Fitch Affirms GRUPO SURA's IDR at 'BBB'; Outlook Stable

Fitch Ratings-New York-16 February 2018: Fitch Ratings has affirmed Grupo de Inversiones Suramericana S.A.'s (GRUPO SURA) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB'. The Rating Outlook is Stable. The affirmation reflects the quality of GRUPO SURA's asset portfolio, diversification in its sources of dividends, and track record of dividends received. A complete list of ratings follows at the end of this release.

KEY RATING DRIVERS

Investment Portfolio Credit Quality: GRUPO SURA is a holding company with investments in the financial and industrial sectors. Sura Asset Management S.A. (Sura AM; BBB+/Stable) and Bancolombia S.A. (BBB/Stable) are the two largest sources of cash flow to GRUPO SURA. Sura AM has a sound business profile and generates stable cash flow as the largest pension fund manager in Latin America, operating in six countries. Bancolombia has operations in seven Latin American countries and is the leading bank in Colombia. The other companies paying dividends to the company are the insurance company Suramericana S.A, Grupo Argos S.A. (AA+(col)/Stable), which is a diversified holding company (infrastructure, cement, and electricity segments) and the food company Grupo Nutresa S.A. (AAA(col)/Stable).

Stable Dividend Flow: During the LTM ended Sept. 30, 2017, GRUPO SURA received approximately COP764 billion in dividends from companies that it owns. The financial and insurance segments are the main source of cash dividends, representing approximately 80% to 85% of the company's total received dividends. Fitch projects GRUPO SURA's annual received dividends to remain around COP1,000 billion during 2017-2019, with received dividends coming from Sura AM, Bancolombia, Suramericana, Grupo Nutresa S.A. and Grupo Argos S.A. representing approximately 43%, 26%, 15%, 9% and 7%, respectively, during this period.

Growth Strategy and Acquisition Activity Incorporated: Further factored into the ratings is the company's inorganic growth strategy as well as its record of funding its inorganic growth with adequate combinations of equity and debt. In 2017, Grupo Sura acquired a stake in Sura Asset Management S.A.. With this transaction, GRUPO SURA increased its participation in Sura AM to 83.58% from 78.71%. Fitch viewed this acquisition as positive from a strategic point of view for GRUPO SURA, as it consolidates its position in the asset management business in Latin America.

Focus on Deleverage in 2018: GRUPO SURA's financial debt was COP5.1 trillion as of Sept. 30, 2017. It consisted primarily of local bonds (26% of total debt), bank loans (24%) and USD850 million (49%) in two bond issuances of Grupo Sura Finance due in 2021 and 2026, respectively. Fitch expects GRUPO SURA's net leverage, measured as total net debt to received dividends, at levels of 5.5x and 4.5x by the end of 2017 and 2018, respectively. The company's 2018 deleveraging trend is anticipated as a result of increasing received dividends levels and a reduction in the company's net debt. Fitch estimates the company's net debt to be around COP4.7 trillion by the end of 2018.

Firm Financial Flexibility, Solid Loan-to-Value: The company has proven access to international and local bond and equity markets, uncommitted credit lines and a high level of nonstrategic-asset listed companies. GRUPO SURA's liquidity access through equity and debt instruments is estimated at USD2 billion. In Fitch's view, under a stress scenario, GRUPO SURA could generate liquidity by accessing the credit markets, executing joint ventures with strategic partners and disposing of nonstrategic assets. The company's capacity to maintain strong loan-to-value (LTV) metrics is incorporated as a key rating factor. Fitch estimates LTV to be about 15% on total debt of about USD1.6 billion as of Dec. 31, 2017, which is viewed as solid for the company's rating category.

FX Exposure Manageable: The company has moderate exposure to FX volatility. Approximately 55% of GRUPO SURA's adjusted debt is dollar-denominated, while the company's cash flow generation is primarily in Colombian pesos or in other Latin American currencies. The company maintains a FX hedge position covering its exposure to the coupons of its two international bond issuances and it also covers the outstanding principal of its 2021 bond issuance (USD300 million). Fitch estimates local currency depreciation of 20% against the U.S. dollar would result in a moderate 0.3x increase in GRUPO SURA's net leverage ratio.

DERIVATION SUMMARY

GRUPO SURA's ratings reflect the underlying solid credit quality of its dividend income streams, diversification in the sources of dividends, and record of dividend stability. The ratings also reflect GRUPO SURA's level of cash interest coverage and liquidity. GRUPO SURA's credit ratings also incorporate the structural subordination of the holding company's debt to the debt at its operating companies. The Stable

Outlook reflects the view that GRUPO SURA will maintain adequate liquidity levels and a moderately leveraged stable capital structure in the next few years.

In terms of peers, GRUPO SURA's cash flow generation is three times the size of Intercorp Peru Ltd. (BBB-/Stable) with lower margins and more leveraged capital structure. GRUPO SURA's access to capital markets and diversification - geographically and by business - is viewed as stronger than Intercorp's. The ratings also reflect the company's good record of adjusting its capital structure post-acquisitions to return to adequate financial leverage levels.

KEY ASSUMPTIONS

Fitch's Key Assumptions within Our Rating Case for the Issuer

--Total annual received dividends will reach around COP1,000 billion during 2017-2019;
--Dividends from Bancolombia, Sura AM, and Suramericana representing around 80% of total dividends received by GRUPO SURA during 2017-2019;
--Net leverage levels, measured as net debt-to-received dividends, around 4.0x-5.5x during 2017-2019, and then trending to around 4x by 2019;
--Interest coverage, measured as received dividends-to-net interest expenses, around 3x during 2017-2019.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action

Positive Rating Actions: Developments that may, individually or collectively, lead to an upgrade include net leverage levels below 3x and interest coverage around 3.5x on a sustained basis. A positive review by Fitch of Sura AM's credit quality could also lead to a positive rating action.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

Developments that may lead to a negative rating action include a downgrade of the weighted average of the dividends received by the company to non-investment grade. Weakening liquidity and consistent deterioration in net leverage metrics, reaching levels consistently above 5x and LTV consistently at levels above 20%-25%, could also result in a negative rating action.

LIQUIDITY

Adequate Liquidity: The company has historically maintained low levels of cash relative to its short-term debt. This is compensated by GRUPO SURA's stable dividend income and ability to access alternative sources of liquidity. The company had a scheduled amortization of USD139 million,, USD54 million, and USD34 million in 2018, 2019, and 2020, respectively. The company cash position is estimated at around USD25 million by the end of 2017.

Fitch views GRUPO SURA's refinancing risk as low. The company has proven access to international and local bond and equity markets, uncommitted credit lines and a high level of nonstrategic-asset listed companies. GRUPO SURA's liquidity access through equity and debt instruments is estimated at USD2 billion.

In Fitch's view, under a stress scenario, GRUPO SURA could generate liquidity by accessing the credit markets, executing joint ventures with strategic partners and disposing of nonstrategic assets. Fitch expects the company's interest coverage ratio, measured as total received dividends/net interest expenses, to be around 3x during 2017-2019.

FULL LIST OF RATING ACTIONS

Fitch has affirmed the following:
Grupo de Inversiones Suramericana S.A.:

--Long-Term Foreign Currency IDR at 'BBB';
--Long-Term Local Currency IDR at 'BBB';
--COP250 billion local unsecured bonds due 2019, 2029, 2049 at 'AAA(Col)';
--Local bond and commercial paper program, for a total combined amount of COP1.3 trillion at 'AAA(col)'/'F1+(col)'.

Gruposura Finance:

--USD300 million senior unsecured bonds due 2021 at 'BBB';
--USD550 million senior unsecured bonds due 2026 at 'BBB'.

The Rating Outlook is Stable.

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Applicable Criteria
Corporate Rating Criteria (pub. 07 Aug 2017) (https://www.fitchratings.com/site/re/901296)
Exposure Draft: Corporate Rating Criteria (pub. 14 Dec 2017) (https://www.fitchratings.com/site/re/907387)
Investment Holding Companies Rating Criteria (pub. 12 Feb 2018) (https://www.fitchratings.com/site/re/10018550)
National Scale Ratings Criteria (pub. 07 Mar 2017) (https://www.fitchratings.com/site/re/895106)

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