



RATING ACTION COMMENTARY

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

Fri 11 Jun, 2021 - 4:05 PM ET

Fitch Ratings - Bogota - 11 Jun 2021: Fitch Ratings affirmed Grupo Argos S.A.'s (Grupo Argos S.A.) national long-term and short-term ratings as 'AAA(col)' and 'F1+(col)', respectively. Outlook is Stable.

Grupo Argos reflects credit quality from the flow of dividends for its investments, the stability of its investments, and its solid capital structure. The company maintains a robust investment portfolio in mostly publicly traded companies; it reflects a low Loan-To-Value (LTV) ratio and ample financial flexibility.

The Stable Outlook derives from the fact that Grupo Argos has a robust capital structure with medium-term debt maturities. In a way, these maturities mitigate the increase in leverage forecast for 2021 due to a temporary reduction in dividend flow due to the pandemic. In addition, the outlook incorporates Fitch's expectation that Grupo Argos will return to leverage metrics (debt to adjusted EBITDA plus dividends and debt to dividends) below 3.5 times (x) from 2022.

KEY RATING FACTORS

Adequate Investment Portfolio: Grupo Argos' investment portfolio is mainly made up of companies with low risk ratings on a national scale, with ratings ranging from AAA(col) to AA(col). The diversification by sector and geography of the portfolio companies' operations is positive for Grupo Argos' credit profile.

During 2020, around 87% of Grupo Argos' operational flows came from dividends and other distributions received from Fitch-rated companies. The company holds controlling shares in Celsia Colombia S.A. E.S.P. (Celsia Colombia) [AAA(col) Stable Outlook] through Celsia S.A. (Celsia), Cementos Argos S.A. (Cementos Argos) [AA(col) Stable Outlook] and Odinsa, S.A. (Odinsa) [AA-(col) Stable Outlook]; as well as portfolio investments in Grupo de Inversiones Suramericana, S.A. (Grupo Sura)[AAA(col) Stable Outlook] and Grupo Nutresa S.A. (Grupo Nutresa) [AAA(col) Stable Outlook]. The remaining dividends received during 2020 came from Fondo de Capital Privado Inmobiliario Pactia (Pactia) and the urban development business.

Stable Dividend Flow: In the ratings, Fitch incorporates the behavior of the dividend flow received by Grupo Argos as a positive fact. During 2020, the dividends and other distributions received performed more favorably than was forecast; driven by dividends from Odinsa not anticipated by Fitch. In 2020 the flow of dividends from Grupo Argos reached COP482 billion; COP74,954 million correspond to dividends paid by Odinsa. According to the dividends decreed by the companies that make up the investment portfolio, Fitch projects dividends of around COP403 billion for 2021.

Fitch anticipates that 70% of the dividends will come from its portfolio of companies controlled by Grupo Argos, with a strong influence on their strategies. Operational ties are moderate between these entities; they depend on the level of control and community between the parent company and its subsidiaries. The significant influence of Grupo Argos on its main sources of dividends offsets the structural subordination of the parent company's debt to its subsidiaries and aligns it with a AAA(col) category. Grupo Argos reinforces its operating cash flow (OCF) with the real estate business, through the commercialization of plots of land it owns.

Temporary Pressured Leveraging: The base case rating anticipates a non-structural increase in Grupo Argos' leveraging (debt to adjusted EBITDA plus dividends and debt to dividends). These metrics will be temporarily pressured due to the impact of the pandemic on the operations of Opain S.A. (Opain) and Odinsa, which will limit their capacity to distribute dividends over the next two years. Fitch estimates leveraging (debt to adjusted EBITDA plus dividends) to increase to around 4.5x in 2021 and fall below 3.5x from 2022 onwards. It also expects the debt-to-dividend ratio to increase to around 4.0x in 2021 and tend to levels of 3.5x in 2022.

Dividends to be received from Celsia will partially offset the reduced distributions from Opain and Odinsa. As of December 2020, adjusted leverage was 3.7x mainly due to Odinsa's unplanned distribution of COP74,954 million. In the ratings analysis, Fitch included the expectation of stable dividends and adequate cash flow performance of the real estate business in the mid and long term.

Conservative LTV: The ability to maintain a solid LTV metric is a positive factor for Grupo Argos' credit profile. At the end of 2020, the company's investment portfolio reached around COP13.1 trillion; it excludes participations in Opain, and in the real estate and coal businesses. Of the value reached by the portfolio, about COP11.2 trillion corresponded to shares in companies that trade in the local stock market. The ratio of financial debt to portfolio value was 11.5%, which is considered adequate for the current rating. As of March 2021, this metric was 12.6%; it compares positively with the March 2020 figure of 15.1%.

RATING DERIVATION

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

Fitch considers that Promigas could maintain leverage levels around 4.5x and GEB close to 4x. EPM's rating is on Negative Watch due to the uncertainty in the development of the Ituango project. For Fitch, Grupo Argos' leverage (debt to adjusted EBITDA plus dividends and debt to dividends) will remain below 3.5x as of 2022; this does not take into account potential acquisitions.

KEY ASSUMPTIONS

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

--dividends to be received of approximately COP400 billion in 2021, COP420 billion in 2022 and above COP450 billion starting in 2023;

--LTV level below 15% in the medium term;

--no new acquisitions are contemplated.

RATING SENSITIVITY

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

--a weakening of the credit profile of the investment portfolio;

--LTV levels consistently above 20% and 25%;

--new significant acquisitions financed mostly by debt;

--sustained leveraging (ratio of debt to adjusted EBITDA plus dividends and debt to dividends) above 3.5x

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

--The 'AAA(col)' rating is the highest on the national scale and, therefore, there are no factors that could lead to a positive action.

LIQUIDITY

Liquidity is Not a Concern: Historically, Grupo Argos has maintained low cash levels compared to its short-term debt. This is mitigated by stable dividend income and its capacity to access alternative liquidity sources. The company's solid history of stable dividend flows, manageable debt maturity profile and high financial flexibility demonstrated by the company are favorable for its credit profile. As of March 31, 2021, Grupo Argos had no short-term debt maturities, following the refinancing of maturities during 2020. Nearly 92% of debt maturities are distributed between 2024 and 2034.

PARTICIPATION

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

SUMMARY OF ADJUSTMENTS TO THE FINANCIAL STATEMENTS

EBITDA excludes income from equity methods and non-cash valuations. In turn, it includes cash dividends and other distributions from the investment portfolio.

CRITERIA APPLIED IN NATIONAL SCALE

-- Corporate Finance Rating Methodology (April 13, 2021);

-- National Scale Rating Methodology (December 22, 2020);

-- Methodology of Rating Link between Parent Company and Subsidiary (September 29, 2020).

REGULATORY INFORMATION

ISSUER or ADMINISTRATOR NAME: Grupo Argos S.A.

MINUTES NUMBER: 6369

DATE OF THE COMMITTEE: June/10/ 2021

PURPOSE OF THE MEETING: Periodic Review

COMMITTEE MEMBERS: Natalia O'Byrne (Chairperson), José Vertiz, José Luis Rivas, Julián Ernesto Robayo and Rafael Molina

The resumes of the Members of the Technical Committee can be consulted on the website: https://assets.ctfassets.net/03fbs7oah13w/31WlwSsgH2uPqAPB2yLPaQ/f79b9b784dba3474844f304e003afc98/31-01-2020_Lista_Comite_Tecnico.pdf.

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This document can include information on ratings in an international scale and/or of jurisdictions other than Colombia, this information is public and can be in a language other than Spanish. However, the ratings actions taken by Fitch Ratings Colombia S.A. Sociedad Calificadora de Valores only correspond to the ratings with the suffix "col", the other ratings are only mentioned for reference.

DEFINITIONS OF NATIONAL RATING SCALES

NATIONAL LONG-TERM CREDIT RATINGS

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

AA(col). 'AA' National Ratings denote expectations of very low risk of default in relation 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' National Ratings denote expectations of low risk of default in relation to other issuers or obligations in the same country. However, changes in economic circumstances or

conditions can affect the capacity for timely payment to a greater extent than it would in the case of financial commitments within a higher rating category.

BBB(col). 'BBB' National Ratings indicate a moderate risk of default in relation to other issuers or obligations in the same country. However, changes in economic circumstances or conditions are more likely to affect the capacity for timely payment than in the case of financial commitments in a higher rating category.

BB(col). 'BB' National Ratings indicate a high risk of default in relation to other issuers or obligations in the same country. Within the country context, payment is to some extent uncertain and the capacity for timely payment is more vulnerable to adverse economic changes over time.

B(col). 'B' National Ratings indicate a significantly high risk of default in relation to other issuers or obligations in the same country. Financial commitments are being met but a limited margin of certainty remains and the continued capacity for timely payment is conditional on a favorable and stable economic and business environment. In the case of individual obligations, this rating can indicate obligations in trouble or in default with a potential for extremely high recoveries.

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

CC(col). 'CC' National Ratings indicate that default of any kind seems likely.

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

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

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

E(col). Description: Suspended rating. Obligations which, in response to repeated requests from the rating agency, do not submit adequate information.

Note: The "+" or "-" modifiers can be added to a rating to denote the relative position within a particular rating category. These suffixes are not added to the 'AAA' category, or to categories below 'CCC'.

NATIONAL SHORT-TERM CREDIT RATINGS

F1(col). 'F1' National Ratings indicate the strongest capacity for timely payment of financial commitments in relation 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 in relation 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 in relation to other issuers or obligations in the same country. However, the certainty margin is not as large as in the case of higher ratings.

F3(col). 'F3' National Ratings indicate adequate capacity for timely payment of financial commitments in relation 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 in relation 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 a default by an issuer is imminent.

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

D(col). 'D' National Ratings indicate a current or imminent default.

E(col). Description: Suspended rating. Obligations which, in response to repeated requests from the rating agency, do not submit adequate information.

RATING OUTLOOK AND OBSERVATIONS

OUTLOOK. These indicate the direction in which a rating could possibly move within a period from one to two years. They also review trends that have not yet reached the level that would drive a change in the rating, but could do so if they continue. These can be: "Positive"; "Stable"; or "Negative".

Most Outlooks are generally Stable. Ratings with Positive or Negative Outlook are not necessarily going to be modified.

OBSERVATIONS. These indicate that there is a greater likelihood of a rating changing and the possible direction of such a change. These are designated as "Positive", indicating a potential improvement, "Negative", for a potential drop, or "Evolving", if the rating can go up, down or be affirmed.

An Observation is typically driven by an event, so it is usually resolved within a short period of time. Such an event may have been anticipated or have occurred, but in both cases the exact implications on the rating are indeterminate. 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 S.A.	ENac	AAA(col) Rating Outlook Stable	Affirmed	AAA(col) Rating Outlook Stable
	LP			

ENac	F1+(col)	Affirmed	F1+(col)
CP			

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Methodology of Rating Link between Parent Company and Subsidiary (pub. Sep 29, 2020)

National Scale Rating Methodology (pub. Dec 22, 2020)

Corporate Finance Rating Methodology (pub. Apr 13, 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), v7.9.0(1)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Grupo Argos S.A.

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