

RatingsDirect®

Research Update:

Grupo de Inversiones Suramericana 'BBB' Ratings Affirmed; Outlook Remains Negative

Primary Credit Analyst:

Fabiola Ortiz, Mexico City (52) 55-5081-4449; fabiola.ortiz@spglobal.com

Secondary Contact:

Luis Manuel Martinez, Mexico City (52) 55-5081-4462; luis.martinez@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Ratings List

Research Update:

Grupo de Inversiones Suramericana 'BBB' Ratings Affirmed; Outlook Remains Negative

Overview

- We expect leverage of Colombia-based investment holding company Grupo Sura to remain low, while the flow of dividends from its subsidiaries should comfortably cover its operating costs and interest expenses for the next two years.
- We're affirming our 'BBB' corporate credit and senior unsecured debt ratings on the company.
- The negative outlook on Grupo Sura reflects the negative outlook on the Republic of Colombia because we believe the company wouldn't withstand the sovereign default stress test that's required in order to have a higher rating than the one on the sovereign.

Rating Action

On Oct. 27, 2017, S&P Global Ratings affirmed its long-term 'BBB' corporate credit and senior unsecured debt ratings on Grupo de Inversiones Suramericana S.A. (Grupo Sura). The outlook remains negative.

Rationale

The rating affirmation is primarily based on our expectation that Grupo Sura's leverage will remain low, while it will continue to receive sufficient dividends from its assets in the next two to three years to cover its debt service and operating costs. Additionally, we expect that the creditworthiness of its key listed assets will remain sound.

Our rating also incorporates our view that the value of the company's asset portfolio will remain above \$10 billion, without significant fluctuations. As of June 30, 2017, the size of the portfolio was \$10.4 billion with a high portion of listed assets, about 50% of total portfolio, which reflects their adequate liquidity. Additionally, the strong credit quality of assets allow them to generate stable earnings and recurring cash flows, resulting in a more predictable and stable dividend stream. However, given that about 70% of Grupo Sura's portfolio is in the speculative-grade area, this constrains our assessment of our stand-alone credit profile evaluation.

We now assess Grupo Sura's financial risk profile as modest due to our expectations that the company will maintain a loan-to-value (LTV) ratio well below 20% and a cash flow adequacy ratio above 2.0x. In our view, Grupo Sura has sufficient headroom in its leverage position, despite foreign-exchange

volatility and soft macroeconomic conditions in Colombia. This view is reinforced by management's strategy to focus on the consolidation of recent acquisitions and to create added value to its current portfolio.

In our base-case scenario for the next couple of years, we assume:

- Colombia's GDP growth of 1.6% in 2017 and 2.2% in 2018;
- Dividends from subsidiaries between \$300 million and \$350 million in the next two years, about 50% of which come from Sura Asset Management (SAM; not rated);
- Exchange rate of COP2,950 per \$1 in 2017, and COP3,050 per \$1 in 2018;
- Investment portfolio to remain relatively unchanged during the next two years;
- Any additional funding requirements or capitalization for investments will be covered with internally generated cash; and
- Annual dividend payments to shareholders of about \$95 million in the next three years.

Liquidity

We assess Grupo Sura's liquidity as adequate, reflecting our expectation that the dividends from its subsidiaries will be sufficient to cover its operating costs, interest expenses, and relatively stable dividend payments to shareholders for 2017 and 2018. We expect sources of liquidity to exceed uses by at least 1.2x during the next year and by 1.0x for the subsequent 12-month period.

Principal Liquidity Sources:

- Estimated cash balance of about \$8.3 million as of June 30, 2017; and
- Dividends stream in excess of \$300 million.

Principal Liquidity Uses:

- Debt maturities of \$77 million as of June 30, 2017;
- Operating costs of \$56 million for the next 12 months;
- Interest expenses of approximately \$103 million for the next 12 months; and
- Dividends paid to shareholders of about \$26 million for the next 12 months.

Our liquidity assessment also incorporates our view that the company has a long track record of accessing bank loans, as well as a generally high standing in credit markets. Additionally, Grupo Sura has a prudent risk management to address operating risks and to mitigate any potential cash flow volatility.

Outlook

The negative outlook on Grupo Sura is still linked to the negative outlook on the Republic of Colombia. In our opinion, the company wouldn't withstand a sovereign default stress test scenario, which makes it highly unlikely for Grupo Sura to remain at its current rating level if we were to lower the

sovereign foreign currency rating on Colombia.

Downside scenario

We could lower the ratings on the company if we were to downgrade Colombia. In addition, a downgrade is possible if creditworthiness of Grupo Sura's assets deteriorates, or if the company's sources of cash can't meet its short-term cash needs by at least 1.2x. We could also downgrade the company if its total coverage ratio drops below 0.7x as a result of lower dividend income or higher interest or dividend payments to its shareholders, or if the company's portfolio value plummets, particularly due to lower market capitalization of its listed assets.

Upside scenario

We would revise the outlook on Grupo Sura to stable if we were to take the same rating action on the sovereign rating on Colombia.

Ratings Score Snapshot

Corporate Credit Rating: BBB/Negative/--

Business risk: Satisfactory

- Country risk: Moderately High Risk
- Industry risk: Intermediate
- Investment position: Satisfactory

Financial risk: Modest

- Cash flow/Leverage: Modest

Anchor: bbb+

Modifiers

- Liquidity: Adequate (neutral)
- Management and governance: Satisfactory (neutral)
- Comparable Rating Analysis: Negative (-1 notch)

Stand-alone Credit Profile: bbb

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.