

**RATING ACTION COMMENTARY**

# Fitch Ratifies Grupo Argos 'AAA(col)' Rating; Outlook Stable

Tue 23 Jun, 2020 - 4:50 PM ET

Fitch Ratings - Bogota - 23 Jun 2020: Fitch Ratings has ratified the national long-term and short-term ratings for Grupo Argos S.A. (Grupo Argos) as 'AAA(col)' and 'F1+(col)', respectively. Outlook is Stable.

The ratings for Grupo Argos are based on a solid equity structure and on a history of stability and consolidation of dividend flows received in recent years. Likewise, it incorporates the maintenance of a robust investment portfolio in mostly publicly traded companies, reflected in a Loan To Value (LTV) ratio and which provides it with ample financial flexibility. The Stable Outlook is a reflection of Grupo Argos' robust equity structure, which has medium-term loan maturities. This mitigates to a certain extent an increased leverage forecast for 2020 and 2021 as a consequence of a temporary reduction in dividend inflows. It also incorporates the expectation that the company will return to leveraging metrics, debt to adjusted EBITDA, below 3.5 times (x), in 2022.

The company has a proven capacity to absorb significant acquisitions. Although it has had temporary deviations in its credit metrics, these have gradually returned to historical levels. The significant influence of Grupo Argos on its main sources of dividends compensate for the structural subordination of the holding's debt related to its subsidiaries and bring it in line with an AAA(col) rating.

**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 of the sectors in which these companies operate, as well as the

geographical diversification of the operations of the companies that make up its portfolio, is considered positive for the company's credit profile. During 2019, 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 GrupodeInversiones Suramericana, S.A. (Grupo Sura) [AAA(col) Stable Outlook] and Grupo Nacional de Chocolates S.A. (Grupo Nutresa) [AAA(col) Stable Outlook]. The remaining dividends received by Grupo Argos during 2019 came from Celsia, Opain S.A. (Opain) and Fondo de Capital Privado Inmobiliario Pactia (Pactia).

**Stable Dividend Flow:** The behavior of the dividend flow received by Grupo Argos was incorporated positively into its ratings. During 2019, the dividends and other distributions received by the company performed more favorably than was forecast by Fitch in its prior review, driven by extraordinary distributions received from Opain. The flows received by Grupo Argos in 2019 reached COP588,096 million, made up of COP410,465 million in dividends and the remainder in distributions made by Pactia and Opain. For 2020, Fitch projects approximately COP 400 billion in dividends received, estimated based on dividends already decreed by the companies in its investment portfolio.

Fitch anticipates that 70% of the dividends it will receive will come from its portfolio of controlled companies, where Grupo Argos exercises a strong influence upon their strategies. Fitch considers that the operational ties between these entities are moderated as a function of 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 compensates for the structural subordination of the holding's debt to its subsidiaries and aligns it with a AAA(col) category. The company reinforces its operating cash flow (OCF) with the real estate business, through the commercialization of plots of land it owns.

**Incorporated Growth Strategy:** Fitch incorporates Grupo Argos' growth strategy into its ratings, deriving from the purchase of shares in companies that operate in sectors defined as strategic. Grupo Argos has maintained ample financial flexibility, supported by its robust investment portfolio and proven access to debt and securities markets. This has allowed it to absorb acquisitions without significant deterioration of its leveraging metrics. During 2019, the company increased its share in Pactia from 32.14% to 37.20% with an injection of equity equal to COP176,487 million. It is expected that Pactia, given the evolution of the real estate business, will represent a modest source of dividends as of 2022.

**Temporary Pressured Leveraging:** The Fitch base case anticipates a non-structural increase in Grupo Argos' leveraging, measures as financial debt over dividends received. This increased leveraging is due to the impact of the coronavirus pandemic on the operations of Opain and Odinsa, which will limit their capacity to distribute dividends over the next two years. Leveraging is expected to increase de 4x in 2020 and 4.5x in 2021 and fall below 3.5x as of 2022. Fitch expects that the dividends it will receive from Celsia Colombia will partially compensate for the reduced dividends from Opain and Odinsa, given the strengthened cash flow generated by that subsidiary. As of December 2019, Grupo Argos leveraging was 2.7x, favored by extraordinary

distributions received from Opain. The ratings include an expectation of stable dividends and an adequate cash flow performance in the real estate business in the mid- and long-term.

Conservative LTV: Fitch considers the capability of maintaining a solid LTV metric a positive factor for Grupo Argos credit profile. At the end of 2019, Grupo Argos investment portfolio had reached around COP15 trillion, including its participation in Pactia and Opain, the real estate business and coal; out of this sum, COP 12.9 trillion corresponded to shares in companies that trade on the local stock market. The ratio of financial debt to portfolio value increased to 10.7%, which is considered conservative. At the end of March 2020, this metric had increased to 16.2% due to the negative impact of the coronavirus pandemic on the Colombian stock market, which resulted in a reduction of approximately 29% in its investment portfolio during Q1'20.

## **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, measured by a ratio of gross debt to dividends received, 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.

## **BEST- OR WORST-CASE RATING SCENARIOS**

The ratings of Corporate Finance issuers have a best-case improvement scenario (defined as the 99th percentile of rating transitions, measured in a positive direction), and a worst-case degradation scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four levels over three years. The full range of ratings for the worst and best-case scenarios for all rating categories from 'AAA' to 'D'. Best- and worst-case rating scenarios are based on historical performance. For more information on the methodology used to determine sector-specific best- and worst-case rating scenarios, visit

<https://www.fitchratings.com/site/re/10111579>

## REFERENCE RATINGS

The company's credit profile is in line with the ratings for Promigas S.A.E.S.P (Promigas) [AAA(col) Stable Outlook], Empresas Públicas de Medellín (EPM) [AAA(col) Negative Observation] and Grupo Energía Bogotá (GEB) [AAA(col) Stable Outlook]. These companies, although they operate in regulated sectors that provide their operational flows with stability and predictability, have similar leveraging metrics to Grupo Argos. Fitch expects that Promigas will maintain leveraging levels of around 4.0x to 4.5x and GEB of around 3.5x as of 2019. In the case of EPM's rating, it is under Negative Observation due to uncertainty surrounding the Ituango project. The agency expects that Grupo Argos' leveraging, measured as financial debt to dividends, will remain around 3.5x, without taking into account potential acquisitions.

## KEY ASSUMPTIONS

The key assumptions considered by Fitch in the issuer's base case rating included:

--dividends receivable for approximately COP 400 billion in 2020, COP 370 billion in 2021 and about COP 450 billion as of 2022;

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

--no new acquisitions contemplated.

## LIQUIDITY AND DEBT STRUCTURE

Liquidity Is Not A Concern: Historically, Grupo Argos has maintained low cash levels compared to its short-term debt. This is mitigated by a stable income from dividends and its capacity for accessing alternative liquidity sources. A solid history of stable dividend flows, a manageable debt maturity profile, and high financial flexibility demonstrated by the company affect its credit profile favorably. The company has increased cash levels during 2020 with the disbursement of liquidity credit lines, in response to reduced economic activity resulting from preventive isolation measures. On March 31, 2020 it had a cash position of COP 115,068 million.

At the end of March 2020, its financial debt closed at close to COP 1.7 trillion, made up of COP 1.1 trillion in local bonds with maturities out to 2034, and COP 623 billion in bank loans amortized to 2023. During 2019, Grupo Argos maintained relatively stable levels of debt, which increased as of March 2020 due to contingent credit lines.

The above-mentioned rating(s) was (were) requested and assigned or followed-up by request of the issuer(s), entity(ies) or qualified operator(s) or a related third party. Any exception will be indicated.

National rating scale criteria:

--Corporate Finance Rating Criteria (April 16, 2019);

--National Scale Rating Criteria (June 8, 2020);

--Parent and Subsidiary Rating Linkage (December 20, 2019).

## REGULATORY INFORMATION

ISSUER or ADMINISTRATOR NAME: Grupo Argos S.A.

MINUTES NUMBER: 5976

COMMITTEE DATE: June 19, 2020

MEETING PURPOSE: Periodic Review

COMMITTEE MEMBERS: Natalia O'Byrne Cuellar (Chair) | José Vertiz | Julián Ernesto Robayo Ramírez

Technical Committee Member CVs can be reviewed on the following website:

[https://assets.ctfassets.net/03fbs7oah13w/31WlwSsgH2uPqAPB2yLPaQ/f79b9b784dba3474844f304e003afc98/31-01-2020\\_Lista\\_Comite\\_Tecnico.pdf](https://assets.ctfassets.net/03fbs7oah13w/31WlwSsgH2uPqAPB2yLPaQ/f79b9b784dba3474844f304e003afc98/31-01-2020_Lista_Comite_Tecnico.pdf)

Technical Committee Member CVs can be reviewed on the following website:

<https://www.fitchratings.com/site/dam/jcr:1b0dccce-4579-444a-95a4-571e22ec9c13/06-12-2017%20Lista%20Comite%20Tecnico.pdf>

The credit risk rating issued by Fitch Ratings Colombia S.A. Sociedad Calificadora de Valores constitutes a professional opinion and in no event implies a recommendation to purchase, sell or maintain a security, nor does it constitute a guarantee of compliance with the ratee's obligations.

Wherever applicable, in assigning this rating, Fitch Ratings considered the aspects mentioned in Decree 610/2002, article 4, subject to article 6 of the same decree, now incorporated into articles 2.2.2.2.2. and 2.2.2.2.4., respectively, of Decree 1068/2015.

**NATIONAL RATING SCALE DEFINITIONS****NATIONAL LONG-TERM CREDIT RATINGS:**

AAA(col). AAA' National Ratings denote the highest rating assigned by the agency in its National Rating scale for that country. 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' National Ratings denote expectations of a very low level of default risk relative to other issuers or obligations in the same country. The default risk inherent differs only slightly from that of the country's highest rated issuers or obligations.

A(col). 'A' National Ratings denote expectations of a low level of default risk relative to other issuers or obligations in the same country. However, changes in economic circumstances or conditions could affect timely payment capacities to a greater degree than they would in the case of financial commitments within a higher rating category.

BBB(col). 'BBB' National Ratings denote a moderate level of default risk relative to other issuers or obligations in the same country. However, it is more probable that changes in economic circumstances or conditions are more likely to affect timely payment capacities than they would in the case of financial commitments within a higher rating category.

BB(col). 'BB' National Ratings denote an elevated default risk relative to other issuers or obligations in the same country. Within the country's context, payment is uncertain to a point, and timely payment capacities are more vulnerable to adverse economic changes over time.

B(col). 'B' National Ratings denote a significantly elevated level of default risk relative to other issuers or obligations in the same country. Financial commitments are being met but a limited safety range persists, and ongoing timely payment capacities are conditioned by a favorable and stable economic and business environment. In the case of individual obligations, this rating may indicate obligations that are at issue or in default with an extremely high potential for recovery.

CCC(col). 'CCC' National Ratings indicate that default is a real possibility. Capacities for meeting financial commitments depends exclusively on favorable and stable economic and business conditions.

CC(col). 'CC' National Ratings indicate that some kind of default is a probability.

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

RD(col). 'RD' National Ratings indicate an issuer that, in Fitch's opinion, has experienced a "restricted default" or an uncured payment default on a bond, loan or other material financial obligation, although the entity has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure and has not otherwise ceased business

D(col). 'D' National Ratings denote an issuer or instrument that is in default.

E(col). Description: Suspended Rating. Obligations that, in light of repeated requests by the rating agency, has not submitted adequate information.

Note: "+" or "-" modifiers may be added to a rating to denote a relative position within a specific 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 relative to other issuers or obligations in the same country. Under Fitch's National Rating scale, this rating is assigned to the lowest default risk relative to others in the same country. Where 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 margin of safety is not as great as in the case of the 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 short-term changes than that for 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 a highly uncertain capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. A capacity for meeting financial commitments depends exclusively on a favorable and stable economic and business environment.

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

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

E(col). Description: Suspended Rating. Obligations that, in light of repeated requests by the rating agency, has not submitted adequate information.

#### RATING OUTLOOKS AND OBSERVATIONS:

OUTLOOKS. These indicate the direction in which a rating could potentially move within a one and two-year period. Likewise, they reflect trends that have not yet reached a level that would

drive a rating change, but that could if they are ongoing. These can be: “Positive”, “Stable”; or “Negative”.

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

OBSERVATIONS. These indicate that there is a greater likelihood that a rating will change and the potential direction of that change. These are designated as “Positive”, indicating potential improvement, “Negative”, for a potential downrating, or “Evolving”, if a rating could go up, down or be ratified.

An Observation is typically event driven, and, as such, is usually resolved in the short term. This event may be anticipated or have already occurred, but in both cases the exact implications to the rating have not been determined. The Observation period is typically used to collect more information and/or use information for increased analysis.

## RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR	
Grupo Argos S.A.	ENac LP	AAA(col) Rating Outlook Stable	Ratified	AAA(col) Rating Outlook Stable
	ENac CP	F1+(col)	Ratified	F1+(col)

[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

### Jose Luis Rivas

Director

Primary Rating Analyst

+57 1 484 6770

Fitch Ratings Colombia Calle 69 A No. 9-85 Bogota

### Juana Lievano

Associate Director

Secondary Rating Analyst

+57 1 484 6770

### Natalia O'Byrne

Senior Director

Committee Chairperson

+57 1 484 6773



## MEDIA CONTACTS

### Monica Jimena Saavedra

Bogota

+57 1 484 6770

monica.saavedra@fitchratings.com

Additional information available at [www.fitchratings.com/site/colombia](http://www.fitchratings.com/site/colombia).

## APPLICABLE CRITERIA

[Metodología de Calificación de Finanzas Corporativas \(pub. 15 Apr 2019\)](#)

[Vínculo de Calificación entre Matriz y Subsidiaria \(pub. 20 Dec 2019\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub. 08 Jun 2020\)](#)

## ADDITIONAL DISCLOSURES

[Solicitation Status](#)

[Endorsement Policy](#)

## ENDORSEMENT STATUS

Grupo Argos S.A.

-

## DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [WWW.FITCHRATINGS.COM/SITE/DEFINITIONS](http://WWW.FITCHRATINGS.COM/SITE/DEFINITIONS). IN ADDITION, OUR WEBSITE, [WWW.FITCHRATINGS.COM/SITE/COLOMBIA](http://WWW.FITCHRATINGS.COM/SITE/COLOMBIA) DETAILS RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, AND THE USAGE CONDITIONS FOR SUCH RATINGS. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE

[READ LESS](#)

## COPYRIGHT

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435.

Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast

information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer,

or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

This rating is issued by a subsidiary rating agency of Fitch Ratings, Inc. The latter entity is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). However, the subsidiary issuing this rating is not listed under Item 3 of the NRSRO Form (refer to <https://www.fitchratings.com/site/regulatory>) and, therefore, is not authorized to issue ratings on behalf of the NRSRO.

[READ LESS](#)

## SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

---

Corporate Finance    Industrials and Transportation    Latin America    Colombia

---