Research Update:

Colombian Holding Co. Grupo de Inversiones Suramericana 'BB+' Ratings Affirmed, Outlook Remains Stable

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Rating Action Overview

- We expect Grupo de Inversiones Suramericana S.A. (Grupo Sura), a Colombia-based investment holding company, and its main subsidiaries to post a solid performance in the following years amid the recovery in the financial, food, and cement industries.
- We expect the company's cash flow adequacy to remain at above 2.0x and its loan to value (LTV) ratio below 20% thanks to an increase in dividend distribution and stronger value from its subsidiaries.
- Consequently, we're affirming our 'BB+' issuer credit and issue-level ratings on Grupo Sura.
- The stable outlook in the next 12-24 months mirrors that on Colombia. Moreover, the outlook reflects our expectations that dividends from subsidiaries will continue covering Grupo Sura's operating and financial needs, maintaining cash flow adequacy ratio at about 2.0x. In addition, we don't expect the company to take additional debt, while value should move in tandem with market conditions leading to the LTV ratio below 20%.

Rating Action Rationale

Grupo Sura and its main subsidiaries will have a solid performance in the following years as global economy and main industries recover. As of June 2021, Grupo Sura and its main subsidiaries have had a solid financial performance and a clear recovery from the pandemic-hit 2020. To cope with volatile economic conditions, the group's financial businesses have been able to take actions to maintain their strong capital base by reducing provisions, and increasing premiums and commissions. Grupo Sura's revenue growth of 14.6% as of June 2021 was mainly due to a boost in revenue from Bancolombia (accounted according to the equity method). This in turn stemmed from the bank's lower provisions than last year as the economy recovers. Sura AM's operating revenue was up 21% mainly because of higher commissions and legal reserves income. These factors have mitigated the impact of Suramericana's about 20% negative technical result (retained earnings premiums minus retained claims, commissions, services rendered, other operating expenses and impairment) year over year. The latter mainly resulted from elevated COVID-19 claims, despite a 12% retained earned premium growth. The food segment, Nutresa, continues to benefit mainly from demand in its main categories (cold cuts, chocolates and coffee) in the Colombian market. This enabled Nutresa's revenue in the first half of 2021 to increase 8.5% compared with the first half of 2020. Grupo Argos' cement and energy segments recovered solidly and financial results rose 21.5% year over year. We expect a solid performance to continue across all of Grupo Sura's segments for the next two two years as the recovering global economy boosts demand in the industries in which the company operates. This leading to a dividend of about $220 million and $290 million for 2022 and 2023, respectively, more than enough to cover Grupo Sura's operating and financial expenses, and to preserve an average cash flow adequacy ratio about 2.0x for the following years.

We expect a stable portfolio value thanks to favorable market prices, with no additional debt, leading to the LTV ratio below 20%. As of June 2021, portfolio value increased to $6.6 billion from $6.2 billion in June 2020, a 6.5% year–over–year increase. This mainly resulted from market volatility stemming from a global economic recovery as vaccines are rolled out, economic sectorsresume activity, and demand starts to grow again, which boosted market value of Grupo Sura's subsidiaries. Moreover, we don't expect the company to incur additional debt or major investments in the following years, maintaining LTV below 20%.

We believe that Grupo Sura will continue having an adequate liquidity and refinance debt, despite cash challenges. Grupo Sura used proceeds from the bond issuance of August 11, 2020, of around $300 million, due between 2023 and 2040 (around COP1 billion) to redeem its $300 million bond maturing in May 2021, preserving liquidity and considerablyy reducing refinancing pressures. Moreover, we don't expect the company to take on additional debt. Grupo Sura will continue to refinance its debt and having a comfortable maturity schedule for the following years, with the largest maturity of about $496 million due 2026. Grupo Sura faces $73 million of debt maturities between the first and second quarters of 2022. Currently, we don't consider that Grupo Sura's refinancing risk is a significant rating factor because the company has a long track record of accessing bank credit facilities, as well as a generally high standing in credit markets. Also, the company has a prudent risk management to address operating risks and to mitigate cash flow volatility. In addition, Grupo Sura's flexibility on dividend payments, solid relationship with banks, and $1.8 billion available in unsecured credit lines will help maintain a sound capital structure and preserve liquidity.

Outlook

The stable outlook on Grupo Sura in the next 12-24 months mirrors that on Colombia. In our opinion, the company won't withstand a sovereign default stress test scenario, so the rating on Colombia limits our rating on Grupo Sura. The stable outlook reflects our expectations that dividends from subsidiaries will continue covering Grupo Sura's operating and financial needs, maintaining cash flow adequacy ratio at about 2.0x. In addition, we don't expect the company to take additional debt, while its value should move in tandem with market conditions leading to LTV ratio below 20%.

Downside scenario

We could downgrade Grupo Sura in the next 12-24 months if we take the same action on Colombia in the event of potential long-term damage caused by the pandemic, other domestic developments, or new external shocks that prevent the domestic economy from recovering in 2021 and result in lower-than-expected GDP growth in subsequent years. We could also revise downwards Grupo Sura's stand-alone credit profile (SACP) in the next 12-24 months if:

- Asset credit quality worsens because of lower creditworthiness in any of its five main subsidiaries.
- Grupo Sura's LTV ratio rises above 20% for a prolonged period, which could result from the company's portfolio value declining, particularly due to lower market capitalization of its listed subsidiaries, higher debt due to a major acquisition, or greater capital infusions into subsidiaries.
- Its cash flow adequacy ratio drops below 0.7x because of lower cash flows from subsidiaries, or higher interest or dividend payments to its shareholders.
- Liquidity weakens as a result of a drop in cash position, extraordinary or unplanned investments, higher debt, or dividend distributions.

Upside scenario

We could upgrade Grupo Sura in the next 12-24 months in the case of a similar rating action on Colombia, all else remaining equal. This could occur if there's faster-than-expected economic growth, coupled with structural fiscal measures, which reduce Colombia's fiscal financing gap, lower the debt burden, and strengthen public finances. A larger and more diverse export sector, helping to reduce external vulnerability and strengthen economic resilience, could also result in the upgrade over the middle to long term.

Company Description

Grupo Sura is the holding company of

Bancolombia, S. A. y Companias Subordinadas (BB+/Stable/B), Sura AM, Suramericana, Grupo Argos, and Grupo Nutresa (all not rated), with a market capitalization of $2.8 billion as of June 2021, and a presence across 11 Latin American countries, more than 56 million clients, around 61,000 employees. The company and its subsidiaries provide financial services, namely insurance, pensions, savings, investment, asset management, and banking.

Our Base-Case Scenario

Assumptions

- Colombia's GDP growth of 7.0% in 2021 and 3.0% in 2022.
- Colombia's Consumer Price Index (CPI) of 3.2% in 2021 and 3.5% in 2022.
- Exchange rate of COP3,660 per $1 for 2021 and COP3,725 per $1 for 2022, which could pressure

the company's leverage metrics. However, about 95% of Grupo Sura's debt is denominated in Colombian pesos and is fully hedged, mitigating this currency risk.

- Dividends from subsidiaries of about $174 million for 2021 and $219 million for 2022, because Bancolombia and Sura AM had to make additional provisions and reserves due to market volatility driven by the COVID-19 outbreak. However, we expect dividends to rise 26% to $219 million for 2022 as a result of a better financial performance at its main subsidiaries.
- Repayment of debt due May 2021 (already done) and no additional debt afterwards.
- We don't expect additional funding requirements for the next two years.
- We forecast weighted cash flow adequacy to be around 2.0x.
- Grupo Sura has a flexible dividend payment policy.

Key metrics

- The LTV ratio below 20% during 2021 and 2022; and
- Cash flow adequacy ratio of 1.8x in 2021 and 2.0x in 2022.

Liquidity

Based on the company's likely sources and uses of cash during the next six months, its capitalization plan, and our performance expectations, Grupo Sura has adequate liquidity, in our view. We expect sources of liquidity to exceed uses by at least 1.2x during the next six months. We also this ratio to remain above 1.0x if dividend streams decline by 15%. We believe the company has a generally satisfactory standing in domestic and international credit markets. Grupo Sura also prudently manages risk to address operating risks and to mitigate any potential cash flow volatility. Finally, Grupo Sura has the ability to absorb high-impact, low-probability events with limited need for refinancing due to its long-term debt maturity schedule of about six years and flexibility to reduce investments in subsidiaries if required.

Principal Liquidity Sources

- Cash and cash equivalents of about $8.8 million as of June 30, 2020;
- Dividends of about $196.8 million for the next 12 months;
- Divestments of about $12.8 million for the next 12 months; and
- Other cash inflows (recovered tax payments) of about $5 million for the next 12 months.

Principal Liquidity Uses

- Operating costs (operating expenses and other cash flows) of about $23 million for the next 12 months;
- Interest expenses of about $82.4 million for the next 12 months;
- Dividend distributions of about $58 million for the next 12 months; and
- Acquisitions of about $1.6 million for the next 12 months.

Grupo Sura faces $73 million of debt maturities between the first and second quarters of 2022. Currently, we don't consider that Grupo Sura's refinancing risk is a significant rating factor because the company has a long track record of accessing bank credit facilities, as well as a generally high standing in credit markets. Also, the company has a prudent risk management to address operating risks and to mitigate cash flow volatility.

Covenants

The company doesn't have financial covenants.

Issue Ratings - Subordination Risk Analysis

We believe that the possibility of any of the company's lenders being significantly disadvantaged relative to others is low, given Grupo Sura's low debt and modest financial risk profile.

Capital structure

As of June 30, 2021, Sura's individual debt consisted of the following:

- Senior unsecured notes of $496 million due 2026;
- Local bonds of $557 million maturing between 2022 and 2049; and
- Bank loans of $136 million maturing between 2022 and 2025.

Analytical conclusions

Based on the existing debt structure, we rate the senior global unsecured notes 'BB+', the same level as the issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating: BB+/Stable/--

Business risk: Satisfactory

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

Financial risk: Modest

- Cash flow/Leverage: Modest

Anchor: bbb+

Modifiers

- Liquidity: Adequate
- Management and governance: Satisfactory
- Comparable rating analysis: Negative

Stand-alone credit profile: bbb

- Sovereign rating: BB+

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013

General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Grupo de Inversiones Suramericana S.A.	
Issuer Credit Rating	BB+/Stable/--
Grupo de Inversiones Suramericana S.A.	
Senior Unsecured	BB+

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 S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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 S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.