



RATING ACTION COMMENTARY

Fitch Places Grupo Argos' National Ratings on Rating Watch Evolving

Colombia Wed May 31, 2023 - 12:44 PM ET

Fitch Ratings - Bogota - 31 May 2023: Fitch Ratings placed Grupo Argos S.A.'s (Grupo Argos S.A.) long-term and short-term national ratings on Watch Evolving at 'AAA(col)' and 'F1(col)', respectively, following the announcement of the signing of a Memorandum of Understanding between Grupo Argos and the companies JGDB S.A.S, Nugil S.A.S, International Capital Holding L.L.C., AFLAJ Investment L.L.C., Grupo Nutresa S.A. and Grupo de Inversiones Suramericana S.A.

Fitch expects to resolve the watch once it learns more details about the transaction, which is pending corporate and regulatory approvals, as well as a detailed review of the business and financial profile of the proposed transaction. Defining the terms of the transaction could exceed the common six-month timeframe for resolving a watch.

The ratings reflect the credit quality of the dividend stream received from the investments, which benefits its stability. Fitch projects that the dividend stream to be received over the forecast horizon will remain sufficiently robust to maintain gross debt to adjusted EBITDA plus dividends levels close to 2.0 times (x). The low level of leverage, coupled with a medium to long-term debt maturity profile, reflects a robust capital structure and healthy liquidity.

KEY RATING DRIVERS

Stable Dividend Flow: Grupo Argos' credit profile benefits from the credit quality and stability of the dividend flows received from its investments in different businesses. Fitch expects the flow of recurring dividends to be received during 2023 to be close to COP620 billion and to reach COP800 billion in the medium term. The agency expects the urban development business to contribute additional net cash flows averaging COP100 billion annually. During 2022, dividends received amounted to COP837 billion, favored by the extraordinary distribution of COP360 billion by Odinsa S.A. (Odinsa) [AA(col) Stable Outlook], derived from the early completion of its road concessions in the Dominican Republic.

Adequate Investment Portfolio: Grupo Argos' portfolio is mainly composed of companies with ratings in the high ranges of the national scale; between AAA(col) and AA(col) categories. The geographic and sector diversification of the operations of the companies in the portfolio is positive for Grupo Argos' credit profile. The company has controlling interests in Celsia Colombia S.A. E.S.P. (Celsia Colombia) [AAA(col) Stable Outlook] through Celsia S.A. (Celsia) Cementos Argos S.A. (Cementos Argos) [AA(col) Positive Outlook] and Odinsa. It also has portfolio investments in Grupo de Inversiones Suramericana, S.A. (Grupo Sura) [AAA(col) Stable Outlook] and Grupo Nutresa S.A. The remaining dividends received during 2022 came from Pactia.

Strong Credit Metrics: Fitch's base case assumes that Grupo Argos' credit metrics will remain robust over the projection horizon, with debt to adjusted EBITDA plus dividends and debt to average dividends leverage metrics of 2.0x and debt to dividends of approximately 2.2x. This is supported by projected dividend flow growth and the expectation that the company will maintain financial discipline, reflected in a conservative capital structure, with long-term debt maturity profiles that have limited the company's exposure to refinancing risk.

Adequate Financial Flexibility: Grupo Argos has proven access to local and international banks, as well as the local bond and stock market. Its liquidity is strengthened by the maintenance of uncommitted credit facilities and equity interests in entities that can be divested if required. The company's ability to maintain a solid loan-to-value (LTV) metric is incorporated as a key rating factor. Fitch considers an LTV in the range of 12% to 15% to be strong for the rating category.

Growth Strategy Focused on Infrastructure: Grupo Argos' strategy in the coming years is focused on the consolidation of an infrastructure vehicle that will allow it to manage operations in the energy, transportation and real estate rental segments and to leverage more projects that represent higher stable and predictable cash flows. Through Celsia Colombia S.A., a subsidiary of Celsia S.A., it has a platform in alliance with Cubico Sustainable Investments for the development of solar energy projects and distribution and transmission projects in Colombia and, through Odinsa, it has a road concessions platform together with Macquarie Asset Management (MAM). It is expected that during 2023 the creation of an investment platform in airport assets in alliance with MAM and Odinsa will materialize.

RATING DERIVATION

Grupo Argos' credit profile is in line with the ratings of Promigas S.A. E.S.P. (Promigas) [AAA(col) Stable Outlook], Empresas Públicas de Medellín E.S.P. (EPM) [AAA(col) Negative Watch] and Grupo Energía Bogotá (GEB) [AAA(col) Stable Outlook]. Although these companies operate in regulated businesses that provide stability and predictability to their operating cash flows, they have higher leverage metrics than Grupo Argos.

Fitch projects that Promigas could maintain leverage levels of around 3.5x and GEB close to between 4.0x and 3.8x. EPM's rating is on Negative Watch due to uncertainty in the development of the Ituango project. For Fitch, Grupo Argos' leverage (debt to adjusted EBITDA plus dividends and debt to dividends) will remain around 2.0x in the coming years; this does not take into account potential acquisitions.

KEY ASSUMPTIONS

Fitch's key assumptions in the base case for the issuer rating are:

- dividends to be received of approximately COP620 billion in 2023, gradually growing to around COP800 billion by 2026;
- loan with Sumitomo Mitsui Banking Corporation (SMBC) is maintained until maturity;
- average LTV level of 15% in the short and medium term;
- no new acquisitions are contemplated.

RATING SENSITIVITY

Factors that could, individually or collectively, lead to a positive/upgrade rating action:

- the 'AAA(col)' rating is the highest on the national scale and therefore there are no factors for positive action.

Factors that could, individually or collectively, lead to a negative/downgrade rating action: --weakening of the credit profile of the investment portfolio;

- LTV levels above 20% and 25% on a consistent basis;
- significant new acquisitions financed mostly with debt;
- leverage (ratio of debt to adjusted EBITDA plus dividends and debt to dividends) above 3.5x on a sustained basis.

LIQUIDITY

Liquidity is not a Concern: Grupo Argos has no immediate liquidity needs, as it has no debt maturities in 2023 and managed its 2024 debt maturities in advance. During the first quarter of 2023, the company signed a four-year bullet loan with SMBC for the equivalent of COP 232 billion to meet 2024 maturities at a reference banking indicator rate (IBR) plus 5.59% (all-in rate). These resources are placed in four-year term deposit certificates (CDT) at a rate of IBR plus 6.6% and CPI plus 7.5%, which generate a positive carry of approximately 370 basis points.

ISSUER PROFILE

Grupo Argos is a Colombian investment holding company, with holdings in the construction industry (Cementos Argos), the electricity sector (Celsia and Celsia Colombia), and infrastructure (Odinsa). It also holds non-controlling interests in companies in the food sector (Grupo Nutresa), in other investment holding companies (Grupo Sura), in real estate (Pactia) and in airport concessions (Opain).

PARTICIPATION

The rating(s) mentioned were required and were assigned or followed up by request of the issuer(s) or rated entity(ies) or a related third party. Any exceptions will be indicated.

CRITERIA APPLIED ON A NATIONAL SCALE

--Corporate Finance Rating Methodology (December 29, 2022);

--National Scale Ratings Methodology (December 22, 2020).

REGULATORY INFORMATION

ISSUER or ADMINISTRATOR NAME: Grupo Argos S.A.

MINUTES NUMBER: COL_2023_111

DATE OF THE COMMITTEE: 30/May/2023

PURPOSE OF MEETING: Periodic Review

COMMITTEE MEMBERS: Natalia O'Byrne (Chair), Julián Ernesto Robayo and Juan David Medellín

The resumes of the members of the Technical Committee may be consulted on the website: <https://www.fitchratings.com/es/region/colombia>.

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Where applicable, for the assignment of this rating Fitch Ratings considered the aspects referred to in Article 4 of Decree 610/2002, in accordance with Article 6 of the same Decree, today incorporated in Articles 2.2.2.2.2. and 2.2.2.2.4. respectively, of Decree 1068/ 2015.

This document may include rating information on an international scale and/or from other jurisdictions other than Colombia, this information is of a public nature and may be in a language other than Spanish. However, the rating actions adopted by Fitch Ratings Colombia S.A. Sociedad Calificadora de Valores only correspond to ratings with the suffix "col", the other ratings are only mentioned as a reference.

DEFINITIONS OF NATIONAL RATING SCALES**NATIONAL LONG-TERM CREDIT RATINGS**

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

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

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

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

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

B(col). 'B' National Ratings indicate a significantly elevated risk of default relative to other issuers or obligations in the same country. Financial commitments are being met but a limited margin of safety remains and the ability for continued timely payment is conditional on a favorable and stable economic and business environment. For individual obligations, this rating may indicate troubled or defaulted obligations with a potential for extremely high recoveries.

CCC(col). 'CCC' National Ratings indicate that default is a real possibility. The ability to meet financial commitments is solely dependent on favorable and stable economic and business conditions.

CC(col). 'CC' National Ratings indicate that default of some nature seems likely.

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

RD(col). 'RD' National Ratings indicate that in Fitch Ratings' opinion the issuer has experienced a "restricted default" or an unremedied payment default on a bond, loan or other material financial obligation, although the entity is not subject to bankruptcy, administrative, liquidation or other formal dissolution proceedings, and has not otherwise ceased its business activities.

D(col). 'D' National Ratings indicate an issuer or instrument in default.

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

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

SHORT-TERM NATIONAL CREDIT RATINGS

F1(col). 'F1' National Ratings indicate the strongest capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. In Fitch's National

Rating scale, this rating is assigned to the lowest risk of default relative to others in the same country. When the liquidity profile is particularly strong, a "+" is added to the assigned rating.

F2(col). 'F2' National Ratings indicate a good capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. However, the margin of safety is not as large as in the case of higher ratings.

F3(col). 'F3' National Ratings indicate an adequate capacity for timely payment of financial commitments in relation to other issuers or obligations in the same country. 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). 'B' National Ratings indicate an uncertain capacity for timely payment of financial commitments in relation to other issuers or obligations in the same country. This capacity is highly susceptible to adverse changes in short-term financial and economic conditions.

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

RD(col). 'RD' National Ratings 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). 'D' National Ratings indicate an actual or imminent default.

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

RATING OUTLOOK AND WATCH

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

Most Outlooks are generally Stable. Ratings with Positive or Negative Outlooks will not necessarily be changed.

WATCH. These indicate that there is an increased likelihood that a rating will change and the possible direction of such a change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if the rating may rise, fall or be affirmed.

A Watch is typically event-driven, so it is generally resolved within a short period. Such an event may be anticipated or have occurred, but in either case the exact implications on the rating are indeterminate. The Watch period is typically used to gather more information and/or use information for further analysis.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
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Grupo Argos S.A.	ENac LP AAA(col) Watch Rating	AAA(col) Rating Outlook Stable
	ENac CP F1+(col) Watch Rating	F1+(col)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Methodology (pub. Dec 22, 2020)

Corporate Finance Rating Methodology (pub. Dec 29, 2022)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Grupo Argos S.A.

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