

# Rating Report

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## GRUPO ARGOS S.A.

**Rating committee:** May 8th, 2020

**Minute number:** 1731

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*This English version is provided on request and reflects the translation from the original one published only in Spanish by BRC Standard & Poor's on May 8th, 2020. In case of any discrepancy between this English version and the original in Spanish, the Spanish version shall apply*

# GRUPO ARGOS S.A.

## Resumen

- We affirm Grupo Argos S.A. 'AA+' issuer credit rating.
- Grupo Argos S.A and its core subsidiaries are not detached from the financial and operational challenges that other Colombian companies face under the COVID-19 pandemic scenario.
- Under our base case scenario, the decrease of the organization's EBITDA margin in 2020 could be around 1.3 percentage points and would return to pre-pandemic levels in 2022. The bigger decreases would be those of Odinsa and Cementos Argos since they operate in industries that are more vulnerable to social distancing policies and economic slowdown.
- Under the current conditions, the management of liquidity becomes more relevant, especially because some of the companies have debt maturities in 2020. In our view, the organization has proven access to the capital markets funding through Banks. However, access to these alternatives can become more expensive or scarce in a time of financial stress such as this.
- At the end of 2020, leverage could be 3.9x to EBITDA, an important increase compared with the end of 2019 (2.9x). Within the following years, we project a decrease of this ratio, reaching levels lower than 3x in 2022, a variable that we will monitor.

## Rating Action

Bogotá, May 8th, 2020- BRC Investor Services S.A. SCV's Technical Committee affirmed its 'AA+' issuer credit rating on Grupo Argos S.A.

## Rationale:

The strategic clarity, which has characterized Grupo Argos, allowed it to obtain positive results in 2019. Among them are the increase in Celsia's Share in the distribution and marketing through the acquisition of power assets in Tolima and the company's reorganization to simplify the decision making process and the assets' management. In road concessions, Odinsa reduced its equity invested in Autopistas del Café to acquire 53% of the shares of Túnel de Oriente and conducted debt operations in two airports assets. Finally, Cementos Argos improved its operational efficiency and sold non-performing assets in the United States to reduce significantly its debt.

This allowed the EBITDA level to rise 21% at the end of the year and take the margin to 28.5%, one of the highest in the company's history. These results came with a debt level of 16.2 billion Colombian pesos (COP), equivalent to 2.9x adjusted EBITDA, meeting the projections of our latest review.

However, this is a year of big challenges for the Company because of the economic slowdown and the consequences of social distancing and mobility that the government implemented on each of the countries where the organization operates.

Under the current scenario, the organization's EBITDA level could decline to 15.3% in 2020 compared to 2019, to recover in 2021. Moreover, the group needs an excess cash to hedge any deficit through short-term

loans, that at the end of the year will set the leverage level of the organization in 3.9x, which could decrease to the minimum of 3x in 2022 or 2023. We will monitor closely the deleveraging dynamics within the next few years and if the group does not meet it, we could change its rating.

Our base case assumes the organization meets its expectation related to the growth of the cement market in both the United States and Colombia, as well as Odinsa's ability to manage the current challenges of its infrastructure assets. The rating affirmation assumes that the organization will be able to recover the financial situation of previous years within the following 12 to 24 months, even under a scenario that keeps the some of the limitations.

The organization has taken measures to reduce its capex during the following years, especially in the infrastructure sector until there is more clarity about the future of the economy in Colombia and the region. Additionally, efforts are being made to reduce its costs and expenses, with estimate savings of COP1.4 trillion throughout the year.

## **Liquidity**

At the end of 2019, the group generated COP2.3 trillion from its operations, a similar level to that of 2018 because of its good results from net earnings. The movement of property, plant and equipment was lower than that of 2017 and 2018 given that the entity had a less aggressive acquisition strategy this year. Those that could not be finalized in 2019 are trust assets from infrastructure projects.

The analysis of the ratio of sources to uses made by the rating agency for 2020 is of vital importance because the companies must have bigger ability to face the stress situation of the following 12 - 24 months. According to our analysis, the financial situation of group Argos could be limited in 202, given its scheduled debt payments. In 2021, the ratio will remain below 1.5x, but will be more comfortable than in 2020.

We will monitor the liquidity of the group and its companies. This will apply to the expected generation of its own resources and the potential access to new loans and other funding sources.

## **Opportunities and threats**

### What could lead us to a rating affirmation?

BRC identified the following aspects that could lead us to the affirmation of the current rating:

- The decrease of the consolidated leverage of the group so that its net debt/EBITDA ratio remains consistently below 3x during the next three years.
- The use of alternative and stable funding sources to leverage the plan of expansion without generating pressure over its debt metrics.

### What could lead us to a downgrade?

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

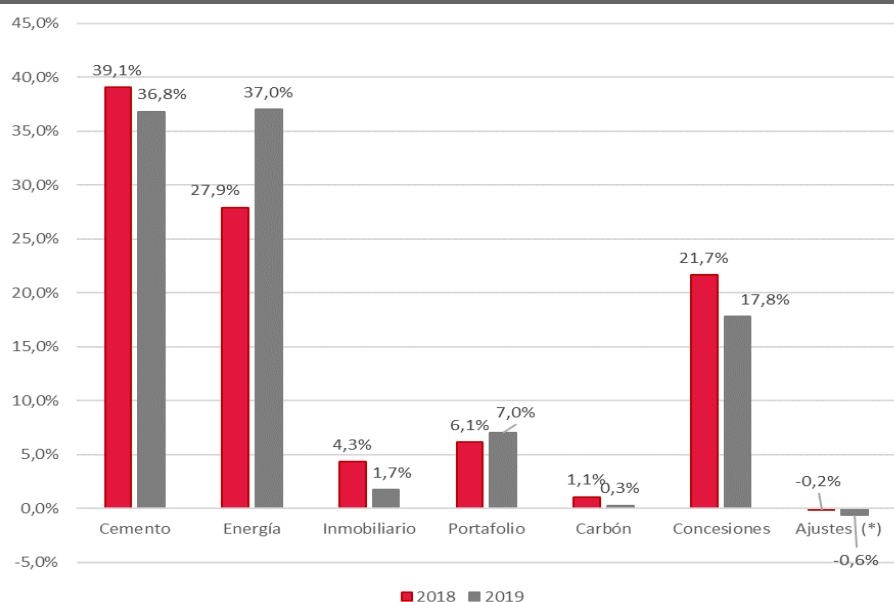
- The increase of consolidated debt in such a way that the net debt/EBITDA ratio is over 4x on a consistent basis.
- The deterioration of the organization's liquidity level.
- The delays in the recovery of the demand for products such as cement, or air or land traffic that lead to operational problems.

## Issuer and its activity

Grupo Argos (GA) is a holding with strategic investments in the infrastructure sector within the following industries: cement (Cementos Argos – CA), power (Celsia) and road and airport concessions (Odinsa). Moreover, it is shareholder of a real estate fund (Pactia), has land Banks for urban development (Grupo Argos Desarrollo Urbano) and has a solid investment portfolio in the financial and food sectors.

Since several years ago, the group has defined three strategic sectors: cement, which at the end of 2019 represented 36.8% of its EBITDA, power (37.0%) and concessions (17.8%). This distribution has important changes compared to the previous year as seen on Chart 1.

**Chart 1**  
**EBITDA distribution by business**



Source: Grupo Argos

## Industry risk

The general feature of the sectors where Grupo Argos participates remained relatively stable compared to previous year.

- High equity and power use requirements.
- Entry barriers for infrastructure (plants, access to raw materials, equipment) knowledge, experience, financial muscle and ease of access to funding sources.
- High correlation with the economic cycles and population dynamics.
- Long business cycles, which imply long periods to recover its investments.
- Exposure to regulatory legal changes.
- Dependency on public policies.

The impact that the economic slowdown could have because of the coronavirus might affect in a different way not only the companies of the group, but also, in a different fashion, each of the countries where it

operates. We summarized in the following table their ratings, as well as their growth projection for 2021 and 2021 by S&P Global Ratings.

**Table 1. Ratings and GDPO growth projections in countries where Grupo Argos operates**

Country	S&P Global Ratings' long term, foreign currency sovereign rating	Outlook	2020	2021
Colombia	BBB-	Negative	-2.6	4.1
Panama	BBB+	Negative	-2.0	4.2
Aruba	BBB+	Negative	-25.5	28.4
Dominican Republic	BB-	Negative	-2.0	6.8
United States	AA+	Stable	-5.2	6.2
Honduras	BB-	Stable	-2.5	3.8
Costa Rica	B+	Negative	-1.5	3.7
Ecuador	SD	Not applicable	-6.0	1.3

Fuente: S&P Global Ratings

*The technical visit for the rating process was conducted with enough time due to the entity's availability and information delivery was met within the timeframe stipulated and in accordance with BRC Investor Services' requirements.*

*This report based on the financial statements for the last three years and not audited as of March 2020.*

*BRC Investor Services does not perform audit activities; therefore, the entity's management takes full responsibility on the comprehensiveness and reliability of all the information provided and that has been used as the basis for this report. On the other hand, BRC Investor Services reviewed public information available and compared it with information provided by the entity.*

*A risk rating issued by BRC Investor Services S.A SCV is a technical opinion, and it is not intended, at any time, as a recommendation to buy, sell or hold a determined investment and/or security, nor implies a guarantee to pay securities, but an assessment on the likelihood of the timely payment of capital and requirements thereof. Information included in this publication has been obtained from sources presumed to be trustworthy and accurate; therefore, we do not take any responsibility for errors or omissions or outcomes deriving from the use of this information.*

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