

BRC
Standard & Poor's
S&P Global

Colombia

RATING REPORT

EMISSION AND PLACEMENT OF
REGULAR BONDS AND / OR COMMERCIAL
PAPERS PROGRAM GRUPO ARGOS S.A.

Technical Committee: May 8, 2019
Minutes number: 1541

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Summary

- The issuer rating of 'AA +' of Grupo Argos S.A was confirmed (G.A.).
- In 2018, the Grupo Argos companies fulfilled some of their strategic goals: Cementos Argos maintained its deleveraging policy; Celsia closed its corporate reorganization and Odinsa was consolidated as an important player in terms of road and airport infrastructure.
- In addition to these results there was an increase in the consolidated profitability and a decrease level of leverage. The EBITDA margin was 27.7% at the end of 2018, the highest in the history of the rating; while the ratio of net debt to EBITDA was 3.47x (times).
- In the following three years, we forecast a stable profitability and decreasing level of debt. The EBITDA margin could be around 28%, while the leverage could be close to 3x in 2021.

CHARACTERISTICS OF BONDS						
Securities	Regular bonds					
Issuer	Grupo Argos S.A.					
Face value	One Trillion Colombian pesos (COP 1.000.000.000.000)					
Issued value	One Trillion Colombian pesos (COP 1.000.000.000.000)					
Issuance and placement date	September 10th, 2014					
Characteristics of the bonds	Term (Years)	Value (millions)	Percent rate	Interest payment method	Expiration date	Capital payment
	2	108.365	DFT+0,87%	After each month	10-sep-16	Paid
	3	132.250	IPC+1,18%	After each quarter	10-sep-17	Paid
	5	114.963	IPC+3,10%	After each quarter	10-sep-19	Expiration
	10	254.318	IPC+3,95%	After each quarter	10-sep-24	Expiration
	15	390.104	IPC+4,24%	After each quarter	10-sep-29	Expiration
	Total	1.000.000				
	Balance Dec/18	759.385				
Collateral and priority	The bonds are not backed by any real collateral; thus, they constitute unsecured liabilities of the issuer.					
Administrator	Depósito Centralizado de Valores S.A.					
Legal representative of shareholders	Alianza Fiduciaria S.A.					
Structured agent	Banca de Inversión Bancolombia S.A.					
Issuing Agent	Valores Bancolombia S.A.					

Rating Action

Bogota, May 8, 2019.- The Technical Committee of BRC Investor Services S.A. SCV in a regular review confirmed the long-term ratings of 'AA +' and short-term 'BRC1 +' of the Regular Bonds Issuance and Placement Program and / or Grupo Argos S.A. Commercial Papers.

Basis of the Rating

The strategic engineering character that the Grupo Argos holding took on in 2017 has been consolidated throughout the last three years. This has allowed the organization to make adjustments to its structure. This had made it more efficient to remain as one of the region's leaders in the businesses where it takes part and to record stable financial ratios both in terms of profitability and indebtedness.

The consolidated EBITDA margin of Grupo Argos by the end of 2018 was 27.7%, an increase of 1 percent in comparison to the year before. And it is the highest in the history of the rating. This result was achieved due to the adjustments made by the organization in terms of costs and expenses. On the other hand, revenues decreased 1.8%. In the following three years we forecast an increase of marginal changes on this indicator.

On an aggregate basis, the group's net debt to EBITDA ratio was 3.47x lower than the one recorded at the end of 2016 and 2017. The logic in growth of each of its companies and the investments that have been made allow us to forecast stability in a medium term. In our opinion, the maintenance of the leverage policy that has been applied by the organization in terms of investment, disinvestment and credit will be a follow-up factor in the next reviews.

The liquidity of the group is enough to the extent that the operational resources cover its liabilities and the calculated investments. This is visible in a ratio greater than 1x from income to expenditures for the next 12 to 24 months. Moreover, the organization has a relatively liquid investment portfolio that can be used if necessary and enough quotas with financial companies, both nationally and internationally.

Grupo Argos maintains relevant market positions in the cement and energy sectors in the countries it serves. In the first case, it is the leader in the Colombian market, while maintaining its participation in the United States and increasing its exposure in Central America and the Caribbean. Although the latter group of countries generates an important margin, the operation faces additional risks due to macroeconomic and political conditions.

On the other hand, the important participation of Celsia in Energy in Colombia will be complemented by a distribution and commercialization growth strategy. This will be by purchasing Enertolima assets, which aims at reducing the volatility of this company's income in light of changes in conditions climatological or in regulation. Although the company is aware of this business, it is necessary to wait for the consolidation of the assets in order to measure its impact on both financial and operational terms in the medium term.

Odinsa has been of increasingly great importance for the infrastructure sector in the country in the last two years. In the next few years, we will follow up on the way of financing the private initiatives that have been presented to the different government agencies and the development of the current concessions, especially those that are in the construction stage.

Now, the group faces singular challenges in each of the strategic businesses. In the case of cement, the consumption recovery in Colombia has not been at the speed expected in 2018. There is still uncertainty about the development of 4G concessions and the company expects to consolidate its position in the United States and Central America with the investments made in Honduras.

In the energy business the biggest challenges will be those related to setting-up Enertolima's assets. Especially in terms of investment, which will be a determining factor when establishing the speed of recovery of the investment that the company has forecasted.

Odinsa, on the other hand, will have significant challenges with its airport concessions while most of the roads it operates are in an operational stage, which implies a relatively stable component in their revenues over the next three years.

Liquidity

At the year-end closing of 2018, Grupo Argos generated an operating net cash flow of COP2.9 trillion. That is quite similar to the one recorded the year before, despite an increase in the net income registered this year. The investment operations were mainly focused on acquiring plants and equipment, while the liability payments were mainly due to Cementos Argos and Celsia. These companies managed to amortize significant portions of their debt.

We can conclude that the capex volume that the company has proposed, especially for the investment that is planned to be made in Celsia with Enertolima and Plan5 Caribe, this ratio could be lower than the historical average over the next 12 months.

We positively ponder the flexibility of the group to access different funding sources. This characteristic is reflected in the following factors:

- Its power to negotiate with banks (available credit funds that are not compromised for COP 6,073 trillion, COP1,615 trillion are available).
- Its experience in the issuance and placement of securities and shares (both common and preferred) in the Colombian market.
- It is accredited as a recurrent issuer, which allows it to streamline the process before the Financial Superintendence of Colombia and reduce its issuance costs.

Opportunities and threats

What could lead us to raise the rating.

BRC identified the following opportunities that could improve the current rating:

- Using alternative and stable financing sources to leverage the expansion plan without generating pressure on its debt indicators.
- Achieving reductions in the consolidated leverage level of the group so that its net debt / EBITDA ratio remains sustained below 3x over the next three years.
- A stronger growth of the group in its three strategic lines.

What could lead us to lower the rating.

BRC identified the following aspects of improvement and / or monitoring of the company and / or the industry that could affect the current rating:

- Increasing the consolidated indebtedness so that the net debt / EBITDA ratio exceeds 4x in a sustained manner.
- Delays in developing infrastructure projects that significantly impact the fulfillment of the revenue and EBITDA forecast for both Cementos Argos and Odinsa.
- Deterioration of the liquidity level of the organization.

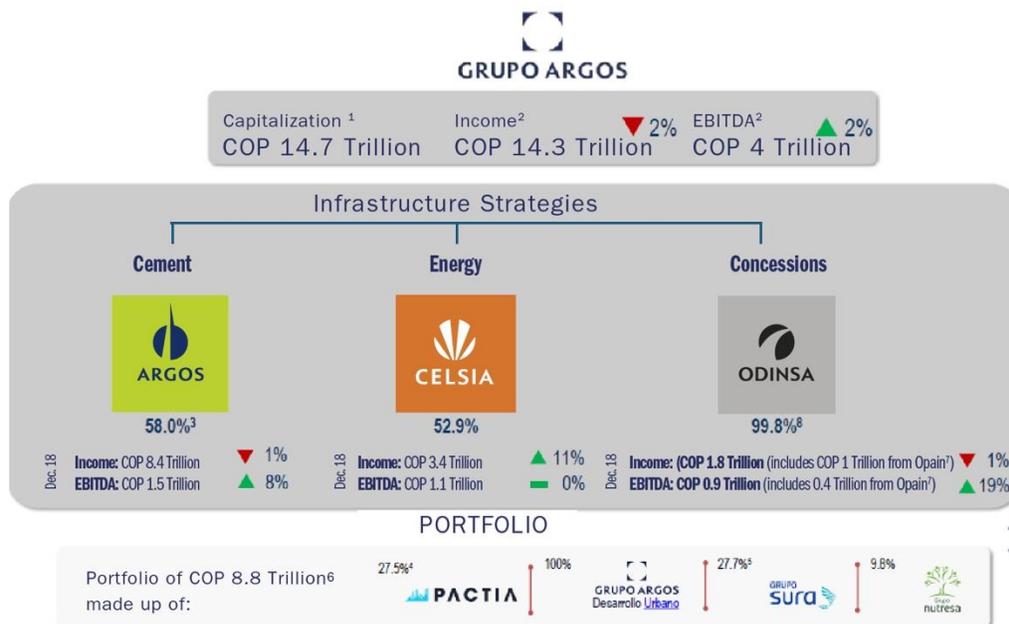
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- Deceleration of the United States economy which affects the Central American countries and, therefore, has a negative impact on the group's operations in these regions.
- Consolidating some plans that have been established without achieving the planned funding sources.

Issuer and its activity

Grupo Argos is a conglomerate with strategic investments in the infrastructure sector in the following industries: cement (Cementos Argos), energy (Celsia) and road and airport concessions (Odinsa). In addition, it is a partner in a real estate fund (Pactia), it owns land banks for urban development (Grupo Argos Urban Development) and has a solid investment portfolio in the financial and food sectors (see Chart 1).

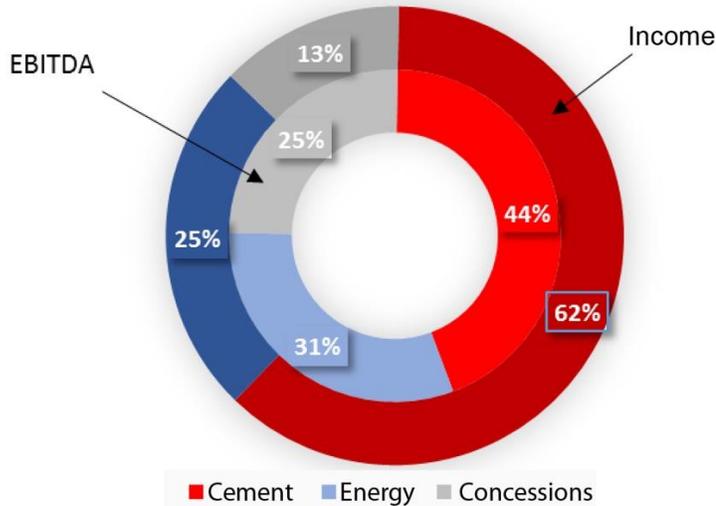
Chart 1
Structure of Grupo Argos investment portfolio at the year-end closing of 2018



Source: Grupo Argos

Chart 2 shows the contribution in revenues and EBITDA of the portfolio that the Group considers Strategic at the year-end closing of 2018:

Chart 2
Contribution to income and EBITDA by line of business



Source: Grupo Argos

Industry risks

These are the general characteristics of the sectors where Grupo Argos part in:

- High capital requirements and energy use.
- Infrastructure barriers (plants, access to raw materials, equipment), knowledge, experience, financial muscle and access to funding sources.
- Strong correlation with economic cycles and population dynamics.
- Extensive business cycles, which implies extensive periods of investment recovery.
- Exposed to legal and regulatory changes.
- Depends on government policies.

The technical visit for the rating process was carried out upon the rated company's will and the delivery of the information in compliance of the time frame and according to the requirements of BRC Investor Services S. A. SCV.

The financial information included in this report is based on the audited financial statements of the last three years.

BRC Investor Services S.A. SCV does not perform audit functions, therefore, the administration of the company is accountable for the integrity and truthfulness of all the information delivered and that has served as the basis for the preparation of this report. On the other hand, the agency reviewed the public information available and compared it with the information provided by the rated company / rated issuer.

A risk rating issued by BRC Investor Services S.A. -Securities Qualifying Company- is a technical opinion and at no time claims to be a recommendation to buy, sell or hold a certain investment and / or a security, nor does it imply a guarantee of payment of the security, but an evaluation of the probability that the

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capital of the company and its returns are paid in a timely manner. The information contained in this publication has been obtained from sources that are presumed reliable and accurate; therefore, we assume no responsibility for errors or omissions or for results derived from the use of this information.

If you have any concerns regarding the indicators included in this document, you can check the glossary at <http://www.brc.com.co/>

To see the definitions of our rating visit www.brc.com.co or click [here](#).

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The resumes of the members of the Technical Rating Committee are available on our website <http://www.brc.com.co/>