



RATING ACTION COMMENTS

Fitch Affirms Grupo Argos Rating at 'AAA(col)'; Outlook Stable

Colombia Fri 03 Jun, 2022 - 6:38 PM ET

Fitch Ratings - Bogotá - 03 Jun 2022: Fitch Ratings affirmed Grupo Argos S.A.'s long and short-term national ratings (Grupo Argos) at 'AAA(col)' and 'F1+(col)', respectively. The long-term rating outlook is Stable.

The decision to affirm Grupo Argos' ratings reflects the creditworthiness and stability of the dividend stream from investments, even in challenging environments. Dividends and distributions received during 2021 exceeded Fitch's expectations due to higher distributions from some of its investments. The company reduced its debt to adjusted EBITDA plus dividends and debt to dividends leverage to 3.5x (x) and 3.1x, respectively; in the coming years they will be around 2.0x.

The ratings also consider the robust capital structure with medium and long-term debt maturities, adequate liquidity and a solid investment portfolio in mostly publicly traded companies, resulting in a low loan to value (LTV) ratio that would be close to 10%.

KEY RATING FACTORS

Dividend Flow Stability: Grupo Argos' credit profile benefits from the creditworthiness and stability of the dividend streams received from its investments in different businesses. During 2021, dividends and other distributions received were close to COP 472 billion, above Fitch's expectations, as a result of a higher refund of contributions by the Pactia Real Estate Private Equity Fund (Pactia) in the amount of COP 63 billion. Also due to a higher contribution from the real estate development business, which is expected to generate stabilized net cash flows between COP 80 billion and COP 90 billion per year.

The agency projects for 2022 a flow of dividends close to COP 859 billion, of which COP 479 billion correspond to recurring dividends and COP 380 billion to the expected

refund from Odinsa S.A. (Odinsa) [AA-(col) Outlook Stable] for the early termination of concessions in the Dominican Republic. Thereafter, the flow received would average approximately COP 700 billion per year.

Adequate Investment Portfolio: Grupo Argos' portfolio is mainly composed of companies with ratings in the high ranges of the domestic scale; from AAA(col) to AA-(col). The geographic and sector diversification of the portfolio companies' operations are positive for Grupo Argos' credit profile. Nearly 77% of the flows received in 2021 came from companies rated by Fitch.

Grupo Argos holds controlling interests in Celsia Colombia S.A. E.S.P. (Celsia Colombia) [AAA(col) Outlook Stable] through Celsia S.A. (Celsia), Cementos Argos (Celsia), Cementos Argos S.A. (Cementos Argos) [AA(col) Outlook Positive] and Odinsa. It also holds portfolio investments in Grupo de Inversiones Suramericana, S.A. (Grupo Sura) [AAA(col) Outlook Stable] and Grupo Nutresa S.A. (Grupo Nutresa). The remaining dividends received during 2021 came from Pactia.

Strengthening of Credit Metrics: At the end of 2021, Grupo Argos reduced its financial debt by COP 119 billion, so the debt to adjusted EBITDA plus dividends and debt to dividends leverage metrics were 3.5x and 3.1x, respectively, below what Fitch anticipated in its last review. This benefited from higher distributions received by Pactia. Fitch projects that leverage metrics will be close to 2.0x in the next few years, supported by the flow of dividends and higher expected distributions.

Conservative LTV: The LTV metric remains solid, close to 10%. At the end of March 2022, the company's investment portfolio amounted to approximately COP 15.5 billion; it excludes interests in Sociedad Concesionaria Operadora Aeroportuaria Internacional S.A. (Opain; 'BB+' Outlook Negative), in the real estate and coal businesses. Of the value achieved by the portfolio, close to COP 13.4 billion corresponds to shares in companies listed on the local stock exchange. The financial debt to portfolio value ratio was 9.0%, which is favorable compared to 10.0% at the end of 2021 and 12.6% for the same period of the previous year. The indicator benefited from lower indebtedness and an increase in the value of the portfolio of listed companies.

Growth Strategy Focused on Infrastructure: Grupo Argos' strategy in the coming years focuses on the consolidation of an infrastructure vehicle that will allow it to manage operations in the energy, concessions and real estate rental segments and to leverage more projects that will represent greater stable and predictable cash flows. Currently, through Celsia, it has a platform in alliance with Cubico Sustainable Investments for the development of solar energy projects and distribution and transmission projects in Colombia and, through Odinsa, it is consolidating a road concession platform together with Macquarie Asset Management.

RATING DERIVATION

Grupo Argos' credit profile is in line with the ratings of Promigas S.A. E.S.P. (Promigas) [AAA(col) Outlook Stable], Empresas Públicas de Medellín E.S.P. (EPM) [AAA(col) Watch Negative] and Grupo Energía Bogotá S.A. E.S.P. (GEB) [AAA(col) Outlook Stable]. Although these companies operate in regulated businesses that provide stability and predictability to its operating cash flows, they have leverage metrics similar to those of Grupo Argos.

Fitch projects that Promigas could maintain leverage close to 4.0x and GEB around 3.5x. EPM's rating is on Watch Negative given the uncertainty in the development of the Ituango project. In Fitch's view, Grupo Argos' leverage (debt to adjusted EBITDA plus dividends and debt to dividends) will remain close to 2.0x in the coming years, without considering potential acquisitions.

KEY ASSUMPTIONS

Fitch's key assumptions in the issuer rating base case are:

- dividends to be received for approximately COP 859 billion in 2022 and in the following years an annual average of approximately COP 700 billion;
- LTV level below 12% in the medium term;
- no new acquisitions are contemplated.

RATING SENSITIVITY

Factors that could, individually or collectively, lead to a negative/lower rating action:

- weakening of the credit profile of the investment portfolio;
- LTV levels above 20% and 25% on a consistent basis;
- significant new acquisitions financed mostly with debt;
- leverage (ratio of debt to adjusted EBITDA plus dividends and debt to dividends) above 3.5x on a sustained basis.

Factors that could, individually or collectively, lead to a positive/upward rating action:

- the 'AAA(col)' rating is the highest on the national scale and, therefore, there are no factors for positive action.

LIQUIDITY

Manageable Liquidity Position: Grupo Argos has historically maintained low cash levels in relation to its short-term debt. This is mitigated by stable dividend income and its ability to access alternative sources of liquidity. The company's strong track record of stable dividend flows, a manageable debt maturity profile and demonstrated high

financial flexibility favor its credit profile. As of March 31, 2022, Grupo Argos had short-term maturities of COP 86,209 million, which accounts for 6% of its total debt. Of the remaining debt, 94% is distributed between 2024 and 2034.

ISSUER PROFILE

Grupo Argos is a Colombian investment holding company, with interests in the construction industry (Cementos Argos), the electricity (Celsia and Celsia Colombia), and infrastructure sector (Odinsa). It also holds non-controlling interests in companies in the food sector (Grupo Nutresa), in other investment holdings (Grupo Sura), in real estate (Pactia) and in airport concessions (Opain).

Grupo Argos' cash generation is mainly explained by its recurring dividends, due to its investment portfolio. The company's strategy has been geared towards maintaining a diversified portfolio, with companies that are a source of secure dividends and an adequate asset rotation focused on profitability and real estate development.

PARTICIPATION

The rating(s) mentioned was(were) requested and was(were) assigned or followed up upon request of the issuer(s) or rated entity(ies) or a related third party. Any exceptions will be indicated.

CRITERIA APPLIED ON A DOMESTIC SCALE

- Corporate Finance Rating Methodology (December 2, 2021);
- National Scale Rating Methodology (December 22, 2020).

REGULATORY INFORMATION

NAME ISSUER or MANAGER: Grupo Argos S.A.

MINUTES NUMBER: 6775

COMMITTEE DATE: June/3/2022

PURPOSE OF THE MEETING: Periodic Review

COMMITTEE MEMBERS: Natalia O'Byrne (Chairwoman), Julián Ernesto Robayo and Rafael Molina

The resumes of the Members of the Technical Committee may be consulted on the web page: <https://www.fitchratings.com/es/region/colombia>.

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Where applicable, for assigning this rating, Fitch Ratings considered the aspects referred to in article 4 of Decree 610/2002, in accordance with article 6 of the same Decree, now incorporated in articles 2.2.2.2.2. and 2.2.2.2.4., respectively, of Decree 1068/2015.

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DEFINITIONS OF DOMESTIC RATING SCALES

LONG-TERM DOMESTIC CREDIT RATINGS

AAA(col). 'AAA' Domestic Ratings indicate the highest rating assigned by Fitch on that country's national rating scale. This rating is assigned to issuers or obligations with the lowest expectation of default risk relative to all other issuers or obligations in the same country.

AA(col). 'AA' Domestic Ratings indicate very low default risk expectations relative to other issuers or obligations in the same country. The risk of default differs only slightly from that of issuers or obligations with the highest ratings in the country.

A(col). 'A' Domestic Ratings indicate low default risk expectations relative to other issuers or obligations in the same country. However, changes in economic circumstances or conditions may affect the ability to pay on a timely basis to a greater degree than would be the case for financial commitments in a higher rating category.

BBB(col). 'BBB' Domestic Ratings indicate a moderate risk of default relative to other issuers or obligations in the same country. However, changes in economic circumstances or conditions are more likely to affect the ability to pay on a timely basis than in the case of financial commitments in a higher rating category.

BB(col). 'BB' Domestic ratings indicate a high risk of default relative to other issuers or obligations in the same country. In the context of the country, payment is to some extent uncertain and the ability to pay on a timely basis is more vulnerable to adverse economic changes over time.

B(col). 'B' Domestic Ratings indicate a significantly elevated risk of default relative to other issuers or obligations in the same country. Financial commitments are being met but there remains a limited margin of safety and the ability to continue to make timely payments is conditional on a favorable and stable economic and business environment. In the case of individual bonds, this rating may indicate stressed or non-performing bonds with a potential for extremely high recoveries.

CCC(col). 'CCC' Domestic Ratings indicate that default is a real possibility. The ability to meet financial commitments depends exclusively on favorable and stable economic and business conditions.

CC(col). 'CC' Domestic Ratings indicate that default of some kind is likely.

C(col). 'C' Domestic Ratings indicate that an issuer's default is imminent.

RD(col). 'RD' Domestic Ratings indicate that in Fitch Ratings' opinion the issuer has experienced a "restricted default" or an unremedied payment default on a bond, loan or other material financial obligation, although the entity is not subject to bankruptcy, administrative, liquidation or other formal dissolution proceedings, and has not otherwise ceased its business activities.

D(col). 'D' Domestic Ratings indicate an issuer or instrument in default.

E(col). Description: Rating suspended. Obligations that, upon repeated requests from the rating agency, do not have adequate information.

Note: The modifiers "+" or "-" may be added to a rating to indicate the relative position in a particular rating category. These suffixes are not added to the 'AAA' category, or to categories lower than 'CCC'.

SHORT-TERM DOMESTIC CREDIT RATINGS

F1(col). F1' National Ratings indicate the strongest capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. On Fitch's National Rating scale, this rating is assigned to the lowest risk of default relative to others in the same country. When the liquidity profile is particularly strong, a "+" is added to the assigned rating.

F2(col). 'F2' National Ratings indicate a good capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. However, the safety margin is not as large as in the case of higher ratings.

F3(col). 'F3' National Ratings indicate an adequate capacity for timely payment of financial commitments relative to other issuers or obligations in the same country.

However, this capacity is more susceptible to adverse changes in the short term than that of financial commitments in higher rating categories.

B(col). 'B' National Ratings indicate an uncertain capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. This capacity is highly susceptible to adverse changes in short-term financial and economic conditions.

C(col). 'C' National Ratings indicate that an issuer's default is imminent.

RD(col). 'RD' National Ratings indicate that an entity has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. This category is only applicable to entity ratings.

D(col). 'D' National Ratings indicate an actual or imminent default.

E(col). Description: Rating suspended. Obligations that, upon repeated requests from the rating agency, do not have adequate information.

RATING OUTLOOKS AND OBSERVATIONS

OUTLOOKS. These indicate the direction in which a rating could possibly move within a period between one and two years. They also reflect trends that have not yet reached the level that would drive a rating change, but could do so if they continue. These may include: "Positive"; "Stable"; or "Negative".

Most Outlooks are generally Stable. Ratings with Positive or Negative Outlooks will not necessarily be modified.

OBSERVATIONS. These indicate that there is an increased likelihood of a rating change and the possible direction of such a change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if the rating may rise, fall, or be affirmed.

An Observation is typically event-driven, so it is usually resolved in a short period of time. Such an event may be anticipated or may have occurred, but in either case the exact rating implications are undetermined. The Observation period is typically used to collect more information and/or use information for further analysis.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
Grupo Argos	ENac LT	AAA(col) Rating Outlook Stable
		AAA(col) Rating Outlook

Affirmed			Stable
ENac ST	F1+(col)	Affirmed	F1+(col)

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information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[Domestic Scale Rating Methodology \(pub. Dec 22, 2020\)](#)

[Corporate Finance Rating Methodology \(pub. Dec 02, 2021\)](#)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.2([1](#))

ADDITIONAL DISCLOSURES

[Solicitation Status](#)

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ENDORSEMENT STATUS

Grupo Argos S.A.

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