

RATING ACTION COMMENTARY

# Fitch Downgrades Ecopetrol, Ocesa and Al Candelaria, Affirms Other Colombian Corporates

Fri 03 Apr, 2020 - 17:29 ET

Fitch Ratings - New York - 03 Apr 2020: Fitch Ratings has downgraded **Ecopetrol** S.A., Oleoducto Central S.A. (OCENSA) and A.I. Candelaria (Spain), S.L. and affirmed its ratings on other Colombian corporates following this week's Sovereign Rating downgrade of Colombia.

The rating downgrades of **Ecopetrol**, OCENSA and A.I. Candelaria reflect the direct and indirect linkage of these companies to the Sovereign Rating downgrade of Colombia, which Fitch downgraded this week to 'BBB-' from 'BBB'. The ratings for Emgesa, Isagen and UNE EPM Telecomunicaciones have been affirmed at 'BBB' reflecting the country ceiling for Colombia of 'BBB'. The negative outlooks on the foreign currency ratings reflect the fact that they could be negatively impacted by downgrades of the country's Sovereign Rating and country ceiling. These companies operate within Colombia and do not have substantial offshore cash or EBITDA from other countries. The ratings on Grupo de Inversiones Suramericana (Grupo Sura) ('BBB'/Stable) reflect their offshore cash and EBITDA outside of Colombia. The applicable country ceiling for Grupo Sura is that of Chile, since cash flow from Chile is sufficient to cover interest expenses for both companies. Grupo Energía Bogota's (GEB's) ('BBB'/Stable) applicable country ceiling is that of Peru, since cash flow from Peru is adequate to cover GEB's interest expense. The ratings of Transportadora de Gas Internacional (TGI) ('BBB'/Stable) reflect its strong linkage with its parent company, GEB. A further downgrade of Colombia's Sovereign Rating will likely result in rating downgrades for **Ecopetrol**, OCENSA, A.I. Candelaria, Emgesa, Isagen and UNE EPM Telecomunicaciones.

RATING ACTIONS				
ENTITY/DEBT	RATING			PRIOR
UNE EPM Telecomunicaciones S.A.	LT	BBB	Affirmed	BBB
	IDR			
	LC	BBB	Affirmed	BBB
	LT IDR			
<b>Ecopetrol</b> S.A.	LT	BBB-	Downgrade	BBB
	IDR			
	LC	BBB-	Downgrade	BBB
	LT IDR			
senior unsecured	LT	BBB-	Downgrade	BBB

VIEW ADDITIONAL RATING DETAILS

KEY RATING DRIVERS

The sovereign downgrade reflects a likely weakening of key fiscal metrics in the wake of the economic downturn caused by a combination of shocks stemming from the sharp fall in oil prices and efforts to combat the worldwide coronavirus pandemic. Fitch expects a moderate contraction of the Colombian economy by 0.5% in 2020, driven by a significant slowdown in domestic demand and oil exports, followed by a modest recovery of 2.3% in 2021. A rise in the debt burden in recent years and an expected fall in tax revenues have left the government with less fiscal space to counteract economic shocks, in Fitch's view. The Negative Outlook reflects downside risks to the outlook for economic growth and public finances, and to the capacity and quality of the government's policy response to decisively cut deficits and stabilize debt over the coming years, given the scale of the shocks.

RATING SENSITIVITIES

Developments that May, Individually or Collectively, Lead to a Positive Rating Action:

Fitch does not currently anticipate developments with a high likelihood of leading to a positive rating change. However, the main factors that could lead Fitch to stabilize the Outlook include:

-- Fiscal consolidation consistent with an improved trajectory for public debt dynamics.

-- A return to economic growth prospects consistent with medium term potential above 3%.

-- Reduced external imbalances that improve external debt and liquidity ratios.

Developments that May, Individually or Collectively, Lead to a Negative Rating Action:

-- Failure to achieve a fiscal consolidation consistent with stabilization and eventual reduction in the government debt burden.

-- Damage to medium term growth prospects.

-- Sustained large external imbalances that lead to a continuous rise in the external debt burden.

BEST/WORST CASE RATING SCENARIO

Best/Worst Case Rating Scenarios Non-Financial Corporate:

Ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit: <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

**Ecopetrol** has an environmental, social and governance (ESG) Relevance Score of 4 for waste and hazardous materials management due to oil spills the company has experienced in the past.

The company's relevance score of 4 also stems from exposure to social impacts due to multiple attacks to its pipelines.

**Ecopetrol**'s score for Governance Structure (GGV) is 4, resulting from its nature as a majority government-owned entity and the inherent governance risks that arise with a dominant state shareholder. Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, due to either 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](http://www.fitchratings.com/esg).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage (pub. 27 Sep 2019)

Government-Related Entities Rating Criteria (pub. 13 Nov 2019)

Corporate Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

A.I. Candelaria (Spain), S.L.	EU Endorsed
<b>Ecopetrol</b> S.A.	EU Endorsed
Emgesa S.A. E.S.P	EU Endorsed
Grupo de Inversiones Suramericana S.A.	EU Endorsed
Grupo Energía Bogota S.A. E.S.P. (GEB)	EU Endorsed
Isagen S.A. ESP	EU Endorsed
Oleoducto Central S.A. (OCENSA)	EU Endorsed
Transportadora de Gas Internacional S.A. ESP (TGI)	EU Endorsed
UNE EPM Telecomunicaciones S.A.	EU Endorsed

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Energy and Natural Resources	Technology, Media, and Telecom	Structured Finance: ABS
Corporate Finance	Insurance	Industrials and Transportation
Utilities and Power		
Structured Finance	Latin America	Europe
Colombia	Spain	

ENTITIES

UNE EPM Telecomunicaciones S.A.
Transportadora de Gas Internacional S.A. ESP (TGI)
Isagen S.A. ESP
Oleoducto Central S.A. (OCENSA)
A.I. Candelaria (Spain), S.L.
Grupo de Inversiones Suramericana S.A.
<b>Ecopetrol</b> S.A.
Grupo Energía Bogota S.A. E.S.P. (GEB)
Emgesa S.A. E.S.P

ISSUER CONTENT

Coronavirus Impact on LATAM Corporates
Fitch Ratings 2020 Outlook: Latin American Telecommunications (Mixed Signals Ahead)
Latin American Corporates Sovereign Ratings and Country Ceilings Exposure (How Sovereign Downgrades Affect Corporate Issuer Ratings)
1 in 4 LATAM Corporates Exposed to Sovereign Downgrade Risk
Fitch Asigna Calificación al Programa de Emisión y Colocación de Bonos de TIGOUNE en 'AAA(col)'
Fitch Afirma Calificaciones de TIGOUNE en

RECOMMENDED CONTENT

Efectos de la Contingencia por Coronavirus en Corporativos de Colombia
Fitch Afirma Calificación de Gases de Occidente en 'AAA(col)'; la Perspectiva es Estable
What Investors Want to Know: Mexican Energy Sector (Coronavirus Adds to Market Concerns)
Coronavirus Pandemic to Compound Challenges Facing the Mexican Energy Sector
Fitch Downgrades Antero Midstream's Long-Term IDR to 'B'; Places Ratings on Rating Watch Negative
Fitch Baja Calificación de PEMEX a 'A(mex)';

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RATINGS KEY	OUTLOOK	WATCH
POSITIVE	+	▲
NEGATIVE	-	▼
EVOLVING	●	◆
STABLE	■	

\* Long Term/Short Term Issuer Default Rating displayed in orange denotes EU Unsolicited and Non-Participatory Ratings

Where there was a review with no rating action (Review - No Action), please refer to the "Latest Rating Action Commentary" for an explanation of key rating drivers

\*Premium content is displayed in Fitch Red