FitchRatings

Fitch Revises its Rating Outlook to Stable for **Odinsa's** Ordinary Bonds Issuance and Ratifies its AA-(Col) Rating

Fitch Ratings - Bogota - (July 24, 2017): Fitch Ratings has ratified its AA-(col) rating on the issue of Ordinary Bonds for COP 100.000 million by Odinsa S.A. (Odinsa) and revised its outlook from Stable from Negative.

KEY RATINGS DRIVERS

The decision to stabilize the Ratings Outlook reflects the expectation of an improvement in Odinsa's capital structure in the medium term, resulting from the restructuring process initiated by the company under the stewardship of its main shareholder, the Grupo Argos (GA). It also takes into account its intent to capitalize COP 600.000 million, directly or thru alternatives currently under assessment. Fitch considers a parent company and subsidiary relationship to exist between both companies, given the participation and degree of control that GA exercises over Odinsa, which substantiates the existence of strong operational and strategic links between both companies. Odinsa is a key pillar within GA's growth strategy.

The rating is based on Odinsa's broad expertise in the development of infrastructure projects inside and outside Colombia, the gradual strengthening of the cash flows received as a stakeholder in various concessions, and its strategy to participate in long-term concessions with predictable income both in Colombia as well as in other countries in the region. The rating is limited this by the high leverage level sustained by the company, as well as pressures on is liquidity indicators.

Importance for the Parent Company:

Fitch considers the presence of GA, the controlling shareholder (98.55%), as positive having aligned Odinsa's guidelines and policies with those of GA's. This is reflected in a strategic realignment towards the roadway concession and airport business, and the divestment of non-strategic assets. Odinsa is a key pillar within GA's growth strategy, complementing its investments portfolio and with the potential to become a stable medium-term source of dividends.

The ratings incorporate the expectation of an increase in the support provided by Grupo Argos, who has publicly declared their willingness to carry out a COP 600,000 million capital investment in Odinsa, directly or thru alternatives currently under assessment. The foregoing would allow Odinsa to strengthen its capital structure and cash flows originating from the projects where it is a stakeholder, in order to support its expansion plans without compromising its credit profile. The failure of this capitalization to materialize could lead to a negative rating action.

Growth of Prospective Cash Flow

Odinsa's main sources of cash flow for funding their capital contributions and financial commitments derives from dividends received and the repayment of subordinated debt contributed to each project. The company decided to introduce a structural change in its business model and reduce the construction activities it performed directly, and as a result, the income received from this item will tend to decrease at the individual Odinsa level. Between 2017 and 2021, Fitch expects a measured increase in the cash flows from dividends and the repayment of subordinate debt from the projects, estimated at approximately COP 1.3 billion. The increase of operating cash flows (OCF) will allow Odinsa to fund the expected capital contributions during the next 5 years, which are expected to increase to COP 725,000 million.

Fitch views positively Odinsa's strategy of participating in projects involving operating long-term concessions with predictable income, as long as they are able to compensate to some extent the income volatility and the increased risk profile associated with construction activities. Furthermore, the company has sought to diversify its project portfolio by participating in international concessions, which mitigate the risks derived from business cycles. An example of such was the foray in the Quito Airport, which had no implied construction risk, as it is an ongoing business with the ability to generate a cash flow and pay dividends to its shareholders, once the debt taken on by Odinsa *Holding* and the investment vehicle used for the purchase has been serviced.

Leverage Still Pressing:

Odinsa remains highly leveraged for its current rating level. At the close of 2017, Fitch estimated the Company's leverage, measured as EBITDA plus dividends and the repayment of subordinate debt, to reach 7.2 x, which is considered weak for this ratings category. The agency expects there to be a deleveraging starting in 2018, and that this indicator will reach a level below 4x in 2019 as a result of the realization of the various strategies the company has been carrying out to strengthen its capital structure and cash flow generation.

Extensive Experience in the Infrastructure Sector:

Odinsa has amassed an extensive experience in the management, construction and operation of roadway and airport infrastructure projects. Currently, the company is the majority shareholder in various roadway concessions in different stages of maturity. Likewise, it maintains its shareholding in two major airport concessions in Colombia and Ecuador.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:

- A capitalization of COP 600,000 million for Odinsa in 2018.
- Dividend distributions averaging COP 95,000 million per year.
- Capital contributions to projects of COP 725,000 million distributed during the next 5 years.
- The guarantees extended by Odinsa on the loans to related companies are not executed.

RATINGS SENSITIVITY

Although a positive rating action is not expected in the short term, future developments that could lead to an improvement in the rating include:

- The materialization of capitalization plans that evidence greater support from GA towards the company.
- Leverage levels below 4x that are maintained at an individual level.
- The generation of free cash flows (FCF) throughout the business cycle.

Future developments that could lead to negative rating action include:

- A weakening in the relationship between the Parent / Subsidiary resulting from a failure to capitalize Odinsa by the expected time frames and amounts;
- Aggressive dividend distribution policy that deteriorates the FCFs.
- Stake in new projects whose capital contributions are mainly financed by debt.
- Decline in the flow of dividends and/or repayment of subordinate debt.

LIQUIDITY

Odinsa maintains adjusted liquidity levels. In individual terms, to March, 2017 the company maintained available cash in the amount of COP 12,719 million, and short-term maturities reached COP 142,644 million. Fitch expects that the company will refinance said debt. Odinsa has demonstrated access to local banking and capital markets through outstanding issues of bonds and shares that provide it with the flexibility to meet debt maturities.

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Applicable Criteria

- "*Metodología de Calificación de Empresas no Financieras*" (Criteria for Rating for Non-Financial Corporates) (May 25, 2017)
- National Scale Ratings Criteria (March 27, 2017)
- Parent and Subsidiary Rating Linkage (December 14, 2014)

Appendix 1. Regulatory Information

NAME OF ISSUER OR ADMINISTRATOR	Odinsa S.A.
NUMBER OF THE MINUTES	4814
COMMITTEE DATE	July 21, 2017
PURPOSE OF THE MEETING	Periodic review
COMMITTEE MEMBERS	Natalia O'Byrne Cuellar
	Andrés Hernando Márquez Mora
	Julio Cesar Ugueto Vera
The resumes of the Technical Committee Members are available in the web page:	http://www.fitchratings.com.co/DocumentosWeb/26-05-2017%20Lista%20Comite%20Tecnico.pdf
The credit risk rating of Fitch Ratings Colombia S.A. Securities Rating Company is a professional opinion and does not constitute a recommendation to buy, sell or hold any security, nor is it a guaranteed of compliance with its obligations by the rated entity.	
When applicable, to assign the present rating, Fitch Ratings consider the aspects referred to in Article 4 of Decree 610 of 2002, in accordance with Article 6 of the same Decree, today incorporated into the articles 2.2.2.2.2. and 2.2.2.2.4., respectively, of Decree 1068 of 2015.	

Appendix 2. National Scale Ratings Criteria Definitions

Long- Term National Ratings Criteria:
NATIONAL LONG-TERM CREDIT RATINGS:

AAA (col): The National 'AAA' Ratings indicate the highest rating assigned by Fitch in the national rating scale of this country. This rating is assigned to issuers or obligations with the lowest default risk expectation in respect to all other issuers or obligations in the same country.

AA (col): National 'AA' Ratings denote very low default risk in respect to other issuers or obligations in the same country. The default risk differs only slightly from the one of issuers or obligations with the highest ratings of the country.

A (col): The National 'A' Ratings denote low default risk expectations in regard to other issuers or obligations in the same country. Nonetheless, changes in the economic circumstances or conditions may affect the timely payment capacity in a greater extent than in the case of financial commitments within a higher rating category.

BBB (col): National 'BBB' Ratings indicate a moderate default risk in regard to other issuers or obligations in the same country. Nonetheless, changes in the economic circumstances or conditions are more likely to affect the timely payment capacity than in the case of financial commitments that are in a higher rating category.

BB (col): The National 'BB' Ratings indicate a high default risk in regard to other issuers or obligations in the same country. Within the context of the country, the payment to an uncertain point and the timely payment capability is more vulnerable to adverse economic changes through time.

B (col): National 'B' Ratings indicate a significantly high default in regard to other issuers or obligations in the same country. The financial commitments are being satisfied, but there is still a limited safety margin and the continuous timely payment capacity is contingent upon a favorable and stable economic and business environment. In case of individual obligations, this rating may indicate obligations with problems or in default with a potential of obtaining extremely high recoveries.

CCC (col): National 'CCC' Ratings indicate that default is real possibility. The capacity to comply with the financial commitments depends exclusively upon favorable and stable economic and business conditions.

CC (col): National 'CC' Ratings indicate that any kind of default seems likely.

C (col): National 'C' Ratings indicate that default of an issuer is impending.

RD(col): National 'RD' Ratings indicate that in the opinion of Fitch Ratings the issuer has experienced a "restricted default" or unremedied payment default on a bond, loan or other material financial obligation, although the entity is not subject to procedure to declare bankruptcy, administrative enforcement, liquidation or other formal dissolution procedures, and has not otherwise ceased its commercial activities.

D (col): National ‘D’ Ratings indicate an issuer or instrument in default.

E (col): Description: Suspended Ratings. Commitments that, after reiterated requests by the rating company, do not present the proper information.

Note: Modifiers "+" or "-" can be added to a rating to denote the relative position within a particular rating category. These modifiers are not added to the 'AAA' category, nor to the categories below 'CCC'.

NATIONAL LONG-TERM CREDIT RATINGS:

F1 (col): National 'F1' Ratings indicate the strongest timely payment capability for financial commitments in respect to other issuers or obligations in the same country. Under the national ratings scale of Fitch, this rating is assigned to those with the lowest expectation of default in regard to others in the same country, When the liquidity profile is particularly strong, a "+" it is added to the assigned rating.

F2 (col): National 'F2' Ratings indicate a good timely payment capability for financial commitments in respect to other issuers or obligations in the same country. However, the safety margin is not as great as in the case of those with higher ratings.

F3 (col): National 'F3' Ratings indicate an adequate timely payment capability for financial commitments in respect to other issuers or obligations in the same country. Nonetheless, short-term changes in the economic circumstances or conditions are more likely to affect the timely payment capability than in the case of financial commitments that are in a higher rating category.

B (col): National 'B' Ratings indicate an uncertain timely payment capability for financial commitments in respect to other issuers or obligations in the same country. This capability is highly susceptible to adverse short-term changes in the financial and economic conditions.

C (col): National 'C' Ratings indicate that the default of an issuer is imminent.

RD (col): National ‘RD’ Ratings indicate that an entity had defaulted in one or more of its financial commitments, even though it is still fulfilling other financial commitments. This category only applies for the rating of entities.

D (col): National 'D' Ratings indicate default in a current or imminent payment.

E (col): Description: Suspended Ratings. Commitments that, after reiterated requests by the rating company, do not present the proper information.

PERSPECTIVES AND COMMENTS REGARDING THE RATING:

PERSPECTIVES: These indicate the direction in which the rating could possibly move within a period between one and two years. Likewise, they reflect trends that have not yet reached a level that could encourage a change in the rating, could be the case if they were to continue. These may be "Positive", "Stable" or "Negative".

The majority of these perspectives are generally Stable. The ratings with Positive or Negative perspectives will not necessarily be modified.

OBSERVATIONS: These indicate that there is a higher probability that the rating will change and the possible direction of such change. These are labelled as "Positive" indicating potential improvement, "Negative" for low potential, or "In Evolution” if the rating may improve, decrease or be ratified.

An observation is typically driven by an event, and is therefore usually resolved within a short period. Said event may be expected or have occurred, but in both cases, the exact implications on the rating are indeterminate. The period of observation is typically used to collect more information and or use information for further analysis.