RATING ACTION COMMENTARY

Fitch Affirms OCENSA's IDR at 'BBB-'; Outlook Negative

Fri 11 Dec, 2020 - 15:49 ET

Fitch Ratings - New York - 11 Dec 2020: Fitch Ratings has affirmed the Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) of Oleoducto Central S.A. (OCENSA) at 'BBB-'. The Rating Outlook is Negative.

OCENSA's ratings reflect the linkage with the credit profile of Ecopetrol S.A. (BBB-/Negative), which indirectly owns 72.648% of OCENSA. Fitch believes operational integration and strategic ties between both entities to be important enough to create economic incentives for Ecopetrol to effectively support OCENSA.

The ratings also incorporate the company's strong competitive position as the largest and most reliable crude oil transportation company in Colombia, which gives it cost advantages over its main competitors. The Outlooks of Ecopetrol and OCENSA mirror the Negative Outlook on the Sovereign Rating of Colombia (BBB-/Negative).

The company's moderate exposure to volume risk and the regulated nature of the business provide stability in cash flow generation metrics and help minimize margin volatility. Fitch considers the company's financial profile well positioned to withstand the effects of the coronavirus pandemic and lower crude oil production on transported volumes in Colombia. OCENSA agreed in May 2020 on different relief measures to help crude oil producers to face the effects of a low oil price environment and the pandemic, with no material effects on working capital needs.

KEY RATING DRIVERS

Linkage to Ecopetrol: OCENSA's ratings reflect its linkage to the credit profile of Ecopetrol. In terms of operational integration, OCENSA's operations are an integral part of Ecopetrol's core business, which represents OCENSA's main off-taker. Ecopetrol heavily relies on OCENSA's infrastructure to transport crude oil from production fields to its refineries and export terminal. Fitch considers OCENSA strategically important for Ecopetrol.

Strong Competitive Position: OCENSA is the largest crude oil transportation company in Colombia, connecting the most important oil basins with the country's main crude oil export terminal, also acting as a gateway to the country's largest refineries. The company represents the most important and reliable crude oil transportation system for Ecopetrol and Colombia, transporting roughly 70% of the country's oil production and 60% of oil exports.

The geographic location of the assets has made it less vulnerable to attacks and increases the reliability of the system, allowing the company to report relatively stable throughputs, even during the last oil price cycle. High utilization rates give OCENSA cost advantages over its main competitors and positively affects the stability of cash flow.

Conservative Capital Structure: Fitch forecasts OCENSA's leverage will remain below 0.5x and does not anticipate pressures on its credit metrics. The company's demonstrated ability to generate strong and consistent operating cash flow allowed it to fund a substantial portion of capex without resorting to significant use of leverage.

Fitch expects the company's cash flow from operations (CFO) will be strong enough to fund capex requirements and meet dividend payments without pressuring its capital structure. OCENSA's financial debt was mainly concentrated in its USD500 million seven-year senior unsecured notes due 2027 as of Sept. 30, 2020.

Consistent and Predictable CFO: The company's revenue profile provides stability in cash flow measures and helps minimize margin volatility. CFO benefits from the regulated nature of the crude oil transportation tariffs in Colombia, which is approved by the Ministry of Mines and Energy, fixed in U.S. dollars, adjusted by inflation and reviewed every four years.

Most of OCENSA's revenues are tied to fee-based and fixed-price arrangements through ship-and-pay contracts with no direct exposure to commodity prices. From mid-2017, the company entered into firm ship-or-pay contracts linked to additional capacity of 135 thousand barrels per day (kbpd), which makes up roughly 20% of the company's revenues base. CFO is also positively affected by the exposure of OCENSA to Ecopetrol, the biggest crude oil producer in the country, which currently makes up roughly 80% of the company's total revenues.

Manageable Volume Risk: OCENSA is exposed to volume risk but Fitch believes this risk is manageable, based on the demonstrated resilience to the last oil price cycle. The company's competitive positioning as the largest, lowest-cost and most reliable crude oil transportation system in Colombia helped the company to outperform the industry as was seen during the last crude oil price crisis.

Moreover, the low availability of alternative transportation systems favors OCENSA's volumes, which averaged 664kbpd during 2019 and 633kbpd in 2018. Fitch expects transported volumes will decline by 100kbpd during 2020 due to the effect of low crude oil prices, the coronavirus pandemic and fewer reversals from the Cano Limon Covenas (CLC) pipeline on transported volumes, gradually recovering from 2021.

DERIVATION SUMMARY

OCENSA's ratings compare well relative to tolling-based natural gas peers in the region, such as Transportadora de Gas Internacional S.A. ESP (TGI; BBB/Stable) and Transportadora de gas del Peru, S.A. (TGP; BBB+/Stable) due to stable and predictable cash flow generation.

OCENSA has a stronger financial profile, with leverage of 0.5x in the rating horizon, which offsets higher exposure to volume risk, given its greater reliance on take-and-pay contracts relative to peers. Fitch considers TGI and TGP to have lower business risk resulting from a solid long-term contractual structure and low or no exposure to commodity prices or volume risk.

OCENSA is rated two notches below TGP and one notch below TGI, even though TGP and TGI have less conservative capital structures. TGP has a stronger business profile with revenue derived from long-term ship-or-pay contracts with an average remaining life of around 12 years.

TGI's average contract length is seven years and around 33% of its contracts expire by YE 2020, which reduces revenue visibility compared with TGP. TGI is rated in line with its parent, Grupo Energia Bogota S.A. E.S.P. (GEB; BBB/Stable), and maintains a strong linkage to GEB. OCENSA's ratings reflect strong operational and strategic ties to Ecopetrol. Therefore, Fitch considers it unlikely that both companies will have different credit profiles.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer Include

- Volumes for ship-and-pay contracts declining for 2020 due to lower crude oil production and lower reversions from the CLC pipeline.

- Volumes for ship-and-pay contracts according to negotiated terms with off-takers.

- Current tariffs remain valid through 2023.

- Average capex of approximately USD82 million per year for the 2020-2023 period, similar to 2019.

- Dividend pay-outs of 100%.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An upgrade of Ecopetrol's credit ratings.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A downgrade of Ecopetrol's credit ratings.

- A weakening of the company's linkage with Ecopetrol and material deterioration of OCENSA's capital structure.

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.

LIQUIDITY AND DEBT STRUCTURE

Liquidity Not a Concern: The company's liquidity position is supported by cash on hand, strong internal cash flow generation and favorable debt maturities. OCENSA had COP689.14 billion of cash on hand, plus COP2.8 trillion of CFO covered 1.9x of short-term debt, as of June 2020. Recently, the company issued USD500 million in 4% notes due 2027 to refinance USD500 million notes due 2021.

CFO is expected to average COP3 trillion through the medium term, although a significant proportion of this cash flow will likely be up streamed to shareholders through dividend distributions. Fitch expects OCENSA to generate neutral to positive FCF in the short to medium term, given the absence of sizable capex.

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

OCENSA's ratings are linked to the credit profile of Ecopetrol.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of Environmental, Social and Corporate Governance (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
Oleoducto Central S.A. (OCENSA)	LT IDR BBB-	Affirmed	BBB-
	LC LT IDR BBB-	Affirmed	BBB-

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 01 May 2020) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 26 Aug 2020)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Oleoducto Central S.A. (OCENSA) EU Endorsed

DISCLAIMER

COPYRIGHT

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Energy and Natural Resources | Corporate Finance | Infrastructure and Project Finance | Latin America | Colombia

ENTITIES

Oleoducto Central S.A. (OCENSA)

ISSUER CONTENT

Latin American Credits on the Cusp (Elevated Fallen Angel Risk)

CENIT's Oil Transportation Tariffs Agreement Credit Neutral for Ocensa and Al Candelaria

Latin American Comparative Statistics Book: 2020 (Five Years of Credit Metrics of 218 Corporate Cross-Border Issuers)

Latin American Comparative Statistics Book: 2020 (Excel)

Fitch Downgrades Ecopetrol, Ocensa and Al Candelaria, Affirms Other Colombian Corporates

RECOMMENDED CONTENT

Fitch Afirma Ratings 'AA(bra)' da Celesc e Celesc G

Fitch Affirms A.I. Candelaria's Ratings at 'BB+'; Outlook Negative

Fitch Affirms Mackinaw Power LLC at 'BBB-'; Outlook Stable

Fitch Assigns First-Time 'CCC+' IDR to BlackBrush Oil & Gas; Rates Term Loan 'CCC+'/'RR4'

Companhia Siderurgica Nacional (CSN)

Fitch Eleva Rating da 3ª Emissão de Itarema Geração para 'A-(bra)'; Observação Positiva

FITCH RATINGS ANALYSTS

Lincoln Webber, CFA, CAIA
Associate Director
Primary Rating Analyst
+1 646 582 3523
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Jose Luis Rivas
Director
Secondary Rating Analyst
+57 1 484 6770

Lucas Aristizabal
Senior Director
Committee Chairperson
+1 312 368 3260

MEDIA CONTACTS

Jaqueline Carvalho
Rio de Janeiro
+55 21 4503 2623
jaqueline.carvalho@thefitchgroup.com

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

* Long Term/Short Term Issuer Default Rating displayed in orange denotes EU or UK 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