

## Target Price Revision

### Colombiana de Inversiones S.A.: The simplification of the equity capital structure strengthens the company's focusing plans

Prepared by:

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52-week Low	\$ 16,600
52-week High	\$ 44,000
Market Price as at Sep-28-09	\$ 44,000
Year-to-date Change	103.7%
Shares outstanding (bn)	71.93
Market Capitalization (COP bn)	3,164,973
<b>2010E Target Price</b>	<b>\$36,300</b>
Valuation Potential	-17.5%

**Table 2. Valuation Multiples  
(COP million per installed MW)**

Company	Cntry	EV/MW	EV/MW Adjusted
AES TIETE	Brazil	1,716	3,180
CESP	Brazil	1,988	2,553
AES GENeR SA	Chile	3,309	3,182
Enersis S.A	Chile	2,615	4,982
Edegel	Peru	5,010	3,632
GDF Suez	Latam	5,985	3,722
Allegheny Energy	USA	2,602	4,135
Dte Energy Holding	USA	2,464	2,553
<b>Average</b>		<b>3,382</b>	<b>3,373</b>

Source: Valores Bancolombia

**Table 3. Assumptions on installed MW  
according to technology**

Technology	EBITDA Margin	Discount over EV/MW	Value of MW*
Hydroelectric Plants	65%	0%	3,373
Natural gas-fired Thermal plants (combined cycle)	40%	38%	2,076
Natural gas-fired Thermal plants (simple cycle)	25%	62%	1,297

\* COP million

Source: Valores Bancolombia calculations with data from Colombiana de Inversiones S.A.

#### Base Case Scenario

▪ We estimate a year-end 2010 target price for the share of Colombiana de Inversiones of **COP 36,300** based on a *Sum-of-the-Parts* valuation exercise. The valuation exercise incorporates de individual value estimation of each one of the holding's generators and of its portfolio investments.

▪ In the remaining of this year, the company is expected to consolidate the merger of its corporate structure through the corporate simplification project announced in August. This process consists in the merger of the power generation units (Generar SA ESP, Meriléctrica SA, Meriléctrica SA & Cía. SCA ESP, Compañía Colombiana de Energía SAS and Hidromontañitas SA ESP<sup>1</sup>) and the liquidation of the stakes in the holdings that served as investment vehicles (Inversiones Energéticas CCI LLC, SPV TF LTD., and TLC International). According to company, this merger is aimed at attaining greater operating, administrative and financial efficiency, thus facilitating the understanding of its financial statements and results.

▪ Finally, the company seeks to proportion its Corporate Statutes to those of an E.S.P. (Public Utilities Company). We expect that process to translate into significant savings associated with a lower tax burden on account of ICA (Industry, Commerce, Adds and Billboards: a direct municipal taxation) and income tax given that it implies that Colinvers will stop paying presumptive income tax<sup>2</sup>. Additionally, it will allow for a better management of the company's cash flow while also increasing clarity of the operation.

#### Valuation of the energy portfolio

The energy component is valued according to the average value of installed MW, derived from the EV<sup>3</sup>/MW of a comparable group<sup>4</sup> adjusted by CAPEX and by the country in which each company operates with the purpose of capturing the differences in regulatory schemes. This value totals COP 3,373 million using as reference an exchange rate for 2010 of COP 1,870/USD estimated by the Bancolombia Group (Table 2).

The valuation multiple is additionally adjusted by a discount rate according to the generation technology used by each plant (Table 3). The discount percentages are calculated with an average EBITDA margin associated with each technology. The exercise delivers an energy portfolio value of COP 1.6 trillion (Table 4).

<sup>1</sup> Termoflores is not included because it is a Free Trade Zone.

<sup>2</sup> It is estimated that this savings could amount to COP 18,618 million taking the year 2008 as reference.

<sup>3</sup> Enterprise Value.

<sup>4</sup> The selection of the Comparable Group took into account the composition of each company's energy portfolio and this composition was used as an adjustment variable of the EV/MW.

- **Termoflores:** This natural-gas fired plant of combined cycles has at present an installed capacity of 441 MW which will be enlarged to 610 MW in 2010 (Flores IV project). This capacity is valued at a multiple of COP 2,076 million, calculated with a discount of 38%.
- **Merilétrica:** This is a natural gas simple-cycle plant with a capacity of 169 MW. The valuation multiple is of COP 1,297 million, calculated with a discount of 62%. Added to the value of the power generation business is USD 22.5 million corresponding to the natural gas commercialization and transport.
- **Generar:** This is a hydroelectric generation plant. It has a capacity of 19.5 MW valued at a multiple of COP 3,373 million.
- **Hidromontañas:** This plant has a capacity of 19.9 MW. The value per MW was of COP 3,373 million. Just as with Generar, no discount is made over the valuation multiple because it is a hydroelectric plant.

**Tabla 4. Energy Portfolio Valuation (COP million)**

Plant	Installed Capacity (MW)	Technology	Value per MW	EV / Capacity
Termoflores	610	Combined Cycle	2,076	1,266,059
Merilétrica	169	Simple Cycle	1,297	261,300
Generar	20	Hydroelectric	3,373	65,768
Hidromontañas	20	Hydroelectric	3,373	67,117
<b>Total</b>	<b>818</b>			<b>1,660,244</b>

**Source:** Valores Bancolombia with data from Colombiana de Inversiones S.A.

- **Portfolio Investments:** We estimate a value of the investments portfolio of COP 1.5 trillion. The publicly listed assets were valued according to our estimates of 2010 target price of Grupo de Inversiones Suramericana (COP 28,000), Cementos Argos (COP 11,100) and Inverargos (COP 16,800). The stake in BVC S.A. and in Tablemac is valued at market prices (Table 5).

**Table 5. Valuation of the Investments Portfolio**

Asset	Methodology	Stake %	2010E	Value (COP bn)	Participation (%)
Grupo de Inversiones Suramericana	<i>Sum of the Parts</i>	11.1%	28,000	1,460,970	96.7%
BVC	<i>Market Price</i>	9.7%	27	48,156	3.2%
Tablemac	<i>Market Price</i>	0.4%	6	589	0.0%
Inverargos	<i>Sum of the Parts</i>	0.0%	16,800	404	0.0%
Cemargos	<i>Discounted Cash Flow</i>	0.0%	11,100	1,128	0.1%
<b>Total</b>				<b>1,511,246</b>	<b>100%</b>

**Source:** Valores Bancolombia with data from Colombiana de Inversiones S.A.

- **Other Investments:** This corresponds to the stake in Hotel de Pereira S.A. Promotora de Hoteles Medellín S.A., Arseg S.A. and Pass Ltda. It is valued according to the book value reported as at June 2009 (COP 119,693 million).
- **Cash and Tradable Investments:** We assume that the company's levels of liquidity remain at COP 851,805 million, according to what the company reported as at June 2009 including the cash of Termoflores and Merielétrica.

- **Debt:** As at yearend 2008, Colinversiones reported total liabilities of COP 1.3 trillion. This valuation exercise assumes that debt remains at these levels, given that thus far in 2009 the company has not contracted additional debt and has not expressed its intention to do so, since the projects in operation are already funded. This may change in the event of a leveraged acquisition.
- **Operating Expenses:** We estimate these as the present value of the operating expenditure without including provisions until 2016. These projections are used at basis for the information reported as at June 2009, and assume a reduction by 2010 of 17.5% which results from incorporating the effects of the company's integration. These data are adjusted annually with the inflation rate expected by the Bancolombia Group. Flows are discounted at a rate of 14%. We assume growth to perpetuity of 3%, according to the long-term inflation target. In this way, the estimated value of operating expenses comes to COP 156,094 million.

**Table 6. Sum of the Parts  
(Base Case Scenario)**

Asset	Methodology	Value (COP bn)	Participation (%)
Energy Portfolio	<i>Valuation by multiples</i>	1,660,244	40%
Investments Portfolio	<i>Target Prices and market values</i>	1,511,246	36%
Other Investments	<i>Book Value</i>	119,693	3%
Cash and Tradable Investments		851,805	21%
<b>TOTAL ASSETS</b>		<b>4,142,988</b>	
Debt		1,376,750	
PV G. Oper. Holding		156,094	
<b>SHAREHOLDERS' EQUITY</b>		<b>2,610,144</b>	
Shares Outstanding		71,931,201	
<b>Target Price per Share</b>		<b>36,300</b>	

**Source:** Valores Bancolombia.

- Under this scenario the target price per share as at December 2010 is COP 36,300. This scenario does not consider the value of new acquisitions, given that their conditions are uncertain. Nonetheless, the optimistic scenario makes an approach simulating the acquisition of a hydroelectric plant.

#### **High-case Scenario**

- The high-case valuation scenario estimates the added value of a purchase of hydroelectric plant for COP 1.4 trillion. This value corresponds to cash available as of June 2009 (COP 851,805 million) plus the usage of an indebtedness quota of up to 60%, which would imply additional debt of up to COP 546,354 million<sup>5</sup>. Details of this calculation are presented in ANNEX I.
- For their part, the multiples of recent transactions in the sector (Table 7) indicate that for such amount the company would be able to purchase additional capacity of up to 711 MW for a value of COP 1,965 million per MW.
- In this way, the value of the energy portfolio would increase by 142% to COP 4.0 trillion and the shareholders' equity would increase to 40% to COP 3.5 trillion, in such a way that the target price would rise to COP 49,600.

<sup>5</sup> This value is obtained from the average indebtedness of the comparable group.

Table 7. Recent Transactions in the Sector

Year	Company	Country	Buyer	Value (USD bn)	Participation	MW Value (USD thou)	MW Value (COP thou)
2007	Hidroprado	Colombia	EPSA	54.7	100%	1,094	2,046
2006	Colbun	Chile	AntarChile	219	9.5%	917	1,714
2005	Constellation	EE.UU.	Florida P&L	11,000	100%	1,222	2,286
2005	Cinergy	EE.UU.	Duke	9,000	100%	1,286	2,404
2005	Edison	Italy	EDF	9,200	100%	736	1,376
<b>Average</b>						<b>1,051</b>	<b>1,965</b>

Source: Mergermarket with data from Bloomberg and annual reports as of December 2008.

- Due to the fact that an acquisition's conditions are highly uncertain, we calculated various scenarios according to the acquired capacity with respect to different prices per MW (Table 8).

Table 8. Sensitivity Scenarios in the view of a possible acquisition (MW Value vs. Acquired MWs)

		Possible scenarios of value per MW (COP million)*														
		2,665	2,565	2,465	2,365	2,265	2,165	2,065	1,965	1,865	1,765	1,665	1,565	1,465	1,365	1,265
Possible Scenarios of capacity to be acquired ( MW )	525	40,900	41,600	42,300	43,000	43,800	44,500	45,200	46,000	46,700	47,400	48,200	48,900	49,600	50,300	51,100
	545		41,800	42,600	43,300	44,100	44,900	45,600	46,400	47,100	47,900	48,600	49,400	50,200	50,900	51,700
	567			42,900	43,600	44,400	45,200	46,000	46,800	47,600	48,400	49,200	50,000	50,700	51,500	52,300
	591				44,000	44,800	45,600	46,400	47,300	48,100	48,900	49,700	50,600	51,400	52,200	53,000
	617					45,200	46,100	46,900	47,800	48,600	49,500	50,400	51,200	52,100	52,900	53,800
	646						46,500	47,400	48,300	49,200	50,100	51,000	51,900	52,800	53,700	54,600
	677							48,000	48,900	49,900	50,800	51,800	52,700	53,700	54,600	55,500
	711								49,600	50,600	51,600	52,600	53,600	54,600	55,600	56,500
	750									51,400	52,500	53,500	54,500	55,600	56,600	57,700
	792										53,400	54,500	55,600	56,700	57,800	58,900
	840											55,600	56,800	58,000	59,100	60,300
	893												58,100	59,400	60,600	61,900
	954													61,000	62,300	63,700
	1,024														64,300	65,700
	1,105															68,100

\*TRM Exchange rate for year-end 2010: COP 1,870.

#### Colinvers makes preliminary approaches to buy a stake in Empresa de Energía del Pacífico S.A. E.S.P.

On September 22, the Board of Directors of Colinvers announced its authorization to the management for making preliminary negotiation approaches to the Spanish company Gas Natural SDG S.A. with respect to the 63.8% of its participation in Empresa de Energía del Pacífico S.A. E.S.P.<sup>6</sup>. EPSA E.S.P. is a vertically integrated public utilities company dedicated to energy generation, transmission, distribution and commercialization<sup>7</sup>. As at June 30, the company holds 86.3% of shares in CETSA E.S.P., a company dedicated to the generation, distribution and commercialization of energy, and whose major assets are the generation plants Riofrío I, Riofrío II and Rumor.

<sup>6</sup> Gas Natural obtained its stake in EPSA after it acquired the worldwide assets of Unión Fenosa.

<sup>7</sup> This integration capacity is shared only by EPM, since these two are the only companies not regulated by Law 143 of 1994 known as the "Energy Law" which limits the possibility for a single company to participate in all segments of the electric energy business in Colombia.

Additionally, the company is the proprietor of 1.9% of shares in ISAGEN<sup>8</sup>.

With total installed capacity of 1,060 MW in 2008, this is the fourth-largest power generation company in Colombia, representing 8% of the National Interconnected System. 85% (905 MW) of its capacity corresponds to hydroelectric generation and the remaining 155 MW correspond to thermal energy<sup>9</sup>. Additionally, the company has approximately 409,531 clients (4.7% of the national total), distributed across 38 of the 42 municipalities of Valle del Cauca, including the cities of Palmira, Buga and Buenaventura. The Compañía de Electricidad de Tuluá S.A. ("CETSA E.S.P.") delivers electric power service to 49,207 clients in the city of Tuluá.

The participation of the power generation business in the company's total sales is of 42%, transmission participates with 3%, distribution with 12% and commercialization with 43%. (Some operating and financial data of the company are found in ANNEX II).

In a possible acquisition by Colinvert the business would concentrate in power generation. Considering its installed capacity of 1,060 MW and the participation of the possible vendor (63.8%), Colinvert could acquire nearly 677 MW. Maintaining the basic assumptions of the base case scenario, and assuming a wide range of purchase prices by installed MW, the target price may fluctuate between COP 48,000 and COP 55,500 per share in the event that this operation is carried out (see Table 8).

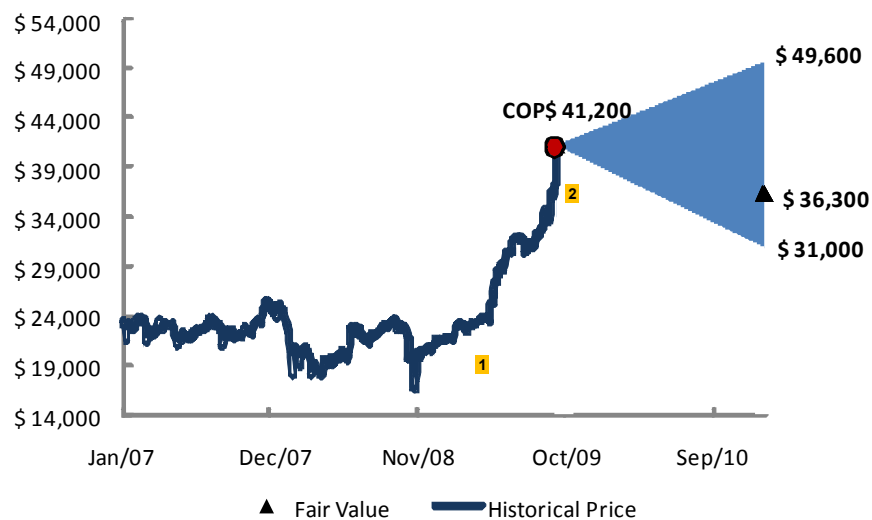
#### **Low-case Scenario**

- This scenario assumes that delays take place in the connection of the second turbine of Termoflores, in such a way that the company's generating capacity would be of 665 MW and not of 818 MW. The remaining assumptions correspond to the base case scenario.
- In this way the value of the energy portfolio would fall 23% from that in the base case scenario to COP 1.2 trillion and the shareholders' equity would fall by 15% from the base case scenario to COP 2.1 trillion, thus bringing the target price to COP 31,000.

<sup>8</sup> According to data by the Colombian Financial Superintendent Office as at June 2009.

<sup>9</sup> From this participation, 140 MW were bought through an Energy Purchase Contract ("PPA") with Termovalle S.A. E.S.P. and 14.9 MW of cogeneration were contracted with sugar cane mills Ingenio del Cauca S.A., Providencia, Central Castilla and Tumaco.

Figure 1. Valuation Scenarios

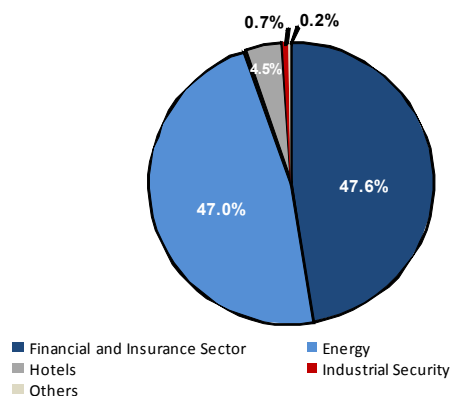


	Publication Date	Target Price	Closing Price
1	Apr-7-09	COP 29,800	-
2	Sep-16-09	COP 36,300	COP 41,200

Source: Valores Bancolombia calculations.

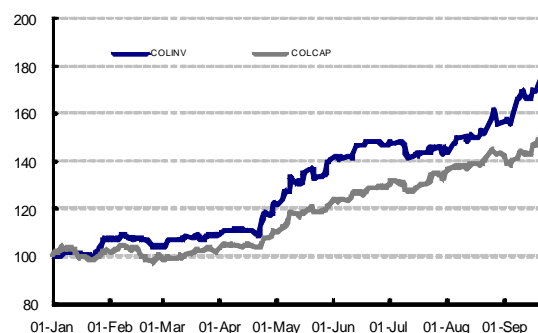
## Annex I

Figure 1. Investments as of June 2009



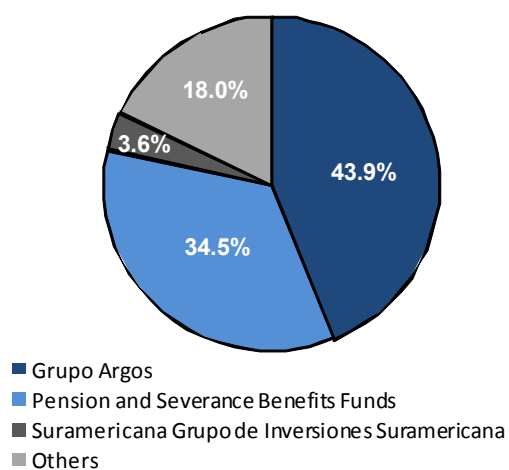
Source: Valores Bancolombia with data from Colombiana de Inversiones S.A.

Figure 2. COLINVERS S.A. vs. COLCAP (Jan'09 = 100)



Source: Valores Bancolombia with data from BVC.

Figure 3. Shareholders' Equity Composition



Pension and Severance Benefit Funds	
Protección	10.2%
Santander	6.1%
Colfondos	4.8%
Porvenir	5.7%
Horizonte	5.4%
Skandia	1.4%

Source: Valores Bancolombia with data from Colombiana de Inversiones S.A. and Financial Superintendent's Office.

Table 1. Calculation of cash available for new acquisitions (COP million)

Item	Value
<b>Total Available to June 2009</b>	<b>851,805</b>
Asset estimated as at June 2009	3,520,506
Maximum leverage according to peers	60%
Possible Leverage	2,112,304
Total Liabilities as at Dec. 2008	1,376,750
<b>New Debt</b>	<b>735,554</b>
Investment in Flores IV	-112,200
Investment in Hidromontañas	-77,000
<b>New Debt minus investments</b>	<b>546,354</b>
<b>Total available for investments</b>	<b>1,398,159</b>

Source: Valores Bancolombia with data from Colombiana de Inversiones S.A.

**Table 2. Financial Statements of Colombiana de Inversiones S.A.  
(COP bn)**

<b>Income Statement</b>	<b>2008</b>	<b>1H09</b>
Operating Revenues	471	678
Operating Cost and Expenses	57	18
Operating Income	414	660
Net Non Oper. Revenues / Expenses	-148	-90
Net Income	240	503

<b>Balance Sheet</b>	<b>2008</b>	<b>1H09</b>
Total Assets	2,666	3,141
Current Assets	215	749
Non Current Assets	2,451	2,391
Total Liabilities	772	787
Current Liabilities	291	306
Nun-current Liabilities	481	481
Shareholders' Equity	1,894	2,354

**Source:** Colombiana de Inversiones S.A.

## Annex II

**Table 1. Shareholders of EPSA E.S.P.**  
(As at June 30 2009)

Shareholders	# of Shares	Participation (%)
UNION FENOSA Colombia S.A.	221,275,320	63.8
UNION FENOSA Internacional S.A.	120	0.0
CVC	55,063,200	15.8
EMCALI	62,476,440	18.0
Municipio de Morales (Cauca)	3,239,280	0.9
Central de Inversiones S.A.	3,177,960	0.9
Ministerio de Hacienda y Crédito Público	1,221,000	0.3
INFIVALLE	120	0.0
E.R.T.	120	0.0
Fondo de Empleados CETSA. E.S.P.	120	0.0
ACUAVALLE S.A.	120	0.0
Otros (323 Personas Naturales)	247,560	0.07
<b>TOTAL</b>	<b>346,701,360</b>	<b>100.0</b>

Source: National Superintendent's Office.

**Table 2. Installed Hydroelectric Capacity of EPSA E.S.P.**

Plant	Installed Capacity (MW)
Alto Anchicayá	355
Bajo Anchicayá	74
Salvajina	285
Calima	132
Río Nima I y II	6.7
Río Cali	1.8
Hidroprado	51
<b>TOTAL</b>	<b>905.5</b>

Source: EPSA S.A. E.S.P.

**Table 3. Financial Statements of EPSA S.A E.S.P.**  
(COP Million)

Income Statement	2007	2008
Net Operating Income	708,700	1,016,150
Cost of sales	-344,144	-518,535
Gross Income	364,556	497,615
Operating Expenses	-72,373	-74,386
Operating Income	292,182	423,229
Non operating Revenues	58,863	45,432
Non operating Expenses	-87,818	-105,054
Pre-tax Earnings	263,227	363,607
Income Tax	-66,402	-100,598
Net Earnings of the Period	196,826	263,008
Net Earnings per Share	567.71	758.6
Balance Sheet	2007	2008
Assets	3,133,100	3,165,768
Current Assets	162,200	233,878
Non-current Assets	2,970,900	2,931,890
Liabilities	925,313	917,143
Current Liabilities	371,671	503,241
Non-current Liabilities	553,642	413,902
Shareholders' Equity	2,207,787	2,248,624

Source: EPSA S.A. E.S.P.

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