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Research Update:

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

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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 paymentsto 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

Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Grupo de Inversiones Suramericana S.A.	
Corporate Credit Rating	BBB/Negative/--
Gruposura Finance	
Senior Unsecured	BBB

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.