Fitch Confirms the 'AA + (col)' Grupo Argos Rating; Outlook Stable

Fitch Ratings confirms the 'AA + (col)' and 'F1 + (col)' the long and short-term national ratings of Grupo Argos S.A. (Grupo Argos), respectively. The Outlook is Stable.

Grupo Argos' ratings reflect the credit quality of its investment portfolio, the expected performance and diversification of the dividend flow received and the maintenance of the portfolio's debt to value ratio (Loan To Value - LTV) at conservative levels. Additionally, they consider their strategy of inorganic growth, as well as the capacity that the company has demonstrated to fund it with a combination of sales from portfolio shares, financial debt and capital issues.

The ratings incorporate the reduction of Grupo Argos' leverage indicators, in line with Fitch's expectations. The Outlook Stable incorporates the agency's expectation that the capital structure of the company will reflect moderate leverage and adequate levels of liquidity over the qualification horizon.

KEY FACTORS OF THE RATINGS

Appropriate Investment Credit Profile:

The investment portfolio of Grupo Argos is composed mostly of companies with debt issuances rated as having a very low risk of default on a national scale. The company derived around 80% of dividends and other distributions received during 2017 from its controlling interests in Cementos Argos S.A (rating 'AA + (col)' with outlook stable) and Grupo Odinsa S.A. (rating 'AA- (col)' with outlook stable), as well as its portfolio investments in Grupo de Inversiones Suramericana and Grupo Nutresa, both rated in 'AAA (col)' by Fitch. These companies are part of the same structure of the Grupo Argos shareholder group. The rest of the dividends received by Grupo Argos during 2017 came from Celsia S.A., Empresa de Energia del Pacifico S.A. EPSA (AAA (col) / Outlook Stable) Opain S.A. and the Pactia Real Estate Private Capital Fund.

Stability flow of dividends Received:

In line with Fitch's expectations, the flow of dividends and other distributions received by Grupo Argos recovered in 2017, reaching COP461 billion, 578 million, after a temporary pressure in 2016, as a result of the reduction in dividends received from Celsia during the year. By 2018, dividends received by the company are expected to reach around COP480 billion, an estimate based on the dividends already decreed by the companies that make up its investment portfolio. Fitch anticipates that around 70% of the dividends received by Grupo Argos will come from its controlled companies' portfolio, where Grupo Argos maintains high influence in its strategic decisions.

The company strengthens its operations by being present in the real estate segment, through the commercialization of land lots which it owns, as well as by the creation of the private equity fund Pactia Real Estate, in partnership with Conconcreto S.A. and Proteccion S.A., an operation that would generate progressive dividends for the company in the coming years.

Aggressive Growth Strategy:

Grupo Argos' aggressive growth strategy, derived from the acquisition of shareholdings in companies that operate sectors that the company defines within its growth profile, is incorporated in its ratings. Grupo Argos has maintained financial flexibility, derived from its broad investment portfolio and access to the capital market, to make acquisitions without permanently damaging its long-term leverage indicators. During 2017 and the first months of 2018, the company made acquisitions for around COP1.5 trillion, it acquired a 30% stake in Opain, a company in which its Odinsa subsidiary already had a 35% share, to subscribe part of the issuance of Celsia shares to maintain its shares and acquire 2.64 percentage points of additional interest in Cementos Argos. These acquisitions were financed with a combination of divestments of its portfolio in EPSA and Compas for around COP1 trillion, in addition to cash balance and financial debt.

Moderate Leverage:

In line with Fitch's forecasts, Grupo Argos reduced its level of unconsolidated leverage, after remaining at high levels during 2015 and 2016, as a result of its acquisitions activity and the temporary pressure on dividends received during 2016. Thus, the leverage of Grupo Argos, measured by the ratio of financial debt at the holding company level to dividends received, was reduced up to 3.4 times, while in 2016 it was 5.9 times. The ratings include an outlook that the company will maintain its leverage below 4 times, which incorporates stability in the dividends received, the possibility of additional portfolio divestments and the performance in the cash flow provided by the real estate activities.

Conservative LTV:

The ability of the company to maintain a solid debt to portfolio value (LTV) metric is incorporated as a key rating factor. At the end of March 2018, Grupo Argos reported that its investment portfolio, excluding its interests in Pactia, Opain, the real estate and coal business, reached around COP17.2 trillion, around COP15.2 trillion of these correspond to shares in companies listed on the local stock exchange, given that Odinsa's stock was delisted during the first quarter of 2018. Thus, the ratio of financial debt to portfolio value remained at around 11%, a level that Fitch considers conservative. The ratings incorporate an outlook that the company will maintain such LTV levels in the medium term.

Structural Subordination of Financial Debt:

Fitch considers that the financial debt of Grupo Argos presents a structural subordination concerning the financial debt of its subsidiaries given that the dividends received, which represent the recurrent source of operating cash flow (OCF) of the company, are only generated once Subsidiaries pay the fees foreseen in their balance. However, since 70% of the estimated dividends come from companies where Grupo Argos holds the majority of shares and has considerable influence over its strategy, the subordination is mitigated by the control it exercises in its main sources of dividends.

SUMMARY OF THE RATINGS DERIVATION

Grupo Argos is a holding company whose cash flow depends mainly on the resources that come from its investment portfolio, through dividends or other distributions to shareholders. The ratings of Grupo Argos are in line with those of Alpina Productos Alimenticios S.A ('AA + (col)' with outlook stable). The greater diversification of businesses of Grupo Argos in comparison to Alpina compensates the outlook of a greater leverage versus that of this issuer.

The long-term rating of Grupo Argos is two levels higher than that of Construcciones El Condor ('AA-(col)' with outlook stable), due to the greater expected stability of its cash flow. The Condor is focused on construction activity that tends to be more volatile. On the other hand, the credit profile of Emgesa S.A. E.S.P. ('AAA (col)' with Outlook Stable) compares favorably in this peer group, presenting greater stability in its cash flow and low historical and prospective leverage levels, which Fitch expects to remain between 1.5 times and 2times in the medium term.

KEY ASSUMPTIONS

The key assumptions of Fitch considered in the issuer's base rating case include:

- the dividends received in cash maintain medium-term stability, with around COP480 billion received in 2018 and between COP400-500 billion in the medium term;

- LTV level below 15% in the medium term;

- keverage, measured as the ratio of financial debt to dividends received between 3.5 times and 4times over the forecast horizon.

SENSITIVITY OF QUALIFICATIONS

Among the future factors, individual or collective, that could lead to a positive rating action are:

- the improvement of the credit quality of its main dividend generators;

- moderate and sustained leverage over the estimated horizon;

- maintaining conservative levels of LTV.

Among the factors that individually or collectively could lead to a negative rating action are:

- the weakening of the credit quality of some of the main dividend generators;

- major new acquisitions financed mostly with debt;

- Leverage, measured by the ratio between Gross Debt to Dividends received, greater than 4x in a sustained manner.

LIQUIDITY

Grupo Argos has adequate levels of liquidity, supported by the performance of its dividend flow, the manageable profile of amortization of financial debt and the ability to access alternative sources of liquidity. The company only maintains high levels of cash in anticipation of debt repayments or disbursements due to acquisitions. During 2018, Grupo Argos is expecting amortizations of commercial paper issuance for COP 350,000 billion, which the company will finance with a combination of cash balance and, to a greater extent, short-term credits.

The proven access of Grupo Argos to alternative sources of liquidity is positively incorporated into the ratings. Fitch believes that the company can generate additional liquidity through the divestment of portfolio assets, the execution of alliances with strategic partners and the incursion into debt and capital markets. Additionally, Grupo Argos maintains uncommitted lines of credit for around COP 1.4 trillion with local banks.

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The ratings indicated were requested by the issuer or on its behalf and, therefore, Fitch has received the corresponding fees for the provision of its rating services.

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

Methodology applied at national level:

- Corporate Finance qualification methodology (September 14, 2017);

- National Scale Qualification Methodology (March 27, 2017).

REGULATORY INFORMATION

ISSUER NAME or ADMINISTRATOR: Grupo Argos S.A.

NUMBER OF MINUTES: 5174

DATE OF THE COMMITTEE: July 5, 2018

PURPOSE OF THE MEETING: Periodic Review

MEMBERS OF COMMITTEE: Natalia O'Byrne (president), Maria Pia Medrano, Julio Ugueto

The resumes of the Members of the Technical Committee can be found on the web page: https://www.fitchratings.com/site/dam/jcr:1b0dccce-4579- 444a-95a4-571e22ec9c13 / 06-12-2017% 20Lista % 20Comite% 20Tecnico.pdf

The rating of Fitch Ratings Colombia S.A. Sociedad Calificadora de Valores is a professional opinion and at no time implies a recommendation to buy, sell or maintain a security, nor does it constitute a guarantee of compliance with the obligations of the qualified.

In the cases in which it applies, for the assignment of this rating, Fitch Ratings considered the aspects referred to in article 4 of Decree 610 of 2002, in accordance with article 6 of the same Decree, now incorporated in articles 2.2. 2.2.2. and 2.2.2.2.4., respectively, of Decree 1068 of 2015.

DEFINITIONS OF THE NATIONAL SCALE QUALIFICATIONS

NATIONAL LONG-TERM CREDIT RATINGS:

AAA (col). The National Ratings 'AAA' indicate the highest rating assigned by Fitch in the national rating scale of that country. This rating is assigned to issuers or obligations with the lowest expectation of default risk in relation to all other issuers or obligations in that country.

AA (col). The National Ratings 'AA' denote expectations of very low default risk in relation to other issuers or obligations in the same country. The risk of default differs only slightly from that of issuers or obligations with the highest ratings in the country.

A (col). The 'A' National Ratings denote expectations of low default risk in relation to other issuers or obligations in that country. However, changes in circumstances or economic conditions may affect the ability to timely payment to a greater degree than it would in the case of financial commitments within a higher rating category.

BBB (col). The 'BBB' National Ratings indicate a moderate default risk in relation to other issuers or obligations in the same country. However, changes in circumstances or economic conditions are more likely to affect the ability to timely pay than in the case of financial commitments that are in a higher rating category.

BB (col). The National Ratings 'BB' indicate a high default risk in relation to other issuers or obligations in that country. Within the context of the country, the payment is to some extent uncertain and the ability to timely payment is more vulnerable to adverse economic changes over time.

B (col). The 'B' National Ratings indicate a significantly high default risk in relation to other issuers or obligations in that country. Financial commitments are being met but there is still a limited margin of safety and the ability to pay on a continuous basis is conditioned by a favorable and stable economic and business environment. In the case of individual obligations, this rating may indicate obligations in trouble or in default with a potential to obtain extremely high recoveries.

CCC (col). The 'CCC' National Ratings indicate that non-compliance is a real possibility. The ability to meet financial commitments depends exclusively on favorable and stable economic and business conditions.

CC (col). The 'CC' National Ratings indicate that non-compliance of some kind seems likely.

C (col). National 'C' Ratings indicate that the default of an issuer is imminent.

RD (col). The 'RD' National Ratings indicate that in the opinion of Fitch Ratings the issuer has experienced a "restricted breach" or an unpaid breach of payment of a bond, loan or other material financial obligation, even though the entity is not subject to procedures of bankruptcy, administrative, liquidation or other formal dissolution processes, and has not ceased in any other way its business activities.

D (col). National 'D' Qualifications indicate a non-compliant issuer or instrument.

E (col). Description: Suspended rating. Obligations that, before repeated requests of the qualifier, do not present appropriate information.

Note: Modifiers "+" or "-" can be added to a rating to denote the relative position within a specific rating category. These suffixes are not added to the 'AAA' category, or to categories below 'CCC'.

NATIONAL SHORT-TERM CREDIT RATINGS:

F1 (col). The 'F1' National Ratings indicate the strongest capacity for timely payment of financial commitments in relation to other issuers or obligations in the same country. In the National Rating Scale of Fitch, this rating is assigned to the lowest default risk in relation to others in the nation. When the liquidity profile is particularly strong, a "+" is added to the assigned rating.

F2 (col). The National Ratings 'F2' indicate a good capacity for timely payment of financial commitments in relation to other issuers or obligations in the nation. However, the margin of safety is not as great as in the case of the highest ratings.

F3 (col). The National Ratings 'F3' indicate an adequate capacity for timely payment of financial commitments in relation to other issuers or obligations in the nation. However, this capacity is more susceptible to adverse changes in the short term than that of financial commitments in the higher rating categories.

B (col). National Ratings 'B' indicate an uncertain ability to timely pay financial commitments in relation to other issuers or obligations in the nation. This capacity is highly susceptible to adverse changes in short-term financial and economic conditions.

C (col). The National Ratings 'C' indicate a highly uncertain capacity for timely payment of financial commitments in relation to other issuers or obligations in the nation. The ability to meet financial commitments only depends on a favorable and stable economic and business environment.

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

D (col). National 'D' Ratings indicate a current or imminent default.

E (col). Description: Suspended rating. Obligations that, upon repeated requests from the rating agency, do not present adequate information.

OUTLOOK AND OBSERVATIONS OF THE RATING:

OUTLOOK. These indicate the direction a qualification could possibly go within a period of one and two years. They also reflect trends that have not yet reached the level that would drive the change in rating but could do so if they continue. These can be: "Positive"; "Stable"; or "Negative."

Most Outlooks are generally Stable. Ratings with Positive or Negative Outlook are not necessarily going to be modified.

OBSERVATIONS. These indicate that there is a greater likelihood that a rating will change and the possible direction of such a change. These are designated as "Positive", indicating a potential improvement, "Negative", for a low potential, or "In Evolution", if the rating can go up, down or be confirmed.

An Observation is typically driven by an event, so it is usually resolved in a short period. This event can be anticipated or have occurred, but in both cases the exact implications on the rating are undetermined. The observation period is typically used to gather more information and / or use information for further analysis.