

RATING ACTION COMMENTARY

Fitch Takes Various Actions on Colombian Corporates Following Sovereign Downgrade

Feedback

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Fitch Ratings - New York - 06 Jul 2021: Fitch Ratings has downgraded Ecopetrol S.A., Oleoducto Central S.A. (OCENSA), A.I. Candelaria (Spain), S.A., Isagen S.A. E.S.P., UNE EPM Telecomunicaciones S.A. (TIGO UNE) and Interconexion Electrica S.A E.S.P. (ISA) following last week's downgrade of Colombia's sovereign rating.

The downgrade of Ecopetrol's, OCENSA's and A.I. Candelaria's foreign currency (FC) and local currency (LC) Issuer Default Ratings (IDRs) reflects the direct and indirect linkage of these companies to the sovereign rating of Colombia, which Fitch downgraded last week to 'BB+' from 'BBB-' with a Stable Outlook.

The downgrade of Isagen's and TIGO UNE's FC IDRs reflects the cap imposed by the country ceiling of Colombia ('BBB-'), as these companies do not have substantial assets, offshore credit facilities, or cash held or generated abroad to reduce transfer and convertibility risk. Fitch affirmed their LC IDRs, which remain one notch above Colombia's country ceiling. The downgrade of ISA's FC and LC IDRs reflect its linkage with the Republic of Colombia, which owns 51.4% of the company. Fitch considers ISA's two-notch differential above its parent appropriate.

KEY RATING DRIVERS

The sovereign downgrade reflects the deterioration of the public finances with large fiscal deficits in 2020-2022, a rising government debt level, and reduced confidence around the capacity of the government to credibly place debt on a downward path in the coming years. Colombia's gross general government debt (GGGD) to GDP is forecast to reach 60.8% in 2021, more than double the 30% level when Fitch upgraded Colombia back to the 'BBB' category in 2011. Fitch expects debt to continue to rise through 2022 and does not expect significant debt reduction over the medium term, leaving Colombia vulnerable to shocks. Fitch sees significant risks to the government's fiscal consolidation plan, given the reliance on tax administration efforts and divestments, as well as the uncertainty of the impact of the pending tax reform.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Public Finances: Achieving sustained primary fiscal balances consistent with a steadily declining GGGD to GDP ratio that enhances fiscal policy credibility;

--Macro: Higher sustained medium-term economic growth above Colombia's historical averages of about 3.5%;

--Structural: Steady improvement in governance indicators that leads to improved social cohesion and reform momentum, improving Colombia's structural fiscal position as well as medium term growth prospects.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Public Finances: A failure to achieve fiscal consolidation that leads to a significant deterioration in Colombia's general government debt to GDP ratio relative to the 'BB' peer median;

--Macro: Diminished medium-term growth prospects well below Colombia's historical potential of 3.5%, leading to continued high unemployment and poverty levels with social ramifications;

--External Finances: Sharp further increase in net external debt to GDP, raising external vulnerabilities.

BEST/WORST CASE RATING SCENARIO

International scale credit 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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The rating actions are linked to the recent downgrade of Colombia's sovereign and the corresponding Country Ceiling.

ESG CONSIDERATIONS

Ecopetrol has an ESG Relevance Score of '4' for Exposure to Social Impacts due to multiple attacks to its pipelines, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Ecopetrol has ESG Relevance Score of '4' for Governance Structure, due to its nature as a majority government-owned entity and the inherent governance risk that arise with a dominant state shareholder. This has a negative impact on the credit profile and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to 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.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Interconexion Electrica S.A. E.S.P.	LT	BBB Rating Outlook Stable	Downgrade	BBB+ Rating Outlook Negative
	IDR			
	LC LT IDR	BBB Rating Outlook Stable	Downgrade	BBB+ Rating Outlook Negative
UNE EPM Telecomunicaciones S.A.	LT	BBB- Rating Outlook Stable	Downgrade	BBB Rating Outlook Negative
	IDR			
	LC LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
Ecopetrol S.A.	LT	BB+ Rating Outlook Stable	Downgrade	BBB- Rating

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Parent and Subsidiary Linkage Rating Criteria \(pub. 26 Aug 2020\)](#)[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)[Corporate Rating Criteria \(pub. 22 Dec 2020\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

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EU Endorsed, UK Endorsed

Ecopetrol S.A.

EU Endorsed, UK Endorsed

Interconexion Electrica S.A. E.S.P.

EU Endorsed, UK Endorsed

Isagen S.A. E.S.P.

EU Endorsed, UK Endorsed

Oleoducto Central S.A. (OCENSA)

EU Endorsed, UK Endorsed

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