

Utilities/Services

Brazil

Maintained (since 29/08/07)

ISA Capital

Buy

A growth story

Bloomberg: ISABR

Moody's/S&P/Fitch

NR/BB/BB

- **ISA Capital reported strong 1Q08 results: adjusted EBITDA for non-recurring events was US\$182m, up 50.7%, and the EBITDA margin was 84.1%, up 23ppt YoY.**
- **The company's credit statistics are solid: LTM interest coverage 7.2x and net debt/EBITDA 2.1x for 2007.**

ISA Capital – the holding company of CTEEP – reported strong results for 1Q08.

Adjusted EBITDA for non-recurring events was US\$183m, up 50.7%, and the EBITDA margin was 84.1%, up 23ppt YoY. The company continues to deliver exceptional EBITDA margins, ~10ppt above our initial 75% forecast for the year. We adjust upwards our forecast for 2008-09 to 83%, as we consider that this margin is sustainable through this period. The results were driven by operational gains as management reduced personnel expenses at CTEEP's level. ISA Capital's 1Q08 consolidated financial statements recorded US\$8.7m of non-recurring operational gains from actuarial changes in CTEEP's pension fund liabilities.

Operational company CTEEP's plans to continue growing. The company will participate through a consortium in the auction of three major lines to interconnect the isolated state of Amazonas with the national grid or SIN, and on a stand-alone basis, in less relevant transmission lines. The auction will be held on 27 June. CTEEP has room to add debt in order to fund its expansion plan, as our forecast 2008 net debt to EBITDA ratio of 0.9x is well below the 3.0x threshold set up in the notes' indentures.

ISA '12 and ISA '17 credit rating is capped by its subordination to CTEEP's debt.

The recent upgrade of Brazil to investment grade by S&P will not have an impact on the notes due to its subordination to CTEEP's debt, in our view. Even if Colombia and Brazil gain investment grade status from two major credit rating agencies, we believe that the notes will continue to be rated a notch below, ie, BB+. ISA Capital's current credit statistics are comparable with an investment-grade utility company.

We reiterate our BUY recommendation on ISA's '12 and '17 notes. ISA 7.875% due 2012 and ISA 8.8% due 2017 are trading 48bp and 17bp from our target spread. The notes are attractively priced versus their BB-rated Brazilian peers.

Summary financials 1Q08

	Δ QoQ	Δ YoY
Revenue (%)	11.5	50.7
EBITDA (%)	19.7	107.8
EBITDA margin (bp)	578	2,313
Interest coverage (x)	3.7	3.8
Net debt/EBITDA (x)	(0.3)	(1.6)
Cash (US\$m)	(29)	(193)
Net debt (US\$m)	40	439

Source: Company data

ISA Capital US\$ bonds outstanding

Maturity	Jan-12	Jan-17
Amount (US\$m)	200	354
Coupon (%)	7.875	8.800
Price (US\$)	106.35	108.50
Target price 12-m (US\$)	108.01	109.64
Total return 12-m (%)	9.4	9.8
YTW (%)	5.93	7.45
Target YTW (%)	9.44	9.85
Spread to US-T (bp)	348	367
Target spread US-T (bp)	300	350

Source: Bloomberg, ING
Indicative prices as of 20 May 2008

Diego Torres, Corporate Debt Analyst
W.R. Eric Ollom, CFA, Head of Corporate Debt
21 May 2008

New York (1-646-424-7247)
New York (1-646-424-7913)

diego.torres@americas.ing.com
william.ollom@americas.ing.com

SEE THE DISCLOSURES APPENDIX FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

Fig 1 ISA Capital consolidated financial summary (US\$m)

	2006	2007	LTM	1Q07	2Q07	3Q07	4Q07	1Q08	2008F	2009F
Revenues	304	680	752	143	160	183	194	216	828	886
EBITDA	180	522	616	88	104	178	152	182	687	735
EBITDA margin (%)	59.2	76.7	81.9	61.0	64.9	97.7	78.4	84.1	83.0	83.0
Interest expenses	(17)	(82)	(85)	(16)	(18)	(20)	(28)	(20)	(72)	(118)
Capex	(217)	(217)	(217)	(99)	(53)	(65)	(1)	(39)	(420)	(449)
Free cash flow	(54)	223	313	(28)	33	94	123	123	195	169
Short-term debt	371	105	115	249	92	83	105	115	106	106
Gross debt	371	1,037	1,048	803	704	744	1,037	1,048	1,529	1,606
Cash	244	143	114	307	130	54	143	114	122	238
Net debt	127	894	934	496	575	690	894	934	1,406	1,368
Interest coverage (x)	10.5	6.4	7.2	5.3	5.9	9.1	5.4	9.1	9.6	6.2
EBITDA-capex/int. exp. (x)	10.5	6.4	7.2	5.3	5.9	9.1	5.4	9.1	3.7	2.4
Gross debt/EBITDA (x)	2.1	2.0	1.7	2.3	1.7	1.0	1.7	1.4	2.2	2.2
Net debt/EBITDA (x)	1.1	1.5	1.1	3.1	2.3	1.2	1.9	1.5	2.0	1.9
Receivable days (#)	46	65	72	51	51	61	57	63	63	63

Assumptions

ISA Capital stand-alone debt										
Bonds outstanding							554	554	554	554
Interest and currency swap							167	167	170	170
Interest expenses (%)									8.60	8.60
FX EOP (R\$/US\$)							1.78	1.78	1.75	1.75

Source: Company data, ING estimates

Fig 2 CTEEP financial summary (US\$m)

	2006	2007	LTM	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2008F	2009F
Revenues	561	680	752	127	128	165	141	144	160	183	194	216	828	886
EBITDA	325	526	620	66	74	112	73	89	119	150	168	183	687	735
<i>EBITDA margin (%)</i>	<i>57.8</i>	<i>77.4</i>	<i>82.5</i>	<i>52.1</i>	<i>57.2</i>	<i>68.0</i>	<i>51.6</i>	<i>61.5</i>	<i>74.6</i>	<i>82.1</i>	<i>86.9</i>	<i>84.6</i>	<i>83.0</i>	<i>83.0</i>
Interest expenses	(8)	(17)	(25)	(2)	(2)	(2)	(2)	(2)	(2)	(4)	(9)	(9)	(56)	(62)
Capex	(217)	(217)	(157)	(62)	(54)	(42)	(58)	(99)	(53)	(65)	(1)	(39)	(420)	(449)
Free cash flow	100	291	438	2	17	68	13	(13)	64	81	158	134	211	225
Short-term debt	0	74	87	5	0	4	0	100	75	85	74	87	75	74
Gross debt	0	300	371	5	0	5	0	100	87	108	300	371	774	851
Cash	241	107	114	273	223	242	241	99	130	54	107	114	86	201
Net debt	(241)	192	258	(268)	(223)	(238)	(241)	1	(42)	54	192	258	688	650
Interest coverage (x)	41.6	30.1	24.9	31.5	34.9	60.9	41.8	47.0	48.7	39.2	18.0	19.6	12.3	11.8
EBITDA-capex/int. exp. (x)	13.8	17.7	18.6	2.0	9.1	38.0	8.3	(5.7)	27.1	22.3	18.0	15.4	4.8	4.6
Gross debt/EBITDA (x)	0.0	0.6	0.6	0.0	0.0	0.0	0.0	0.3	0.2	0.2	0.4	0.5	1.0	1.1
Net debt/EBITDA (x)	(0.7)	0.4	0.4	(1.0)	(0.8)	(0.5)	(0.8)	0.0	(0.1)	0.1	0.3	0.4	0.9	0.8
Receivable days	50	65	72	53	53	42	50	51	56	71	57	63	60	60
Assumptions														
Cash (flow)													86	201
<i>Accounts receivable</i>	77	122	149										136	146
<i>Op. expenses</i>	315	243	226										248	266
AR/revenues (%)	13.7	17.9	19.9										16.4	16.4
AR (days)	50	65	72										60	60
<i>Inventory</i>	17	18	19										20	21
Inventory/operating exp (%)	5.5	7.4	8.2										7.9	7.9
Inventory (days)	39	72	98										29	29
<i>Accounts payable</i>	63	16	18										20	22
AP (days)	73	25	30										30	30
Dividend payments	53	335	NA										412	368
Dividend payments (%/EBITDA)	16.3	63.8	NA										60.0	50.0
Revenues														
Growth YoY (%)	17.8	21.1											10.1	7.7
EBITDA margin (%)	57.8	77.4	82.5										83.0	83.0
CTEEP stand alone debt														
Avg. interest rate - fees & taxes (%)													8.0	8.0
BNDES loan													436	433
Bank debt													75	74
Debt increase													189	269
Average (R\$/US\$)	2.18	1.95	NA										1.75	1.76
FX EOP (R\$/US\$)	2.14	1.78	NA										1.75	1.76

Source: Company data, ING estimates

Disclosures Appendix

ANALYST CERTIFICATION

The analyst(s) who prepared this report hereby certifies that the views expressed in this report accurately reflect his/her personal views about the subject securities or issuers and no part of his/her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report.

IMPORTANT DISCLOSURES

The following designations [a-g] next to a subject company in this publication highlights that:

- [a] One or more members of ING Group holds 1% or more of the equity shares (as at the end of the month preceding this publication) in the company.
- [b] The company holds 5% or more of the issued share capital of ING Groep N.V. (as at the end of the month preceding this publication).
- [c] One or more members of ING Group holds a significant holding in the bonds of the company.
- [d] One or more members of ING Group has lead managed or co-lead managed a public offering of the securities of the company in the last 12 months.
- [e] The company is or has been party to an investment banking agreement with one or more members of ING Group over the last 12 months.
- [f] One or more members of ING Group is a liquidity provider, or acts as designated sponsor or market maker for the company.
- [g] One or more members of ING Group has a member of its board of directors or supervisory board or senior officer on the board of directors or supervisory board of the company.

For disclosures on companies other than the subject companies of this report visit our disclosures page at <http://research.ing.com>.

The remuneration of research analysts is not tied to specific investment banking transactions performed by ING Group although it is based in part on overall revenues, to which investment banking contribute.

Financial interests: One of more members of ING Group may hold financial interests in the companies covered in this report other than those disclosed above.

Securities prices: Prices are taken as of the previous day's close on the home market unless otherwise stated.

Market making. In addition to the market making disclosed on companies, one or more members of ING Group may be a liquidity provider in sovereign securities.

Conflicts of interest policy. ING manages conflicts of interest arising as a result of the preparation and publication of research through its use of internal databases, notifications by the relevant employees and Chinese walls as monitored by ING Compliance. For further details see our research policies page at <http://research.ing.com>.

FOREIGN AFFILIATES DISCLOSURES

Each ING legal entity which produces research is a subsidiary, branch or affiliate of ING Bank N.V. See back page for the addresses and primary securities regulator for each of these entities.

RECOMMENDATIONS

Buy: expected 1-year total return that significantly exceeds the 1-year expected total return of the relevant market.

Outperform: expected 1-year total return that modestly exceeds the 1-year expected total return of the relevant market.

Marketperform: expected 1-year total return that will be in line with the 1-year expected total return of the relevant market.

Underperform: expected 1-year total return that is modestly below the 1-year expected total return of the relevant market.

Sell: expected 1-year total return that is significantly below the one-year expected total return of the relevant market.

RECOMMENDATION DISTRIBUTION

Buy: 35% (of which 16% are investment banking clients).

Hold: 50% (of which 20% are investment banking clients).

Sell: 14% (of which 34% are investment banking clients).

Outperform has been included in the Buy category, Underperform in the Sell category and Marketperform in the Hold category. The distribution breakdown is based on our Latin American, Central and East European Corporate Debt and European High Yield universe as of end 4Q07.

AMSTERDAM Tel: 31 20 563 91 11	BRUSSELS Tel: 32 2 547 21 11	LONDON Tel: 44 20 7767 1000	NEW YORK Tel: 1 646 424 6000	SINGAPORE Tel: 65 6535 3688
Bratislava Tel: 421 2 5934 61 11	Edinburgh Tel: 44 131 527 3000	Madrid Tel: 34 91 789 8880	Paris Tel: 33 1 55 68 46 50	Shanghai Tel: 86 21 6841 3355
Bucharest Tel: 40 21 222 1600	Geneva Tel: 41 22 593 8050	Manila Tel: 632 479 8888	Prague Tel: 420 2 5747 1111	Sofia Tel: 359 2 917 6400
Budapest Tel: 36 1 268 0140	Hong Kong Tel: 852 2848 8488	Mexico City Tel: 52 55 5258 2000	Santiago Tel: 562 452 2700	Taipei Tel: 886 2 2734 7600
Buenos Aires Tel: 54 11 4310 4700	Istanbul Tel: 90 212 258 8770	Milan Tel: 39 02 89629 3610	Sao Paulo Tel: 55 11 4504 6000	Tokyo Tel: 813 5210 0100
Dublin Tel: 353 1 638 4000	Kiev Tel: 380 44 230 3030	Moscow Tel: 7495 755 5400	Seoul Tel: 822 317 1800	Warsaw Tel: 48 22 820 5018

Research offices: legal entity/address/primary securities regulator

Almaty	Representative office, ING Bank N.V. in Kazakhstan, 85a, Dostyk Avenue, Office 510, 050010, Almaty, Kazakhstan. <i>Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market & Financial Organizations</i>
Amsterdam	ING Bank N.V., Foppingadreef 7, Amsterdam, Netherlands, 1102BD. <i>Netherlands Authority for the Financial Markets</i>
Bratislava	ING Bank N.V., pobočka zahraničnej banky, Jesenskeho 4/C, 811 02 Bratislava, Slovak Republic. <i>National Bank of Slovakia</i>
Brussels	ING Belgium S.A./N.V., Avenue Marnix 24, Brussels, Belgium, B-1000. <i>Banking Finance and Insurance Commission</i>
Bucharest	ING Bank N.V. Bucharest Branch, 11-13 Kiseleff Avenue, Sector 1, Bucharest, Romania, 71268. <i>Romanian National Securities and Exchange Commission</i>
Budapest	ING Bank Zrt, Dozsa Gyorgy ut 84\B, H - 1068 Budapest, Hungary. <i>Hungarian Financial Supervisory Authority</i>
Dubai	ING Bank N.V. Dubai Branch, Level 2, Gate Village 05, Dubai International Financial Center (DIFC), PO Box 121208. <i>Dubai Financial Services Authority</i>
Edinburgh	ING Bank N.V. London Branch (Edinburgh office), 2 Canning Street Lane, Edinburgh, United Kingdom, EH3 8ER. <i>Financial Services Authority</i>
Hong Kong	ING Bank N.V. Hong Kong Branch, 39/F, One International Finance Centre, Central Hong Kong. <i>Hong Kong Monetary Authority</i>
Istanbul	ING Bank N.V. Istanbul Representative Office, Suleyman Seba Cadessi No. 48 BJK Plaza, Blok B Floor 8, 34357 Akaretler-Besiktas, Istanbul, Turkey. <i>Capital Markets Board</i>
Kiev	ING Bank Ukraine JSC, 30-a, Spaska Street, Kiev, Ukraine, 04070 <i>Ukrainian Securities and Stock Commission</i>
London	ING Bank N.V. London Branch, 60 London Wall, London EC2M 5TQ, United Kingdom. <i>Financial Services Authority</i>
Madrid	ING Bank NV, Sucursal en Espana, C/Genova, 27. 4th Floor, Madrid, Spain, 28004. <i>Comisión Nacional del Mercado de Valores</i>
Manila	ING Bank N.V. Manila Branch, 21/F Tower I, Ayala Avenue, 1226 Makati City, Philippines. <i>Philippine Securities and Exchange Commission</i>
Mexico City	ING Grupo Financiero (Mexico) S.A. de C.V., Bosques de Alisos 45-B, Piso 4, Bosques de Las Lomas, 05120, Mexico City, Mexico. <i>Comisión Nacional Bancaria y de Valores</i>
Milan	ING Bank N.V. Milano, Via Paleocapa, 5, Milano, Italy, 20121. <i>Commissione Nazionale per le Società e la Borsa</i>
Moscow	ING Bank (Eurasia) ZAO, 36, Krasnoproletarskaya ulitsa, 127473 Moscow, Russia. <i>Federal Financial Markets Service</i>
Mumbai	ING Vysya Bank Limited, A Wing, Shivsagar Estate, 2nd Floor, South Wing, Dr. Annie Besant Road, Worli, Mumbai, 400 018. India <i>Securities and Exchange Board of India</i>
New York	ING Financial Markets LLC, 1325 Avenue of the Americas, New York, United States, 10019. <i>Securities and Exchange Commission</i>
Paris	ING Belgium S.A., Succursale en France, Coeur Défense, Tour A, La Défense 4, 110 Esplanade du Général de Gaulle, Paris La Défense Cedex, 92931. <i>l'Autorité des Marchés Financiers</i>
Prague	ING Bank N.V. Prague Branch, Nadrázní 25, 150 00 Prague 5, Czech Republic. <i>Czech National Bank</i>
Sao Paulo	ING Bank N.V. Sao Paulo, Av. Brigadeiro Faria Lima n. 3.400, 11th Floor, Sao Paulo, Brazil 04538-132. <i>Securities and Exchange Commission of Brazil</i>
Singapore	ING Bank N.V. Singapore Branch, 19/F Republic Plaza, 9 Raffles Place, #19-02, Singapore, 048619. <i>Monetary Authority of Singapore</i>
Sofia	ING Bank N.V. Sofia Branch, 12 Emil Bersinski Str, Ivan Vazov Region, 1408 Sofia, Bulgaria. <i>Bulgarian Central Bank and Financial Supervision Commission</i>
Warsaw	ING Bank Slaski S.A, Plac Trzech Krzyzy, 10/14, Warsaw, Poland, 00-499. <i>Polish Financial Supervision Authority</i>

Disclaimer

This report has been prepared on behalf of ING (being for this purpose the wholesale and investment banking business of ING Bank NV and certain of its subsidiary companies) solely for the information of its clients. ING forms part of ING Group (being for this purpose ING Groep NV and its subsidiary and affiliated companies). It is not investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, ING makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. ING Group and any of its officers, employees, related and discretionary accounts may, to the extent not disclosed above and to the extent permitted by law, have long or short positions or may otherwise be interested in any transactions or investments (including derivatives) referred to in this report. In addition, ING Group may provide banking, insurance or asset management services for, or solicit such business from, any company referred to in this report. Neither ING Group nor any of its officers or employees accepts any liability for any direct or consequential loss arising from any use of this report or its contents. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report. This report is issued: 1) in the United Kingdom only to persons described in Articles 19, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is not intended to be distributed, directly or indirectly, to any other class of persons (including private investors); 2) in Italy only to persons described in Article No. 31 of Consob Regulation No. 11522/98. Clients should contact analysts at, and execute transactions through, an ING entity in their home jurisdiction unless governing law permits otherwise. ING Bank N.V., London branch is authorised by the Dutch Central Bank and regulated by the Financial Services Authority for the conduct of UK business. It is incorporated in the Netherlands and its London branch is registered in the UK (number BR000341) at 60 London Wall, London EC2M 5TQ. ING Financial Markets LLC, which is a member of the NYSE, NASD and SIPC and part of ING, has accepted responsibility for the distribution of this report in the United States under applicable requirements. ING Vysya Bank Ltd is responsible for the distribution of this report in India.