Grupo Argos S.A.
Rating Report

Ratings
National Scale

Long-term	AA+(col)
Short-term	F1+(col)

Outlook

Long-term	Stable

Financial Information

Grupo Argos S.A.

(COP million)	Dec 31, 2016	Dec 31, 2015
Sales	744.583	928.667
EBIDTA	155.527	340.087
EBIDTA margin (%)	20,9	36,6
Cash generated by operations (CGO)	221.002	160.558
Free cash flow	(313.237)	(255.248)
Cash and short-term investments	179.358	311.454
Total Debt	1.441.668	1.676.333
Total Debt/EBIDTA (x)	4,6	3,1
Total Debt/CGO (x)	4,0	5,7
EBIDTA/ Interest (x)	2,0	4,6

LTM: Latest 12 months. x: times
Source: Fitch

Analysts

Jorge Yanes
+57 1 484 67 70 Ext. 1170
jorge.yanes@fitchratings.com

José Luis Rivas
+57 1 484 67 70 Ext. 1016
joseluis.rivas@fitchratings.com

Key Factors for the Ratings

Credit Profile of Investments: Most of the recurrent cash flow of Grupo Argos S.A. (Grupo Argos) is derived from the dividends it receives from its controlling interests in Cementos Argos S.A. (Cementos Argos; 'AA+ (col)', Stable outlook), Celsia S.A. (Celsia) and Grupo Odinsa S.A. (Odinsa; 'AA− (col)', Stable outlook). These companies accounted for 64% of dividends received in 2016. The rest of its dividends were derived from its investment portfolio in Bancolombia, Grupo de Inversiones Suramericana and Grupo Nutresa, all rated 'AAA (col)' by Fitch Ratings.

Expected Increase in Dividends: The ratings incorporate the expectation that cash flow from dividends received by Grupo Argos will resume the growth trend starting in 2017, with reactivation of dividends from Celsia and new dividends from Odinsa and Opain S.A. (Opain). In line with Fitch forecasts, cash dividend inflows of Grupo Argos dropped by 11% in 2016. In the future, Fitch expects that close to 70% of dividend earnings will be from the companies controlled by Grupo Argos.

Aggressive Growth Strategy: The ratings take into consideration the company's non-organic growth strategy, as well as its experience in implementing such strategy through a combination of debt, portfolio divestments and equity instrument issuance. Between 2015 and 2017, the company has made transactions in the amount of COP 1.8 trillion to acquire the equity interests of Odinsa and COP 480 billion to acquire a stake in Opain. Fitch believes these acquisitions complement its portfolio and diversity its operations.

Prospective reduction of leverage: As of the end of 2016, the company reported a financial debt to dividends received ratio of 5.9 times (x). Fitch believes 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, which include close to COP 17 trillion in publicly listed stocks, whereas the balance of financial debt was close to COP 1.6 trillion. This translates into a loan to portfolio value (LTV) ratio of less than 10%, a level that is considered conservative.

Structural Subordination of Debt: Fitch believes that the financial debt of Grupo Argos is structurally subordinated to the financial debt of its subsidiaries, because the dividends received are only generated once the subsidiaries pay their amortizations on their balances. However, such subordination is mitigated by the control the company has over its main sources of dividends.

Ratings Sensitivity

The main factors that could lead to a ratings upgrade would be an improvement in the credit quality of the main dividend generators, moderate and sustained leverage level over the medium term and maintaining conservative LTV levels. On the other hand, weakening of the credit quality of any of the main dividend generators, new substantial acquisitions financed mostly by debt and deterioration of the LTV ratio could lead to a ratings downgrade.

August 22, 2017
www.fitchratings.com.co
Structural Subordination
Subordination of financial

Financial Profile

Liquidity and Debt Structure

Grupo Argos has adequate liquidity levels, supported by its dividend flows, its manageable financial debt amortization profile and the capacity to tap into alternative sources of liquidity. As of the end of March, 2017, the company's financial debt stood at COP 1.6 trillion, comprised by COP 895 billion in bonds issued in the securities market, COP 550 billion in bank loans, and the remainder in short-term obligations.

The demonstrated capacity of Grupo Argos to access alternative sources of liquidity is positively incorporated into the ratings. As of the end of March, 2017, the company reported that its asset portfolio reached COP 20.5 trillion, close to COP 17 trillion of which are shares in companies listed in the local securities market. Consequently, the LTV ratio remained below 10%, a level Fitch considers conservative. The ratings incorporate the expectation that the company will maintain similar LTV levels in the medium term.

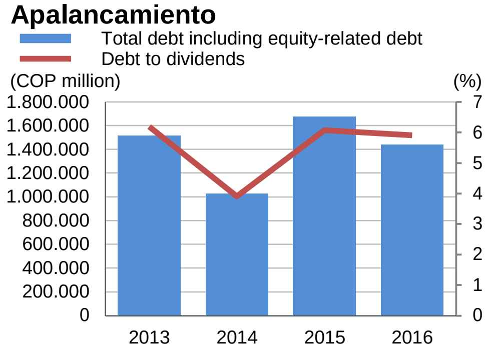
As of the end of 2016, Grupo Argos reported leverage measured in terms of the debt to dividends received ratio, of 5.9x, a level that is considered to be high. Fitch expects the ratio of financial debt to dividends received of Grupo Argos to move sustainably towards a level below 4x by the end of 2017, which assumes a recovery in dividends received, the possibility of making further portfolio divestments, and good performance of cash flow from the real estate business. Such forecast leverage levels, in combination with low LTV levels, support the company's credit profile.

Vencimientos de Deuda

As of March 31, 2017	(COP million)
2017	162.250
2018	105.000
2019	114.963
2020	550.000
2021	0
After 2021	644.422
Operating Cash Flow	(115.319)
Cash	4.218

Source: Grupo Argos.

Deuda Total Ajustada y Apalancamiento



Source: Grupo Argos.

Cash Flow Analysis

The bulk of the recurrent cash flow of Grupo Argos is derived from the dividends it receives from its controlling interests in Cementos Argos, Celsia and Odinsa. In 2016, the dividends received from the controlled companies accounted for close to 64% of the total dividend inflows of Grupo Argos. The dividend inflows are complemented by its portfolio investments in companies that belong to the same shareholder group: Grupo de Inversiones Suramericana and Grupo Nutresa. In 2016, the company divested all its shareholdings in Bancolombia. The sale of stakes of equity interests in its investment portfolio has helped finance the company's growth strategy.

In line with Fitch forecasts, the flow of dividends received in cash by Grupo Argos dropped by 11% in 2016 to COP 244.053 billion, mainly due to Celsia's decision to pay dividends in shares. Starting in 2017, Fitch expects Grupo Argos to resume the growth trend in dividends received, with the reactivation of Celsia and the incorporation of Opain in its investment portfolio. In 2017, the company expects to receive dividends in the amount of approximately COP 450 billion, considering the dividends declared by the companies in its portfolio.

Related Methodologies

Ratings Methodology for Non-Financial Companies (May 25, 2017).

Ratings Methodology on the National Scale (March 27, 2017).

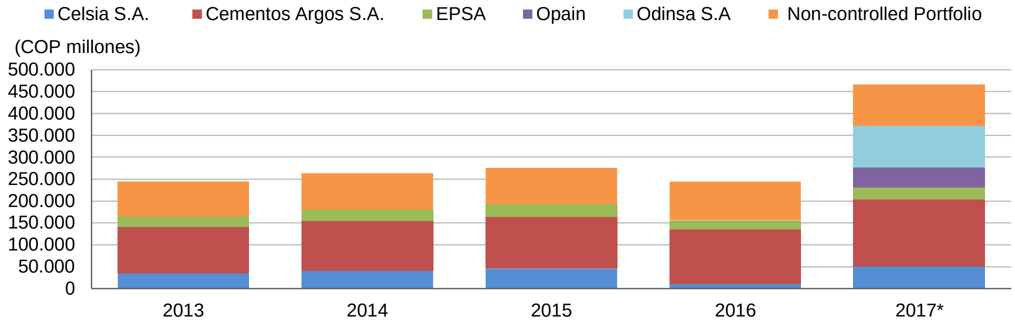
Ratings History

Date	Escala Nacional de Largo Plazo	Perspectiva
12 jul 2017	AA+(col)	Stable
14 jul 2016	AA+(col)	Stable
14 jul 2015	AA+(col)	Stable
28 abr 2015	AA+(col)	Stable
16 jul 2014	AA+(col)	Positive
19 jul 2013	AA+(col)	Stable
25 jul 2012	AA+(col)	Stable

Source: Fitch.

The company reinforces its operating cash flow with its presence in the real estate business, through the sale of plots of land it owns, as well as through the recent establishment of Pactia, in a joint venture with Conconcreto and Protección S.A., which is expected to progressively generate dividends for the company over the next few years.

Cash dividends



* Dividends for 2017 are forecast based on the dividends declared by each company. Source: Grupo Argos.

Company Profile

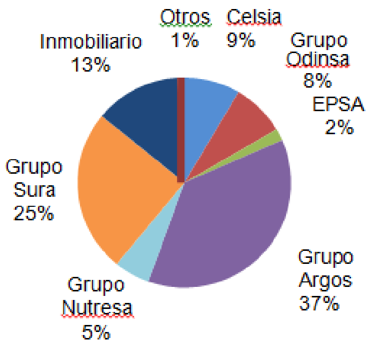
Grupo Argos is a holding company with controlling interests in companies involved in the cement industry (Cementos Argos; 'AA+(col)'), electric power (Celsia and Empresa de Energía del Pacífico; 'AAA (col)') and infrastructure concessions (Odinsa; 'AA− (col)'). It also holds minority stakes of interest in companies in the food products industry (Nutresa; 'AAA (col)'), in other investment holding companies (Grupo Sura; 'AAA (col)') and real estate (Pactia). Additionally, the Grupo Argos holding company has a real estate business that focuses on selling plots of land it owns to real estate developers.

The company's cash flow is generated primarily by the recurrent dividends it receives from the shareholdings in its investment portfolio, in addition to portfolio divestments and the sale of plots of land it owns. The company's strategy has focused of maintaining an investment portfolio in companies that provide a recurrent and predictable stream of dividends, in addition to the turnover of portfolio assets with a focus on profitability.

Grupo Argos maintains a high level of influence in the strategy of the companies in which it holds a majority interest, particularly in terms of their growth programs, operating efficiencies and financing alternatives for its projects; on occasion it has assisted in transactions to promote growth of other group companies. Fitch believes that Grupo Argos has an aggressive growth strategy, derived from the acquisition of shareholdings in companies that operate in businesses that fit the growth profile defined by Grupo Argos. However, the company has maintained financial flexibility, derived from its robust investment portfolio and its access to capital markets, enabling it to absorb acquisitions without causing permanent damage to its long-term leverage indicators.

In 2016, the dividends paid by Cementos Argos were equivalent to 51% of total cash dividends received by Grupo Argos. Cementos Argos has a leadership position in the Colombian market and it maintains operations in the United States, Central America and the Caribbean. The company's aggressive acquisitions program in recent years, aimed at achieving greater diversification of revenues, has translated into an increase in leverage. Grupo Argos controls 55% of the equity of Cementos Argos.

Portfolio Composition
March 2017



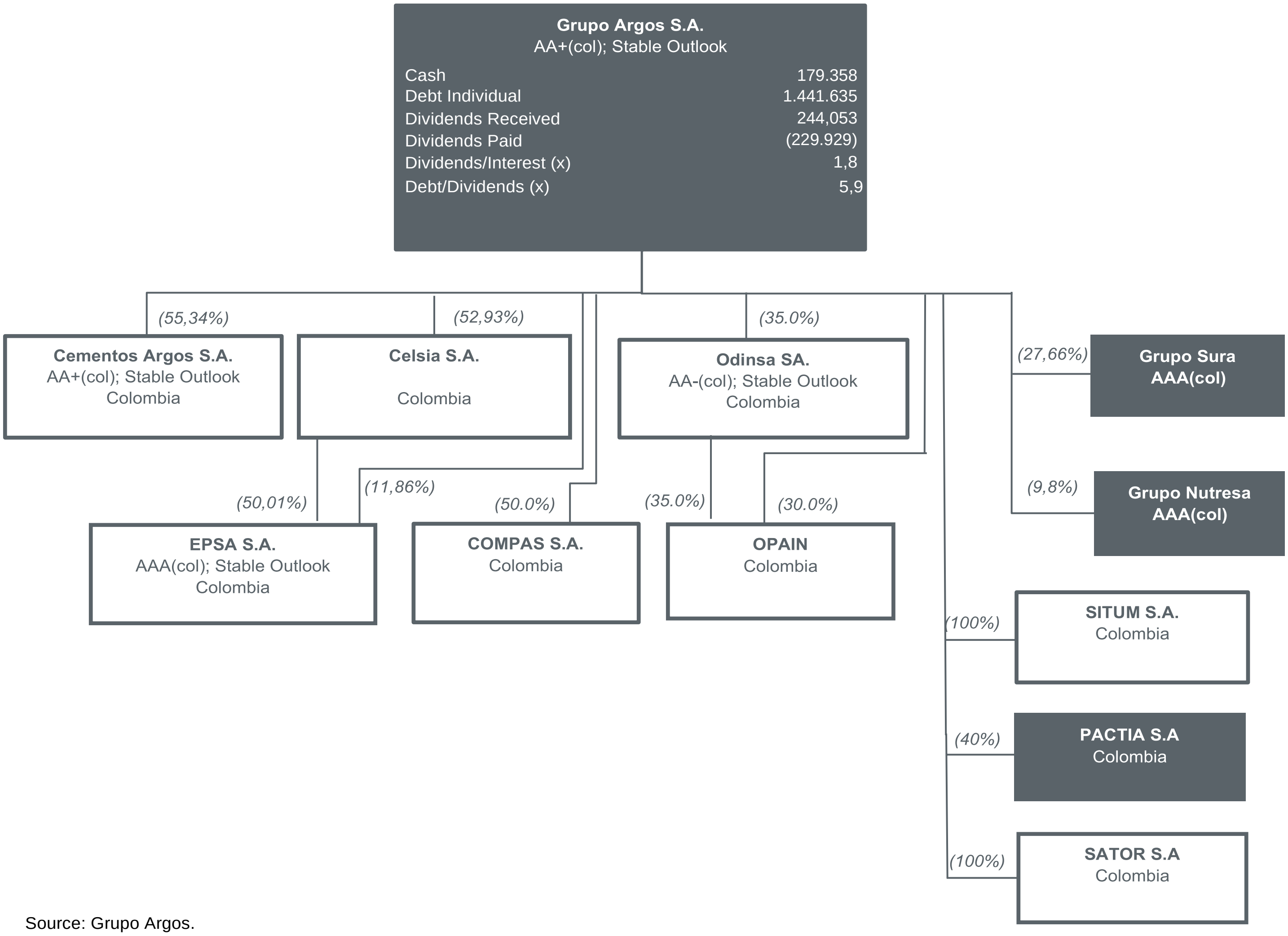
Source: Grupo Argos

Celsia, in combination with its subsidiary Empresa de Energía del Pacífico (EPSA; rated 'AAA (col)' by Fitch), accounted for 13% of total dividends received by Grupo Argos in 2016. Celsia is an electric power generation company, and it owns 50.01% of EPSA, in which Grupo Argos also holds a direct stake of 11.9%. In 2016, Celsia did not declare payment of dividends in cash as a mechanism to preserve its free cash flow in the face of the weather phenomenon of "El Niño", which had a negative impact on its operations. Fitch considers this situation to be temporary, and consequently expects dividend payments by Celsia to resume their historical trend.

The remaining 36% of cash dividends received by Grupo Argos in 2016 was derived from its portfolio investments in Bancolombia, Grupo de Inversiones Suramericana and Grupo Nutresa, all of which are rated 'AAA (col)' by Fitch. These companies are part of the same shareholder group as Grupo Argos. In 2016, Grupo Argos divested its shareholdings in Bancolombia to finance its growth strategy in the infrastructure business.

Grupo Argos complemented its investment portfolio through the acquisition of 98.6% of the equity of Odinsa in transactions performed in 2015 and 2016. In 2016, Odinsa did not pay dividends as it was in the midst of a major restructuring of operations, launched under the supervision of the new majority shareholder. The restructuring focused operations on gaining a controlling stake in road and airport concessions that fit the company's strategy, while divesting other businesses it held prior to the shareholder takeover. For 2017, Odinsa has declared dividends in the amount of COP 95 billion, which would account for close to 20% of the dividends to be received by Grupo Argos in 2017.

Organizational Structure — Grupo Argos S.A.
(COP million; as of December 31, 2016)



Source: Grupo Argos.

Projections Summary – Grupo Argos

Main forecasting assumptions

These include:

- Dividends inflows resume positive growth, reaching COP 450 billion in 2017 and between COP 350 - 450 billion over the medium term.
- LTV remains below 10% over the medium term.
- The debt to dividends ratio tends towards a level of 4x over the medium term.

(COP millions)	Historic		Fitch Forecast		
	Dec 31 2015	Dec 31 2016	Dec 31 2017	Dec 31 2018	Dec 31 2019
Financial statements summary	928,667	744,583	550,482	441,900	497,724
Net revenues	55.4	(19.8)	(26.1)	(19.7	12.6
Revenue growth (%)	340,087	155,527	367,044	290,637	339,482
Operating EBITDA	36.6	20.9	66.7	65.8	68.2
Operating EBITDA Margin (%)	340,087	155,527	367,044	290,637	339,482
Operating EBITDAR	36.6	20.9	66.7	65.8	68.2
Operating EBITDAR Margin (%)	337,192	152,115	364,134	286,684	335,681
Operating EBIT	36.3	20.4	66.1	64.9	67.4
Operating EBIT Margin (%)	(116,731)	(153,714)	(143,793)	(131,264)	(107,138)
Gross Financial Interest	398,087	373,259	220,341	155,421	228,544
Pre-tax income					
Balance Sheet Summary					
Cash	311,454	179,358	15,580	137,402	22,948
Total debt including equity-related debt	1,676,333	1,441,668	1,709,418	1,159,418	1,044,455
Total adjusted debt including equity-related debt	1,676,333	1,441,668	1,709,418	1,159,418	1,044,455
Net debt	1,364,879	1,262,310	1,693,838	1,022,016	1,021,507
Cash Flow Summary					
Operating EBITDA	340,087	155,527	367,044	290,637	339,482
Recurrent dividends from affiliates	202,264	159,350			
minus distributions to minority shareholders					
Interest paid in cash			(143,793)	(131,264)	(107,138)
Implicit Financing cost (%)	0.0	0.0	9.1	9.2	9.7
Effective interest earned					
Taxes paid in cash		(8,260)	(12,656)	(8,927)	(13,127)
Other items before cash flow generated by operations	(381,793)	(85,615)	0	0	0
Cash flow generated by operations (CGO)	160,558	221,002	210,595	150,446	219,217
CGO margin (%)	17.3	29.7	38.3	34.0	44.0
Change in Working Capital	(176,358)	(298,558)	31,862	40,680	(28,668)
Operating cash flow (OCF)	(15,800)	(77,556)	242,457	191,126	190,549
Total non-operating/non-recurrent cash flow					
Capital Expenditures (Capex)	(66,481)	(5,752)			
Capital Intensity (Capex/Revenues) (%)	7.2	0.8			
Ordinary dividends	(172,967)	(229,929)			
Asset acquisitions and sales, net	(247,331)	577,534			
Capex, Dividends, Acquisitions and other items before Free Cash Flow	(486,779)	341,853	(673,984)	480,696	(190,040)
Free Cash Flow after fixed sales acquisitions and sales	(502,579)	264,297	(431,528)	671,822	509
Free Cash Flow margin (after net acquisitions) (%)	(54.1)	35.5	(78.4)	152.0	0.1
Other investment and financing cash flows		(187,237)	0	0	0
Net change in Debt	648,055	(209,156)	267,750	(550,000)	(114,963)
Net change in Capital			0	0	0
Change in cash and equivalents	145,476	(132,096)	(163,778)	121,822	(114,454)
Cover ratios (times)					
CGO/ gross Financial Interest	1.9	2.3	2.5	2.1	3.0
CGO/Fixed expenses	1.9	2.3	2.5	2.1	3.0
Operating EBITDAR/ gross Financial Interest + Lease fees[a]	4.6	2.0	2.6	2.2	3.2
Operating EBITDA/ gross Financial Interest[a]	4.6	2.0	2.6	2.2	3.2
Leverage ratios (Times)					
Total adjusted debt/Operating EBITDARa	3.1	4.6	4.7	4.0	3.1
Total net adjusted debt /Operating EBITDARa	2.5	4.0	4.6	3.5	3.0
Total debt including equity-related debt/Operating EBITDAa	3.1	4.6	4.7	4.0	3.1
Adjusted debt to CGO	5.7	4.0	4.8	4.1	3.2
Net adjusted debt to CGO	4.6	3.5	4.8	3.6	3.1

[a] EBITDA/R after dividends of affiliated companies minus distributions to minority shareholders.

How to interpret the above forecasts

The above forecasts are based on the baseline case forecast and prepared internally and conservatively by the agency. It does not represent the issuer's forecasts. The above forecasts are only one of its inputs used by Fitch to assign a rating or to define an Outlook, and the information contained therein reflects material, but not exhaustive, elements of the rating assumptions used by Fitch on the issuer's financial performance. As such, they cannot be used to define a rating and should not be the basis to such effect. The forecasts are prepared using a Fitch proprietary forecasting tool that uses the agency's own assumptions in connection with operating and financial performance, and which does not necessarily reflect the forecasts that you would make. The definitions of terms used by Fitch such as EBITDA, debt or free cash flow may differ from yours. The agency may sometimes have access to confidential information on certain elements of the issuer's future plans. Some elements of such information may be omitted from this forecast, even though they may be included in Fitch's deliberations, if the agency, at its own discretion, believes that the information may be potentially sensitive from a business, legal or regulatory perspective. The forecast (as well as this entire report) is produced in strict abidance of limitations of liability. Source: Company reports and Fitch.

The above ratings were requested by the issuer or on its behalf, and consequently Fitch has received the corresponding professional fees for the ratings services it has rendered.