

### Research Update:

## Grupo de Inversiones Suramericana S.A. 'BBB-' Ratings Affirmed, Off Credit Watch On Successful Capitalization Plan

#### Primary Credit Analyst:

Luis Manuel M Martinez, Mexico City (52) 55-5081-4462;luis\_martinez@standardandpoors.com

#### Secondary Contact:

Laura Martinez, Mexico City (52) 55-5081-4425;laura\_martinez@standardandpoors.com

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## Research Update:

# Grupo de Inversiones Suramericana S.A. 'BBB-' Ratings Affirmed, Off CreditWatch On Successful Capitalization Plan

## Overview

- Following Colombia-incorporated holding company GRUPO SURA's acquisition of ING Group's Latin American pension, insurance, and investment funds operations, the company's capitalization plan has resulted in a rapid debt reduction.
- We are affirming our 'BBB-' ratings on GRUPO SURA and removed them from CreditWatch with negative implications.
- The stable outlook reflects our expectation that GRUPO SURA will successfully complete its capitalization plan during 2012 and consolidate the operations of recently acquired assets to accelerate the dividend growth.

## Rating Action

On June 12, 2012, Standard & Poor's Ratings Services affirmed its 'BBB-' long-term corporate credit rating on Grupo de Inversiones Suramericana S.A. (GRUPO SURA). At the same time, we affirmed the 'BBB-' rating on GRUPO SURA's \$300 million senior unsecured notes due 2021. We removed the ratings from CreditWatch with negative implications, where we had placed them on July 27, 2011. The outlook is stable.

## Rationale

The ratings on GRUPO SURA reflect its satisfactory business risk profile, intermediate financial risk profile, and adequate liquidity.

Our assessment of GRUPO SURA's business risk profile as satisfactory reflects the company's adequate portfolio risk that is supported by the quality of its investments, consisting of publicly-listed companies in Colombia that maintain a leading position in industries with positive growth prospects. Also, our assessment incorporates the proven track record of GRUPO SURA's management for maintaining a substantial ownership stake and controlling votes throughout its investment portfolio, which provides a high degree of stability and predictability to the company's dividend stream. These factors are partially offset by the company's relatively weak portfolio diversity given the concentration on financial institutions, Grupo Bancolombia and Sura Asset Management. We also believe that GRUPO SURA's portfolio liquidity is relatively weak, as the company's ownership structure throughout its investment portfolio limits the potential for large divestments.

Our assessment of GRUPO SURA's financial risk profile as intermediate incorporates the company's capitalization plan that has supported its liquidity and has resulted in a rapid debt reduction, through which we expect that the company's total gross debt to approach \$500 million by year end. In addition, our assessment incorporates our expectations that GRUPO SURA will be able to post net debt to operating cash flow (dividends received less operating costs before capital expenditures and financing activities) and a total cover ratio (measured as the ratio of dividends received to administrative expenses, interest, and dividends paid) below 3.0x and at about 1.7x by the end of 2013, respectively. In addition, based on the market capitalization of the publicly-listed subsidiaries and the book value for the unlisted companies, GRUPO SURA's loan-to-value ratio would remain around 10% over the next couple of years.

In December 2011, the company completed the acquisition of ING Group's Latin American pension, insurance, and investment funds operations and renamed them Sura Asset Management. In our view, this acquisition will not only support GRUPO SURA's top-line growth, which has averaged 11.4% during the past five years, but will strengthen the company's investment portfolio through the diversification of the dividend stream and larger presence in Latin America. On a pro forma basis for 2012, we expect that revenue growth will be approximately 50%, with dividends of more than \$260 million. Also, we do not anticipate significant changes in GRUPO SURA's investment portfolio composition for the remainder of the year, given the company's strategy to consolidate Sura Asset Management's operations and decrease its debt. However, based on its plans to increase its market presence in Latin America, we do expect GRUPO SURA to continue exploring investment opportunities, particularly in the financial services sector. We expect GRUPO SURA to maintain its net debt to operating cash flow and total cover ratio below 3.0x and at around 1.7x, respectively.

GRUPO SURA is a publicly-traded holding company incorporated in Colombia. Through its investment portfolio, GRUPO SURA is involved in several sectors, including financial services, processed food, cement, and energy, with a leading market positions in the country. Also, some of these sectors have an international presence.

### **Liquidity**

Based on its likely sources and uses of cash during the next 12-18 months, our performance expectations, and the company's capitalization plan, GRUPO SURA has an "adequate" liquidity profile. Relevant factors in our assessment of its liquidity profile include the following:

- We expect its sources of liquidity during the next 12-18 months to exceed uses by at least 1.2x;
- We expect net sources to be positive, even if dividends are 15% lower than our expectations during the next 12 months; and
- Our view that the company maintains a sound relationship with domestic

and international banks, and has a track record of accessing the local and international capital markets.

As of March 31, 2012, GRUPO SURA's liquidity sources include a combined cash and cash equivalents position of approximately \$23 million and capital contributions for approximately \$350 million from Bancolombia and the International Finance Corporation in Sura Asset Management. Under our base-case scenario, we also estimate that for the next 12 months GRUPO SURA will receive a dividend stream in excess of \$260 million. These cash sources compare favorably with the company's cash uses for the next 12 months, including administrative and interest expenses for about \$45 million and \$50 million, respectively, as well as debt maturities for around \$450 million, mainly comprised of bank loans. Currently, GRUPO SURA is undergoing an important capitalization plan that will continue to support the company's liquidity. In particular, the company recently announced the sale of the 5% stake in Sura Asset Management, which will represent \$177.9 million in additional capital.

The rating incorporates our expectations that the company will continue to raise capital during the next six months that could represent close to \$150 million in cash, while maintaining a prudent cash management policy.

## Outlook

The stable outlook reflects our expectations of a rapid debt reduction and a 55% growth in dividends for 2012 stemming from the consolidation of the recently acquired ING Group's assets, which would return credit measures to levels in line with the current rating. We expect that top-line growth, coupled with an efficient cost control strategy for the next two years will drive GRUPO SURA's net debt to operating cash flow (dividends received less operating costs--before capital expenditures and financing activities) and total cover ratio (measured as dividends received divided by administrative expenses, interest and dividends paid) below 3.0x and at around 1.7x by the end of 2013, respectively.

We could lower the ratings if the company's capitalization plan does not materialize in 2012, and results in weaker-than-expected metrics. In addition, we could lower the rating if GRUPO SURA's receives significantly smaller dividends or if its financial policy becomes more aggressive. A debt-financed growth strategy that results in net debt to operating cash flow of more than 3.0x, a total cover ratio below 1.5x, or a loan-to-value ratio above 15% beyond 2013 could result in a downgrade. We believe that until the company completes its deleveraging plan, a positive rating action is unlikely to occur.

## Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Ratings Criteria, April 15, 2008

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Grupo de Inversiones Suramericana S.A. Corporate Credit Rating	BBB-/Stable/--	BBB-/Watch Neg/--
Gruposura Finance Senior Unsecured	BBB-	BBB-/Watch Neg

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