

Target Price Revision

Grupo ISA S.A.: The company's solid position in markets where it has presence defines a favorable performance for 2010.

Prepared by:

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52-week Low	COP5,750
52-week High	COP12,260
Market Price (Sep-28-09)	COP12,260
Year-to-date Change (%)	72.7%
Shares Outstanding (bn)	1,075.66
Market Capitalization (COP bn)	13,187,608
2010E Target Price	COP13,800
Valuation Potential	12.6%

Table 2. Cost of Capital (WACC) 2010E

Exchange Rate Depreciation	3.0%
Kd Ann. Eff.	10%
Kd (1-t) Ann. Eff.	7.0%
Risk-free Rate	4.0%
Country Risk	2.5%
Market Premium	6.0%
Leveraged Beta	0.91
Ke COP	15.3%
WACC	11.4%

Source: Valores Bancolombia calculations.

Table 3. Valuation by Valores Bancolombia
 (Figures are expressed in COP millions)

= Value of Operations	28,183,037
- Debt	4,654,327
- Minority Interest	8,525,244
+ Other Assets and Liabilities	1,268,588
= Enterprise Value	14,802,491
Shares Outstanding	1,075.66
= 2010E Target Price	COP13,800

Source: Valores Bancolombia calculations.

Base Case Scenario ¹

Our YE09E target price for ISA S.A. is **COP 13,800**, based on a discounted free cash flow valuation for the period 2010-2015. These flows were discounted with a weighted average cost of capital (WACC) of 11.4% (Table 2), lower by 160 bps than that of the previous period of valuation, reflecting a better perception of country risk. The base case scenario considers a nominal rate of growth to perpetuity of 6.0% and a country risk premium of 2.5%.

The company's solid position, reflected in its 1H09 operating results and margins, translates into a favorable medium-term scenario of lower capital costs.

Additionally, the regularity of announcements informing of increases in the company's participation in the power transmission market in the countries where it has presence supports the capacity of the company to increase its operations. Finally, the recent performance of operating margins, as a result of the start of operations of several projects of power transmission and optic fiber, offers a positive scenario that allows for assuming high EBITDA margins.

We highlight the impact of the latest announcements related with the construction of a new 55-km transmission line in Peru through the Transmantaro² consortium company and the construction of the Cartagena substation. It is estimated that the total investment in both projects will reach USD 28 million, generating annual revenues of approximately COP 3,300 million once they start operating in 2011.

As at June 2009, the company's operating revenues by destination continue to be lead by Brazil (52.6%), followed by Colombia (37.6%), Peru (8.3%), Bolivia (1.3%) and Ecuador (0.2%). The company remains as the major power transmitter in Colombia with 80% market share and in Peru with 77%. The market share in Bolivia and Brazil remained stable at 35% and 17%.³

¹ The scenarios presented herein were constructed upon assumptions by Analysts of Valores Bancolombia and do not commit the company that is subject of coverage (Grupo ISA S.A.).

² The Transmantaro Consortium has as its main activity the transmission of electric energy from power generating companies and the operation and maintenance of mining facilities. Since December 13, 2006, its major shareholders are ISA (60%) and EEB (40%).

³ According to data by Duff & Phelps de Colombia.

- *Value of operations:*
 - We estimate the performance of the company's operating revenues on the basis of the expected performance of price indicators per country, weighted by the level of participation of revenues by market observed as at June 2009. The PPI forecasts for Colombia in 2010 correspond to those of the Bancolombia Group, while Brazil's projected IGP-M (Market General Price Index) corresponds to the projection by the Institute of International Finance (IIF). In the case of the consumer price indexes of Peru, Bolivia and Ecuador projections were taken from the International Monetary Fund (IMF). Hence, we expect a 4.7% growth in operating revenues in 2010 to COP 3.4 trillion against 4.4% in 2009.
 - The valuation exercise considers the incorporation of COP 30 billion per year starting from 2011 corresponding to the start of operations of transmission lines that will be built in Paraná, Santa Catarina and Rio Grande do Sul. In that same year, annual revenues of nearly COP 12 billion are included resulting from the set in motion of the Chilca-Zapallal project in Peru. Lastly, revenues of COP 330 billion from the Rio Madeira project are incorporated starting from 2012.
 - Thus, during the explicit valuation period, the annual rate of growth of operating revenues is 6.7% on average, coming to COP 4.7 trillion in 2015. Throughout the exercise, we assume that the participation of revenues per country is constant and equal to that observed as of June 2009.
 - We expect an improvement in the 2010 EBITDA margin to 75%, compared with 74% in 2009. For the period between 2011 and 2016, the average EBITDA margin stands at 72.9%
 - In 2010 we expect the CAPEX to total COP 1.2 trillion (35.5% of sales), corresponding to the projects adjudicated in 2008 and 2009 (details of these investments are shown in Annex 1). For the remainder of the valuation period, we assume that the CAPEX remains stable as a proportion of sales at levels of 25.1%. This CAPEX incorporates the *Vías de Occidente* (Western Roads) project in Antioquia: *Autopista de la Montaña* (Mountain Highway), totaling COP 3.6 trillion during the 15 years of project execution.
- *Debt:* As at June 2009, the Group's total debt amounted to COP 4.5 trillion, which implies a Debt/EBITDA ratio of 2 times. We assume that the company does not acquire any more debt in the valuation period.
- The target price of the ISA Group under this scenario rises to COP 13.8 billion. To this scenario we assign a subjective probability of occurrence of 75%.

Optimistic Scenario

- Even though the performance of the price indexes has been a decreasing one and lower price levels are expected in 2009 and 2010, the expansive monetary policies deployed worldwide as well as less favorable statistical bases may bring about the surge of inflationary pressures. The latter, along with increases in commodity prices, may lead to a rebound of price indexes to which the revenues of the ISA Group are tied, thereby benefiting its operating revenues.
- Consequently, the optimistic valuation scenario assumes average growth in total operating revenues of 7.4% between 2010 and 2015. This rate results from median growth of 5.5% in Brazil, 3.4% in Colombia, 2.15% in Peru, 4.4% in Bolivia and 2.5% in Ecuador. This implies that operating revenues will reach levels of COP 5.1 trillion in 2015, that is to say 7.3% above their growth rate in the base case scenario.
- According to the foregoing, the EBITDA margin would stand at levels of 73.9% on average. The latter means an EBITDA of COP 3.7 trillion in 2015, which means an increase of 9.3% with respect to the base case scenario.
- In this way, the average annual investment in CAPEX would be of 30% of total sales throughout the valuation period, backing the company's growth strategy.

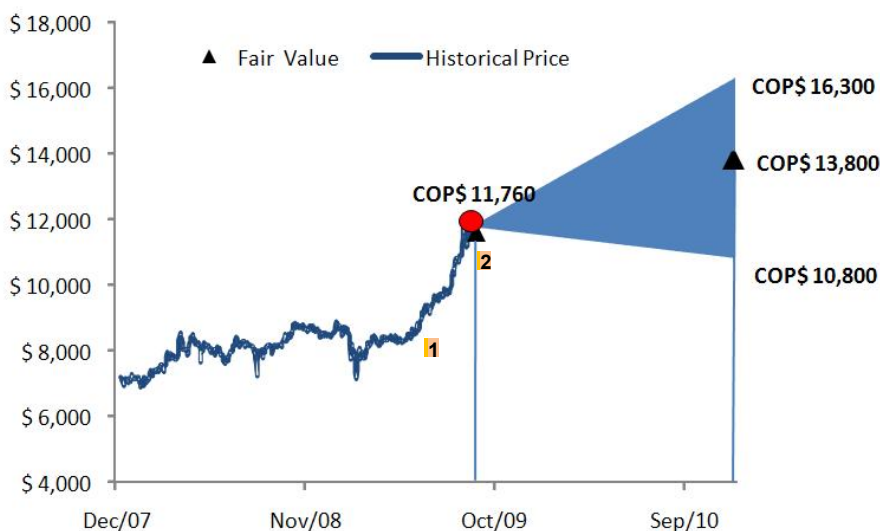
- Under this scenario, the target price rises to COP 16,300. We assign a subjective probability of occurrence of this scenario of 15%.

Pessimistic Scenario

- Even though it is true that recent indicators suggest that economic activity would already be stabilizing, recovery might be more timid than anticipated to the extent that the gradual deleveraging of the private sector in the United States continues. In this way, the pessimistic valuation scenario simulates the effect of a lower growth in operating revenues in 2010, which would grow 3.4% to COP 3.3 trillion. This growth rate assumes the lowest level of the forecasts of price indicators in the markets in which the ISA Group has participation.
- In line with the abovementioned, operating revenues between 2010 and 2015 would grow at an annual rate of 5.2%, to end 2015 at COP 4.4 trillion, that is, 7.1% below the base case scenario. This result implies average growth rates of 4.1% in Brazil, 2.5% in Colombia, 1.6% in Peru, 3.5% in Bolivia and 1.8% in Ecuador.
- In this manner, the EBITDA margin would stand at levels of 68% on average between 2010 and 2015, ending 2015 at COP 2.9 trillion, which means a fall of 11.8% from the base case scenario. The CAPEX, on its part, would remain at average levels of 20%.

Under this scenario, the target price rises to COP 10,800. To this scenario we assign a subjective probability of occurrence of 10%.

Figure 1. Valuation Scenarios by Valores Bancolombia

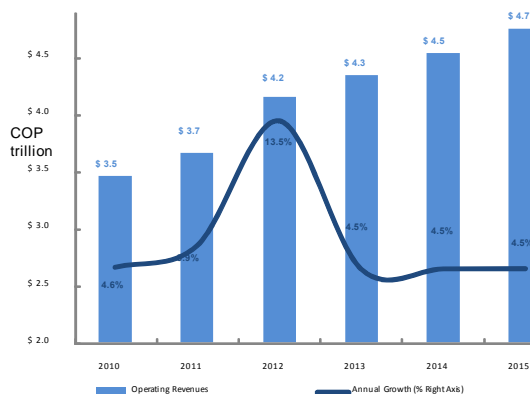


	Publication Date	Target Price	Closing Price
1	Jun-25-09	COP 10,700	-
2	Sep-24-09	COP 13,800	\$11,760

Source: Valores Bancolombia calculations.

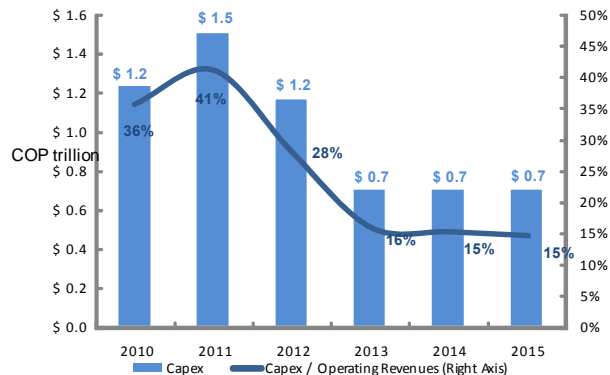
Annex I

Figure 1. Total Operating Revenues Projected



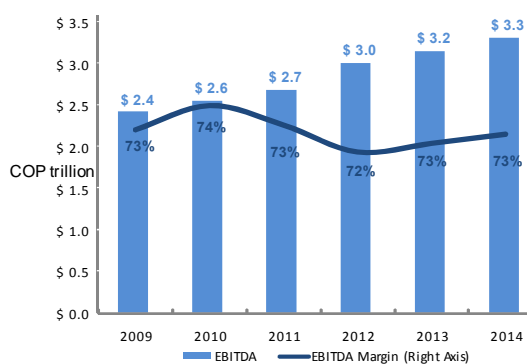
Source: Valores Bancolombia

Figure 2. CAPEX Projected



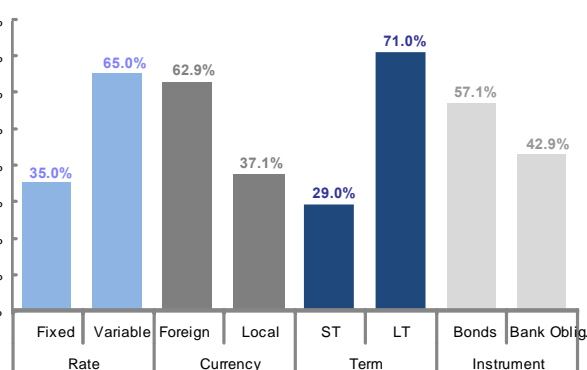
Source : Valores Bancolombia

Figure 3. EBITDA Projected



Source : Valores Bancolombia

Figure 4. Composition of Debt



Source : Valores Bancolombia based on data from ISA S.A

Table 1. Projects included in ISA's CAPEX plan

Project	Affiliate	Total Investment USD million	Project Assembling (Months)
Mountain Highway	ISA	1,925	186
Rio Madeira Interconnection	CTEEP	918	50
Brazil Lots (Paraná Santa Catarina)	CTEEP	146	18
Chilca Zapallal	REP	125	24
Cartagena Substation	ISA	17	18
Independencia Transmission Line	Transmantaro	11	18
Porco III	ISA	11.4	18

Source : ISA Group

Annex II

**Table 1. 2010E Target Price Sensitivity Analysis
(Continuity Value vs. WACC)**

		WACC						
		8.4%	9.4%	10.4%	11.4%	12.4%	13.4%	14.4%
Continuity Value	4.00%	19,400	15,300	12,400	10,300	8,700	7,400	6,400
	5.00%	24,500	18,400	14,500	11,800	9,800	8,200	7,000
	6.00%	33,600	23,400	17,500	13,800	11,200	9,300	7,800
	7.00%	53,700	32,000	22,200	16,700	13,100	10,600	8,800
	8.00%	137,500	51,200	30,500	21,200	15,900	12,500	10,100

Source: Valores Bancolombia calculations.

**Table 2. 2010E Target Price Sensitivity Analysis
(Continuity Value vs. Beta)**

		Leveraged Beta						
		0.76	0.81	0.86	0.91	0.96	1.01	1.06
Continuity Value	4.00%	11,300	10,900	10,600	10,300	10,000	9,700	9,500
	5.00%	13,000	12,600	12,200	11,800	11,400	11,100	10,700
	6.00%	15,400	14,900	14,300	13,800	13,300	12,900	12,400
	7.00%	19,100	18,200	17,400	16,700	16,000	15,400	14,800
	8.00%	25,000	23,600	22,300	21,200	20,100	19,200	18,300

Source: Valores Bancolombia calculations.

Annex III

Table 1. ISA Group Consolidated Financial Statements
(COP billion)

Income Statement	2008	2009E	2010E	2011E	2012E	2013E	2014E
Operating Revenues	3,165	3,308	3,460	3,665	4,159	4,346	4,542
Operating Costs and Expenses	1,598	1,625	1,705	1,812	2,170	2,267	2,369
Operating Income	1,567	1,702	1,755	1,853	1,990	2,079	2,173
Non-operating Result	(847)	(444)	(423)	(442)	(474)	(462)	(424)
EBITDA	2,274	2,420	2,559	2,687	3,013	3,161	3,317
EBITDA Margin	71.8%	73.2%	74.0%	73.3%	72.4%	72.7%	73.0%
Net Income	237	339	402	451	475	464	524
Net Margin	7.5%	10.3%	11.6%	12.3%	11.4%	10.7%	11.5%

Balance Sheet	2008	2009E	2010E	2011E	2012E	2013E	2014E
Assets	14,440	14,993	15,220	15,455	15,961	16,208	16,325
Current Assets	1,609	1,974	1,873	1,538	1,901	2,530	3,091
Non-current Assets	12,830	13,020	13,347	13,917	14,060	13,679	13,234
Liabilities	6,721	7,149	7,279	7,424	7,862	8,072	8,082
Current Liabilities	613	895	951	997	1,196	1,316	1,387
Non-current Liabilities	1,454	1,600	1,673	1,772	2,012	2,101	2,197
Shareholders' Equity	4,941	5,067	5,164	5,254	5,322	5,359	5,465
Total Liabilities and Shareholders' Equity	14,440	14,993	15,220	15,455	15,961	16,208	16,325

Source: Valores Bancolombia calculations with data from the ISA Group.

Table 2. ISA Group Estimated Multiples

Multiples	2008	2009E	2010E	2011E	2012E	2013E	2014E
P/E	32.3	33.9	36.9	32.9	31.3	32.0	28.3
P/BV	1.55	2.3	2.9	2.8	2.8	2.8	2.7
EV/EBITDA	5.2	6.7	7.6	7.3	6.5	6.2	5.8
Earnings per Share	220	315	374	420	441	432	487

Source: Valores Bancolombia calculations with data from the ISA Group.

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