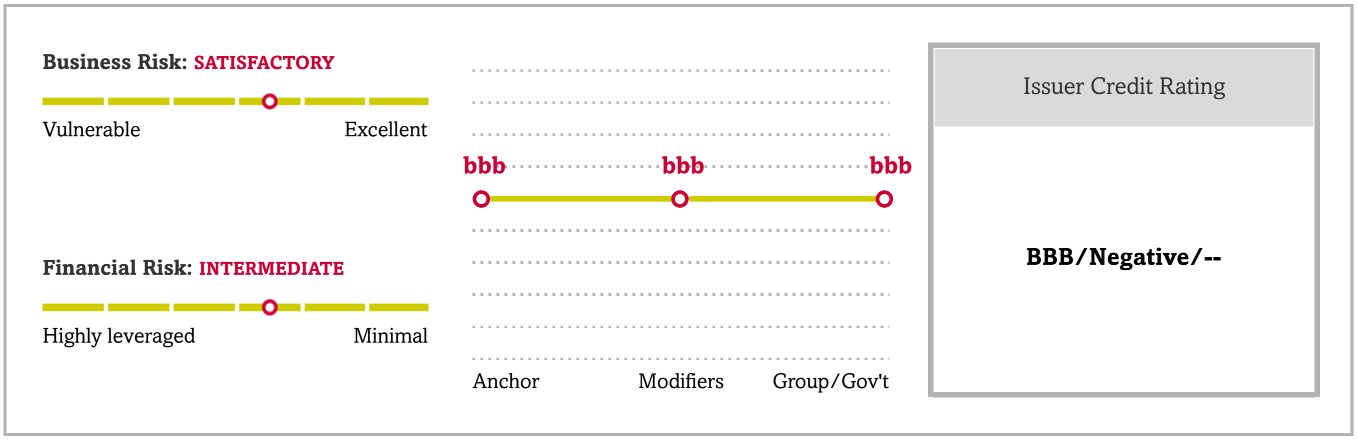
Emgesa S.A. E.S.P.



Credit Highlights

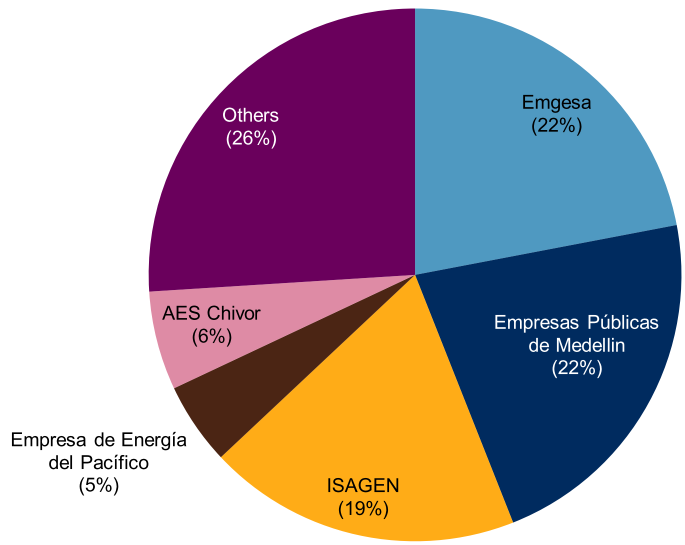
Overview

Key strengths	Key risks
A leading market position in Colombia's energy generation sector.	Exposure to hydrological conditions.
Relatively stable and predictable revenue stream, stemming from the company's highly contracted nature.	Exposure to energy price fluctuations, given that the company's contract prices are partly indexed to spot prices.
Very conservative financial profile, with net debt to EBITDA below 1x starting in 2021.	
A strong controlling shareholder, Enel Americas S.A. (BBB/Negative/--).	

Emgesa should maintain its leading position in Colombia's power generation sector in upcoming years. In 2019, Emgesa became the largest generation company in Colombia not only by capacity, but also by net production because the hydro plants, Guavio and El Quimbo, posted record output during 2019. Emgesa remained in that position during the first half of 2020, even though it posted lower generation during the first half of the year because it was a dry season. As of September 2020, the company provided power to about 21% of the national interconnected system with about 10,888 gigawatts hour (GWh), of which 94% were hydro. We expect this trend to continue in the next two years, considering that Empresas Publicas de Medellin E.S.P.'s 2,400 MW capacity Ituango hydropower plant, has been delayed for several years and would likely enter into operations in 2022. In the longer term, given Ituango's large capacity in Colombia's electric system, and new renewable capacity dispatching, we expect Emgesa to lose some market share, but still remain a leading operator.

Chart 1

Emgesa´s Contribution To SIN
Data as of December 2019



Source: S&P Global Ratings.

Emgesa has proven resilient to COVID-19, and we expect it will maintain a relatively stable and predictable revenue base due to the power purchasing agreements (PPAs). Emgesa's capacity is mainly contracted with creditworthy counterparties (mostly distribution companies and large consumers). More precisely, as of Dec. 31, 2019, its contracted capacity accounted for almost 50% of its installed capacity, which shielded the company from the volatile macroeconomic conditions caused by the COVID-19 pandemic. The remaining capacity is used as a hedge for hydrology risk, and partly commercialized in the spot market, which we view as conservative and positive from a credit perspective.

Although most of Emgesa's contracts are short term, we expect the company to continue renewing them--in line with the practice in the past--and maintaining a predictable revenue base. The company currently has a significant portion of its capacity contracted for 2021 and 40% or 2022, which would ensure a stable cash flow generation in the coming years. Nonetheless, given Ituango's entrance to the market in 2022 and new renewable capacity dispatching, we expect contracted prices to slip, which will cause EBITDA to edge down to about COP2.4 trillion in 2022 and 2023 from about COP2.5 trillion in 2020.

We expect Emgesa to continue deleveraging amid scheduled debt repayments. Emgesa's debt peaked in 2015--adjusted debt to EBITDA was about 2.5x--because of the construction of the El Quimbo power plant for about $1.2 billion. Since then, we've observed a gradual deleveraging, and consequently, improving main credit ratios. We expect adjusted debt to EBITDA of 0.8x-1.1x in year-end 2020, and below 1x starting in 2021.

Emgesa should continue to be a key subsidiary for its controlling shareholder, Enel Americas. In our view, the company is integral to the group's identity and strategy, and consequently, should receive parent support under any foreseeable circumstances. For this reason, we equalize our ratings on Emgesa with those on Enel Americas, allowing us to rate it above the sovereign rating on Colombia (foreign currency BBB-/Negative/A-3; local currency BBB/Negative/A-2).

Outlook: Negative

The negative outlook on Emgesa reflects a potential downgrade in the next 18 months following that of its parent company. We might downgrade the latter in case of a downgrade of Colombia. We believe Emgesa will remain a key subsidiary of Enel Americas, which, along with its Colombian subsidiary, has the rating above that on the sovereign. We expect Enel Americas to support Emgesa even in a hypothetical scenario of sovereign stress.

Downside scenario

We could downgrade Emgesa in the next 18 months if we downgrade Enel Americas, which could happen if there's a downgrade of the sovereign, or if we come to believe that the parent has lesser incentives to support the subsidiary. This could occur if, for example, Enel Americas dilutes its voting stake or if we perceive Emgesa has become less strategic from a business perspective. We could revise Emgesa's stand-alone credit profile (SACP) downwards if its financial risk profile worsens due to, for example, a more aggressive commercial strategy amid the worsening hydrology conditions or a more aggressive expansion plan, leading to debt to EBITDA of more than 3.0x and funds from operations (FFO) to debt of less than 30%, consistently. We could also revise Emgesa's SACP downwards if the cash sources-to-uses ratio drops below 1.2x, which could happen if the company loses the ongoing arbitration and has to disburse the complete amount during 2021 without access to alternative financing.

Upside scenario

We could revise the outlook to stable on Emgesa if we take a similar action on Enel Americas, following the outlook revision on the sovereign. Additionally, we could revise Emgesa's SACP upwards if its financial ratios consistently improve, which could occur following a combination of lower dividend payouts and investments, leading to debt to EBITDA consistently below 1x and FFO to debt above 60%.

Our Base-Case Scenario

Assumptions

- Macroeconomic variables that we view as relevant for the generation business, particularly GDP growth that's highly correlated to electricity demand and inflation, given it affects costs. We forecast Colombia's GDP to contract 7.8% in 2020, grow 5.1% in 2021 and 4.6% in 2022. Inflation about 2.6% in 2020 and 2.3% in 2021. For more information,

Key Metrics

	2018a	**2019a**	**2020e**	**2021f**	**2022f**
(Bil. COP)					
EBITDA	2,133.3	2,335.3	2,400-2,500	2,500-2,600	2,200-2,400
Net debt to EBITDA (x)	1.8	1.2	0.9 - 1.1	< 1.0	< 1.0
FFO to debt (%)	34.4	57.5	>60	>60	>60

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

please refer to our latest publication: "Credit Conditions Emerging Markets: A Vaccine Won't Erase All Risks", published on Dec. 3, 2020

- Normal hydrology, stable energy capacity given that there are no projects in the pipeline in the short to medium term, and no non-recurrent disruptions in plant operations. This would lead to annual net power generation of about 15,200 gigawatt hours (GWh). Updated contracts with 10,000-10,500 GWh in the regulated market, and 3,000-3,500 GWh in the unregulated market in 2020 and 2021.
- Costs increases in line with inflation.
- Capex of COP270 billion - COP300 billion in 2020 and COP150 billion - COP180 billion in 2021.
- Dividend payout ratio of 70%.

Company Description

Emgesa is currently the largest power generator in Colombia. The company operates in three different markets:

- The wholesale market, which includes large block energy purchases and sale operations between generators and marketers;
- The unregulated market that comprises end-customers that consume more than 55 megawatt hours (MWh) per month or that have more than 0.1 MW and;
- The energy exchange market that allows generation deficit and surplus daily trades.

The company benefits from a diversified asset base because it owns 12 hydroelectric power plants and two thermal electric power assets with an installed capacity of about 3,506 MW (88% hydro and 12% thermal), generating 15,229 GWh last year. Enel Americas holds 48.5% of Emgesa's capital stock, while Grupo Energia de Bogota S.A. E.S.P. (not rated) holds the remaining 51.5% of shares. Enel Americas has the right to appoint a majority of Emgesa's board of directors, because it holds 56.4% of Emgesa's voting shares. Therefore, we view Enel Americas as Emgesa's controlling shareholder.

Business Risk: Satisfactory

In our view, Emgesa will maintain a solid competitive position in the Colombian market; its relatively stable cash flow generation because we expect most of its capacity to remain contracted in the next two to three years; its somewhat diversified assets, with 14 power plans distributed in diverse regions of the country; and the strong operating efficiency and profitability driven by its low variable cost structure. Our assessment also incorporates our favorable view of

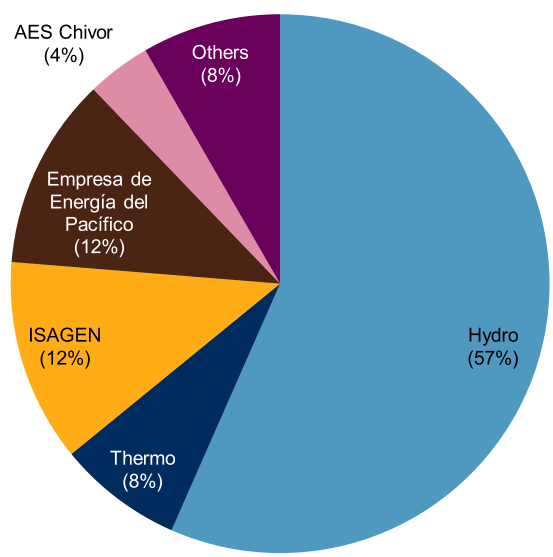
Colombia's regulatory, legal, and contractual framework. The key weaknesses include exposure to drought given that the company's capacity is mostly hydro, and some exposure to the volatile spot market conditions.

High levels of contracted sales for 2020 and 2021. We expect Emgesa's capacity to remain highly contracted in the upcoming two to three years. In the medium term, we expect some exposure to contracting risk. However, we don't view this as a credit weakness for Emgesa given that it's not a company- but rather a market condition in Colombia because the average contract term has been shorter than in the rest of Latin America. More importantly, Emgesa has been historically able to re-contract its capacity, which we attribute to the high efficiency levels and its track record in the industry.

We view Colombia's regulatory, legal and contractual framework as supportive. The regulation in Colombia allows for the timely recovery of operating costs and capital. More importantly, the framework has a record of tariff revisions, and we don't expect significant modifications in the next few years. Therefore, we consider the framework predictable and transparent, which supports the ratings. As of December 2019, Emgesa had 3,097 MW of hydropower installed capacity in Colombia, and 409 MW of thermo generation and coal-fueled facilities. Although exposure to natural resources is high, the company's prudent commercial strategy mitigates this risk. On the other hand, we expect some level of exposure to the spot market, given that Emgesa will dispatch a portion of its capacity there.

Chart 2

Emgesa´s Net Production By Technology
Data as of December 2019



Source: S&P Global Ratings.

Peer comparison

Table 1

Emgesa S.A. E.S.P.--Peer Comparison

Industry sector: Electric

	Emgesa S.A. E.S.P.	AES Gener S.A.	Enel Americas S.A.	Enel Chile S.A.	ISAGEN, S.A. E.S.P.	Enel SpA	ENGIE SA
Ratings as of Nov. 16, 2020	BBB/Negative/--	BBB-/Stable/--	BBB/Negative/--	BBB+/Stable/--	BBB-/Negative/--	BBB+/Stable/A-2	BBB+/Stable/A-2
	--Fiscal year ended Dec. 31, 2019--						
(Mil. $)							
Revenue	1,247.9	2,411.8	14,314.1	3,685.2	970.9	89,522.1	67,396.0
EBITDA	712.3	541.6	3,994.2	1,401.1	573.3	18,850.4	11,557.4
Funds from operations (FFO)	478.9	159.4	2,802.1	1,099.9	430.0	13,858.9	9,924.6
Interest expense	95.4	137.4	442.8	142.9	107.9	2,956.9	1,682.2
Cash interest paid	85.5	268.4	630.3	191.2	112.2	2,915.4	1,054.9
Cash flow from operations	419.5	512.3	2,007.4	814.6	239.3	12,754.7	8,321.0
Capital expenditure	103.0	(5.3)	1,643.2	387.1	15.0	10,390.3	7,202.2
Free operating cash flow (FOCF)	316.6	517.6	364.2	427.5	224.4	2,364.4	1,118.8
Discretionary cash flow (DCF)	104.1	192.6	(359.8)	113.0	(53.5)	(2,216.3)	(3,143.2)
Cash and short-term investments	88.2	350.9	2,059.4	314.8	41.4	9,965.4	11,707.7
Debt	832.3	2,304.6	4,308.9	3,224.5	1,642.3	61,654.8	52,591.7
Equity	1,446.7	2,833.0	12,246.2	4,983.9	1,674.6	55,089.1	40,488.9
Adjusted ratios							
EBITDA margin (%)	57.1	22.5	27.9	38.0	59.0	21.1	17.1
Return on capital (%)	27.3	3.4	19.4	9.1	15.9	10.9	7.3
EBITDA interest coverage (x)	7.5	3.9	9.0	9.8	5.3	6.4	6.9
FFO cash interest coverage (x)	6.6	1.6	5.4	6.8	4.8	5.8	10.4
Debt/EBITDA (x)	1.2	4.3	1.1	2.3	2.9	3.3	4.6
FFO/debt (%)	57.5	6.9	65.0	34.1	26.2	22.5	18.9
Cash flow from operations/debt (%)	50.4	22.2	46.6	25.3	14.6	20.7	15.8
FOCF/debt (%)	38.0	22.5	8.5	13.3	13.7	3.8	2.1
DCF/debt (%)	12.5	8.4	(8.3)	3.5	(3.3)	(3.6)	(6.0)

We chose as peers other electricity players that we rate in the region: AES Gener S.A., Enel Chile S.A., Enel Americas S.A., Colbun S.A., Trinidad Generation Unlimited, ISAGEN S.A. E.S.P., as well as global players, including Engie S.A. and Emgesa's ultimate controlling sponsor, Enel SpA.

From a business perspective, AES Gener, and Enel Americas have unique characteristics because they operate in more than one country in the region and generally in more than one segment, including electricity transmission or distribution. Emgesa is more comparable to ISAGEN that operates in Colombia and derives revenues entirely or mostly from the generation business.

From a financial perspective, Emgesa compares well with Enel Americas and AES Gener because we expect the three entities to post adjusted debt to EBITDA of no higher than 2x in the next two to three years. However, AES Gener is focusing investments in the generation business in upcoming years, mainly by developing new renewable capacity, while Emgesa doesn't have significant expansionary capital expenditures so far. On the other hand, we expect Enel Americas to concentrate its capex in the distribution business.

Financial Risk: Intermediate

Main credit metrics should continue strengthening. The company's debt peaked in 2015--adjusted debt to EBITDA was about 2.5x--because of the construction of the El Quimbo power for about $1.2 billion. Since then, we've observed a gradual deleverage, and consequently, improving main credit ratios. Going forward, we only include growth capex associated with the final disbursements for El Quimbo, which had some capex delayed to 2021 amid the COVID-19 pandemic, and the Canoas project on the Bogota river. Overall, we expect Emgesa to spend COP270 billion - COP300 billion in 2020 and COP150 billion - COP180 billion in 2021 in maintenance and growth capex. Our updated forecast indicates Emgesa should post adjusted debt to EBITDA of 0.8-1.1x by the end of 2020 and below 1.0x by the end of 2021 and afterwards. We also expect Emgesa to post FFO to debt of 50%-60% in 2020 and more than 60% in 2021.

We don't expect the shareholder's arbitration process to significantly affect Emgesa's repayment capacity. In late 2017, EEB, the minority shareholder, notified Enel Americas that it was filing arbitration related to differences in the profit distribution in 2016, as regulated by the Investment Framework Agreement (AMI). According to EEB, Enel Americas acted against its own interest when voting for a profit distribution of 70%, in breach of provisions of a specific clause of the AMI, which establishes that the voting parties should vote for the most profit distribution possible. This year, EEB filed an amendment to the lawsuit, including:

- Claims for damages for more breaches of the AMI including, distribution of profits 2016, 2017, and 2018;
- Non-development of unconventional renewable energy generation projects;
- Conflicts of interest in contracts with economically related companies of the Enel group; and
- Imposition of the Enel brand on the companies Codensa S.A. E.S.P. and Emgesa S.A. E.S.P.

According to Emgesa, the value of the contingency is COP417.2 billion, which according to lawyers, is the best estimate to pay if the court decides against the company. The arbitration is still in in progress and we expect updates during 2021. Nonetheless, we're still excluding the effects of the contingency from our forecast because the likelihood of a negative outcome is less than 50%.

Financial summary

Table 2

Emgesa S.A. E.S.P.--Financial Summary					
Industry sector: Electric					
	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. $)					
Revenue	1,247.9	1,145.3	1,147.4	1,170.2	1,029.5
EBITDA	712.3	657.1	695.4	664.1	547.0
Funds from operations (FFO)	478.9	400.7	419.0	349.5	291.0
Interest expense	95.4	107.4	126.6	164.1	109.3
Cash interest paid	85.5	111.2	137.0	159.9	103.8
Cash flow from operations	419.5	481.0	384.5	383.2	257.5
Capital expenditure	103.0	77.7	105.8	96.8	222.1
Free operating cash flow (FOCF)	316.6	403.4	278.8	286.5	35.4
Discretionary cash flow (DCF)	104.1	218.6	78.6	21.7	(294.0)
Cash and short-term investments	88.2	192.6	191.0	209.9	98.1
Gross available cash	88.2	192.6	191.0	209.9	98.1
Debt	832.3	1,164.3	1,373.3	1,331.6	1,256.4
Equity	1,446.7	1,305.7	1,289.2	1,164.2	1,120.9
Adjusted ratios					
EBITDA margin (%)	57.1	57.4	60.6	56.7	53.1
Return on capital (%)	27.3	24.3	24.5	23.2	20.3
EBITDA interest coverage (x)	7.5	6.1	5.5	4.0	5.0
FFO cash interest coverage (x)	6.6	4.6	4.1	3.2	3.8
Debt/EBITDA (x)	1.2	1.8	2.0	2.0	2.3
FFO/debt (%)	57.5	34.4	30.5	26.2	23.2
Cash flow from operations/debt (%)	50.4	41.3	28.0	28.8	20.5
FOCF/debt (%)	38.0	34.6	20.3	21.5	2.8
DCF/debt (%)	12.5	18.8	5.7	1.6	(23.4)

Liquidity: Adequate

We continue to view Emgesa's liquidity as adequate. We expect its consolidated liquidity 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 declines by 15%. We continue to believe that Emgesa has adequate financial flexibility, with proven access to the capital markets and banks, which in our view, is enhanced by its ownership structure. In addition, Emgesa is not subject to financial covenants on its outstanding bonds as long as it's rated in the investment-grade category.

Principal Liquidity Sources	Principal Liquidity Uses

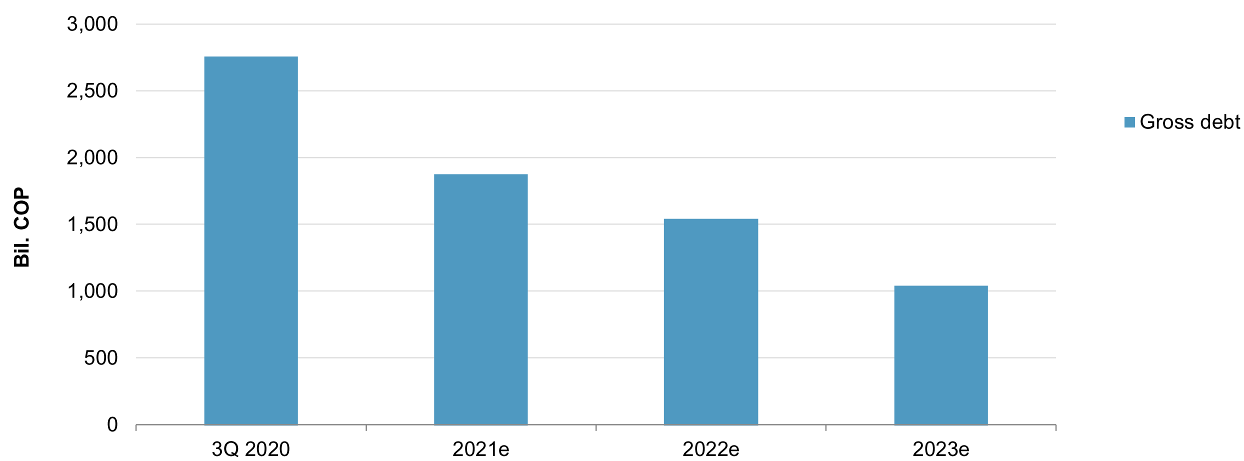
- Cash balance and short-term investments of COP735 billion as of September 2020; and
- FFO of about COP1.3 billion - COP1.6 billion.

- Short-term debt of about COP888 billion as of September 2020;
- Maintenance capex of COP140 billion - COP160 billion; and
- Dividend distributions of COP620 billion - COP680 billion, representing a 50% dividend payout, in line with Emgesa's dividend policy.

Debt maturities

Chart 3

Emgesa´s Leverage Analysis



COP--Colombian Peso. e--Estimate.

Group InfluenceAnd Rating Above The Sovereign

We consider Emgesa as a core subsidiary of Enel Americas. We expect the parent to have the ability and willingness to provide sufficient support even during a potential sovereign default. This view allows us to rate Emgesa above our ratings on Colombia, and provides downside protection if Emgesa's credit quality worsens on a stand-alone basis. Enel Américas holds 56.4% of Emgesa's voting shares, while EEB holds 43.6%.

Issue Ratings - Subordination Risk Analysis

There's no structural subordination, because rated debt is at the operating level.

Reconciliation

Table 3

Emgesa S.A. E.S.P.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. COP)

	--Fiscal year ended Dec. 31, 2019--						
Emgesa S.A. E.S.P. reported amounts							
	Debt	**Shareholders' equity**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	3,006,326.3	4,743,218.2	2,092,595.3	299,371.6	2,335,281.9	1,640,694.6	351,234.3
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	(484,765.7)	--	--
Cash interest paid	--	--	--	--	(266,821.1)	--	--
Reported lease liabilities	11,550.3	--	--	--	--	--	--
Accessible cash and liquid investments	(289,161.8)	--	--	--	--	--	--
Capitalized interest	--	--	--	13,566.7	(13,566.7)	(13,566.7)	(13,566.7)
Nonoperating income (expense)	--	--	20,536.9	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	(251,590.2)	--
Noncontrolling interest/minority interest	--	43.0	--	--	--	--	--
Total adjustments	(277,611.5)	43.0	20,536.9	13,566.7	(765,153.5)	(265,156.9)	(13,566.7)
S&P Global Ratings' adjusted amounts							
	Debt	**Equity**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
Adjusted	2,728,714.9	4,743,261.2	2,113,132.3	312,938.3	1,570,128.3	1,375,537.7	337,667.5

Ratings Score Snapshot

Issuer Credit Rating

BBB/Negative/--

Business risk: Satisfactory

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

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb
- **Entity status within group:** Core
- **Related government rating:** BBB-

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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 | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

Business Risk Profile	Financial 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-

Ratings Detail (As Of December 28, 2020)*

Emgesa S.A. E.S.P.	
Issuer Credit Rating	BBB/Negative/--
Senior Unsecured	BBB
Issuer Credit Ratings History	
27-Mar-2020	BBB/Negative/--
31-Aug-2017	BBB/Stable/--
19-Feb-2016	BBB/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.