

BRC Ratings

A Company of **S&P Global**

Colombia

Rating Report

ISSUANCE AND PLACEMENT PROGRAM OF COMMON BONDS AND/OR COMMERCIAL PAPERS
OF GRUPO ARGOS S.A.

Contacts:

Ana María Carrillo Cárdenas

ana.carrillo@spglobal.com

Edgar Mauricio Robles Cifuentes

edgar.robles@spglobal.com

María Carolina Barón Buitrago

maria.baron@spglobal.com

ISSUANCE AND PLACEMENT PROGRAM OF COMMON BONDS AND/OR COMMERCIAL PAPERS OF GRUPO ARGOS S.A.

ISSUANCE AND PLACEMENT PROGRAM OF COMMON BONDS AND/OR COMMERCIAL PAPERS OF GRUPO ARGOS S.A.

SECURITIES FEATURES

Securities: Common Bonds
 Issuer: Grupo Argos S.A.
 Amount rated: COP2.35 trillion
 Amount placed: COP1.8 trillion
 Amount outstanding: COP1.08 trillion
 Date of Issuance and Bond Features:

Security	Amount COP mn	Debt balance COP mn	Issuance date	Maturity date	Term (years)	Indicator rate (benchmark interest)	Spread	Interest payment
Bonds	108,365	0	09/10/2014	09/10/2016	2	DTF	0.87%	Quarterly in arrears
Bonds	132,250	0	09/10/2014	09/10/2017	3	IBR01	1.81%	Month in arrears
Bonds	114,963	0	09/10/2014	09/10/2019	5	CPI12	3.10%	Quarterly in arrears
Bonds	254,318	134,818	09/10/2014	09/10/2024	10	CPI12	3.95%	Quarterly in arrears
Bonds	390,104	390,104	09/10/2014	09/10/2029	15	CPI12	4.24%	Quarterly in arrears
Commercial papers	350,000	0	07/06/2017	07/05/2018	1	T.F	6.14%	Period in arrears
Bonds	123,500	0	08/28/2019	08/28/2022	3	T.F	5.78%	Quarterly in arrears
Bonds	157,965	157,965	08/28/2019	08/28/2025	6	CPI12	2.44%	Quarterly in arrears
Bonds	168,535	168,535	08/28/2019	08/28/2034	15	CPI12	3.20%	Quarterly in arrears
Bonds	136,500	136,500	10/28/2020	10/28/2027	7	CPI12	2.65%	Quarterly in arrears

Warranties and Priority: The bonds are not secured by any collateral; therefore, they constitute unsecured obligations of the issuer.
 Manager: Depósito Centralizado de Valores S.A.
 Legal representative of the holders: Alianza Fiduciaria S.A.
 Structuring agent: Banca de Inversión Bancolombia S.A.
 Placement agent: Valores Bancolombia S.A.

I. SUMMARY

ISSUANCE AND PLACEMENT PROGRAM OF COMMON BONDS AND/OR COMMERCIAL PAPERS OF GRUPO ARGOS S.A.

- We confirm the AAA long-term debt rating of the Common Bonds of Grupo Argos S.A. (hereinafter GA) and the BRC 1+ rating of the commercial papers.
- Grupo Argos maintains a strong competitive position, a characteristic that we believe will be kept over the next three years. This is evidenced by the extensive track record and reputation of its affiliates in the industries it serves, its adequate diversification by business and region, and its ability to adjust its operations to changing economic conditions.
- The ratings confirmation considers GA's adequate historical and forecasted results in terms of profitability and leverage. Thus, for the 2023-2025 period we forecast an EBITDA margin between 24% and 26% and a net debt to EBITDA ratio of around 2.5x (times).
- Our sources-to-use forecast scenario shows indicators of 1.1x and 1.2x for the next 12 and 24 months, which indicates that the conglomerate would be able to meet its operating and financial commitments, as well as those to its shareholders.
- In the coming years, we will monitor GA's ability to maintain its financial and operating strength in the face of a macroeconomic stress scenario, such as the one we expect for 2023 and 2024.

II. RATING ACTION

Bogota, May 3, 2023.- The Technical Committee of BRC Ratings - S&P Global S.A. Sociedad Calificadora de Valores in its periodic review confirmed the AAA long-term debt rating of Grupo Argos S.A.'s common bonds and confirmed the short-term debt rating of BRC 1+ of the commercial papers.

III. RATING RATIONALE:

At the end of 2022, Grupo Argos reported historical results with revenues and EBITDA of \$21.3 trillion and \$5.2 trillion Colombian pesos (COP). This translated into a leverage level (measured as net debt to EBITDA) of 2.5x, which is lower than the 3x of 2021. These results are due to the good dynamics of all its affiliates, as a result of the successful implementation of corporate strategies, coupled with a favorable macroeconomic environment in all geographies.

In terms of profitability, at the end of 2022 the EBITDA margin was 24.5%, which is lower than the 26.6% observed the previous year and is explained by the cost overruns assumed by the operating affiliates as a result of the inflationary environment and the depreciation of the peso against the dollar. Despite this, we highlight the conglomerate's ability to adjust its operations to changing economic environments, a characteristic that will be relevant in the future given the possible persistence of tight macroeconomic conditions and the implementation of reforms that could affect its forecasted profitability.

For the next three years we estimate an EBITDA level between COP5 trillion and COP6 trillion and a leverage of around 2.5x. It is worth mentioning that this forecast considers a debt amount between COP14 trillion and COP16 trillion, which is higher than the one we foresaw in the last review (COP12 trillion and COP14 trillion) and is explained by the following factors:

- The base effect of 2022, a period in which the amount of debt had a significant increase due to the devaluation of the peso against the dollar. This implied an increase in the value of its dollar-denominated financial liabilities and resulted in higher borrowing

ISSUANCE AND PLACEMENT PROGRAM OF COMMON BONDS AND/OR COMMERCIAL PAPERS OF GRUPO ARGOS S.A.

needs for the affiliates to finance the acquisition of imported fixed assets and working capital.

- Investment needs to support the growth of Celsia and Cementos Argos over the next three years.

Despite the higher forecasted debt amount, we confirm the rating. Leverage levels are similar to those of previous years, with room for deterioration in profitability or additional financing requirements than we estimate.

Grupo Argos keeps as one of its main guidelines to continue growing inorganically with sustainable capital structures. We emphasize that this is a strategy that has been successfully applied in the past. For example, Celsia consolidated the Caoba investment platform together with the Cúbico investment fund. Last year Odinsa formed two investment platforms for its road and airport assets together with Macquarie Asset Management. This allowed it to monetize these assets, reduce its debt and in the future, this will be key to participate in new projects.

Our assessment of Grupo Argos' credit profile considers the conglomerate's strong competitive position, a characteristic that we do not expect will change in the next three years and that is evidenced by the track record, good reputation and extensive knowledge of each of the affiliates in the industries they serve. Our analysis also considers its diversification per business and geography, which gives it room for maneuverability in downturn scenarios, as each industry and each region reflects a different behavior.

Cementos Argos remains the affiliate with the largest share of Grupo Argos' EBITDA and recorded historical figures of COP11.7 trillion and COP2.1 trillion in revenues and EBITDA. The company continues to deploy its corporate strategy in its three regions, which focuses on customer experience through the offer of traditional products (cement and concrete) and other complementary products that seek to meet the new needs of the consumer and through the provision of face-to-face and digital sales channels.

For the next two years, we expect a lower growth dynamic for the cement company compared to 2021 and 2022, due to the downturn in the housing sector, especially in Colombia, given the environment of high interest rates and cost pressures that constructors are still facing. This would be partially mitigated by the price adjustments made by the company between 2022 and 2023, the better dynamics of the affiliates in the United States and Central America, and by the implementation of works in the infrastructure segment in all regions.

The power segment, represented by Celsia, also reported very favorable figures in 2022, reaching a level of revenues and EBITDA of COP5.6 trillion and COP1.7 trillion. This is the result of the good performance of the power generation business, which is in line with the economic dynamism observed in the previous year and the entry of new assets. The favorable results are also explained by the company's participation in the transmission and distribution businesses, which provide stability and predictability to its cash flows.

Celsia maintains as a strategic focus the growth of its power generation portfolio in environmentally friendly technologies, ensuring the profitability of its investments. The latter becomes relevant in its future decisions, given the recent changes derived from the tax reform, which reduce the benefits granted by Law 1715/2014. Its focus will also be on growth in the

ISSUANCE AND PLACEMENT PROGRAM OF COMMON BONDS AND/OR COMMERCIAL PAPERS OF GRUPO ARGOS S.A.

transmission and distribution business, the operation it maintains in Valle del Cauca and Tolima and the deepening of its complementary businesses, which will still maintain a low share of total revenues.

An aspect that is alien to Celsia's management and that could have implications on the entire industry are the provisions that the National Government may take regarding the dynamics of the power sector. This, in light of the draft decree published by the Ministry of Mines and Energy, which according to the public document seeks to "establish policies and guidelines to promote the efficiency and competitiveness of the power service."

Odinsa reported revenues of COP 515 billion and EBITDA of COP 501 billion. Between 2022 and 2023 Odinsa has achieved two important milestones. On the one hand, it consolidated the road and airport platforms together with Macquarie Asset Management and on the other hand, it reduced its indebtedness by close to COP1 trillion. These elements provide it with financial flexibility and allow it to venture into new investment opportunities with a sustainable capital structure.

We highlight the favorable revenue dynamics observed in all Odinsa's assets, which has been maintained since the pandemic. For the period 2023-2025 we foresee a slight downturn in its growth compared to what was observed in 2021 and 2022, which is in line with the lower GDP growth forecasts of S&P Global Ratings.

Through Decree 050/2023, the national government froze during 2023 the prices of most of the tolls located in the country, and incorporated some mechanisms to mitigate the impact that this could have on the concessionaires' revenues. For the specific case of Odinsa, this had a minor impact on its revenues due to the contractual conditions of each asset and because, according to the company, the mitigation mechanisms proposed by the central administration have worked adequately.

IV. LIQUIDITY

In 2021 and 2022 Grupo Argos generated operating resources of COP4.3 trillion and COP3.3 trillion. The reduction observed in the last year is explained by the higher working capital needs derived from the inflationary environment and the devaluation of the peso against the dollar. Despite this, the company met its operating, financial and shareholder commitments.

The sources-over-uses forecast exercise shows a ratio of 1.1x and 1.2x for the next 12 and 24 months. It should be noted that these results include all of GA's forecasted capital expenditures, which is a conservative scenario, given the certain flexibility it has in this area. Likewise, this liquidity indicator shows a margin of maneuverability for GA in an adverse scenario. Finally, we consider the conglomerate's access to the banking sector and the capital markets to be positive.

V. FACTORS TO MODIFY THE RATING

What may lead us to confirm the rating

- The use of alternative and stable funding sources to leverage the expansion plan without generating pressure on its debt indicators.
- The sustainability of the net debt to EBITDA ratio below 3x over the next three years.

ISSUANCE AND PLACEMENT PROGRAM OF COMMON BONDS AND/OR COMMERCIAL PAPERS OF GRUPO ARGOS S.A.

What may lead us to lower the rating

- Deterioration of EBITDA versus our forecasts that implies pressure on leverage and/or liquidity indicators.
- Changes in its business position, which could imply loss of market share, relevant exposure to geographies with lower credit quality levels than Colombia, or changes in the business lines that in our opinion represent greater risks for the conglomerate.

VI. ISSUER AND ITS ACTIVITY

Grupo Argos (GA) is a conglomerate with strategic investments in the infrastructure sector in the following industries: cement (Cementos Argos – CA), power (Celsia) and road and airport concessions (Odinsa). In addition, it is a partner of a real estate fund (Pactia), is the owner of a land bank for urban development (Grupo Argos Desarrollo Urbano) and has a strong portfolio of investments in the financial and food sectors.

At the end of 2022, Cementos Argos reflected a share of around 40% by EBITDA level within Grupo Argos, a lower figure than the previous year (50%) and explained by the good dynamics reflected by the other businesses. The latter was relevant for Celsia, which represented 33% of the profitability within the conglomerate, an increase of three percentage points from the previous year.

The concessions business reflected a 13% share in GA's EBITDA, which is higher than the 10% observed in the previous year and is explained by the good dynamics of traffic and passengers in road and airport assets. The commissioning of the platforms will represent a drop in terms of Odinsa's share in the conglomerate's EBITDA, as the remuneration of the assets will be consolidated in the capital fund to be set up by this company and Macquaire Asset Management. We believe this offsets the affiliate's access to resources and the expertise of its partner to leverage its growth.

In addition to its operating affiliates, Grupo Argos receives income from its real estate business and from dividends from its portfolio, which represented close to 12% of EBITDA. These investments provide a higher level of diversification and greater availability of resources in stress scenarios.

VII. INDUSTRY RISKS

The general characteristics of the sectors where Grupo Argos participates remained relatively stable compared to the previous year:

- High capital requirements and power use.
- Entry barriers by infrastructure (plants, access to raw materials, equipment), knowledge, experience, financial muscle and ease of access to financing sources.
- Strong correlation with economic cycles and population dynamics.
- Extensive business cycles, which implies long periods of recovery of its investments.
- Exposure to regulatory and regulation changes.
- Public policy dependency.

**ISSUANCE AND PLACEMENT PROGRAM OF COMMON BONDS AND/OR COMMERCIAL
PAPERS OF GRUPO ARGOS S.A.**

VIII. ADDITIONAL INFORMATION

Type of rating	Long and short-term debt
Minutes number	2315
Date of committee	May 3, 2023
Type of review	Periodic review
Issuer	Grupo Argos S.A.
Committee members	María Carolina Barón
	Fabiola Ortiz
	María Soledad Mosquera

Rating History

Periodic review May./22: AAA, BRC 1+
Periodic review May./21: AA+ Positive Outlook, BRC 1+
Initial rating May./14: AAA, 'BRC 1+'

The technical visit for the rating process was carried out with sufficient timeliness by the availability of the issuer or entity and the delivery of the information was fulfilled in the expected times and in accordance with the requirements of BRC Ratings - S&P Global S.A. SCV.

BRC Ratings - S&P Global S.A. SCV. does not perform audit functions, therefore, the management of the entity undertakes full liability for the integrity and accuracy of all the information provided and that has served as the basis for the elaboration of this report. On the other hand, BRC Ratings - S&P Global S.A. SCV. reviewed the publicly available information and compared it with the information provided by the entity.

The financial information included in this report is based on audited financial statements for the last three years. The financial information included in this report is based on the consolidated financial statements of Grupo Argos.

If you have any question as to the indicators included herein, please see the glossary at www.brc.com.co

To see the definitions of our ratings, please visit www.brc.com.co or click [here](#).

III. MEMBERS OF THE TECHNICAL COMMITTEE

The resumes of the members of the Technical Rating Committee are available on our website www.brc.com.co

A risk rating issued by BRC Ratings - S&P Global S.A.– Sociedad Calificadora de Valores – is a technical opinion and at no time is intended to be a recommendation to buy, sell or hold a given investment and/or security, nor does it imply a guarantee of payment of the security, but rather an assessment of the probability that the capital thereof and its returns will be paid in a timely manner. The information contained in this publication has been obtained from sources that are presumed to be reliable and accurate; therefore, we undertake no liability for errors or omissions or for results arising from the use of this information.
