Fitch Affirms 'AA+ (col)' Rating for **Grupo Argos**; Stable Outlook

Fitch Ratings - Bogotá - (July 12, 2017): Fitch Ratings affirmed national ratings of 'AA+ (col)' and 'F1+ (col)' for the long as short term debt, respectively, of Grupo Argos, S.A. (Grupo Argos). The Outlook is Stable.

KEY FACTORS FOR THE RATINGS

The ratings of Grupo Argos reflect the credit quality of its investment portfolio, its expected performance and the diversification of its dividend inflows, and maintenance of the loan to value (LTV) ratio of its portfolio at conservative levels. They additionally take into consideration the non-organic growth strategy of Grupo Argos, as well as the capacity demonstrated by the company to fund it through an adequate combination of debt and equity issuances.

The ratings incorporate the high leverage indicators derived from recent acquisitions and temporary pressure on dividend inflows in 2016. Fitch maintains the expectation that the company will have the flexibility to reduce its indebtedness over the short to medium term, based on the expected behavior of its cash dividends received, additional portfolio divestments and its access to the securities market.

Adequate Credit Profile of Main Investments:
Most of the investment portfolio of Grupo Argos consists of companies rated with very low risk of default on the local scale. The company's dividends are received from its controlling shareholdings in Cementos Argos S.A. (rating 'AA+ (col)' with Stable Outlook), in Celsia S.A. and in Grupo Odinsa S.A. (Odinsa; rating 'AA- (col)' with Negative Outlook). These companies accounted for 64% of the dividends received in 2016. The remainder of its dividends, 36%, was derived from its investment portfolio in Bancolombia, Grupo de Inversiones Suramericana and Grupo Nutresa, all rated at 'AAA (col)' by Fitch. These companies form part of the same shareholder group of Grupo Argos.

Cementos Argos has a solid competitive position in Colombia and it maintains operations in United States, Central America and the Caribbean. Celsia is an electric power generation company that owns 50.01% of EPSA (rating 'AAA (col)' with Stable Outlook), in which Grupo Argos also holds a direct stake of 11.9%. Grupo Argos supplemented its investment portfolio of controlled companies through the acquisition of 98.6% of shareholder equity of Odinsa, in transactions carried out during 2015 and 2016.

Expected Increase in Dividends Received:
The ratings incorporate the expectation that dividend inflows will recover a growth trend starting in 2017, with the reactivation of dividends received from Celsia and the start of dividend and other distribution payments received from Odinsa and Opain S.A. In line with Fitch forecasts, the flow of cash dividends received by Grupo Argos dropped by 11% in 2016 to COP 244 billion, mainly due to Celsia's decision to pay dividends in shares. In 2017, Grupo Argos expects to receive dividends in an amount close to COP 450 billion, based on the dividends declared by the companies in its portfolio. In the future it is expected that close to 70% of dividends received will be from companies controlled by Grupo Argos.

The company reinforces its operating cash generation through its presence in the real estate market, by means of commercialization of plots of land it owns, as well as the recent establishment of the private capital fund Pactia, in a joint venture with Conconcreto S.A. and Protección S.A.; such business should generate dividend growth for the company in future years.

Aggressive Growth Strategy:
The ratings take into consideration the company's non-organic growth strategy, as well as its experience in performing it through a combination of debt, portfolio divestments and issuance of equity securities. In 2015 and 2016 the company carried out transactions in the amount of COP 1.8 trillion to acquire 98.6% of shareholder capital of Odinsa, which was partially funded through preferred shares. In the first months of 2017, it completed the acquisition of a 30% stake in Opain, which implied an outlay of COP 480 billion, initially funded with short-term debt, but which the company expects to replace through the sale of portfolio assets.

From a strategic perspective, the participation of Grupo Argos in the infrastructure and concessions business through Odinsa and Opain is considered positive by Fitch, because it complements its investment portfolio, it contributes to the diversification of its operations and it has the potential of representing a source of stable dividends in the future.

Low LTV, Reduction of Leverage in the Mid Term:

Fitch considers that Grupo Argos has the financial flexibility required to reduce its leverage in coming years to levels that are more consistent with the ratings. As of the end of March, 2017, the company reported portfolio investments valued at COP 20.5 trillion, including close to COP 17 trillion in investments in shares of companies listed on the stock exchange. On its part, financial debt was at near COP 1.6 trillion, which yields a loan to portfolio value (LTV) ratio of less than 10%, a level that is considered conservative.

In 2016, Grupo Argos closed with leverage measured as the ratio of debt to dividends received of 5.9 times (x), a level that is considered high. Fitch expects the ratio of financial debt to dividends received by Grupo Argos to gradually decrease to below 4x starting in late 2017, which incorporates the recovery of dividends received, the possibility of additional portfolio divestments and the cash flow performance of the real estate business.

Structural Subordination of the Financial Debt:

Fitch considers that the financial debt of Grupo Argos is structurally subordinated with respect to the financial debt of its subsidiaries, because the dividends received, which are the source of recurring operating cash flow (OCF) for the company, are only generated once the subsidiaries have made the planned debt amortizations on their balance sheets. However, given that 70% of the forecast dividends come from companies in which Grupo Argos holds a majority stake and considerable influence over strategy, such subordination is mitigated by the control it has over its main sources of dividends. Similarly, Grupo Argos receives substantial dividends from non-controlled companies with ‘AAA (col)’ ratings.

KEY ASSUMPTIONS

They key assumptions used by Fitch to rate the issuer include that:
- the dividends received in cash will resume a positive growth trend, with close to COP 450 billion declared in 2017 and between COP 350 – 450 billion in the mid-term;
- the LTV level remains below 10% in the mid-term;
- the debt to dividends ratio tends towards a level of below 4x in the mid-term.

SENSITIVITY OF THE RATINGS

The following are some of the factors that could individually or collectively lead to a positive action in terms of the rating:
- an improvement in the credit quality of its main sources of dividends;
- moderate and sustained leverage by end-2017;
- maintaining conservative LTV levels.

The following are some of the factors that could individually or collectively lead to a negative action in terms of the rating:
- weakening of the credit quality of any of the main sources of dividends;
- new substantial acquisitions financed mostly by debt;
- deterioration of the LTV ratio.

LIQUIDITY

Grupo Argos has adequate levels of liquidity, based on the performance of its dividend flows, the manageable amortization profile of its financial debt and its access to alternative sources of liquidity. The company only holds high levels of cash in anticipation of debt amortizations or disbursements related to acquisitions.

In 2017, Grupo Argos has scheduled amortizations for its bond program in the amount of COP 132 billion, and its cash balance closed at COP179 billion in 2016. The financing requirements of Grupo Argos increased in 2017 as a result of the acquisition of a 30% equity stake in Opain, which carried a commitment to disburse COP 480 billion in the first months of the year, which was partly financed through short-term debt. The company expects to pay down this new debt through divestments of assets from its portfolio.

Main Adjustments to the Financial Statements:
- Revenues based on the shareholdings method were classified as non-operating.

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Methodologies Used:

- Methodology for Rating of Non-Financial Companies (May 25, 2017);
- National Ratings Methodology (March 27, 2017).

Annex 1. Regulatory Information

NAME OF ISSUER OR UNDERWRITER	Grupo Argos S.A.
MINUTE NUMBER	4797
DATE OF COMMITTEE MEETING	June 11, 2017
PURPOSE OF MEETING	Periodic Review
COMMITTEE MEMBERS	Natalia O'Byrne Cuellar/Chairman
	Allan Lewis
	José Vertiz
CVs of members of the Technical Committee may be viewed at the website:	http://www.fitchratings.com.co/DocumentosWeb/26-05-2017%20Lista%20Comite%20Tecnico.pdf
A credit risk rating of Fitch Ratings Colombia S.A. Securities Rating Agency is a professional opinion and at do time does it imply a recommendation to buy, sell or hold a security, and it does not represent guarantee of fulfillment of the obligations of the rated issuer.	
If applicable, in assigning this rating Fitch Ratings took into consideration the aspects mentioned in article 4 of Decree 610 of 2002, in abidance of article 6 of the same Decree, currently incorporated in articles 2.2.2.2.2 and 2.2.2.2.4, respectively, of Decree1068 of 2015.	

Annex 2. Definitions of the National Rating Scale

NATIONAL LONG-TERM CREDIT RATINGS:

AAA (col). 'AAA' National Ratings denote the highest rating assigned by Fitch 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 very low default risk relative to other issuers or obligations in the same country. The default risk differs only slightly from that of the country’s highest rated issuers or obligations.

A (col). ‘A’ National Ratings denote expectations of low default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than is the case for financial commitments denoted by a higher rated category.

BBB (col). ‘BBB’ National Ratings denote a moderate default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions are more likely to affect the capacity for timely repayment than is the case for financial commitments denoted by a higher rated category.

BB (col). ‘BB’ National Ratings denote an elevated default risk relative to other issuers or obligations in the same country. Within the context of the country, payment is uncertain to some degree and capacity for timely repayment remains more vulnerable to adverse economic change over time.

B (col). ‘B’ National Ratings denote a significantly elevated default risk relative to other issuers or obligations in the same country. Financial commitments are currently being met but a limited margin of safety remains and capacity for continued timely payments is contingent upon a sustained, favorable business and economic environment. For individual obligations, this rating may indicate distressed or defaulted obligations with potential for extremely high recoveries.

CCC (col). ‘CCC’ National Ratings denote that default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic conditions.

CC (col). ‘CC’ National Ratings denote that default of some kind appears probable.

C (col). ‘C’ National Ratings denote that default is imminent.

RD (col). ‘RD’ national ratings indicate an issuer that in Fitch Ratings’ opinion has experienced a “restricted default” or an uncured payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased business.

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

E (col). Description: Suspended rating. Obligations which, despite reiterated requests from the rating agency, fail to submit adequate information.

Note: The qualifiers "+" or "-" may be added to a rating to denote its relative position within a given rating category. Such qualifiers are not added to the category 'AAA', or to categories below 'CCC'.

NATIONAL SHORT-TERM CREDIT RATINGS:

F1 (col). 'F1' National Ratings denote the strongest capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. Under the agency’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 denote 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 denote an adequate capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. However, such capacity is more susceptible to near-term adverse changes than for financial commitments in higher rated categories.

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

C (col). ‘C’ National Ratings denote that default by an issuer is imminent.

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

D (col). ‘D’ National Ratings denote actual or imminent payment default.

E (col). Description: Suspended rating. Obligations which, despite reiterated requests from the rating agency, fail to submit adequate information.

RATING OUTLOOKS AND WATCHES:

OUTLOOKS. These indicate the direction a rating is likely to move over a one- or two-year period. They also reflect trends that have not yet reached the level that would trigger a rating change, but which may do so if the trend continues. They can be: “Positive”; “Stable”; or “Negative”.

The majority of Outlooks are generally Stable. Ratings with Positive or Negative Outlooks will not necessarily be changed.

WATCHES. These indicate that there is a greater probability of a rating change and the likely direction of such a change. These are designated as “Positive”, indicating a potential upgrade, “Negative”, for a potential downgrade, or “Evolving”, if ratings may be raised, lowered or affirmed.

A Watch is typically driven by an event, and consequently it is generally resolved over a short period. Such event may be anticipated or may have already occurred, but in both cases the exact implications for the rating remain undetermined. The Watch period is typically used to gather additional information and/or to subject the information to further analysis.