

## **RATING ACTION COMMENTARY**

### **Fitch Affirms Grupo Argos Ratings and Removes the Evolution Outlook; Outlook Stable**

Colombia Mon Nov 27, 2023 - 10:36 AM ET

Fitch Ratings - Bogota – 27 Nov 2023: Fitch Ratings affirmed Grupo Argos S.A.'s (Grupo Argos S.A.) long-term and short-term national ratings at 'AAA(col)' and 'F1(col)', respectively and removed Evolution Outlook. The rating Outlook is Stable.

The decision to affirm Grupo Argos ratings and remove the Evolution Outlook considers the progress of the transaction between the company 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., which has received several corporate and regulatory approvals. It also reaffirms the strength of the company's dividend flows and adequate liquidity position to meet the commitments derived from the exchange of Grupo Nutresa shares, without anticipating a weakening of its credit profile. Due to the strength and stability of the dividend flow to be received over the projection horizon, Fitch expects leverage measured as gross debt to adjusted EBITDA plus dividends and gross debt to dividends to remain below 2.5 times (x) on average.

## **KEY RATING DRIVERS**

Grupo Argos' credit profile benefits from the credit quality and stability of the dividend flows received from its investments in different businesses. The expected dividend stream for 2023 will be close to COP978 billion (September 2023: COP783 billion), incorporating extraordinary dividends received from Odinsa of COP304 billion and strengthening the company's cash flow position in light of the materialization of the Grupo Nutresa share exchange. Fitch expects the recurring dividend stream to normalize starting in 2024 and to continue to strengthen in the following years with the incorporation of higher dividends from Grupo de Inversiones Suramericana given the expected increase in Grupo Argos' shareholding with the closing of the transaction. Likewise, cash generation is supported by the contribution of net cash flows from the urban development business.

Fitch projects robust credit metrics over the analysis horizon, with debt to adjusted EBITDA plus average dividends leverage metrics of 2.1x and debt to dividends of approximately 2.3x. This projection is supported by expected dividend flow growth and the expectation to maintain financial discipline reflected in a conservative capital structure, with long-term debt maturity and healthy liquidity profiles that limits the exposure to refinancing risks.

## **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 S.A. E.S.P. (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 maintain an average close to 2.0x in the coming years; this does not take into account potential acquisitions.

## KEY ASSUMPTIONS

Key assumptions used by Fitch in its base case are:

- dividends received of approximately COP978 billion in 2023, including extraordinary dividends of Odinsa;
- exchange of shares of Grupo Nutresa and related costs;
- loan with Sumitomo Mitsui Banking Corporation (SMBC) is maintained until maturity;
- repurchase of shares and purchase of shares of Cementos Argos;
- average loan-to-value ratio (LTV; loan-to-value) of 15% in the short and medium term;
- no new acquisitions are contemplated.

## RATING SENSITIVITY

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.

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.

## ISSUER PROFILE

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

Its main source of cash comes from the flow of recurring dividends received from its investment portfolio. The company's strategy has been oriented to maintain a diversified portfolio in

companies that are a source of safe dividends and an adequate asset rotation focused on profitability and real estate development.

## **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\_286

DATE OF THE COMMITTEE: 24/November/2023

PURPOSE OF MEETING: Extraordinary Review

COMMITTEE MEMBERS: Natalia O'Byrne (Chair), Erick Pastrana and Rafael Molina

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

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

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
Grupo Argos S.A.	ENac LP AAA(col) Rating Outlook Stable Affirmed	AAA(col)
	ENac CP F1+(col) Affirmed	F1+(col)

## VIEW ADDITIONAL RATING DETAILS

### FITCH RATINGS ANALYSTS

#### Juana Lievano

Associate Director

Lead Analyst

+57 601 241 3226

[juana.lievano@fitchratings.com](mailto:juana.lievano@fitchratings.com)

Fitch Ratings Colombia

Calle 69 A No. 9-85 Bogotá

#### Julián Robayo

Associate Director

Secondary Analyst

+57 601 241 3237

[julian.robayo@fitchratings.com](mailto:julian.robayo@fitchratings.com)

#### Natalia O'Byrne

Senior Director

Rating Committee Chair

+57 601 241 3255

[natalia.obyrne@fitchratings.com](mailto:natalia.obyrne@fitchratings.com)

### MEDIA CONTACTS

#### Elizabeth Fogerty

Nueva York

+1 212 908 0526

[elizabeth.fogerty@thefitchgroup.com](mailto:elizabeth.fogerty@thefitchgroup.com)

Additional information available at [www.fitchratings.com/site/colombia](http://www.fitchratings.com/site/colombia).

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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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The full spectrum of best- and worst-case scenarios for credit ratings across all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on the best-case scenario for a rating upgrade and worst-case scenario for a downgrade based on historical issuer performance (which Fitch sets as the 99th percentile of both upward and downward rating transitions) for international credit ratings. At the 99th percentile, an average across asset types shows four-step increases in the best rating scenario and eight-step decreases in the worst scenario. The sector-specific credit ratings in the best- and worst-case scenarios are described in more detail at <https://www.fitchratings.com/site/re/10111579>.

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