

Fitch Affirms Grupo Argos at 'AA+ (col)'; Outlook Stable

Fitch Ratings - Bogotá - (July 15, 2016): Fitch Ratings has affirmed Grupo Argos S.A.'s (Grupo Argos) Long-term and Short-term domestic Ratings at 'AA+ (col)' and 'F1+ (col)', respectively. The outlook is Stable.

KEY RATING DRIVERS

Grupo Argos' ratings reflect the credit quality of its investment portfolio and the performance and diversification of the inflows of received dividends. The ratings also consider company ability to maintain proper liquidity ratios, resulting from a manageable financial debt amortization structure, as well as having a robust investment portfolio of listed companies. Grupo Argos' ability to maintain low portfolio LTV (*Loan to Value*) levels has been considered a key rating driver. Structural subordination of company debt to the debt of its subsidiaries has also been considered. This situation is balanced via control of its major subsidiaries.

The rating considers the expectation that Grupo Argos will maintain high financial leverage during 2016, higher than anticipated by Fitch in its latest review, arising from the expected reduction of dividends received during the year as well as a more challenging economic environment in Colombia. However, Fitch considers that the company retains flexibility to reduce its debt levels in the medium-term, through desinvestment of its investment portfolio and access to the securities market.

Adequate Credit Profile of Major Investments:

Grupo Argos' ratings are based on the credit profile of its major investments. The company holds controlling positions in Cementos Argos S.A. and Celsia S.A. Fitch has rated Cementos Argos at 'AA+(col)' with a Positive Outlook. During 2015, dividends received from Cementos Argos represent 47% of total dividends received by the company. Cementos Argos has a solid competitive standing with a share of nearly 47% in the Colombian market and stands out as the fifth cement producer in Latin America. Cementos Argos' ratings incorporate the view of a reduction of the Debt/EBITDA leverage to levels close to 3x. Grupo Argos controls 55% of the share capital of Cementos Argos.

Celsia, jointly with its subsidiary Empresa de Energía del Pacífico EPSA, rated at 'AAA (col)' by Fitch, yielded 27% of the dividends received by Grupo Argos in 2015. Celsia is a power generation company, with a 50.01% interest in EPSA, where Grupo Argos also has an indirect interest of 11.9%. At a consolidated level, Celsia is the fourth power generation company in the country and the fifth power distribution and transmission company through EPSA. Fitch expects Celsia to reduce its current leverage as it will recover the generation of operating cash flows. During 2015, Celsia underwent heavy pressures on its Colombian operation resulting from El Niño, which had a negative impact on thermal-generating companies, for which a scarcity price-based compensation compared unfavorable to operating variable costs under hydrological conditions.

The remaining 30% of dividends received by Grupo Argos during 2015 were provided by its portfolio investment in Bancolombia, Grupo de Inversiones Suramericana and Grupo Nutresa, all rated at 'AAA (col)' by Fitch. These companies belong to the same shareholders of Grupo Argos.

Grupo Argos complements its investment portfolio with the recent acquisition of 54.75% of the share capital of Grupo Odinsa S.A., a company rated at 'AA-(col)' with a Negative Outlook. Odinsa rating reflects the increase of the company's prospective financial leverage, arising from its recent entry into very large infrastructure projects that will demand significant financing inflows in the medium term. Fitch's view is that Grupo Argos' ability to receive dividends from this subsidiary in the short-term is limited by the pressure on the free cash flows expected by the company, given capital contributions required during the project construction stage and the time lag between such stage and the inflow of surplus from concessions. However, as Odinsa's project portfolio reaches increasing maturity levels,

this should entail a predictable inflow of dividends for Grupo Argos over time.

Growth of Received Dividends Inflow:

The inflow of dividends received by Grupo Argos has proven a positive behavior over the last years, with a 12% year-on-year growth between 2011 and 2015. For 2016, Fitch foresees a reduction in the inflow of dividends received by Grupo Argos due to Celsia's decision of distributing share-based dividends during 2016 as a measure to release the pressure on its free cash flow generation. Ratings reflect the expectation that the company will recover the dividend inflow growth as of 2017.

The company reinforces its operating generation with a presence in the real estate segment, trading its own plots of land, as well as with the recent incorporation of Pactia, jointly with Concreto, operation that is likely to generate increasing dividends to the company in the years to come.

Aggressive Growth Strategy:

The ratings reflect the company's high financial leverage levels since 2015, arising from the acquisition of an interest in the share capital of Grupo Odinsa. The transaction in which the company has invested more than COP1.0 trillion has been funded with a mix of financial debt and sales of investments from its asset portfolio.

From a strategic viewpoint, the participation of Grupo Argos in the infrastructure business through the acquisition of Grupo Odinsa stock is viewed as positive by Fitch, given that it supplements its investment portfolio, contributes to diversify its operations and has the potential to become a steady source of dividends in the future.

Low LTV, Reduction of Financial Leverage in the Medium Term.

Fitch believes that Grupo Argos has financial flexibility to reduce its financial leverage to levels that are consistent with the ratings, in the forthcoming years. At the closing of March 2016, the company reported portfolio investments in amount of COP21.4 trillion and a balance of financial debt of COP1.55 trillion. This results in a portfolio LTV ratio of 7%, a level deemed conservative.

At the closing of 2015, Grupo Argos reported a debt to dividends received financial leverage of 6.1x, a level deemed high. Fitch expects that Grupo Argos' trend of debt to dividends received ratio will be towards 4x in the next 2 years, which, along with maintaining low LTV levels, supports the company's credit profile.

Structural Subordination of Financial Debt:

Fitch's view is that Grupo Argos financial debt has a structural subordination relative to the financial debt of its subsidiaries, given that dividends received, representing the recurring source of the company's operating cash flows, are only generated upon subsidiaries' payment of the amortizations foreseen in their balance sheets. However, since 70% of dividends are received from companies where Grupo Argos has a majority interest and are deemed strategic to the group, subordination is compensated by the control exercised by the Group over its main sources of dividends. Likewise, Grupo Argos receives a significant inflow of dividends from non-controlled companies rated at 'AAA (col)'.

KEY ASSUMPTIONS

Fitch key assumptions to rate the issuer include:

- in 2016, dividends received decreased by the payment of share-based payments from Celsia;
- as of 2017, the inflow of dividends will show a growing trend with sustained growth rates of 7%.
- the loan to dividends ratio will tend to around 4x in the next 2 years.

RATING SENSITIVITIES

Future developments that may, individually or collectively, lead to a positive rating action include:

- the positive development of the credit quality of its major dividend-generating related parties;
- medium-term moderate and sustained financial leverage;
- maintenance of a conservative dividend distribution policy.

Future developments that may, individually or collectively, lead to a negative rating action include:

- the weakening of credit quality of any of major dividend generators;
- new significant acquisitions mainly funded with debt;
- impairment of the LTV ratio.

LIQUIDITY RATIOS

Company liquidity is adequate, supported by the performance of its dividend inflows, the manageable financial debt amortization profile, the liquidity of its investment portfolio and proven company access to the domestic equity market. Excluding short-term debt at March amounting to COP 108 billion, for the period 2017 to 2019, debt repayments are expected to be in the range of COP 115 billion to COP 132 billion. This is manageable by Grupo Argos based on its projected dividend inflows.

SIGNIFICANT ADJUSTMENTS TO THE FINANCIAL STATEMENTS

- Revenues under the equity method were recognized as non-operating.
- Dividends received from companies controlled by Grupo Argos were recognized as operating revenue.

Fitch Ratings Contacts:

Jorge Yanes (Lead Analyst)
Director
+571 484 6770. Ext.1170
Fitch Ratings Colombia S.A. SCV
Calle 69ª No. 9 - 85,
Bogotá, Colombia

José Rivas (Second Analyst)
Associate Director
+571 484 6770. Ext.1016

Daniel R. Kastholm, CFA (Committee Chairperson) Managing
Director
+1 312 368 2070

Media Relations: Mónica Saavedra, Bogotá, Tel. + 57 1 484-6770 Ext. 1931. E-mail:
monica.saavedra@fitchratings.com

These ratings were requested by the issuer or on behalf of the issuer, and consequently Fitch has received the fees relevant to the provision of its rating services.

Additional information is available at www.fitchratings.com and www.fitchratings.com.co.

Date of Rating Technical Committee: July 14, 2016.

Minute Number: 4425

Purpose of the Committee: Periodic Review

Defining Rating: 'AA+ (col)' represents a very high credit quality. This rating is assigned to a very solid credit quality relative to other issuers or issues in the country. Credit risk entailed by these financial liabilities slightly differs from domestic issuers or issues with the highest ratings.

Short-term 'F1+ (col)' rating means high credit quality. Represents the soundest ability to timely meet financial commitments relative to other domestic issuers or issues. Under Fitch Colombia's domestic rating scale, this category is assigned to the top credit quality relative to any other risk in the country, and is generally assigned to financial commitments issued or guaranteed by Government. When the

features of the issue or issuer are particularly sound, the sign "+" is added to the rating.

As applicable, in assigning this rating Fitch Ratings considered section 4 of Decree 610 of 2002 as set out by section 6 ibidem.

Methodology applied:

- Rating methodology for non-financial companies (December 19, 2014).

The credit rating of Fitch Ratings Colombia S.A. Securities Rating Agency constitutes a professional opinion and never implies a recommendation to buy, sell or maintain a security, nor is assurance of compliance with the obligations of the rated issuer. Members of the Rating Technical Committee who participated in the meeting in which hereinbefore rating(s) was (were) assigned were: Daniel R. Kastholm, Joseph Bormann, Johnny Da Silva, Julio Ugueto and José Rivas. The resumes of the members of the Technical Committee are available on the website of the Rating Company: www.fitchratings.com.co.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE WWW.FITCHRATINGS.COM. 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.

Copyright © 2016 Fitch Ratings, Inc. and Fitch Ratings, Ltd. and its subsidiaries. 33 Whitehall Street, New York, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Telefax: (212) 480-4435. Reproduction in whole or in part without permission is prohibited. All rights reserved. In issuing and maintaining its ratings and other reports (including forward-looking 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 rating 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, technical 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 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 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 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 financial projections and other projections 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 can be affected by future events or conditions that were not anticipated at the time of rating or projection 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 guarantee that the report or any part thereof will meet the requirements of any report recipient. A Fitch rating is an opinion as to the creditworthiness of an issue. This opinion and Fitch reports 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 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 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 recommendations 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. Given the relative efficiency of electronic publication and dissemination, Fitch reports may be available to e-subscribers up to three days earlier than to subscribers of printed material.

For Australia, New Zealand, Taiwan and North Korea only: Fitch Australia Pty Ltd holds an Australian financial service license (license No. 337123) that enables it to provide credit ratings only to "wholesale clients". Fitch information on credit ratings is not intended for use by "retail clients" as defined by the Corporations Act 2001.