RATING ACTION COMMENTARY

Fitch Affirms Grupo Argos Rating at “AAA(col)”; Outlook Stable

Colombia Fri May 16, 2025 – 1:15 PM ET

Fitch Ratings - Bogota - May 16, 2025: Fitch Ratings affirmed Grupo Argos S.A.'s (Grupo Argos) long-term and short-term national ratings at 'AAA(col)' and 'F1+(col)', respectively. The rating outlook is Stable.

The ratings reflect the company's solid capital structure, characterized by staggered debt maturities that provide financial flexibility and support its liquidity position. In the medium term, Grupo Argos is expected to maintain gross debt to adjusted EBITDA plus dividends and gross debt to dividends below 2.5 times (x). The ratings also consider the increased concentration in companies in the infrastructure and construction materials sectors, which are capital intensive and mainly linked to the operating environment in Colombia and Central America, thereby increasing the company's exposure to the economic cycles of these regions.

KEY RATING FACTORS

Business Concentration: Grupo Argos has been implementing various changes in its shareholding structure, including the elimination of cross-shareholdings in Grupo Nutresa S.A. (Grupo Nutresa) [BB+ Stable Outlook] and Grupo de Inversiones Suramericana S.A. (Grupo Sura) [AAA(col) Stable Outlook]. In addition, it has divested Cementos Argos S.A. (Cementos Argos) [AA+(col) Stable Outlook]'s stake in Summit Materials.

The elimination of cross-shareholdings resulted in a redistribution of Grupo Argos' value to the benefit of shareholders. In this way, the company will concentrate its investments in the infrastructure and construction materials sector, seeking to optimize the allocation of resources and strengthen the group's competitive position in these key sectors. However, this increases the company's exposure to sectors with higher capital investment requirements, which are more exposed to economic cycles and whose operations are mainly carried out in Colombia, as well as in Central American and Caribbean countries, where operating environments are weaker.

Stable Dividend Flow: Fitch projects that starting in 2026, dividend flow will remain stable, averaging COP479 billion annually, after the Grupo Sura share transaction. In addition, it estimates that, in the medium term, the urban development business (NDU) will once again contribute around COP100 billion annually, following the challenges faced by the housing sector in recent years, which have limited cash flow to Grupo Argos. In 2024, dividends received reached approximately COP784.112 billion, coming from dividends from Celsia S.A. (Celsia), Cementos Argos, Grupo Sura, and Pactia.

Robust Credit Metrics: Fitch expects Grupo Argos to maintain solid credit metrics throughout the forecast period, with an average leverage ratio of debt to adjusted EBITDA plus dividends and debt to dividends of 2x. The recurring dividend stream, coupled with the expectation that the company will maintain its financial discipline, suggests that credit metrics will remain stable, supported by a conservative capital structure and long-term debt maturity profiles. By the end of 2025, debt is expected to decrease to approximately COP1.24 trillion with the resources it expects to receive from extraordinary dividends and share repurchases.

Negative Free Cash Flow: Fitch projects negative free cash flow (FCF) in the short to medium term. It also predicts that in 2025, cash flow will be impacted by the payment of taxes related to the transaction, estimated at COP235 billion. In addition, the distribution of dividends to its shareholders will put pressure on FCF over the next few years. The company made the payment for the Grupo Nutresa takeover bid for COP432,401 billion in 2024, which required cash resources, however, Grupo Argos has term investments that enable it to maintain its liquidity position.

Adequate Net Debt to Assets: Fitch anticipates that the net debt to assets (LTV; loan-to-value) metric will remain below 10% with the exit of Grupo Sura from the portfolio and the expected decrease in debt by 2025. If debt remained at current levels, this indicator would be close to 12%. At the end of 2024, the company's investment portfolio reached approximately COP21 trillion. Of this total, approximately COP16.1 trillion corresponds to shares in companies listed on the local stock exchange. The investment portfolio will experience a reduction due to the exclusion of Grupo Sura shares from the portfolio, whose value at the end of 2024 was COP6.7 trillion.

PAIR ANALYSIS

Grupo Argos' focus on infrastructure and construction materials gives it greater exposure to the economic cycles of the regions where its companies operate, unlike companies such as Promigas S.A. E.S.P. (Promigas) [AAA(col) Stable Outlook], Empresas Públicas de Medellín (EPM) [AAA(col) Stable Outlook] and Grupo Energía Bogotá (GEB) [AAA(col) Stable Outlook], which operate in regulated businesses that provide greater stability and predictability to their operating cash flows. This is offset by Grupo Argos' capital structure. This is offset by Grupo Argos' capital structure, with projected leverage of around 2x, compared to Promigas and GEB's projected leverage, which could remain at 4x in the medium term, and EPM's leverage, which is close to 3x.

KEY ASSUMPTIONS

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

--dividends to be received of approximately COP1 trillion in 2025 given the extraordinary dividends from Cementos Argos and the latest payment from Grupo Sura. Thereafter, dividends of approximately COP 479 per year are projected;

--repurchase of shares for approximately COP 40 billion in 2025;

--average LTV level between 8% and 12% in the short and medium term;

--no new acquisitions are contemplated.

RATING SENSITIVITY

Factors that could, individually or collectively, lead to a negative/downgrade action:

--weakening of the credit profile of the investment portfolio;

-- weakening of the flow of dividends;

--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.

LIQUIDITY

At the end of 2024, Grupo Argos had cash and cash-like term investments at market value for close to COP 369 billion compared to COP 187.387 billion of short-term maturities, which supports its liquidity position. In addition, the company made the payment of COP 432.401 billion, as a result of the takeover bid for Grupo Nutresa, without affecting its liquidity position or its credit profile. The robustness of Grupo Argos' capital structure favors its access to financing at competitive costs, which provides it with financial flexibility and liquidity support.

ISSUER PROFILE

Grupo Argos has holdings in the construction materials industry (Cementos Argos), the electricity sector (Celsia and Celsia Colombia), and infrastructure (Odinsa), and in real estate (Pactia). It also has an urban development business (NDU). Its main source of cash comes from the flow of recurring dividends received from its investments.

Grupo Argos and Grupo Sura agreed at the end of 2024 to dispose of the cross-shareholdings through absorption spin-offs that will be completed substantially simultaneously.

PARTICIPATION

The above rating(s) were required and were assigned or followed up on at the 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 (February 14, 2025);

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

REGULATORY INFORMATION – COLOMBIA

NAME OF ISSUER OR ADMINISTRATOR: Grupo Argos S.A.

MINUTES NUMBER: COL_2025_80

COMMITTEE DATE: 15/May/2025

PURPOSE OF THE MEETING: Periodic Review

COMMITTEE MEMBERS: Natalia O'Byrne (Chair), Martha Rocha and Fernanda Rezende.

The resumes of the members of the Technical Committee are available on the web page: 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 on 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 make timely payments 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). National 'CC' ratings indicate that default of some nature appears likely.

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

RD(col). 'RD' National Ratings indicate that in Fitch Ratings' opinion the issuer has experienced a "restricted default" or an uncured 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). 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 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 relative 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 relative 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 by the rating agency, do not present adequate information.

RATING OUTLOOK AND OBSERVATIONS

OUTLOOK. These indicate the direction in which a rating could possibly move within a period between one and two years. They also reflect trends that have not yet reached the level that would drive the 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.

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 upgrade, "Negative," for a potential downgrade, or "Evolving," if the rating may move up, down or be affirmed.

An Observation 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 Observation 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) Rating Outlook Stable
	ENac CP	F1+(col)	Affirmed	F1+(col)

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

National Scale Rating Methodology (pub. 22 Dec 2020)
Corporate Finance Rating Methodology (pub. 14 Feb 2025)

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 (08 Apr 2025, 10 Apr 2025, 06 Dec 2024)

ADDITIONAL DISCLOSURES
Solicitation Status
Endorsement Policy

ENDORSEMENT STATUS
Grupo Argos S.A.

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by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine and generally accepted adjustments to the financial information presented, which are in accordance with relevant methodologies and/or industry standards, to seek consistency among the financial metrics of entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector- specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10111579

SOLICITATION STATUS

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ENDORSEMENT POLICY

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