
Fitch Revises Grupo Argos Outlook Rating to Stable. Affirms Ratings at AA+(col) and F1+(col)

Wednesday, April 29, 2015

Fitch Ratings – Bogota – April 29, 2015. Fitch has revised Grupo Argos S.A. outlook rating from positive to stable and has affirmed long-term and short-term national ratings at 'AA+(col)' and 'F1+(col)'. Also, Fitch has affirmed the rating of the issue of bonds obligatorily convertible into preferred stock (BOCEAS) of Grupo Argos at 'AA+(col)' up to COP\$ 750,000 million.

KEY RATING FACTORS

The rating action reflects the announcement by Grupo Argos of having acquired, through the Stock Exchange of Colombia, 24.8% stake in the capital stock of Grupo Odinsa S.A., rated 'AA(col)' by Fitch. The transaction amounted to COP\$ 461,635 million. Also, Grupo Argos requested authorization of the Office of the Superintendent of Financial Institutions of Colombia to launch a Public Takeover Bid (TOB) for shares of Odinsa, in order to acquire an additional 20% to 25% stake in that company, so that Grupo Argos would be holding a 49.8% of the capital stock of Odinsa. The total investment would exceed COP\$ 900,000 million.

The revision of the outlook to stable reflects the expected increase in leverage of Grupo Argos in 2015 to finance this transaction, if the target stake to be acquired through the takeover bid is achieved. The decision to affirm the rating indicates that the company has the ability to reduce its levels of leverage in the short or medium term, to bring them back to levels that are consistent with the rating category. Fitch believes that Grupo Argos has leeway to reduce its leverage levels during 2015 and 2016 through the divestment of non-strategic assets and proven access to capital markets. By the end of March 2015, the company had a portfolio of stocks listed on the stock market that can be marketed for around COP\$ 7 trillion.

From a strategic perspective, the participation of Grupo Argos in the infrastructure business, through the acquisition of shares of Grupo Odinsa, is viewed by Fitch as positive, as it complements Grupo Argos' investment portfolio and contributes to the diversification of its operation. Grupo Odinsa has extensive experience in the management of road concessions both in Colombia and abroad. The incorporation of the infrastructure business in Grupo Argos poses medium-term challenges to the extent required to support the growth of Grupo Odinsa and its participation in infrastructure projects recently awarded to Odinsa, as well as the prospects for new projects in the future. This business should, in the medium term, mean for Grupo Argos a predictable flow of dividends over time, once the project portfolio of the company reaches higher levels of maturity.

At the end of 2014, in unconsolidated terms, Grupo Argos closed with financial debt, excluding BOCEAS for COP\$ 1 trillion, a flow of dividends received of COP\$ 267,000 million and an adjusted EBITDA of about COP\$ 270,000 million, deducting the income generated by equity method and adding the dividends received by controlled entities. Thus, the leverage measured by financial debt/dividends ratio, and financial debt/adjusted EBITDA ratio stood at 3.7x, a level consistent with Fitch's expectations. Considering the announced transaction, Fitch expects the debt to dividends ratio and debt to adjusted EBITDA ratio will be around 6x, during 2015 and that it will drop significantly in 2016 to reach levels close to 3x.

KEY ASSUMPTIONS:

Fitch's key assumptions for rating the issuer, include:

- Dividends received continue an upward trend, increasing 7% over 2015.
- Dividends to debt ratio and debt to adjusted EBITDA ratio moving towards 3.5x in the second half of 2016

- In 2015, Grupo Argos incurred financial debt to finance most of the COP\$ 900,000 million for the transaction with Odinsa

RATING SENSITIVITY

The factors that individually or collectively could lead to a positive rating action include:

- The improvement in the credit quality of the main dividend generators
- Sustained moderate leverage as of 2016.
- Conservative dividend paying policy

The factors that individually or collectively could lead to a negative rating action include:

- The weakening of the credit quality of some of the main dividend generators
- New major acquisitions financed mostly by debt
- Debt / adjusted EBITDA and Debt / Dividends credit metrics above 5.5 to 6.0 times, beyond 2016.

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Date – Rating Technical Committee: April 28, 2015.

Minutes No.: 3974

Purpose of the Committee: Extraordinary Review

Rating definition

AA+(col): **Very high credit quality**. Indicates very solid credit quality with respect to other domestic issues or issuers. The credit risk inherent in these financial commitments differs slightly from better rated domestic issues or issuers.

F1+(col): **Highest short-term credit quality**. Indicates the strongest intrinsic capacity for timely payment of financial commitments with respect to other domestic issues or issuers. Under the domestic ratings scale of Fitch Colombia, this category is assigned to the best credit quality with respect to any other risk in the country, and it is normally assigned to financial commitments issued or guaranteed by the government. It may have an added "+" to denote any exceptionally strong credit feature.

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

Applicable Rating Criteria and Related Reports:

-- 'Rating Methodology for Nonfinancial Companies' (December 19, 2014);

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