

FitchRatings

Fitch Publishes a 'F1+(col)' Rating on the Issuance of Commercial Papers of CEC

Fitch Ratings – Bogota – (February 2018): Fitch Ratings published a 'F1 +(col)' rating on the issuance of Commercial Papers of Construcciones El Condor S.A. (CEC) for COP300.000 million. The resources resulting from the placement of the Commercial Papers will be destined to the substitution of financial liabilities and the financing of working capital. Furthermore, it assigned the 'AA – (col)' long-term national rating to CEC. The Outlook is stable.

KEY FACTORS OF THE RATINGS

The CEC ratings reflect the conservative character of their business model, supported in their discipline on tender processes and their risk management abilities, as well as the visibility of the revenue that results from its current backlog and from its capacity to renew it. Also, they incorporate the asset recycling strategy that has allowed for it to release resources to finance new projects with greater returns on the invested capital. Furthermore, the ratings consider the perspective that the company is able to maintain a conservative capital structure and moderate leverage. The ratings also consider the circumstantial pressure of the liquidity indicators, which are expected to improve in the medium and short-term from the moment of the divestment structures are materialized, as well as in the expected normalization of the cycle of the working capital.

Adequate Risk Management

Fitch considers that CEC has a conservative business model that is based in its discipline on tender process in construction agreements, adequate management of risks and proven capacity to perform projects of great reach in a profitable manner. The experience of the management team and the performance capacity has enabled it to consistently submit tenders in a competitive manner and to draw operation margins exceeding that of its peers. Even though CEC holds 1.5% of a very fragmented market, whose main participant holds 4.3%, it has been one of the fastest-growing contractors in the industry.

Sustainable Backlog:

The company has a robust backlog that gives it visibility for the generation of income and cash flow for the next 4 years. The awarding of important infrastructure road projects in Colombia has favored the increase thereof, closing at COP2,6 billion as of September 30, 2017. There is a significant backlog concentration, given that 100% of the projects are in Colombia, and the five main ones represent around 75% thereof. Notwithstanding, this risk is, in some measure, mitigated by the relative low complexity of the projects in which CEC participates, mainly related with the extension, rehabilitation and improvement of existing roads. Going forward, Fitch considers that the capacity of the company to incorporate new backlog will depend on the degree of advances in the projects that are currently being performed, and in the materialization of the returns expected therefrom, before being able to strengthen new businesses.

FCL Positive Outlook:

The capital contributions required to be made by CEC for the road concession products in which it participates amount to COP530.000 million between 2018 and 2020. These contributions will be mainly funded with resources originating in the divestiture plan and, in a minor extent, by the internal generation of cash flow. Fitch contemplates that the generation of free cash flow (FCL for its acronym in Spanish) associated with the construction activity will be between neutral to positive for the period between 2018 and 2020, and that it will be supported in the strengthening forecasted for the operating generation, moderate capital investments and conservative policy for the distribution of dividends. It is contemplated that as from 2022, the company may start to receive an important flow of dividends originating from the concessions in the operating stage, and that the same will constitute a stable source of revenue.

Positive Asset Recycling Strategy:

The strategy for the sale of mature assets and the reinvestment thereof in brownfield projects is considered positive, given that it represents a significant source of resources to fund the capital contributions required by the several projects in which it participates, of which internal return rate on the investment capital results greater. The divestitures in Odinsa and Opain during 2017 for approximately COP463.000 million contributed to the reduction of the levels of indebtedness and to secure the capital contributions. The recent assignment of 50% of the Ruta al Mar project that took place at the end of 2017 will reduce the pressure on the cash flow of the company in approximately COP323.000 million, corresponding to the capital contributions that would be made by the new partner. In the long term, the strategy of the company will remain focused in the divestiture, to strengthen the future growth and the reposition of backlog.

Conservative Capital Structure:

The financial strategy of the company is to maintain a conservative capital structure, that enables it to fund the capital contributes that are required by the projects, without putting pressure on the credit profile of the company. As of September 30, 2017, the adjusted leverage (Adjusted indebtedness over the construction EBITDA) was 4 times (x), and it is expected to maintain average levels of 2,5x in the forecasted horizon. The sustainability of a robust capital structure is key to deal with the typical volatility of the sector in which it participates, and continuing to strengthen its long term growth. Fitch considers that the asset recycling strategy contemplated in the business model of the company will enable it to continue strengthening the growth of the business in the long term, without compromising its capital structure.

RATING DERIVATION SUMMARY

The credit profile of CEC is equal to its local par Odinsa ['AA-(col)'; Stable]. While the rating of Odinsa benefits from its participation in more mature concessions that allow for a stable flow of dividends, as well as from the support of its parent Grupo Argos ['AA+(col)'; Stable], its credit profile is restricted by the expectations of Fitch that the adjusted leverage will remain in the foreseeable future in levels below 4x. The business model of CEC is considered to be riskier than that of Odinsa, given its scope in the construction activity that tends to be more volatile and less predictable, even though partially

compensated by the low risk of performance of its main projects. Its financial profile is more conservative than that of Odinsa, with an average leverage of 2.5x in the short to medium term.

KEY ASSUMPTIONS

Fitch's key assumptions in the case that constitute the base for the ratings of the issuer are:

- Revenue for construction activities according to the performance of the backlog forecasted by the management;
- 21.5% average EBITDA margin for the construction activity;
- Performance of the divestiture plan within the established terms and amounts;
- Average capital investments equal to 4.1% of the revenues;
- Working capital improvement as from 2018;
- Issuance of commercial papers for COP300.000 million in 2018.

RATING SENSITIVITY

The rating may increase upon the individual or joint occurrence of any of the following events:

- sustained gross leverage below 2x;
- capacity to generate a positive FCL through the cycle;
- greater divestiture both geographically and in terms of amount and type of projects.
- greater exposure to mature concessions.

The rating may decrease upon the individual or joint occurrence of any of the following events:

- incapacity to improve liquidity metrics;
- sustained gross leverage exceeding 3.5x;
- negative FCL through the cycle;

Difficulties to maintain and perform its backlog.

LIQUIDITY

Fitch expects a short-term improvement in the liquidity indicators, based on the consummation of the divestiture strategies, as well as in the expected normalization of the working capital cycle. As of September 30, 2017, the short-term financial indebtedness was COP319.346 million against COP415.748 in December 2016, for cash and cash equivalent levels of COP31.677 million, that result in a low level of short-term indebtedness. Fitch contemplates an improvement in the liquidity position as from the collection of the resources resulting from the payment of the assignment of 50% of the Ruta al Mar Concession in the month of February, as well as for the compensation of the early termination of the Cesar-Guajira Concession for COP180.000 million, that represents an alternate source of financing, which, together with the uncommitted lines of credit it holds with local banks for COP300.000, provide an additional liquidity support thereto, if required.

Fitch Ratings Contacts:

Alexandre García (Leading Analyst)
Associate Director

Fitch Ratings Brasil Ltda.
Alameda Santos, 700 – 7º andar
Cerqueira César – São Paulo – CEP: 01418-100

José Luis Rivas (Secondary Analyst)
Associate Director
+ 57 1 484 6770 ext. 1016

Natalia O’Byrne (Chairman of the Rating Committee)
Senior Director
+ 57 1 484 6770 ext. 1100

Relationship with media: Mónica Saavedra, Bogotá, Tel. + 57 1 484 6770 ext. 1931,
Email: monica.saavedra@fitchratings.com

The ratings indicated above were requested by the issuer or on behalf thereof and, therefore, Fitch has received the corresponding fees for the rendering of its rating services.

Additional information available at www.fitchratings.com and www.fitchratings.com.co.

Applied methodology:

- Corporate Finance Rating Methodology (September 14, 2017);
- National Level Rating Methodology (March 27, 2017).

REGULATORY INFORMATION

NAME OF ISSUER OR MANAGER: Construcciones El Cóndor S.A./ Issuance of Commercial Papers for COP300.000 million

NUMBER OF MINUTES: 5030

DATE OF COMMITTEE: February 12, 2018

PURPOSE OF THE MEETING:

“(i) Construcciones El Cóndor S.A.: Initial Rating.

(ii) Issuance of Commercial Papers for COP300.000 million, Julio Cesar Ugueto Vera, Julián Ernesto Robayo Ramírez, Rafael Molina García, José Luis Rivas Medina

The resumés of the Members of the Technical Committee may be consulted at the website:

<https://www.fitchratings.com/site/dam/jcr:1b0dccce-4579-444a-95a4-571e22ec9c13/06-12-2017%20Lista%20Comite%20Tecnico.pdf>

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In the applicable events, for the assignment of this rating, Fitch Ratings considered the aspects referred to in article 4 of Decree 610 of 2002, in accordance with article 6 of said Decree, today incorporated into articles 2.2.2.2.2 and 2.2.2.2.4 of Decree 1068 of 2015, respectively.

LONG TERM NATIONAL CREDIT RATINGS:

AAA(col). 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 expectations of risk of default in relation to all other issuers or obligations in the same country.

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

National 'A' Ratings denote a low risk of default in relation to all other issuers or obligations in the same country. However, changes in economic circumstances or conditions may affect the capacity for timely payments in a higher degree that it would in the case of financial commitments in a category of a higher rating.

BBB(col). National 'BBB' ratings indicate a moderate risk of default in relation to other issuers and obligations in the same country. However, changes in economic circumstances or conditions are more likely to affect the capacity for timely payments than in the case of financial commitments that belong to a higher rating category.

BB(col). National 'BB' ratings indicate a high risk of default in relation to other issuers and obligations in the same country. Within the context of the country, the payment is to an extent uncertain and the capacity for timely payments results more vulnerable to the adverse economic changes throughout the time.

B(col). National 'B' ratings indicate a significantly high risk of default in relation to other issuers and obligations in the same country. The financial commitments are being satisfied but there is a limited margin of safety and the capacity for continued timely payments is conditioned to an economic context and a favorable and stable business. In the case of individual obligations, this rating may indicate troublesome or defaulted obligations with the potential of obtaining extremely high recoveries.

CCC(col). National 'CCC' Ratings indicate that the default is an actual possibility. The capacity to comply with the financial commitments exclusively depends on the economic conditions and in favorable and stable businesses.

CC(Col). National 'CC' Ratings indicate that a default of any nature seems probable.

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

RD(col). National 'RD' Ratings indicate that, in the opinion of Fitch Ratings, the issuer has experienced a “restricted default” or an uncured default of payments of a bond, loan or other material financial obligation, even though the entity is not subject to bankruptcy, administrative or unwinding proceedings, or other formal proceedings for the dissolution, and has in no other manner ceased its commercial activities.

D(col). National 'D' Ratings indicate that an issuer or instrument is in default.

E(col). Description: suspended rating. Obligations that, in response to several requests of the rating agency, do not submit the adequate information.

Note: The “+” or “-” modifiers may be added to a rating to denote a relative position in a specific rating category. These suffixes are not added to the 'AAA' rating, or to ratings below 'CCC'.

SHORT-TERM NATIONAL CREDIT RATINGS:

F1(col). National 'F1' Ratings indicate the strongest capacity for the timely payments of the financial commitments in relation to other issuers of obligations in the same country. In the National Rating scale of Fitch, this rating is assigned to the lowest risk of default in relation to others in the same country. When the liquidity profile is particularly strong, a “+” is added to the assigned rating.

F2(col). National 'F2' Ratings indicate a good capacity for the timely payments of the financial commitments in relation to other issuers of obligations in the same country. However, the safety margin is not as large as in the case of the highest ratings.

F3(col). National 'F3' Ratings indicate an adequate capacity for the timely payments of the financial commitments in relation to other issuers of obligations in the same country. However, this capacity is more susceptible to adverse changes in the short-term than that of the financial commitments in the categories of higher ratings.

B(col). National 'B' Ratings indicate an uncertain capacity for the timely payment of the financial commitments in relation to other issuers of obligations in the same country. This capacity is highly susceptible to adverse changes in the short-term 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 has defaulted one or more of its financial commitments, even though it remains complying with other financial obligations. This category is only applicable to entity ratings.

D(col). National 'D' Ratings indicate an actual or imminent default in payments.

E(col). Description: suspended rating. Obligations that, in response to several requests of the rating agency, do not submit the adequate information.

OUTLOOK AND OBSERVATIONS OF THE RATINGS:

OUTLOOKS. These indicate the direction in which the rating could possibly move within a period between one and two years. Also, they reflect trends that have not reached the level that would impulse changes in the rating, but that might do so if the continue. These may be: “Positive”, “Stable” or “Negative”.

Most Outlooks are generally Stable. The ratings with Positive or Negative Outlooks will not necessarily be modified.

OBSERVATIONS. These indicate that there is a higher probability that a rating will change, and the possible direction of said change. These are designated as “Positive”, indicated a potential improvement, “Negative”, for a potential decrease, or “Evolving”, if the rating may increase, decrease or be confirmed.

An observation is typically impuled by an event, for which it is generally resolved in a short period. Said event may be anticipated or already 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 a further analysis.

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