

Announcement: Moody's says Baa3 ratings on Promigas unaffected by add-on offering

13 Oct 2020

New York, October 13, 2020 -- Moody's Investors Service, ("Moody's") today said that the Baa3 issuer and debt ratings on Promigas S.A. E.S.P. ("Promigas") are unaffected by a proposed up to \$150 million add-on offering. Proceeds will be used to repay or refinance existing short-term and long-term indebtedness, and thus does not increase leverage. The transaction also improves the company's debt maturity profile. The outlook is stable.

The new notes will be an issuance of additional notes issued under a supplemental indenture to the indenture, dated as of October 16, 2019, initially issued for \$400 million in aggregate principal amount of 3.750% senior notes due 2029. The principal amount of the notes will be repaid in a single installment on the maturity date.

Ratings Unchanged:

Issuer: Promigas S.A. E.S.P.

..LT Issuer Rating, Baa3

..Sr Unsecured Regular Bond/Debenture, Baa3

Outlook, Stable

RATINGS RATIONALE

The Baa3 ratings assigned to Promigas reflects the highly contracted and regulated activities of the company providing high visibility of cash flows. Promigas' creditworthiness is underpinned by its strong market position and large scale, with approximately 42% of the national pipeline network in the Government of Colombia (Baa2 stable). The rating also reflects the long-term debt profile, solid access to financing and adequate liquidity profile. Promigas benefits from its highly contracted and regulated activities, which provide a visible and stable stream of cash flow. Around 80% of the total revenue is derived from regulated businesses.

Projected financial metrics consider stable to lower tariffs resulting from lower WACC compensated by a larger asset base. While potential opportunities mainly in the Colombian and Peruvian markets could result in additional capital expenditure requirements and growing debt financing needs, the company's consolidated financial metrics are expected to improve over the next 5 years.

Despite the stable nature of most of Promigas' business activities, the COVID-19 outbreak has had some impact in 2020. For example, Promigas deferred payments from some of its gas transport off-takers. In addition, its gas distribution business was affected by lower demand. Nonetheless we expect that these negative developments will be relatively short-lived and Promigas medium-term credit profile to remain unchanged. Management expects that the company will record Funds from Operations (FFO)/Debt of 15.2% on average for the period 2020-2024 and Cash interest coverage (FFO + interest / interest) of 3.8x on average over the same period, consistent with the assigned rating. Moody's is also aware of the current dispute between Canacol and Promigas regarding the unilateral decision of Canacol to cancel its take-or-pay contract on one Promigas' gas transport projects that started operations in August 2019. Our expectation is that the dispute will not have an immediate, material impact on Promigas, but we will continue to closely monitor the situation.

Promigas is a public utility organized as a stock corporation under the laws of Colombia. Promigas is an integrated services conglomerate that participates both directly and through subsidiaries and related companies in the natural gas and power sectors in Colombia and Peru.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

In Moody's view, environmental risks are not material to Promigas credit profile, given that gas is the cleanest burning fossil fuel.

We regard the coronavirus pandemic as a social risk under our ESG framework because of the substantial implications for public health and safety. While Promigas is materially insulated by volume risk, it has been affected by payment deferrals and lower gas demand. We expect these impacts to be short-lived as the lockdown measures are relaxed and Colombia's economy recovers.

Governance considerations are not material to Promigas' credit profile. Corficolombiana is the majority shareholder of the company, with a 45.5% stake (direct 34.9% and indirect 10.6%). AMALFI S.A.S. has a 15.9% (direct 7.99% and indirect 7.87%) ownership interest in Promigas, and Grupo Energía Bogotá S.A. E.S.P. holds a 15.2% ownership interest in Promigas through one of its subsidiaries. The remaining interest of Promigas is owned by pension funds and smaller investors.

The stable outlook reflects our view that Promigas will maintain stable and visible cash flow that supports current and expected debt levels. Specifically, we expect FFO/debt and the interest coverage ratio to remain above 12% and 3.0x, respectively on a projected and sustained basis. The stable outlook also reflects our assessment that the structural subordination is mitigated by the significant cash flow generated at the holding company level and the regulated nature of the businesses in which the company operates.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

We could upgrade Promigas' ratings if the results of the tariff review process or a reduction in debt levels lead to an expectation of sustained levels of: FFO/debt at or above 20% the interest coverage ratio at or above 4.5x.

We could downgrade Promigas ratings if the results of the tariff review process lead to a perception of a less credit supportive regulatory environment or if additional debt incurred to fund growth opportunities is not compensated by a more creditor friendly financial policy. Our assessment of a more significant structural subordination as a result of less cash flows generated or more debt at the holding company level, could also exert downward pressure. Quantitatively, we could downgrade the rating if FFO/debt is below 12% on a sustained basis the interest coverage ratio remains below 3.0x on a sustained basis.

Please see www.moody.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody.com for the most updated credit rating action information and rating history.

Adrian Garza
Vice President - Senior Analyst
Corporate Finance Group
Moody's de Mexico S.A. de C.V
Ave. Paseo de las Palmas
No. 405 - 502
Col. Lomas de Chapultepec
Mexico, DF 11000
Mexico
JOURNALISTS: 1 888 779 5833
Client Service: 1 212 553 1653

Alejandro Olivo
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received

in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.