

## Fitch Affirms Rating of Grupo Argos at AA+(col) and F1+(col)

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**Fitch Ratings - Bogota - (July 15, 2015):** Fitch Ratings has affirmed the national short-term and long-term ratings of Grupo Argos S.A. at AA+(col) and F1+(col). The outlook is stable. Fitch Ratings has also affirmed the rating of the issue of bonds obligatorily convertible into preferred stock (BOCEAS) of Grupo Argos at 'AA+(col)' for up to COP\$ 750,000 million.

### KEY RATING DRIVERS

The ratings on Grupo Argos reflect the credit quality of its investment portfolio and the performance and diversification of the dividends received. The ratings also incorporate the extensive sources of liquidity available to the company, considering its portfolio of listed companies. The ratings also consider the increase in leverage recorded for 2015, as a result of the acquisition of 49.8 percent stake in Grupo Odinsa, rated at 'AA (col)' by Fitch. This transaction was completed in the second quarter of 2015. The ratings contemplate the structural subordination of the parent company's debt to the debt of its subsidiaries, which is offset by the control that the company exercises over its major subsidiaries.

#### Strong credit profile of main investments

The rating on Grupo Argos is based on the credit profile of its main investments. The company holds controlling interests in Cementos Argos and Celsia. Cementos Argos maintains an AA+ rating (col) with a positive outlook, assigned by Fitch. In 2014, dividends received from Cementos Argos accounted for 43.4% of the total dividends received by the Company. Cementos Argos has a strong competitive position with a market share of about 50% in Colombia and it is the fifth largest cement producer in Latin America. The company has benefited from a stronger-than-expected recovery of the US market, which improved the margins of the company. Cementos Argos ratings incorporate the expectation that leverage may be reduced progressively to levels of around 3x in the medium term. Grupo Argos holds a 60.7% interest in Cementos Argos.

Celsia, which accounted for 25.3% of the dividends received by Grupo Argos in 2014, is a power generation company, which owns 50.01% of Empresa de Energia del Pacifico -EPSA- (rated AAA (col) by Fitch), in which Grupo Argos also has a direct stake of 11.9%. On a consolidated basis, Celsia ranks fourth in power generation in the country and fifth in distribution and transmission of energy through EPSA. One of its main strengths is the geographical diversification of its power plants and power generation sources (56% water and 44% thermal). In 2014, Celsia launched an international expansion by acquiring stakes in power generation companies in Costa Rica and Panama, which increased the company's consolidated leverage ratio.

The remaining 31.2% of the dividends received by Grupo Argos in 2014 came from its portfolio investment in Bancolombia, Grupo de Inversiones Suramericana and Grupo Nutresa, all are part of the same shareholding group of Grupo Argos and are AAA(col) rated by Fitch.

#### Sustained growth of dividend flows

The dividends received by Grupo Argos have shown a positive performance in the last few years, recording a year-on-year increase of 13.6% between 2010 and 2014. Also, with the spin-off of the assets of Cementos Argos in 2012, Grupo Argos absorbed important real estate, port and coal assets which the company is currently developing to contribute to strengthen the company's mid-term cash flow. In 2014, Grupo Argos received dividends in the amount of COP \$267,098 million and the dividends are expected to grow at a moderate rate of about 7% by 2015.

Fitch expects that by incorporating Grupo Odinsa to the investment portfolio, Grupo Argos will initially receive modest dividends but, as Odinsa's project portfolio reaches higher levels of maturity, dividend flows will become predictable over time. In the medium term, Grupo Odinsa will be making significant capital investments because of its participation in recently awarded infrastructure projects.

## Wide range of alternative liquidity sources

Grupo Argos has a wide range of alternative liquidity sources which provide the Group with financial flexibility when required. The company's investment portfolio is made up mostly of highly marketable shares that can be sold without compromising its controlling position in the respective companies. In 2015, Grupo Argos divested around COP 234,000 million worth of its investment portfolio to partially finance the acquisition of a stake in Odinsa. It also has uncommitted credit lines with local and international banks for about COP 2.3 trillion as well as proven access to the local stock market.

In 2015, Grupo Argos recorded a leverage increase, as a result of the transaction to acquire 49.8% stake in Grupo Odinsa S.A. The total transaction amount was COP 926,611 million. In unconsolidated terms, Grupo Argos ended 2014 with a financial debt of COP 1 trillion (excluding BOCEAS), a flow of dividends received of COP 267.98 million and an adjusted EBITDA, less income by equity method, plus dividends received by controlled entities, of COP \$267,161 million. Therefore, the leverage, measured as the financial debt-to-dividends ratio and financial debt-to-adjusted EBITDA ratio was 3.7x times in both cases.

Fitch expects that in 2015 the leverage of Grupo Argos could be in a range between 4.5x and 5x, as a result of the financing of the acquisition mentioned earlier. These leverage levels are weak for the rating category assigned. Fitch considers that Grupo Argos has sufficient leeway to reduce its leverage levels during 2015 and 2016 through the divestment of non-strategic assets and its proven access to capital markets. Therefore, the ratings incorporate the expectation that by 2016 the leverage of Grupo Argos will be between 3x and 3.5x, a level consistent with the assigned rating.

## Subordinated debt structure

Fitch considers that Grupo Argos' debt has a structural subordination to the debt of its subsidiaries, as the dividends received, which account for most of the company's operating cash flow, are generated after the subsidiaries pay the amortization shown in the balance sheet. However, given that 67% of dividends are from companies in which Grupo Argos holds majority stakes and are considered to be strategic for the Group, the subordination is offset by the control that the company exercises over its main sources of dividends. Also, Grupo Argos receives significant dividend income from AAA(col)-rated companies in which it has no controlling interest.

## KEY ASSUMPTIONS:

Fitch's key assumptions within our rating case for the issuer include:

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

## RATING SENSITIVITY

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

- The improvement of the credit quality of its best generators of dividends
- Moderate and sustained leveraging from 2016 onwards
- A conservative dividend payment policy

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

- The weakening of the credit quality of some of its best generators of dividends
- Major acquisitions financed mostly with debt

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Date of the Rating Technical Committee: 14 de Julio de 2015.

Minutes Number: 4066

Purpose of the Committee: Periodic 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 is 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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The above ratings were requested by the issuer, or on its behalf; therefore, Fitch has been paid the corresponding fees for the rating services provided

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