



## My Credit Profile

### Isa Capital do Brasil S.A., 'BB+/Stable/--'

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## Interconexion Electrica S.A. E.S.P. (ISA)

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## Major Rating Factors

### Strengths:

- Dominant position in both Colombia and the state of Sao Paulo, Brazil's transmission systems
- Natural monopoly in the markets it serves
- Stable source of revenues
- Efficient operations
- Strong competitive position in the countries in which it operates

### Corporate Credit Rating

*Foreign Currency*

BB+/Stable/--

*Local Currency*

BBB-/Stable/--

[Ratings Detail >>](#)

### Weaknesses:

- Aggressive expansion plan
- Foreign exchange risk, somewhat mitigated by the use of hedging instruments
- Exposure of operating in volatile economies

## Rationale

The ratings on ISA reflect the company's dominant position as a transmission grid operator in both Colombia's National Transmission System and in the state of Sao Paulo, Brazil; its strategic importance in Colombia; its natural monopoly and strong competitive position in the countries in which it operates; efficient operations; ownership by Colombia's government; and geographic diversification in the region. An aggressive financial policy characterized by continuing debt-funded acquisitions, foreign-exchange risk related to the company's foreign-currency-denominated debt, and increased exposure to more-volatile economies partially offset the company's strengths.

ISA is an important participant in the Colombian power sector, operating 79% of the country's transmission grid. It also operates 17% of Brazil's transmission network, 91% of Peru's, and 52% of Bolivia's. It operates and administers the Colombian power market and coordinates the short-term international electricity transactions between Colombia and Ecuador.

ISA Capital is a special-purpose financing entity that issued bonds and on-lent funds to ISA to finance the acquisition of Companhia de Transmissao de Energia Elétrica Paulista (CTEEP) in 2006. The notes are structured with a bullet maturity and are repaid mainly from CTEEP's dividends. The structure contains a security package consisting of current and future CTEEP shares and a six-month debt-service reserve account. We rate the notes one notch lower than the corporate credit rating due to their structural subordination between parent-subsidiary creditors.

Because of the huge cost involved in building competing networks, transmission is considered a natural monopoly. Moreover, the company has a strong competitive position from operating the vast majority of the Colombian transmission grid and having long-term concessions to operate and maintain the transmission network there. In addition, the company owns the largest transmission company in Brazil accounting for around 17% of the transmission assets in the country and around 30% of total transmitted energy. Operational risk comes mainly from the unavailability of transmission lines; however, ISA's availability has been about 99.9% during the past few years.

To date, the Colombian government remains ISA's controlling shareholder, with a 52.9% stake. Empresas Públicas de Medellín (unrated), Ecopetrol S.A. (unrated), and Empresa de Energía de Bogotá S.A. E.S.P. (BB+/Stable/--)--also government-related entities--hold 10%, 6%, and 2% stakes, respectively. We view the Colombian government's ownership as a relatively important factor and consider some degree of support from the government to ISA. However, our rating on the company is not linked to that on the government.

We expect the company to report an EBITDA interest coverage and funds from operations (FFO)-to-interest ratio of around 4.2x and 2.3x, respectively, for year-end 2008, which is in line with our expectations. We expect EBITDA interest coverage to be around the high 3.0x area in the next two years. FFO interest coverage should remain near 2.0x to 2.5x, down from the 3.5x reported on Dec. 31, 2007. This is because of an increase in debt that will be used to finance part of the company's capital expenditure requirements. The use of hedging instruments such as forwards and swaps somewhat mitigates foreign-exchange risk.

### Liquidity

ISA has adequate liquidity levels. We expect the company to report around \$240 million in cash, and to generate around \$65 million of free operating cash flow for year-end Dec. 31, 2008, compared with \$400 million in short-term debt. In addition, the company continues to have access to the financial markets, as evidenced by the issue of a Colombian pesos 104.5 billion (around \$47 million) bond in Colombia's capital markets on December 2008. The company will focus its capital expenditures for the next several years mainly on Brazil, and to a lesser extent in other Latin-American countries like Peru and Panama. FFO should be adequate to cover expected capital expenditures and short-term debt maturities in the next couple of years.

### Outlook

The stable outlook reflects ISA's operations in a proven and stable regulatory framework, and its natural monopoly. We expect the company to maintain satisfactory financial and operational performance. Any adverse macroeconomic development in Colombia and/or Brazil, a decrease in government ownership to less than 51%, or an aggressive investment plan in other countries that is not accompanied by free cash-flow generation could pressure the ratings. A significant improvement in the company's key financial ratios and a conservative and selective financial policy regarding new investments, in terms of profitability and impact on ISA's cash flow, could lead us to upgrade ISA in the long term.

**Table 1 | [Download Table](#)**

Peer Comparison*				
Industry Sector: Power				
	Interconexión Eléctrica S.A. E.S.P. (ISA)	Transelec S.A.	Compañía General de Electricidad S.A.	Compañía de Transporte de Energía Eléctrica en Alta Tensión TRANSENER S.A.
Rating as of Jan. 28, 2009	BBB-/Stable/--	BBB-/Stable	BBB+/Negative/--	B/Watch Neg/--
--Average of past three fiscal years--				
<b>(Mil. \$)</b>				
Revenues	922.8	241.4	2,004.3	142.4
Operating income (bef. D&A)	504.4	204.2	433.1	59.4
Net income from cont.	88.9	69.2	152.7	66.9

oper.				
Funds from operations (FFO)	427.8	130.0	369.4	42.8
Capital expenditures	214.0	286.9	193.6	16.6
Cash and short-term investments	255.5	81.8	38.2	13.0
Debt	1,610.9	1,261.5	1,963.3	243.9
Preferred stock	0.0	0.0	0.0	0.0
Equity	2,586.7	1,344.4	1,524.6	366.0
Debt and equity	4,197.7	2,606.0	3,487.8	609.9
<b>Adjusted ratios</b>				
EBIT interest coverage (x)	2.8	2.1	3.6	3.6
EBITDA interest coverage (x)	3.8	3.0	4.4	2.3
FFO int. cov. (X)	3.2	1.9	4.8	1.7
FFO/debt (%)	26.6	10.3	18.8	17.6
Discretionary cash flow/debt (%)	6.3	(16.5)	3.8	9.9
Net cash flow/capex (%)	175.6	28.2	142.6	256.0
Total debt/debt plus equity (%)	38.4	48.4	56.3	40.0
Return on common equity (%)	6.4	5.8	16.8	21.4

\*Fully adjusted. N.M. - Not meaningful.

**Table 2 | [Download Table](#)**

### Financial Summary\*

**Industry Sector: Power**

--Fiscal year ended Dec. 31--

	2007	2006	2005	2004	2003
Rating history	BBB-/Stable/--	BBB-/Stable/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--
<b>(Mil. \$)</b>					
Revenues	1,396.7	901.3	470.4	453.7	344.1
Operating income (bef. D&A)	925.4	299.2	288.7	279.7	214.2
Net income from continuing operations	111.9	67.3	87.5	59.9	28.3
Funds from operations	745.6	310.3	227.6	244.2	158.7

(FFO)					
Capital expenditures	164.2	337.9	139.9	23.8	17.6
Cash and short-term investments	307.2	323.9	135.3	115.3	70.7
Debt	2,416.7	1,586.6	829.5	797.2	694.4
Preferred stock	0.0	0.0	0.0	0.0	0.0
Equity	3,371.8	3,007.2	1,381.2	1,253.7	930.2
Debt and equity	5,788.5	4,593.8	2,210.7	2,051.0	1,624.5
<b>Adjusted ratios</b>					
EBIT interest coverage (x)	3.2	2.0	2.6	2.4	1.9
EBITDA interest coverage (x)	4.4	2.9	3.4	3.1	2.7
FFO int. cov. (x)	3.5	3.0	2.7	2.7	2.0
FFO/debt (%)	30.9	19.6	27.4	30.6	22.9
Discretionary cash flow/debt (%)	(0.7)	19.8	1.0	15.9	17.7
Net Cash Flow / Capex (%)	415.9	77.0	131.6	926.4	794.6
Debt/debt and equity (%)	41.7	34.5	37.5	38.9	42.7
Return on common equity (%)	6.7	5.0	7.5	6.2	3.5
Common dividend payout ratio (un-adj.) (%)	0.0	0.0	0.0	0.0	0.0

\*Fully adjusted.

#### Ratings Detail (As Of 29-Jan-2009)\*

##### Interconexion Electrica S.A. E.S.P. (ISA)

Corporate Credit Rating

Foreign Currency

BB+/Stable/--

Local Currency

BBB-/Stable/--

##### Corporate Credit Ratings History

06-Mar-2007

Foreign Currency

BB+/Stable/--

24-Feb-2006

BB/Positive/--

15-Jul-2003

BB/Stable/--

14-Nov-2006

Local Currency

BBB-/Stable/--

30-Jun-2006

BBB/Watch Neg/--

15-Jul-2003

BBB/Stable/--

##### Related Entities

##### Isa Capital do Brasil S.A.

Issuer Credit Rating

BB+/Stable/--

Senior Unsecured (2 Issues)

BB

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.