

## Equity Research SPECIAL REPORT

# Drawing the line on COVID-19 and Oil - Complete report

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# This is where we draw the line on COVID-19 and Oil

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# This is where we draw the line on COVID-19 and Oil

## 1. Overview

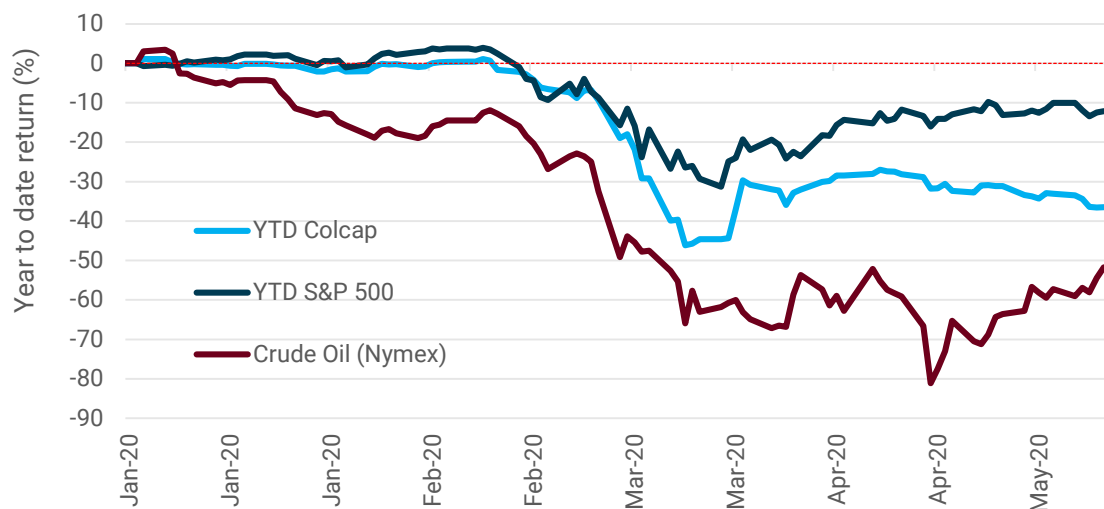
2. Consumer (staples and discretionary)
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## ANNEXES

# Despite the recovery experienced by the Colombian equity market after the recent global stock market crash, the country's equity capitalization index (Colcap) remains undervalued

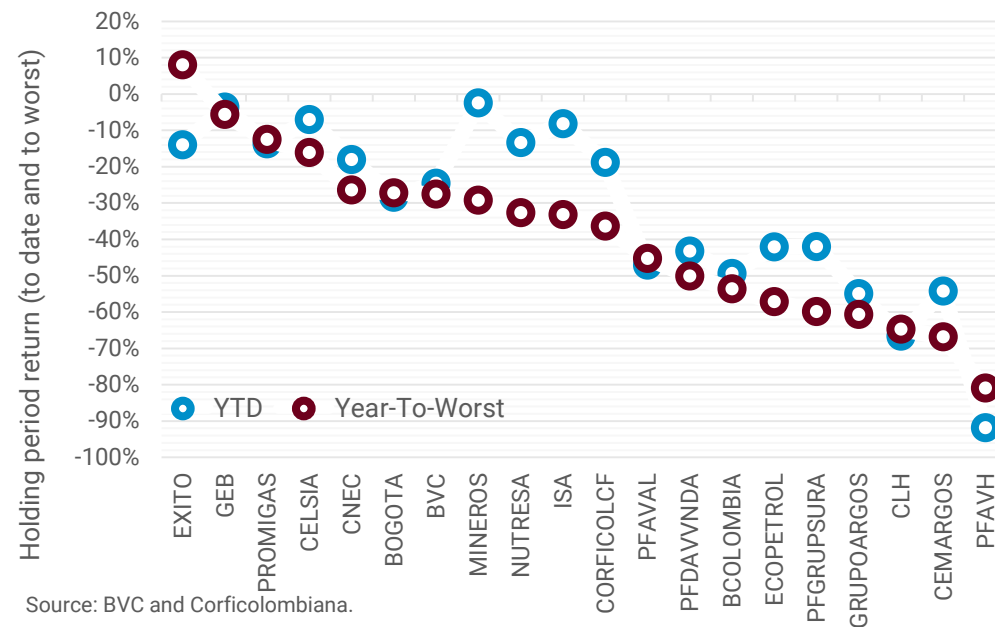
- Prior to the recent market crash, Colombia's equity market was somewhat undervalued. The steep drop experienced between February and March was aligned with the global equity market crash, explained mainly by the COVID -19 crisis. The oil price crash also had its toll, especially in the Colcap index. Furthermore, the bounce experienced by the global equity markets since mid-March, was insufficient and short-lived in Colombia, where the market as a whole does not seem to react to oil price rise since mid-April.
- Broadly speaking, 1Q20 results published so far have corroborated our belief regarding the differentiated effect of COVID-19 –as well as oil prices- on the sectors represented in the Colcap index. Consumption (staples and discretionary) and utilities have done well, with some utilities' stocks displaying the behavior expected from defensive sectors. By mid-May, the Colcap index, as well as several specific stocks remain undervalued relatively and intrinsically.

**Colcap loses strength after the bounce**



Source: Capital IQ and Corficolombiana.

**YtD and Year-to-worst stock returns**

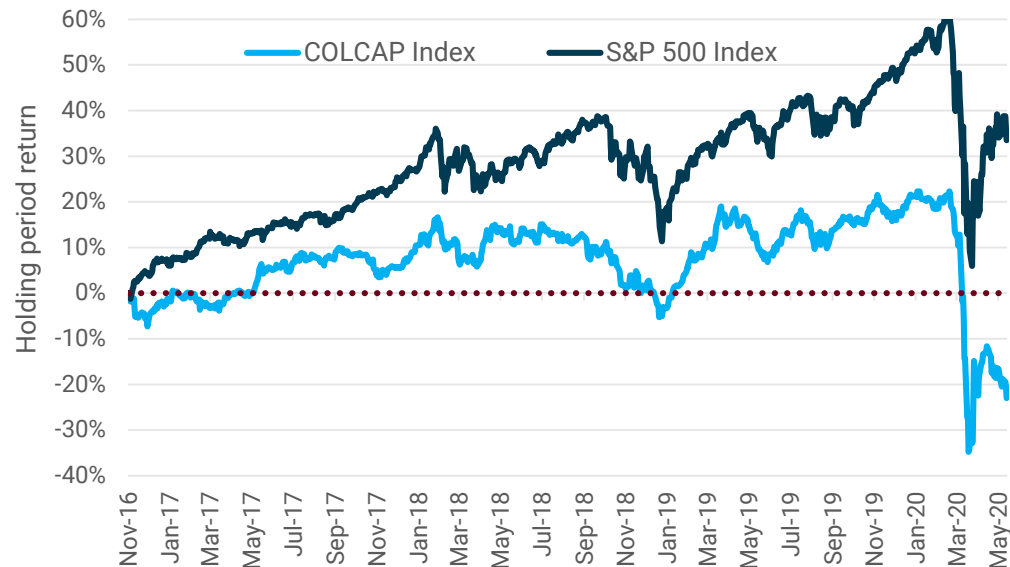


Source: BVC and Corficolombiana.

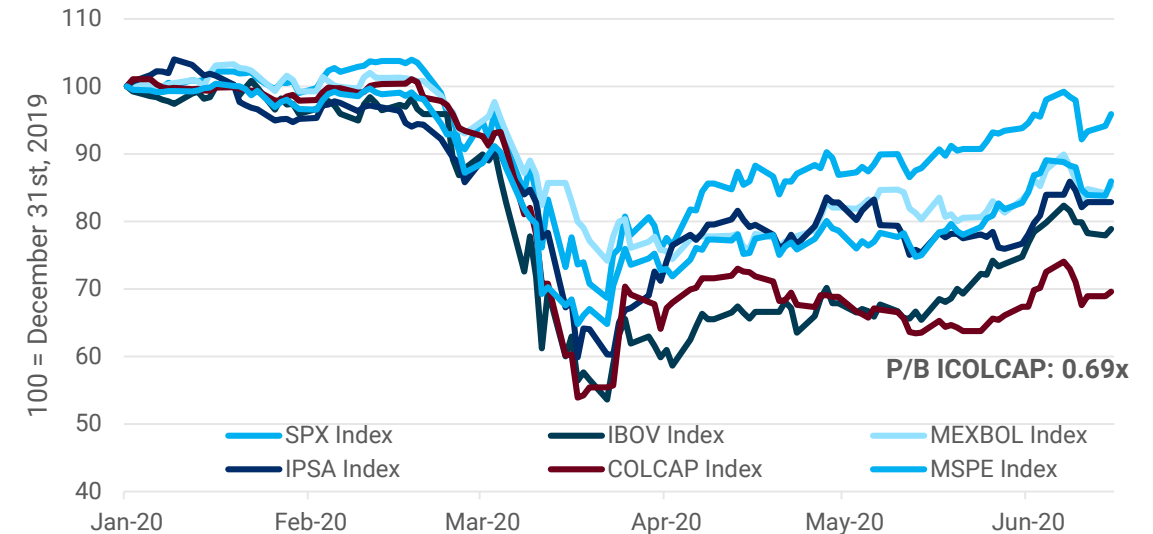
# After considering the dreaded combined effects of COVID – 19 and very low oil prices, our stance on the Colcap index persist: undervalued, oversold, cheap, etc.

- Since its launch in 2008 until mid-May, the Colcap Index has had a holding period return of 3.4%, -35.4% in real terms; equivalent to 1.4% CAGR, -3.5% in real terms and -4.9% in us dollars. In the meantime, Colombia’s GDP holding period was 150.4% (7.8% CAGR, 3.4% in real terms). As we will show, this large gap is also observed at the company level.
- When analyzing the period since Trump’s election in November 2016 until mid – May (for the sake of contrasting), even after the recent drop and bounce experienced by S&P 500, which results on a negative correction of 16.2% (February 19<sup>th</sup> to May 15<sup>th</sup>), the index has grown 34.3%. Meanwhile, for the Colcap index to reach a 0% nominal holding period growth next November, the index would have to grow 30.1% during the next six months.
- Likewise, since November 2016, the market price to book value of the Colcap index (Price to Book multiple) has been below the regional peers, and the recent drop and bounce of this market, left the aggregate multiple below 1.0x.

## Lost quadrennium underway for Colcap



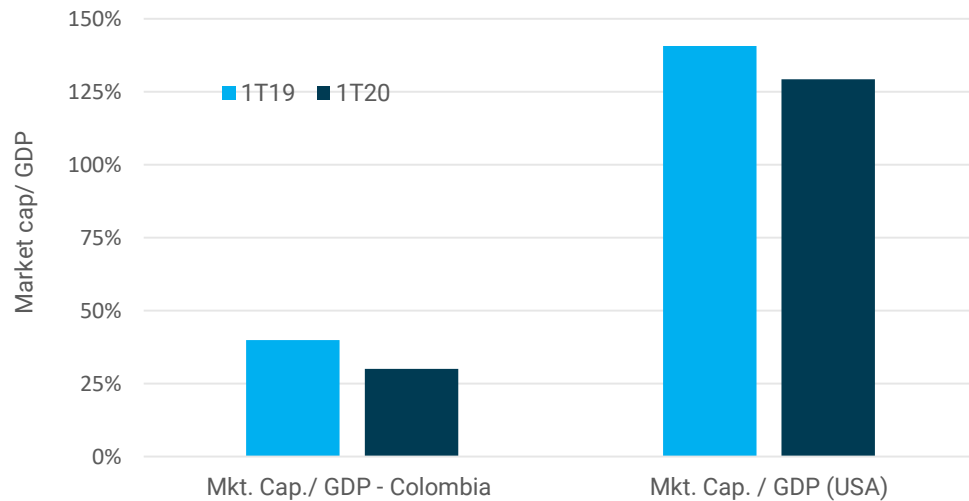
## International equity indexes



# Assuming COVID-19 will not affect the economy indefinitely, the top-to-bottom analysis underpin concealed value in the local market

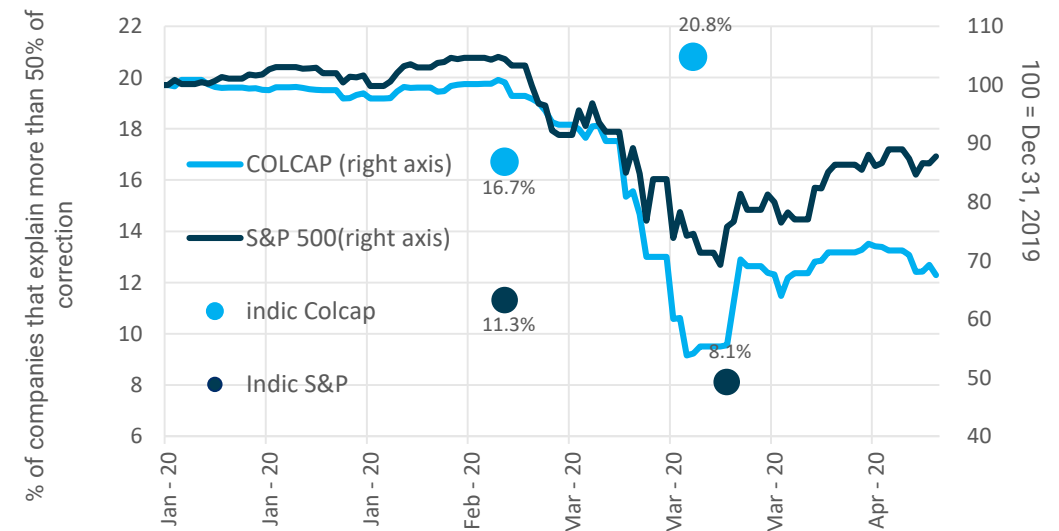
- During last year, market cap / GDP (complete equity market capitalization over nominal GDP) went from 39.9% to 30.9% in Colombia (-9.9 percentage points (p.p)), and from 140.7% to 129.3% in the U.S. (-11.4 p.p.). A higher penalty proportionally in Colombia, leaving more space for growth. *Note that the Colcap index represents around 77% of the complete equity market in Colombia.*
- During the first four months of the year, 35.5% of the trading volume in the Colombian equity market belonged to foreign investors (40.4% during 2019). We believe that part of this trading has been based on risk aversion rather than fundamental valuation considerations.
- During the recent market crash, more than 50% of the movement was explained by 16.7% of the component stocks, or 38.4% of the index market cap (11.3% and 53.4% in the case of S&P 500); while on the bounce, 23.8% of the component stocks, or 49.9% of the index market cap explained more than 50% of the recovery (8.1% and 46.5% in the case of S&P 500). With this in mind, we deduce Colcap index components are generally undervalued, but this will be tested individually.

## Market Capitalization / GDP



Source: Dane, BVC, FRED and Corficolombiana.

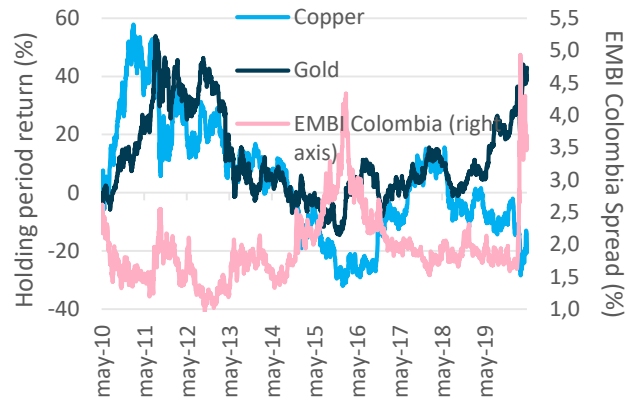
## % of issuers that explain more than half of drop and bounce of E&P 500 and Colcap indexes



Source: Capital IQ, BVC, SlickCharts and Corficolombiana

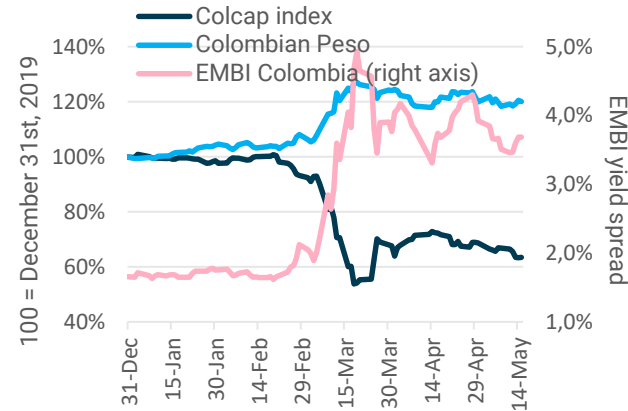
# Colombian equities' earnings seem more vulnerable to lower oil prices than to COVID-19, with several natural hedging conditions in place.

Global economy and colombian sovereign risk



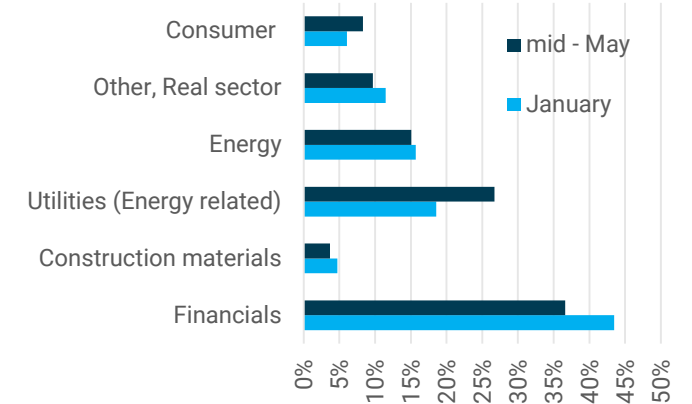
Source: Capital IQ, Invenómica and Corficolombiana.

Colombian equity and risk



Source: Capita IQ, Invenómica and Corficolombiana.

Change in sector weights



Source: BVC and Corficolombiana

- Taking the Copper to Gold ratio as a proxy of global economic health, the downturn is readable, Colombian country risk premium has increased more than accordingly, despite not being a particularly open economy, and the equity market's performance correlates to this situation.
- The Colombian equity market is reflecting risk aversion, oil prices and the situation of the Colombian peso (which is also reflecting risk aversion, oil prices, etc.). Currently, energy (oil and gas) weighs 15.1% of the capitalization index.
- When discriminating the share of the Colcap index by sectors, their changes are in line with what we expected (see special report: [Colombia en tiempos del coronavirus](#)); consumer (staples and discretionary) as well as utilities have performed well. In the future, construction should lead the economic recovery, and the financial and electric utilities sectors should support it. Meanwhile the recovery of the energy sector (oil and gas) depends on oil price recovery.
- On the following slides we will analyze companies individually, to dissent –or justify- current market valuations.

# This is where we draw the line on COVID-19 and Oil

1. Overview

**2. Consumer (staples and discretionary)**

3. Energy Utilities

4. Construction (materials, related holdings)

5. Financials

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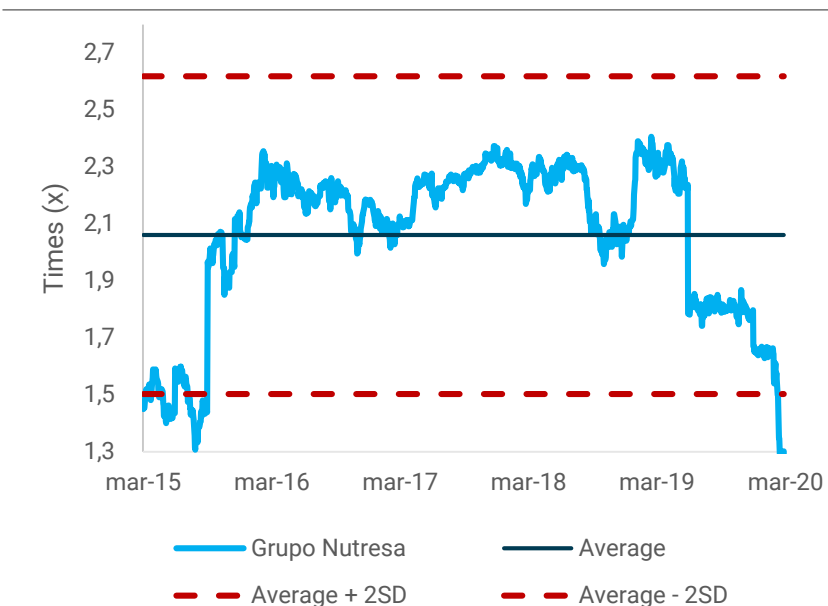
**Strong brand portfolio:** Leading economic conglomerate in the food processing industry with a strong brand portfolio and reported revenues at the end of 2019 of COP 9.6 trillions. Nutresa has business operations in more than 9 countries with around 46 production plants leaving the company less exposed against country specific risk.

Consumer (staples and discretionary)

Trading Statistics	
April close (COP)	22,060
Last (COP) *	22,100
2019 return (%)	+8.09
YTD return (%)	-13.0
5yr max	28,000
5yr min	17,000
Trailing P/E (x)	19.8x
Trailing P/B (x)	1.2x
Dividend yield (%)	2.9
EBITDA 2019 (USD MM)	358.1

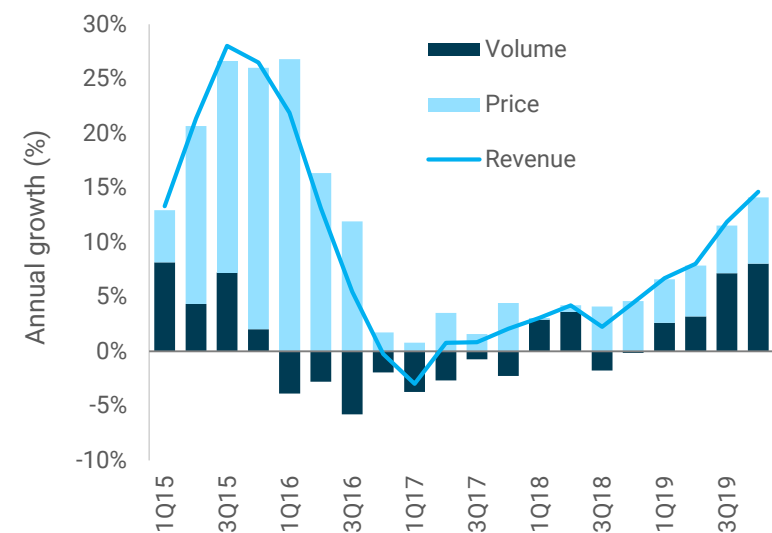
Source: Capital IQ, BVC and Corficolombiana. \* For all purposes we take May 22nd's close as "last"

## Historic P/ B multiple for Nutresa



Source: Capital IQ and Corficolombiana.

## Discriminated revenue growth



Source: Nutresa IR and Corficolombiana.

	Sector Specific	Financials	Trading Overview/ Valuation
<b>Exposure / Risk</b>	<p><b>Sector specific risk</b> Higher unit sales in staple categories will reflect a shift in consumer behavior as consumers get ready for quarantine. On the other hand, leisure products will experience the opposite trend. We see a risk on supply chain logistics on the food industry.</p>	<p><b>Expenses / costs:</b> On a consolidated basis, 60% of Nutresa's costs are indexed to the dollar. Thus the rate of exchange will have an impact on the final cost of imported inputs, and even to those that are bought locally but are indexed to the dollar. Therefore going forward we anticipate a contraction in gross margin.</p>	<p><b>Stock appreciation:</b> Nutresa's current share price (COP 19,700) was last seen in 2015 when the company reported revenues of 7.9 Bn compared to the sales reported in 2019 of 9.6 bn.</p>
<b>Growth</b>	<p><b>Association with GDP:</b> Favorable growth conditions in 2019 in Colombia led by strong private consumption correlated strongly to Nutresa's strong organic sales growth last year. Its performance has historically been reflected on the country's private consumption trend.</p>	<p><b>Revenue:</b> By 2019, 63.6% of total consolidated sales came from its operations in Colombia. We expect sales to display a mixed behavior as some segments will experience strong demand (Colds cuts, biscuits) while others will be completely shut down (retail food).</p>	<p><b>P/E:</b> Nutresa is trading at a trailing price-to-earnings (P/E) of 19.8x as of this writing. This is cheaper when compared to its five-year average of 24.9x and its regional peer's mean multiple.</p>
<b>Structure / Framework</b>	<p><b>Industry participation on commercial bank loans:</b> Financing to this sector represents approximately 15.1% of total commercial loans and has been stable over the last 5 years.</p>	<p><b>Financial leverage:</b> 12.1% of Nutresa's debt is in U.S dollars. 15.8% of the company's total bank debt is due in less than a year. Nutresa's Net debt to EBITDA is 2.8x.</p>	<p><b>P/B:</b> Although Nutresa's current Price to book value (1.2x) is not yet below one, it is well below its historically trading Price to book value (2.1 x).</p>
<b>Potential Recovery</b>	<p><b>Government measures :</b> Restaurants can only provide this service through electronic commerce or by home delivery. Donations of basic food baskets for the poor are being delivered by both the private and public sector.</p>	<p><b>Financial strength:</b> The company's solid operational results and free cash flow generation in 2019 left the company well positioned with a strong cash balance. Additionally the company's current leverage ratio allows the firm to take on more debt if needed.</p>	<p><b>Valuation:</b> Our unlevered DCF valuation after adding the portfolio value implies a market discount of 18.7% .Our target price considers several operational assumptions and Nutresa's reiventement requirements. The Dividend Discount model yields a value of COP 14,723. 22/05 Close: COP 22,100</p>

\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana. Peers: Grupo Bimbo, JBS, Post Holdings, Gruma, BRF, Pilgrims Pride, Seaboard, Lancaster Colony.

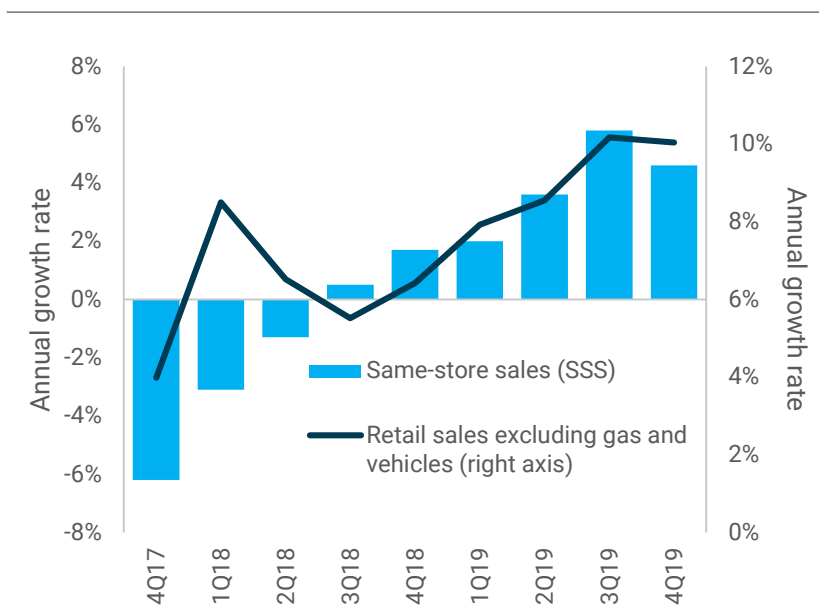
**Unsustainable dividend yield:** A relevant food retailer in Latin America. It has presence in Colombia, Argentina and Uruguay. The company also operates wholesale stores under the Surtimayorista brand. In addition, Éxito engages in complementary businesses such as real estate, seguros Éxito, Viajes Éxito, Mobil Éxito, among others.

Consumer (staples and discretionary)

Trading statistics	
April close (COP)	11,700
Last (COP)	11,440
2019 return (%)	+12.3
YTD return (%)	-17.6
5yr max	23,260
5yr min	10,100
Trailing P/E (x)	88.9x
Trailing P/B (x)	0.7x
Dividend yield (%)	21.3
EBITDA 2019 (USD MM)	472.9

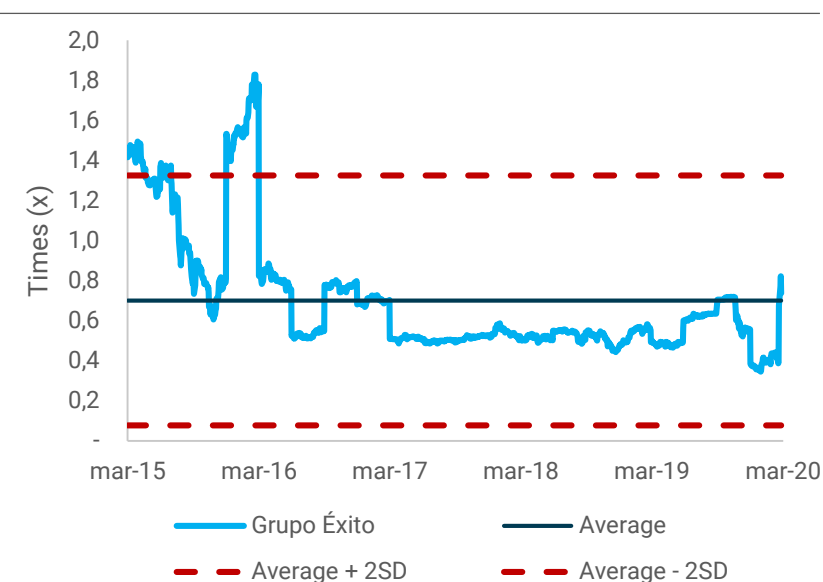
Source: Capital IQ, BVC and Corficolombiana.

## Same Store Sales



Source: Grupo Éxito IR, DANE and Corficolombiana.

## Historic P/ B multiple for Grupo Éxito



Source: Capital IQ and Corficolombiana.

	Sector Specific	Financials	Trading Overview/ Valuation
Exposure / Risk	<p><b>Sector specific risk</b> Higher unit sales in staple categories will reflect a shift in consumer behavior as consumers get ready for quarantine. On the other hand, leisure products will experience the opposite trend. We see a risk on supply chain logistics on the food industry.</p>	<p><b>Expenses / costs:</b> SG&amp;A expenses growing at below inflation levels despite continuous wage growth above market expectations in the last two years. This is due to logistical adjustments and inventory storage optimization in the distribution center, limiting inventory in warehouses.</p>	<p><b>Stock appreciation:</b> The current stock price (COP 11,980) reflects the level reached in 2015 when the company took on a massive debt to acquire GPA and ended up assuming a huge financial burden.</p>
Growth	<p><b>Association with GDP:</b> Overall Exitos's retail sales should correlate strongly with retail sales GDP since the company is not longer consolidating Brazil in its financial statements.</p>	<p><b>Revenue:</b> Colombia contributed to 76% of yearly consolidated sales in 2019, where Éxito represented approximately 70% of the sales mix in Colombia, followed by Carulla (14%). Uruguay and Argentina accounted for 18% and 6% respectively of revenue in 2019.</p>	<p><b>P/E:</b> Current: 88.9x Average: 48.6x Peer's median: 17.47x While the consolidation of GPA resulted in a fair amount of disruption in the price-to-earning multiple, Exito's PE ratio remains high relative to its peers.</p>
Structure / Framework	<p><b>Industry participation on commercial bank loans:</b> Financing to this sector represents approximately 15.1% of total commercial loans and has been stable over the last 5 years.</p>	<p><b>Financial leverage:</b> In 4Q19, the company delevered and turned its Net Debt to EBITDA ratio positive (3.05x). The COP 200,000 MM debt on balance is composed only by the revolving credit facility with a cost of IBR 3M + 2%. Financial leases are denominated in U.S. dollars with an interest rate of LIBOR + 2.22%.</p>	<p><b>P/B:</b> Current: 0.7x Average: 0.7x Peer's median: 2.7x Company's current trading P/B multiple below 1 reflects the market disruption in the wake of the economic downturn and the stock's inherent liquidity risk.</p>
Potential Recovery	<p><b>Government measures :</b> Restaurants can only provide this service through electronic commerce or by home delivery. Donations of basic food baskets for the poor are being delivered by both the private and public sector.</p>	<p><b>Financial strength:</b> The Cash and Carry format has been growing rapidly, among other innovative segments, and will experience higher demand amidst the coronavirus crisis. The Company has a strong ecommerce segment and a strategic partnership with Rappi which strengthens its position during the crisis.</p>	<p><b>Valuation:</b> DCF-driven target price is COP 19.469. Our discounted cash flow valuation assumes a compounded annual growth rate of 5% in sales in the next five years. Our DDM model yields a value of COP 8,751. 22/05 Close: COP 11,440</p>

\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana. Peers: Atacadao, Cencosud, InRetail, Organización Soriana.

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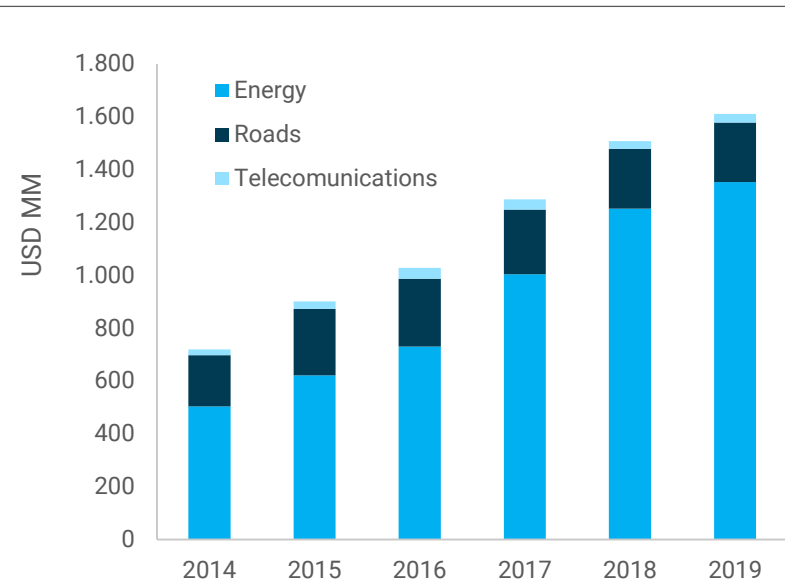
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**Regional leader:** Isa is a Colombian Holding Company with presence on defensive and leading sectors such as energy (power transmission) and infrastructure (roads and telecommunications), with 43 affiliates and subsidiaries across seven countries. Its USD 2,480 MM revenue of 2019 (2,068 MM LTM on 1Q20) captures 70%, 70%, 20% and 5% of energy transmission in Colombia, Perú, Brazil and Chile respectively, and 40% of interurban roads in Chile.

Trading Statistics	
April close (COP)	18,200
Last (COP)	18,340
2019 return (%)	40.2.
YTD return (%)	-6.4
5yr max	20,480
5yr min	5,420
Trailing P/E (x)	12.4
Trailing P/B (x)	1.6
Dividend yield (%)	3.7
EBITDA 2019 (USD MM)	1,589

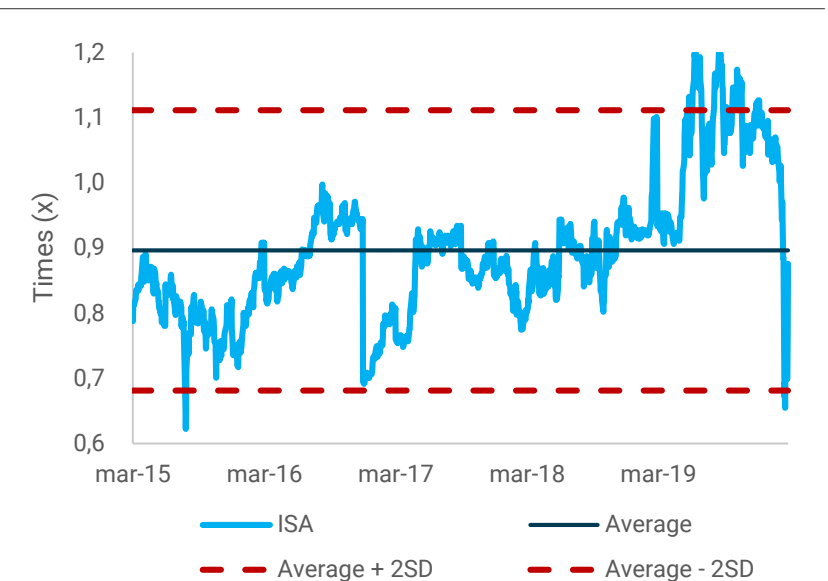
Source: Capital IQ, BVC and Corficolombiana.

## Historic discriminated EBITDA



Source: ISA IR and Corficolombiana.

## ISA's historic P/ B multiple



Source: Capital IQ and Corficolombiana.

	Sector Specific	Financials	Trading Overview/ Valuation *
<b>Exposure / Risk</b>	<p><b>Sector specific risk</b> A decrease in electricity and natural gas demand in the countries where it operates should only affect cash in part, given a 20% transmission charge deferral allowed in Colombia. Infrastructure construction has also suffered in Colombia (not the case in Brazil).</p>	<p><b>Liquidity and solvency:</b> Using 1Q20 (LTM) figures to reflect the current crisis effect, current and quick ratios are 1.8x and 1.7x. Total debt/ Equity is 98.2%, and Long-term Debt/ Equity is 87.3%.</p>	<p><b>Stock appreciation:</b> Year to date return is -6.4%; year to worst was -33.2%. Although there is space for valuation as a defensive stock and considering its 5.5x EBITDA (trailing), the stocks recovery implies that the market understands the intrinsic value of the company.</p>
<b>Growth</b>	<p><b>Association with GDP:</b> The company is the largest player in Colombia, on a sector directly associated with the country's GDP, regardless of 80% of it coming from other countries.</p>	<p><b>EBITDA and net income:</b> 80% of revenue and 84% of EBITDA come from energy transmission, the rest coming mainly from roads. Transmission is remunerated for capacity (regardless of demand). In the case of roads, less traffic modify the tenure of the concessions, not the total revenue to be recognized. By 2019, only 36% of net income came from Colombia.</p>	<p><b>P/E:</b> Peers: 8.9x (March 31<sup>st</sup>) Historic average: 11.7x Current: 12.4x</p>
<b>Structure / Framework</b>	<p><b>Industry participation on commercial bank loans:</b> Utilities (all power activities) add up to 7.7% of total commercial loan portfolio (5,000 largest operations), with 98.8% of credit with the best credit rating. The companies of this sector are important players in the Colombian capital markets and are active player in international capital markets.</p>	<p><b>Financial leverage:</b> 34.8% of Isa's debt comes from banks, the rest from capital markets; 34.9% is USD denominated, 15.7% BRL, 22.7% CLP and the rest in COP: Net debt to EBITDA is around 2.5x.</p>	<p><b>P/B:</b> Peers: 1.5 (March 31<sup>st</sup>) Historic average: 0.9x Current: 1.6x</p>
<b>Potential Recovery</b>	<p><b>Government measures :</b> The government has taken measures to postpone service payment on public services to the most vulnerable segment of the populating. This has occurred around the region. Energy transmission should not be affected directly, given the fee structure in place in Colombia, Brazil, Peru and Chile.</p>	<p><b>Financial strength:</b> Only around 2.5% of revenue depend on demand, (electricity in Perú specifically). The 64.9% EBITDA margin achieved by the company in 2019 denotes an optimized cost structure. The negative effects on cash that are expected are not problematic according to the scenario analysis undertaken by the company.</p>	<p><b>Valuation:</b> 2 phase DDM: COP 24,744 22/05 close: COP 18,340 Ample valuation space given the penalty we applied on expected 2021's dividends. SOTP models give us lower target prices.</p>

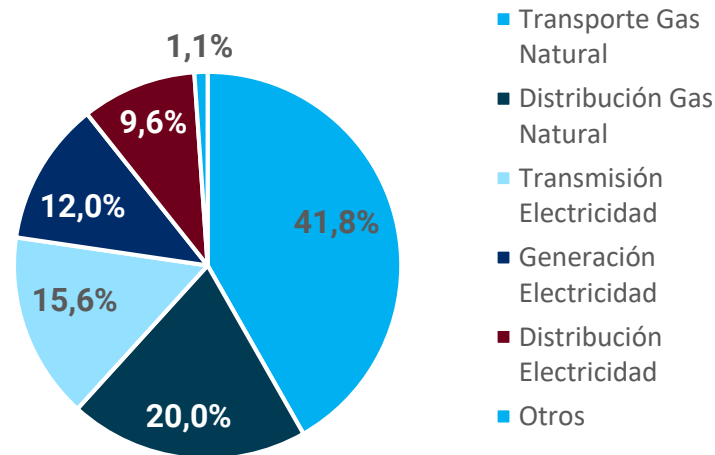
\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana. Peers: Eletrobras, Red Eléctrica, CTEEP, Taesa, Alupar, Energías do Brasil.

**Strong and diversified portfolio, defensive asset:** GEB is an energy holding company with a portfolio of power and natural gas utilities, and presence in Colombia, Perú, Brazil and Guatemala, where it holds leading market share positions. 4.1 mm of clients in power distribution, 3.3 mm customers in natural gas distribution, 14,006 km on transmission lines, 4,288 km on gas pipelines, 3,506 MW in installed capacity and 15,229 GWh in power generation.

Trading Statistics	
April close (COP)	2,240
Last (COP)	2,125
2019 return (%)	25.4
YTD return (%)	-4.3
5yr max	2,580
5yr min	1,560
Trailing P/E (x)	10.6
Trailing P/B (x)	1.5
Dividend yield (%)	6.6
EBITDA 2019 (USD MM)	635

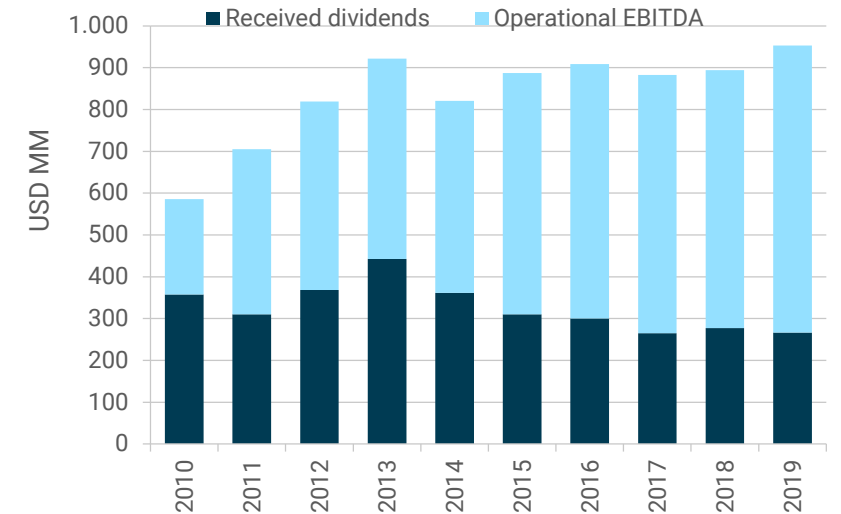
Source: Capital IQ, BVC and Corficolombiana.

## EBITDA share by activity



Source: GEB IR and Corficolombiana

## Historic operacional EBITDA and dividendes



Source: GEB IR and Corficolombiana.

	Sector Specific	Financials	Trading Overview/ Valuation *
Exposure / Risk	<p><b>Sector specific risk</b> The company is exposed to a decrease in electricity and natural gas demand in the countries where it operates. There is a risk of clients invoking “force majeure” clauses in order to abstain from paying on some take or pay contracts.</p>	<p><b>Liquidity and solvency:</b> Using 1Q20 (LTM) figures to reflect the current crisis effect, before including the recent bond issuance, the accounts receivables turnover is 3.3x, current and quick ratios are 0.9x and 0.8x. Total debt/ Equity is 100%, and Long-term debt/ Equity is 87.5%</p>	<p><b>Stock appreciation:</b> Year To Worst: -5.6% Year To Date: -4.3% Small upside. The stock has delivered what is expected from a defensive asset.</p>
Growth	<p><b>Association with GDP:</b> Direct association, the sector is often taken as a leading gauge on economic growth and health.</p>	<p><b>EBITDA:</b> EBITDA contributions by activity demonstrates diversification and operational stability (taking into account the tariff structures): natural gas transportation contributes with 42.6%, natural gas distribution 19.8%, power generation 12.7%, power transmission 15.9% and power distribution 8.4%.</p>	<p><b>P/E:</b> Peers: 42.9x (March 31<sup>st</sup>) Historic average: 15.2x Current: 10.6x</p>
Structure / Framework	<p><b>Industry participation on commercial bank loans:</b> Utilities (all power activities) add up to 7.7% of total commercial loan portfolio (5,000 largest operations), with 98.8% of credit with the best credit rating. The companies of this sector are important players in the Colombian capital markets and are active player in international capital markets.</p>	<p><b>Financial leverage:</b> Despite its considerable indebtedness of net debt to EBITDA of around 3.5x, financial strength and more specifically the capacity of GEB to fund its operations was exemplified by the recent USD 400 MM international issuance of a 10-year bond, that obtained a bid-to-cover above 11x and a coupon rate of 4.875% in USD.</p>	<p><b>P/B:</b> Peers: 2.8x (March 31<sup>st</sup>) Historic average: 1.6x Current: 1.5x</p>
Potential Recovery	<p><b>Government measures :</b> The government has taken measures to postpone service payment on public services to the most vulnerable segment of the populating. This has occurred around the region. These measures affect electricity distribution and gas distribution activities directly.</p>	<p><b>Financial strength:</b> Around 80% of the company’s EBITDA is regulated, and around 70% of the revenue is indexed to USD. The distribution activities as well as power generation should in phase with the general economic conditions' recovery.</p>	<p><b>Valuation:</b> 2 phase DDM: COP 5,521 22/05 close: COP 2,125 Huge space of valuation. SOTP models give us much lower target prices.</p>

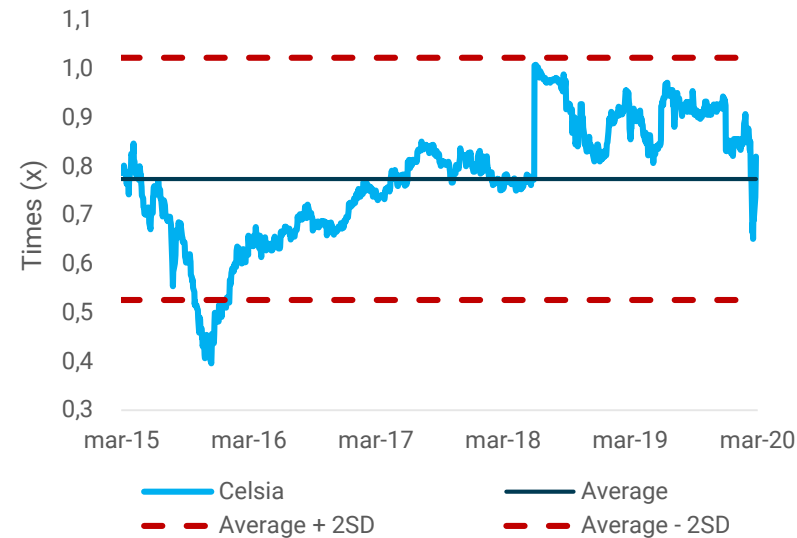
\* Source: Company’s IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana. Peers: AES, Enel Americas, Enel Chile.

**Essential public functions:** Celsia is a vertically integrated company of the utilities sector. It has presence in Colombia, Panama, Costa Rica and Honduras, with a portfolio of 1.8 GW, that will expand to 2.6 GW in 2023.

Trading statistics	
April close (COP)	4,200
Last (COP)	4,130
2019 return (%)	+10.3
YTD return (%)	-6.3
5yr max	4,915
5yr min	2,300
Trailing P/E (x)	36.6x
Trailing P/B (x)	0.9x
Dividend yield (%)	7.1
EBITDA 2019 (USD MM)	380.9

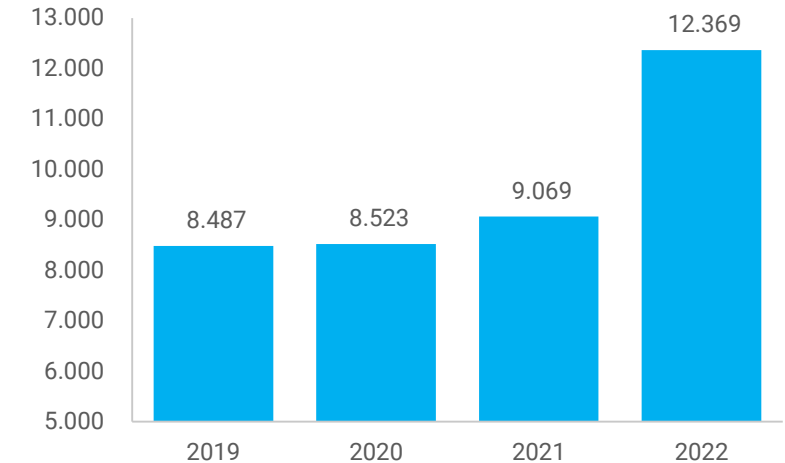
Source: Capital IQ, BVC and Corficolombiana.

## Celsia's historic P/ B multiple



Source: Capital IQ and Corficolombiana.

## Expected Power Capacity (Gwh)



Source: Celsia and Corficolombiana.

	Sector Specific	Financials	Trading Overview/ Valuation
<b>Exposure / Risk</b>	<p><b>Sector specific risk</b> As a vertically integrated utilities company, Celsia is more resilient than companies from other sectors given essential public functions they provide. However, demand would decline due to commercial shutdowns and lower industrial output, partially offset by higher residential demand.</p>	<p><b>Fixed and variable costs:</b> ~ 80% of energy generation comes from Celsia's renewable sources (water), which operational variable costs are close to zero. During dry periods associated with "El Niño" event, variable costs could increase due to gas-fired thermal power plants.</p>	<p><b>Stock appreciation:</b> The stock price has been less volatile than the Colcap Index, in part due to the defensive sector of the company. Celsia has a diversified power portfolio and a strong presence in the distribution segment in Valle del Cauca and Tolima.</p>
<b>Growth</b>	<p><b>Association with GDP:</b> Celsia's revenues exhibits a strong relationship with the Utilities nominal GDP due to its vertical integration. We expect this relationship to continue in the future.</p>	<p><b>Revenues (2019):</b> ~ 46% Generation. ~ 54% Transmission, Distribution and Commercialization. On the generation segment, 30% are related with reliability charges (fixed income payed in USD), 13% with bilateral contracts (usually updated with PPI) and 57% with spot market.</p>	<p><b>P/E:</b> Current: 36.6x. Average: 30.5x. Peer's Average: 9.4x. This multiple will be related with future payout (4 years average payout is 59%) and higher growth, with the entrance of new projects in the next 2-3 years.</p>
<b>Structure / Framework</b>	<p><b>Industry participation on commercial bank loans:</b> Utilities sector has a relatively low participation on commercial bank loans (~ 8%) due to the stability of the sector and the financing through capital markets. In 2016, portfolio quality had deteriorated due to "El Niño" event. Since then, quality has improved gradually.</p>	<p><b>Financial leverage (2019):</b> 67% of total debt in COP. Net Debt/ EBITDA: 2.9x. Debt / Equity: 71%. It is important to mentioned that the company could present lower investment spending than previously planned.</p>	<p><b>P/B:</b> Current: 0.9x. Average: 0.8x. We think that the company will have an improvement in growth rate and ROE amid the pipeline of projects in the mid – term related with nonconventional renewable energy, among others.</p>
<b>Potential Recovery</b>	<p><b>Government measures :</b> On the commercialization segment, lack of timely payment of power bills in Colombia would affect short – term cash flow and quality of accounts receivable.</p>	<p><b>Financial strength:</b> <b>Generation:</b> ~ 30% of Colombia's revenues come from reliability charge and ~ 13% from bilateral contracts. Nevertheless, 57% of revenues come from spot market sales. <b>Distribution:</b> RAB COP 3.5 trillions (+ 94.6% y/y) with 11.8% regulated WACC.</p>	<p><b>Valuation: Dividend Discount Model</b> Using a three phased dividend discount model, the stock price should be COP 5,783, which implies a "floor" to the stock price.</p>

\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana. Peers: AES Gener, Colbun, Enel GX, Engie Energía Perú, Engie Energía Chile.

# This is where we draw the line on COVID-19 and Oil

1. Overview
  2. Consumer (staples, discretionary)
  3. Energy Utilities
  - 4. Construction (materials, related holdings)**
  5. Financials
  6. Oil – Gas and mining
  7. Transportation, travel & leisure
- ANNEXES**

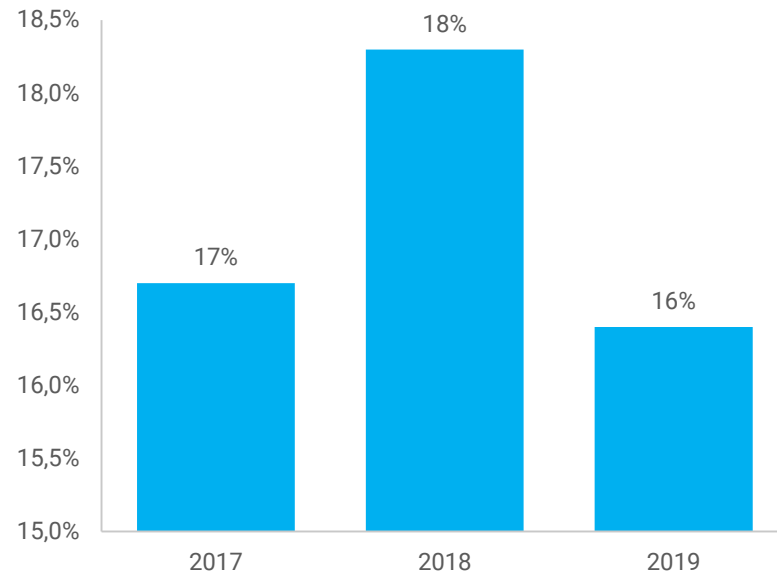
**Powerful diversification:** Cement company with presence in USA, Colombia, The Caribbean & Central America, with location near growing demand centers in USA and national coverage in Colombia (~ 40% market share). Cemargos plays a leading role in construction materials supply in the US, a country that has recently announced a large infrastructure budget.

Construction (materials, related holdings)

Trading Statistics	
April close (COP)	3,895
Last (COP)	3,510
2019 return (%)	+4.9
YTD return (%)	-51.9
5yr max	12,580
5yr min	2,420
Trailing P/E (x)	39.2x
Trailing P/B (x)	0.6x
Dividend yield (%)	7.1
EBITDA 2019 (USD MM)	415.8

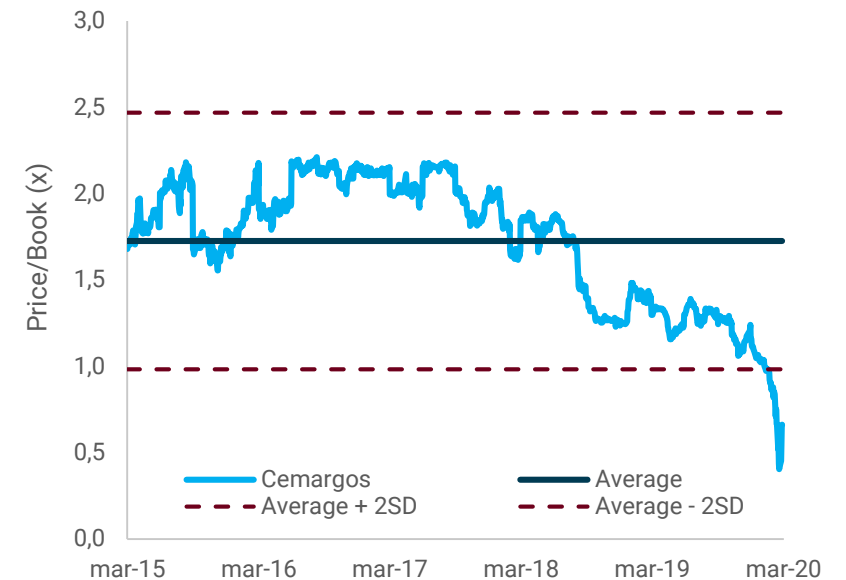
Source: Capital IQ, BVC and Corficolombiana.

## Cemargos' EBITDA Margin



Source: Cementos Argos and Corficolombiana.

## Cemargos' historic P/ B multiple



Source: Capital IQ and Corficolombiana.

# Cementos Argos - Analysis



Construction (materials, related holdings)

## Sector Specific

## Financials

## Trading Overview / Valuation \*

### Exposure / Risk

#### Sector specific risk

The construction materials industry is strongly related with construction sector (infrastructure, residential and non – residential). This sector could be impacted in Colombia, USA, The Caribbean & Central America by the COVID-19 current situation.

#### Fixed and variable costs:

Energy represents nearly 25% of production costs. The reduction in operations of some plants may result in variable costs reduction related with production of cement (mainly Clinker) and a drop in logistic costs, among others.

#### Stock appreciation:

Stock price has been lower than the levels registered in 2017 when (in Colombia) demand presented a weak dynamic and cement prices dropped due to imported cement volumes from Turkey.

### Growth

#### Association with GDP:

Despite belonging to the construction materials industry, we follow the Construction GDP, with a moderate association (sales and GDP) in Colombia given the share of sales in the USA.

#### Revenue:

~ 56% USA  
~ 25% Colombia  
~ 25% CCA

#### P/E:

Current: 39x, Average: 78x  
Peer's Average: 17x  
Historically, Cementos Argos has had a greater P/E than its peers, partly due to a higher payout that usually includes reserves.

### Structure / Framework

#### Industry participation on commercial bank loans:

Construction sector has a relatively stable participation on commercial bank loans (~ 15%). Nevertheless, since 2017 portfolio quality has deteriorated constantly because of construction deceleration, including some infrastructure and building projects.

#### Financial leverage:

~ USD 300 MM in short term debt (15% of total debt) with Banks. 48% of total debt in USD. 2019 Net Debt/ EBITDA: 4.1x  
2019 Debt / Equity: 87%  
Divestment plan, related with sales of non-core assets in USA, aiming to lower their leverage ratio, could slow down.

#### P/B:

Current: 0.6x, Average: 1.7x  
Current Price/Book ratio is low. We think that the company will have a transitory shock, but growth rate, payout and ROE should improve gradually in the mid – term.

### Potential Recovery

#### Government measures :

Until now we don't see any specific measures from the Colombian Government focused on this sector in relation to COVID-19.

#### Financial strength:

USA: Nearly 50% of EBITDA and 56% of revenue sales. Financial results will be benefitted by the Colombian peso devaluation. According to the company, until March, operations of Cementos Argos in the USA had been normal, considering construction is an essential activity.

#### Valuation:

Using a three phased dividend discount model, the stock price should be at COP 3,276, which implies a "floor" for the stock price. Even though the company will have a slowdown in the next periods, future reactivation of construction sector should imply a recovery in volumes and revenue sales, but it will depend in part on the recovery of the real estate.

\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana. Peers: Cementos Pacasmayo, Cemex, Unacem, Cementos de Chihuahua, LaFarge, Heidelberg. .

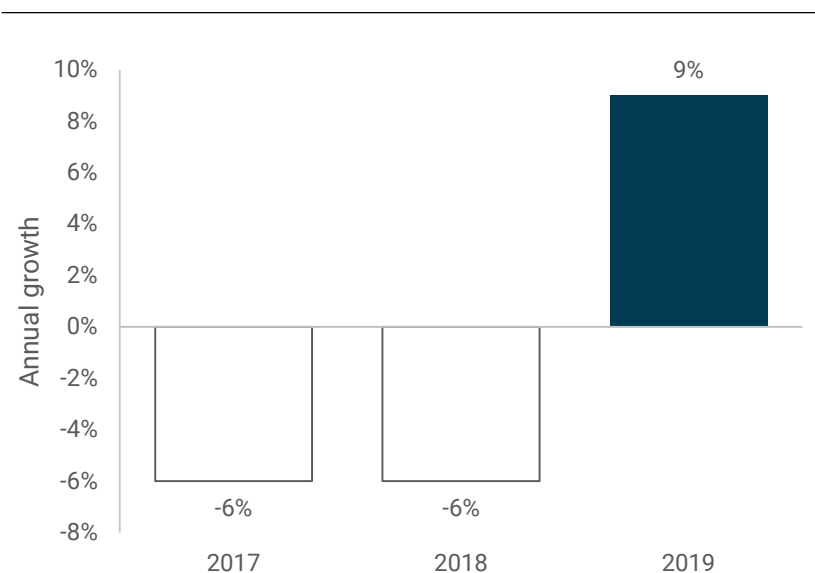
**Latam region limits CLH's growth possibilities:** Cement company with presence in Colombia, Panamá, Costa Rica, primarily; with nearly 30% market share in Colombia, 40% in Panama and 50% in Costa Rica. CEMEX SAB is the holding company of CLH.

Construction (materials, related holdings)

Trading Statistics	
April close (COP)	1,800
Last (COP)	1,630
2019 return (%)	+19.1
YTD return (%)	-63.0
5yr max	14,200
5yr min	1,360
Trailing P/E (x)	64.4
Trailing P/B (x)	0.2
Dividend yield (%)	No dividend
EBITDA 2019 (USD MM)	191.8

Source: Capital IQ, BVC and Corficolombiana.

## CLH's Cement volumes in Colombia



Source: CLH and Corficolombiana.

## CLH's historic Price/Book



Source: Capital IQ and Corficolombiana.

# Cemex Latam Holdings - Analysis



Construction (materials, related holdings)

	Sector Specific	Financials	Trading Overview / Valuation *
Exposure / Risk	<p><b>Sector specific risk</b> The cement sector is strongly related with construction sector (infrastructure, residential and non – residential). This sector could be impacted in Colombia and Central America by the COVID-19 current situation.</p>	<p><b>Fixed and variable costs:</b> Energy can represent nearly 33% of production costs. The reduction in operations of some plants may represent variable costs reduction related with production of cement (mainly Clinker) and logistic costs, among others.</p>	<p><b>Stock appreciation:</b> Stock price has been below 2017 levels, when cement prices dropped due to imported cement volumes from Turkey, and below 2018's, when United States and Colombian authorities made additional investigations due to legal problems with The Maceo Plant.</p>
Growth	<p><b>Association with GDP:</b> Despite belonging to the construction materials industry, we follow the Construction GDP. The similarities in the region (developing Latam countries), results in a notable association between the company's revenue and Colombia's construction GDP.</p>	<p><b>Revenue:</b> ~ 50% Colombia ~ 18% Panamá ~ 10% ~ 22% Rest of CLH Defending EBITDA margins in US dollars can lead to a loss in market share.</p>	<p><b>P/E:</b> Current: 64x Average: 24x Peer's Average: 15x High volatility of exchange rate, fast stock price decreases and weak net incomes affected trailing P/E.</p>
Structure / Framework	<p><b>Industry participation on commercial bank loans:</b> Construction participation is stable at around 15%. Nevertheless, since 2017 portfolio quality has deteriorated constantly because of construction deceleration, including some infrastructure and building projects.</p>	<p><b>Financial leverage:</b> 69% of debt with fixed interest rate. Net Debt/ EBITDA: 3.8x Debt / Equity: 53% CLH do not have material debt maturities until December 2022 and February 2023 (USD 84 MM and USD 503 MM) respectively.</p>	<p><b>P/B:</b> Current: 0.2x, Average: 1.2x Price/Book ratio is extremely low relative to its average. Even though 2019 ROE was the lowest in history (0.3%), we think that after transitory shock, this metric should improve in some way.</p>
Potential Recovery	<p><b>Government measures :</b> Until now we don't see any specific measures from the Colombian Government focused on this sector in relation to COVID-19.</p>	<p><b>Financial strength:</b> Nearly 96% of its financial debt lenders are companies' subsidiaries of CEMEX S.A.B. However, CLH has part of its revenues in COP and debt in USD.</p>	<p><b>Valuation:</b> Current stock prices would be fair if a decline in volumes sold is greater than 20% in 2020 and 2021. Despite current slowdown, future construction reactivation should result in a recovery in volumes sold, but this depends largely on a recovery of the real estate sector.</p>

\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana. Peers: Cementos Pacasmayo, Cemex, Unacem, Cementos de Chihuahua, LaFarge, Heidelberg.

**Infrastructure investment vehicle in Colombia:** Focus in cement, energy, road and airport concessions. Portfolio with ~ USD 15 billion in consolidated assets. Portfolio composed by PACTIA, Desarrollo Urbano, Grupo Sura and Grupo Nutresa.

Construction (materials, related holdings)

Trading statistics	
April close (COP)	9,220
Last (COP)	8,120
2019 return (%)	+5.3
YTD return (%)	-54.4
5yr max	21,880
5yr min	7,010
Trailing P/E (x)	14.4x
Trailing P/B (x)	0.4x
Dividend yield (%)	4.6
EBITDA 2019 (USD MM)	1,283.6

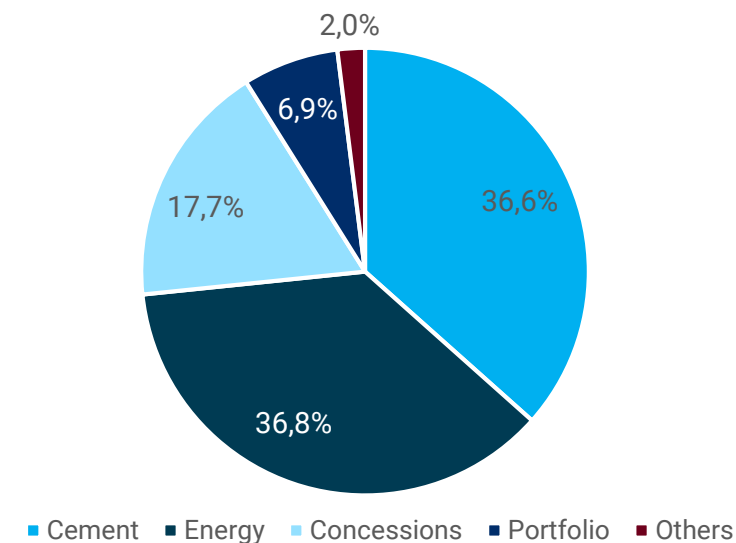
Source: Capital IQ, BVC and Corficolombiana.

### Grupo Argos' historic P/ E multiple



Source: Capital IQ, BVC and Corficolombiana

### EBITDA Contribution form by segment (2019)



Source: Grupo Argos and Corficolombiana.

	Sector Specific	Financials	Trading Overview/ Valuation
<b>Exposure / Risk</b>	<p><b>Sector specific risk</b>  <b>Cement:</b> Strongly related with the construction sector and could be impacted with the current situation (COVID-19).  <b>Utilities:</b> More resilient than companies from other sectors, given essential public functions they provide.  <b>Concessions:</b> Passenger movement restrictions in airports and no payment of tolls in private initiatives will affect revenues.</p>	<p><b>Fixed and variable costs:</b>  <b>Cement:</b> The reduction in operations of some plants may result in variable costs reduction.  <b>Utilities:</b> 80% of energy generation comes from renewable sources (variable costs are close to zero).  <b>Road Concessions:</b> Cost savings due to improved performance of its road operations.</p>	<p><b>Stock appreciation:</b>                      Even though stock prices have rebounded in the last days, it reached its minimum historical level on March 19<sup>th</sup> (COP 7,010), beating the 2008 low (COP 7,100). The company is better diversified than in 2008, when it began its diversification process.</p>
<b>Growth</b>	<p><b>Association with GDP:</b>                      Despite belonging to the construction materials industry, we follow the Construction GDP, with a moderate association (sales and GDP) in Colombia given the share of sales in the USA of Cementos Argos. The holding is a significant driver of the Colombian economy due to its participation in key sectors of the economy.</p>	<p><b>Revenues (2019):</b>                      ~ 56% Cement. ~ 22% Utilities.                      ~ 11% Concessions. ~ 11% Others.                      Consolidated EBITDA of COP 4.8 trillion in 2019(+ 21% y/y) with a margin of 28%.</p>	<p><b>P/E:</b>                      Current: 14.4x. Average: 33.2x.                      Current P/E could improve due to a stable growth prospect according to future projects of its energy and concessions businesses.</p>
<b>Structure / Framework</b>	<p><b>Industry participation on commercial bank loans:</b>                      Construction sector has a relatively stable participation on commercial bank loans (~ 15%). Nevertheless, since 2017 portfolio quality has deteriorated constantly because of construction desacceleration, including some infrastructure and buildings projects.</p>	<p><b>Financial leverage:</b>                      Grupo Argos does not have material debt maturities in 2020 and 2021.  <b>Cementos Argos:</b> ~ USD 300 MM in short term debt (15% of total debt) with Banks. 48% of total debt in USD.</p>	<p><b>P/B:</b>                      Current: 0.4x. Average: 0.8x.                      Current P/B could adjust to its average, through a stable ROAE stability (4.2% average in the last 4 years) and a steady payout (4-year average´s of 27%).</p>
<b>Potential Recovery</b>	<p><b>Government measures :</b>                      El Dorado airport closure affects aeronautical and non aeronautical revenues. Regarding <b>road concessions</b>, in Colombia, AKF and Pacifico 2 (progress of 84%) have guaranteed traffic (minimum traffic curve and collection differential respectively). Tunel de Oriente is a private initiative and could have a short – term impact in revenues.</p>	<p><b>Financial strength:</b>                      Long-term strategy that focuses on two main axes: Selective and profitable growth and strengthening the profitability of their companies to maximize value.</p>	<p><b>Dividend Discount Model:</b> Using a three phased dividend discount model, the stock price should be COP 5,327, which implies a “floor” to the stock  <b>Sum of Parts Model:</b> The stock price should be COP 11,500 (ordinary share).</p>

\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana.

# This is where we draw the line on COVID-19 and Oil

1. Overview
2. Consumer (staples, discretionary)
3. Energy Utilities
4. Construction (materials, related holdings)
- 5. Financials**
6. Oil – Gas and mining
7. Transportation, travel & leisure

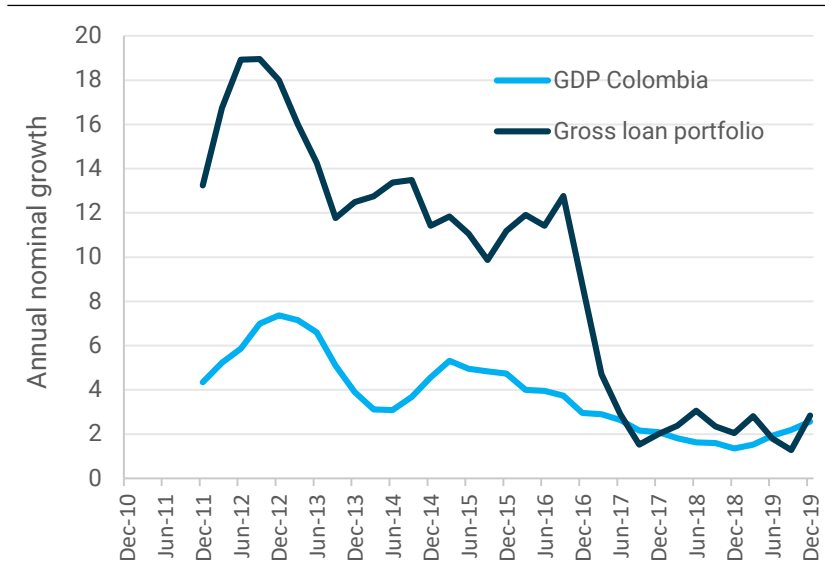
## ANNEXES

**The largest bank in Colombia and the first to announce COVID-19 related measures:** Largest bank in Colombia with presence in Panamá, Guatemala, El Salvador and Puerto Rico. Total assets USD 68.0 billion, 50.3 in loans, with total deposits of 45.4 bn. Over 15 mm clients, 31 k employees and a distribution network of 6,151 ATMS, 976 branches and 17556 banking agents Bancolombia announced measures before the local regulator did.

Trading Statistics (PF)	
April close (COP)	25,880
Last (COP)	21,820
2019 return (%)	45.9
YTD return (%)	-52.4
5yr max	47,220
5yr min	20,300
Trailing P/E (x)	6.3
Trailing P/B (x)	0.8
Dividend yield (%)	7.5
Net Interest Income 2019 (USD MM)	3,369

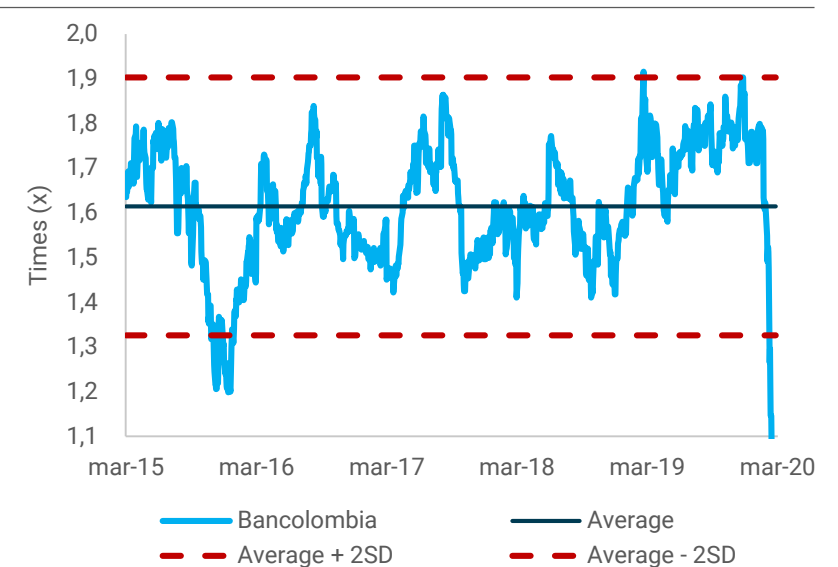
Source: Capital IQ, BVC and Corficolombiana.

### Colombia's GDP and Gross Loan Portfolio



Source: DANE, Superintendencia Financiera and Corficolombiana.

### Bancolombia's historic P/ B multiple



Source: Capital IQ, BVC and Corficolombiana

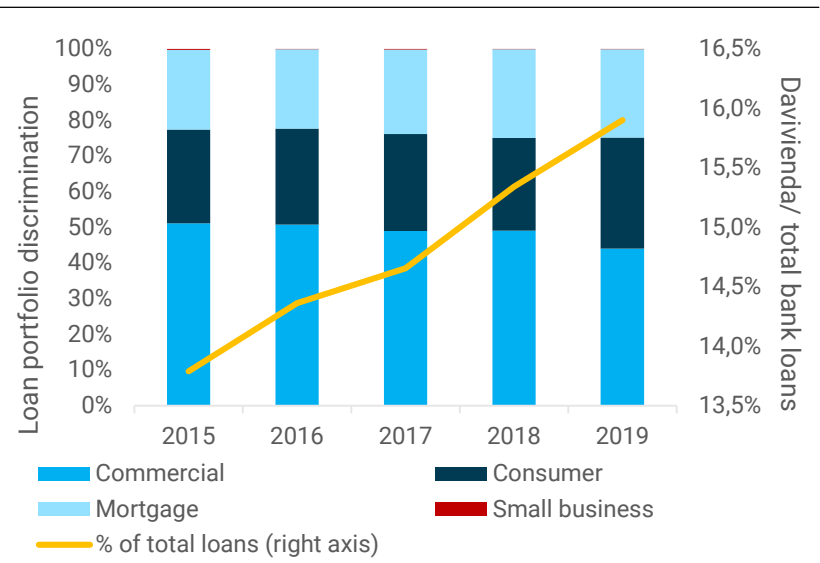
	Sector Specific	Financials	Trading Overview/ Valuation *
<b>Exposure / Risk</b>	<p><b>Sector specific risk</b> Bancolombia is the largest bank of Colombia (25.6% of Colombian banks total loan portfolio), with presence in Central America and Perú. Given its size, the bank's results are associated to the country's economic cycle, increasing its exposition to consumer loans during the last couple of years.</p>	<p><b>Funding:</b> During 1Q20 the bank achieved better funding costs than those of the previous year and quarter. Bonds and loans from financial institutions partake a fifth of the bank's funding, the rest is obtained from savings and current accounts (49%) and time deposits (31%)</p>	<p><b>Stock appreciation:</b> Year To Worst: -59.8% Year To Date: -52.4% With P/ B under 1x and at a market "low", we expect this stock to recover. The recovery might be slow, in phase with the rest of the economy.</p>
<b>Growth</b>	<p><b>Association with GDP:</b> Loan portfolio growth directly associated with GDP and asset quality (past due) indirectly and lagged. Lessening current debt burdens to enable sustainability in the individual and firm levels is part of the current consensus.</p>	<p><b>Revenue:</b> The economy of Central America, where the bank has 30% of its loans, should benefit from being a net oil importer. The bank was able to maintain its 5.6% NIM of 1Q19 in 1Q20, despite the measures taken by mid-March.</p>	<p><b>P/E:</b> Peers: 12.7x (March 31<sup>st</sup>) Historic average: 11.4x Current: 6.3x</p>
<b>Structure / Framework</b>	<p><b>Loan portfolio composition:</b> Commercial, Consumer and Mortgage loans represent 66.8%, 22.4% and 10.2% of the loan portfolio of the bank respectively. This bank is the largest lender of the country both in consumer and commercial loans.</p>	<p><b>Leverage:</b> Consolidated Tier I solvency of 9.1%, above the minimum 4.5%. Expected to increase its total solvency when applying the Basel III capital accord. Additionally, the bank has issued Contingent Convertible (CoCo) bonds in the past, a mechanism that enables the bank to increase its capital without withholding earnings or issuing stock.</p>	<p><b>P/B:</b> Peers: 2.2x (March 31<sup>st</sup>) Historic average: 1.9x Current: 0.8x Heavily undervalued, huge space to recover.</p>
<b>Potential Recovery</b>	<p><b>Government measures :</b> Banks are not expected to grow or achieve positive RoEs this year, but their commitment will be backed by accounting and regulatory measures that will ease their function and lighten the recognition of asset deterioration.</p>	<p><b>Financial strength:</b> An appropriate transition and recovery of Colombia's economy should benefit Bancolombia rapidly given its aggressive and advanced measures to help its client base. Bancolombia has the largest market share in the country's banks loan portfolio (26.1%); commercial (32.5%) and consumer loans (19.5%) specifically, occupying second place in mortgage loans (19.5% market share).</p>	<p><b>Valuation:</b> 2 phase DDM: COP 7,331 22/05 close: COP 21,820</p>

\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana. Peers: Banco de Chile, Banco Santander Chile, Banco de Crédito Perú.

**Solid market share performance, very strong digital platform:** Largest mortgage lender in Colombia, second and third largest bank in terms of loans and total assets. The bank is present in 6 countries and is one of the most important players in Central America (Panamá, Costa Rica, Honduras and El Salvador). Davivienda has total assets and loan portfolio of USD 37.3 and 29.7 billion (thousands of millions), net income of USD 452 MM, ROAE and Tier I solvency of 12.4% and 8%. Davivienda's well established digital platform is one of its most important growth catalysts.

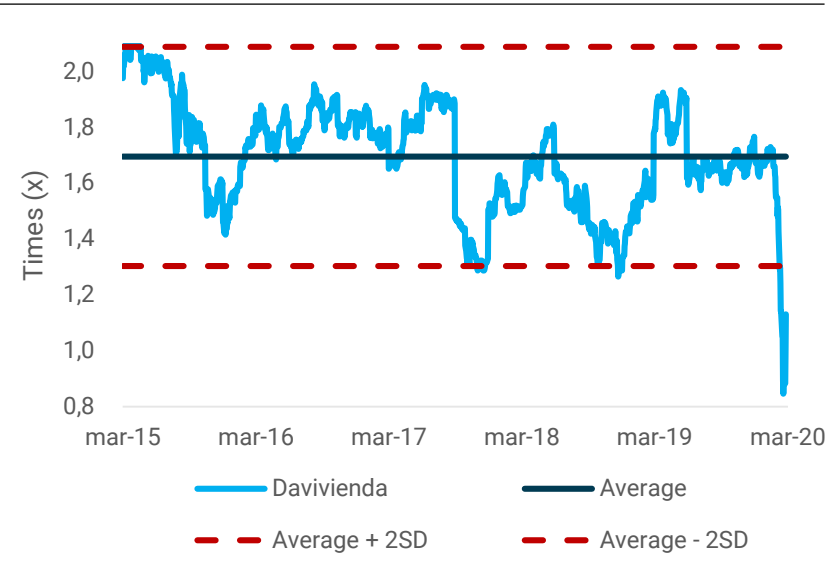
Trading Statistics	
April close (COP)	28,720
Last (COP)	24,980
2019 return (%)	48.7
YTD return (%)	-45.7
5yr max	46,900
5yr min	21,180
Trailing P/E (x)	8.6
Trailing P/B (x)	1.0
Dividend yield (%)	3.7
Net Interest Income 2019 (USD MM)	2,047

**Loan portfolio composition and share of Colombia's total gross loans**



Source: Superintendencia financiera and Corficolombiana.

**Davivienda's historic P/ Book multiple**



Source: Capital IQ, BVC and Corficolombiana.

Source: Capital IQ, BVC and Corficolombiana.

	Sector Specific	Financials	Trading Overview/ Valuation *
Exposure / Risk	<p><b>Sector specific risk</b> Despite the low exposition of the banking industry to Oil and Gas, and not being a particularly COVID-19 vulnerable sector at first glance, banks reflect the country's economy, they will reflect the aftermath of COVID-19 as well as this year's oil crash on Colombia's fiscal accounts. .</p>	<p><b>Funding:</b> Savings and checking accounts funding add 40%, term deposits 34%, the rest is credits and bonds. Loans to deposits and loans to funding sources are 128.9% and 95.9%</p>	<p><b>Stock appreciation:</b> Year To Worst: -50.1% Year To Date: -45.7% The stock is undervalued, but we expect a slow recovery in line with the country's economy.</p>
Growth	<p><b>Association with GDP:</b> Loan portfolio growth is usually procyclical to economic growth, while the quality of their assets also have a positive association with GDP, whilst a bit lagged.</p>	<p><b>Revenue:</b> 47% of its loans are commercial, 30% consumer and 24% mortgage loans. Commercial loans on Oil, Gas and mining are 1% of total commercial loans, Food 2%, and Transport 4%, while services weigh 15% of total. 39% of total product sales is achieved using the bank's digital platform.</p>	<p><b>P/E:</b> Peers: 12.7x (March 31<sup>st</sup>) Historic average: 11.2x Current: 8.6x</p>
Structure / Framework	<p><b>Industry participation on commercial bank loans:</b> During the last five years, commercial loans have reduced their share of the total loan portfolio, while consumer loans and mortgages have increased theirs, with a notable increase in consumer loans last year.</p>	<p><b>Leverage:</b> Consolidated Tier I solvency of 8.1%, above the minimum 4.5%. Expected to increase its total solvency when applying the Basel III capital accord. Additionally, the bank has issued Contingent Convertible – like debt (operation with IFC), a mechanism that enables the bank to increase its capital without withholding earnings or issuing stock.</p>	<p><b>P/B:</b> Peers: 2.2x (March 31<sup>st</sup>) Historic average: 1.7x Current: 1.0x Considerable space for valuation when compared to book value.</p>
Potential Recovery	<p><b>Government measures :</b> In order to enable the support of the government to the most vulnerable sectors and industries through the banking system, we highlight the three-month period during which the banks will not have to register provisions of nonpaying loans, affected by the COVID-19 crisis. .</p>	<p><b>Financial strength:</b> During the las two years, Davivienda was able to increase its market share in consumer loans while maintaining asset quality. This was enabled by its data analysis and digital channel capabilities. We are confident that these capabilities Will enable the bank to manage the transition and recovery phases of the COVID-19 crisis.</p>	<p><b>Valuation:</b> 2 phase DDM: COP 3,193 22/05 close: COP 28,720</p>

\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana. Peers: Banco de Chile, Banco Santander Chile, Banco de Crédito Perú.

**Diversified portfolio:** A Colombian conglomerate and one of the leading financial services companies in Latin America. Its investment portfolio spans beyond banking, asset management, and insurance companies, but also includes infrastructure, cement and the food processing industry.

Trading statistics	
April close (COP)	18,880
Last (COP)	16,300
2019 return (%)	+3.9
YTD return (%)	-41.1
5yr max	44,280
5yr min	11,200
Trailing P/E (x)	10.2x
Trailing P/B (x)	0.4x
Dividend yield (%)	3.9
Operating Income 2019 (USD MM)	924.5

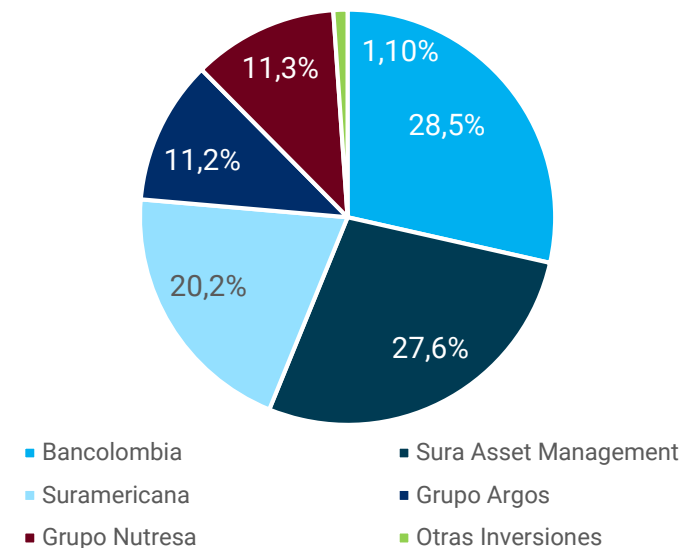
Source: Capital IQ, BVC and Corficolombiana.

## Grupo Sura's Historic P/ E multiple



Source: Capital IQ, BVC and Corficolombiana.

## Grupo Sura's portfolio



Source: Grupo Sura IR.

	Sector Specific	Financials	Trading Overview/ Valuation
<b>Exposure / Risk</b>	<p><b>Sector specific risk</b> Current health environment could have a meaningful impact on Life Insurers' earnings as companies on this spectrum will see higher life, health and renter's insurance claims. In addition, volatility on the capital markets also represents a risk to companies in this industry.</p>	<p><b>Expenses / costs:</b> We observed higher policy acquisition costs in 2019 on the insurance business, while macroeconomic deterioration in Argentina and social unrest in Chile drove expenses higher. As the company adds on digital channels to incorporate clients, acquisition costs should start decreasing.</p>	<p><b>Stock appreciation:</b> The price level reached over the last two weeks represents its lowest since 2009 when the financial crisis burst. Before the drop in the stock price, management had announced a buyback program of approximately 2.6% of its shares to boost price.</p>
<b>Growth</b>	<p><b>Association with GDP:</b> While 76.3% of Grupo Sura's portfolio is concentrated in the financial sector, the company is also comprised of Grupo Argos and Grupo Nutresa (encompassing the cement and processed food industry), making it difficult to assess its relationship with the financial sector GDP.</p>	<p><b>Revenue:</b> Given the move in credit and equity markets, we expect a deterioration on Sura's investment portfolio in both Sura Asset Management and Suramericana (With SUAM more exposed to equities). We expect equity-method profits to be significantly impacted as companies go through the COVID-19 crisis.</p>	<p><b>P/E:</b> Current: 10.2x Average: 17.2x Peer's median: 11.51x Grupo sura is trading below its historical relative valuation. We do see a major multiple compression relative to other sub-groups in the colcap index.</p>
<b>Structure / Framework</b>	<p><b>Industry participation on commercial bank loans:</b> Financing to this sector represents approximately 9.2% of total commercial loans. Its share in total portfolio loans has dropped 1.8 percentage points since 2014.</p>	<p><b>Financial leverage:</b> 10% of total debt is in U.S. dollars. Net Debt / dividends = 4.1x Loan-to-value = 13.1 Significant leverage reduction through a combination of capital efficiency, FCF generation and disposal of non-strategic assets since 2017.</p>	<p><b>P/B:</b> Current: 0.4x Average: 1.2x Peer's average: 2.0x The company's valuation in price/book (P/B) terms has declined during the past three weeks alongside a market expectation of lower profitability due to the coronavirus crisis.</p>
<b>Potential Recovery</b>	<p><b>Government measures :</b> Up to 7% of the contributions from the Occupational Risk System (ARL for its initials in Spanish) will be used to supply protection elements for health professionals, prioritizing the IPS of the regions most affected by the Covid-19 outbreak (Decree 488, 2020).</p>	<p><b>Financial strength:</b> We believe greater capital management combined with the suspension of share repurchases will be key , as the company faces a severe stress scenario in both its investment portfolio and on its insurance business with increasing premium claims (life insurance). Liquidity is secured to counter the crisis.</p>	<p><b>Valuation:</b> Our three phased dividend valuation model yields a value of COP 26,908, representing a market discount of 39.4%. Due to several unforeseen issues and no visibility around the outcome of the coronavirus crisis, valuation of insurance companies come with a high degree of uncertainty. 22/05 Close: COP 16,300</p>

\* Source: Company's IR, Superfinanciera,, DANE, Capital IQ, BVC and Corficolombiana.

# This is where we draw the line on COVID-19 and Oil

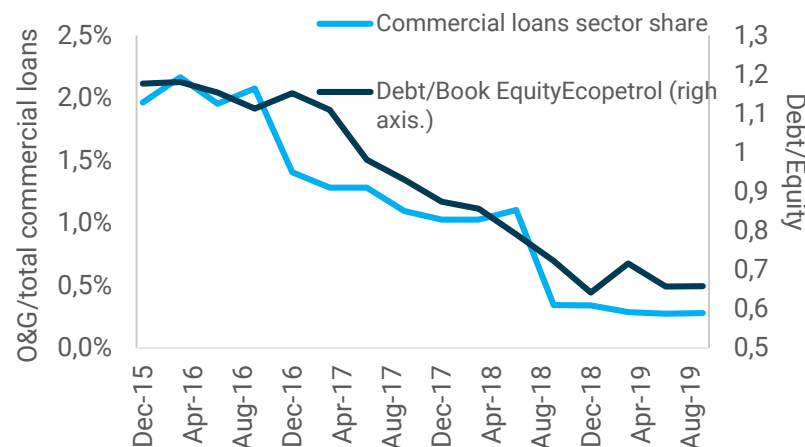
1. Overview
  2. Consumer (staples, discretionary)
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  4. Construction (materials, related holdings)
  5. Financials
  - 6. Oil – Gas and mining**
  7. Transportation, travel & leisure
- ANNEXES**

**Better suited to cruise the terrible weather:** Ecopetrol is a vertically integrated oil and gas company with presence primarily in Colombia and with activities in Peru, Brazil, Mexico and the U.S.. Recent year's operational and financial strengthening will help the company sort today's troubled markets, with the outcome depending on how long the spot price levels remain depressed.

Trading Statistics	
April close (COP)	2,090
Last (COP)	1,970
2019 return (%)	25.3.
YTD return (%)	-40.6
5yr max	4,160
5yr min	881
Trailing P/E (x)	6.1
Trailing P/B (x)	1.4
Dividend yield (%)	9.1
EBITDA 2019 (USD MM)	9,478

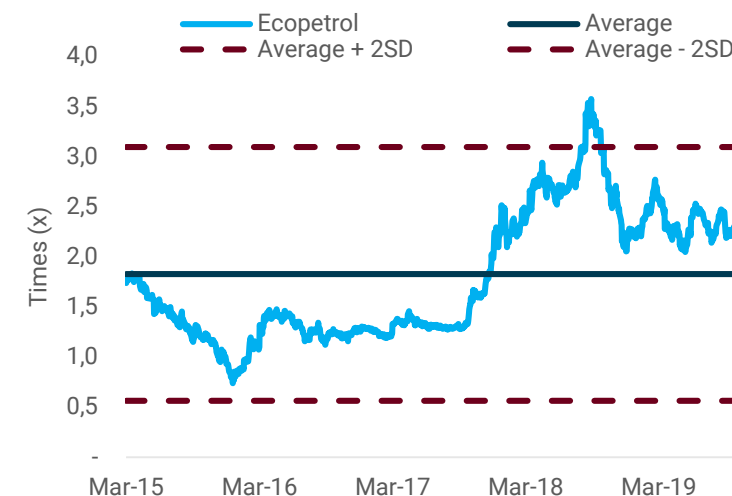
Source: Capital IQ, BVC and Corficolombiana.

## Banking system exposition to O&G and Ecopetrol's leverage



Source: Superfinanciera, Ecopetrol IR and Corficolombiana.

## Ecopetrol's historic Price/Book



Source: Capital IQ and Corficolombiana.

# Ecopetrol - Analysis



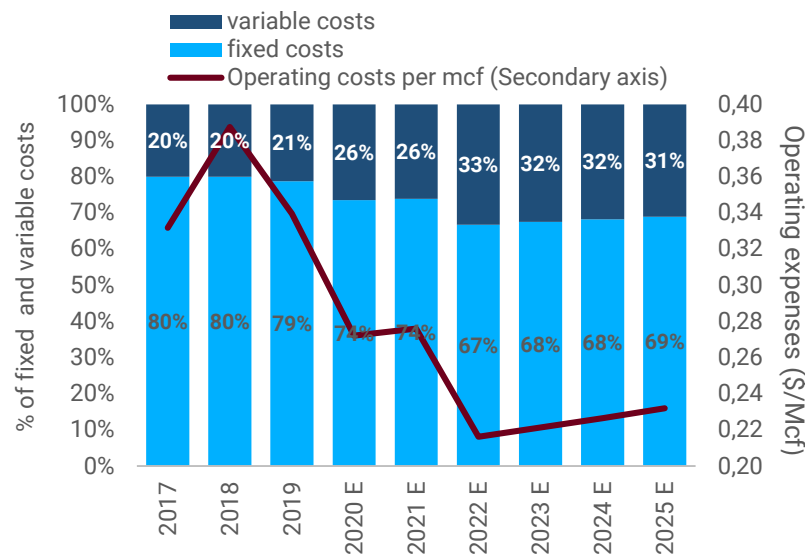
	Sector Specific	Financials	Trading Overview/ Valuation *
Exposure / Risk	<p><b>Sector specific risk</b> Oil oversupply during a period of an economic standstill makes it difficult to foresee a correction in prices, threatening the preservation of a great deal of companies and related businesses. The company needs Brent oil prices above USD 29.1/bl to obtain positive earnings.</p>	<p><b>Fixed and variable costs:</b> Approximately 82.7% of Ecopetrol's costs of sales are variable, most costs and a fair deal of capex are Colombian peso denominated.</p>	<p><b>Stock appreciation:</b> Year To Worst: -57.2% Year To Date: -40.6% The recovery depends on oil prices and reserves addition.</p>
Growth	<p><b>Association with GDP:</b> On top of the strong relationship with the Oil &amp; Gas GDP, Ecopetrol is the largest single contributor to the country's capital investment.</p>	<p><b>Revenue:</b> Around 56% of sales are exports, and most of sales are USD denominated. The relation between FX and oil prices usually favors Ecopetrol's results in COP.</p>	<p><b>P/E:</b> Peers: 20.8x (March 31<sup>st</sup>) Historic average: 21.7x Current: 6.1x</p>
Structure / Framework	<p><b>Industry participation on commercial bank loans:</b> The share of the mining and energy industry in the total commercial loan portfolio of Colombia is only 1.3%. If only oil and gas extraction is considered, that share drops down to 0.3%.</p>	<p><b>Financial leverage:</b> 2019's net debt/EBITDA was 1.0x, and 88.3% of total debt was USD denominated. FX exposure is high, but manageable given the denomination of revenue.</p>	<p><b>P/B:</b> Peers: 1.2 (March 31<sup>st</sup>) Historic average: 1.8x Current: 1.4x</p>
Potential Recovery	<p><b>Government measures :</b> Given the 88.49% stake of the government in the company, we take the reduction of 24% in 2020's capex, which is now expected at around USD 3,800 MM as a government measure, which should enable the continuity of the business, despite the ongoing industry crisis.</p>	<p><b>Financial strength:</b> The combined effect of FX and oil prices on earnings (in COP), low proportion of fixed costs in cost of sales and low leverage, complement the huge improvement accomplished by the company in terms of costs, capex, and secondary recovery.</p>	<p><b>Valuation:</b> 2 phase DDM: COP 894 22/05 close: COP 1,970</p>

\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana. Peers: Cenovus, Hess, Imperial, Suncor, Conoco Phillips, Occidental, Petrobras.

**Natural gas pure-play stock :** Conventional natural gas producer (*Upstream*) concentrated in Colombia. The company's main gas fields of operation are in the lower and middle Magdalena basin. Canacol has shown an impressive gas exploration performance. Four fifths of its revenue come from dollarized long-term contracts.

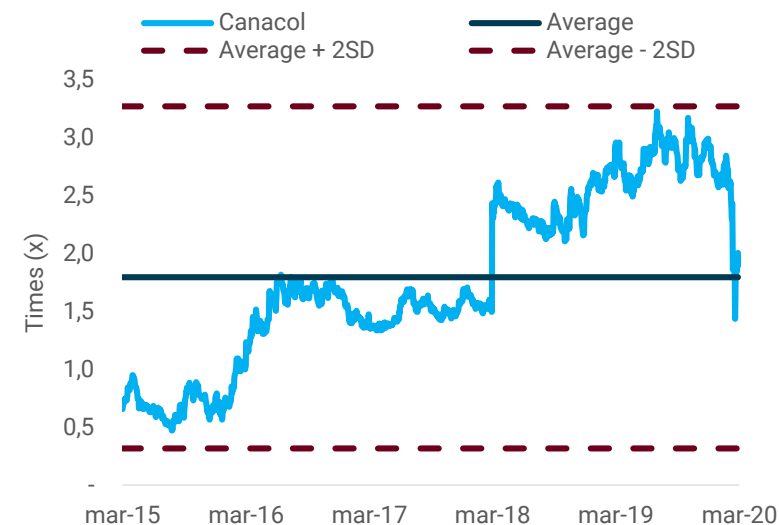
Trading Statistics	
April close (COP)	10,040
Last (COP)	10,920
2019 return (%)	+24.1
YTD return (%)	-8.7
5yr max	13,000
5yr min	4,780
Trailing P/E (x)	17.2
Trailing P/B (x)	2.4
Dividend yield (%)	6.6
EBITDA 2019 (USD MM)	148.4

## Operating expenses (\$/Mcf)



Sources: Capital IQ and Corficolombiana.

## Canacol's historic Price/Book



Sources: Capital IQ, BVC and Corficolombiana.

Source: Capital IQ, BVC and Corficolombiana.

# Canacol Energy - Analysis

	Sector Specific	Financials	Trading Overview/ Valuation *
<b>Exposure / Risk</b>	<p><b>Sector specific risk</b> Lower world-wide demand for oil and oversupply from Russia and Saudi Arabia has driven oil prices to their minimum lows not seen since 2003. We expect further volatility on both oil and gas prices in the short term. In addition, we see a risk on sales in the short term due to the reduction of energy demand.</p>	<p><b>Fixed and variable costs:</b> Around 80% of total operating costs are fixed, therefore, as production ramps up to 205 mmcf in 2020, we anticipate a 9% y/y increase on net operating profit. Furthermore, since expenses are in Colombian pesos while revenue is in US dollars, the company is benefitting with the current devaluation of the Colombian peso.</p>	<p><b>Stock appreciation:</b> The momentum gained by the stock in October 2019, as the market priced in Canacol's production growth, has been offset in the last couple of weeks. Canacol's current stock level (COP 10,200) is at a number which had not been seen since May of last year.</p>
<b>Growth</b>	<p><b>Association with GDP:</b> Canacol exhibits a strong but lagging relationship with the Oil &amp; Gas GDP. We expect this relationship to be less evident as the company focuses mainly on gas production and disposes of its oil assets.</p>	<p><b>Revenue:</b> 80% of sales come from long-term fixed-price take-or-pay sales contracts with no exposure to international commodity prices. Spot sales, which represent 20% of total revenue, will most likely exhibit volatility on 2020.</p>	<p><b>P/E:</b> Canacol's current P/E of 17.2x is well above its peers as they experienced a major drop in their market value in the last couple of weeks. However, we believe that Canacol's inherent risks and growth prospects are not correctly priced in, at current levels.</p>
<b>Structure / Framework</b>	<p><b>Industry participation on commercial bank loans:</b> After the sudden drop in oil prices in 2014, Colombian Banks reduced significantly their exposure to the Oil &amp; Gas industry, from 2% in 2015 to the current 0.3% level.</p>	<p><b>Financial leverage:</b> In 2018, Canacol executed the conversion of its bank debt into senior unsecured bonds. The company successfully postponed the maturity of its debt obligations to December 2025, while significantly reducing its financial costs.</p>	<p><b>P/B:</b> Company's current trading P/B multiple of 2.4x is slightly above its historical multiple and outperforming its Oil &amp; Gas peers as the market has seen a major sell off, of companies holding oil assets. <i>Average comps Price to book = 0.2x</i></p>
<b>Potential Recovery</b>	<p><b>Government measures :</b> Contracts under the take-or-pay modality can be modified by mutual agreement (buyer and seller). This applies to both prices and quantities established in the contracts. This measure is transitory given the expected drop in gas demand.</p>	<p><b>Financial strength:</b> Low production costs with fixed price (USD) long term contract sales. As the business continues to experience strong sales, free cash flow generation will support the company's' current share buyback and dividend distribution programs.</p>	<p><b>Valuation:</b> Our discounted cash flow model yields a blended value of CAD 6.25 – 6.50 per share based on current production plans. Using the dividend discount model approach (yields a value of COP 4,537), Canacol's current share price would be overvalued by 140.7%.</p>

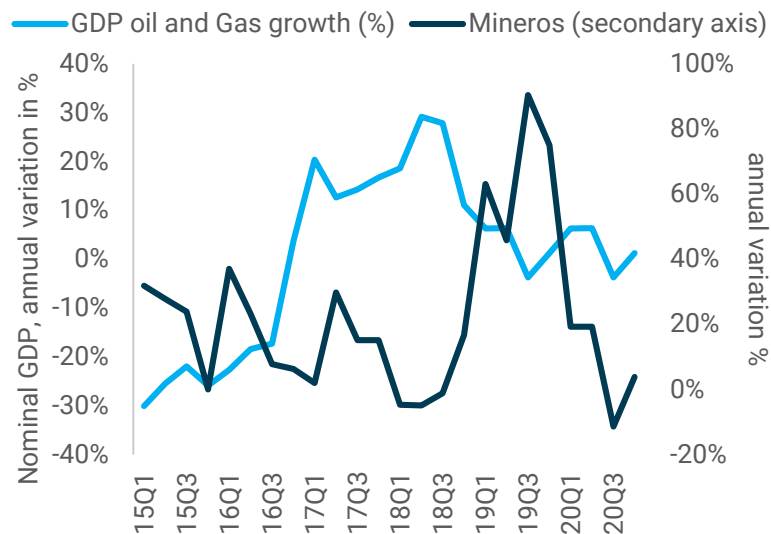
\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corfic Colombiana. Peers: Cenovus, Hess, Imperial, Suncor, Conoco Phillips, Occidental, Petrobras.

**Haven Asset:** Mining company dedicated to the exploration and exploitation of precious metals, particularly gold. Operations are carried out in Antioquia (Colombia), in Bonanza (Nicaragua) and in the province of San Juan Argentina. The company also operates two small hydroelectric plants called Providencia I and Providencia.

Trading statistics	
April close (COP)	3,070
Last (COP)	3,315
2019 return (%)	+58.9
YTD return (%)	+2.0
5yr max	13,000
5yr min	4,780
Trailing P/E (x)	7.1x
Trailing P/B (x)	0.9x
Dividend yield (%)	5.5
EBITDA 2019 (USD MM)	114.5

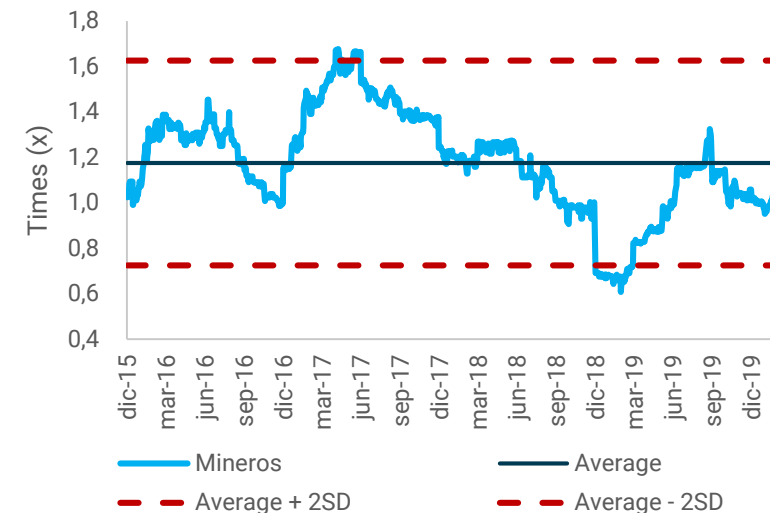
Source: Capital IQ, BVC and Corficolombiana.

## Minero's revenue and sector GDP



Source: DANE, Mineros IR and Corficolombiana.

## Minero's historic P/ B multiple



Source: Capital IQ, BVC and Corficolombiana

# Mineros - Analysis

	Sector Specific	Financials	Trading Overview/ Valuation
<b>Exposure / Risk</b>	<p><b>Sector specific risk</b> Risk on this specific sector will depend on possible production interruptions. Given Mineros' strong liquidity position and cash on hand, the company should be able to endure complete production shutdowns on the next couple of months.</p>	<p><b>Expenses / costs:</b> 70% of costs of goods sold are denominated in Colombian pesos. Additionally, we expect a reduction on <i>Cash Cost</i> (measured as total cost of production / total of ounces produced) as the company reaches economies of scale and production doubles in the next five years.</p>	<p><b>Stock appreciation:</b> We expect drivers for risk aversion to contribute to a higher end-year gold price. As uncertainty of recession increases, the market should start pricing Mineros' defensive nature and production plan on its stock level.</p>
<b>Growth</b>	<p><b>Association with GDP:</b> Mining and quarrying is directly associated with Ecopetrol's performance. Therefore, we cannot observe a direct association of Mineros' operational performance with this component of GDP.</p>	<p><b>Revenue:</b> Revenue sales are driven directly by production levels and the price of gold in the international market. Current devaluation of the peso has no negative effect on top line growth as income is generated in U.S. dollars. Contribution to sales by country: Nicaragua (43%), Argentina (33%) and Colombia (24%).</p>	<p><b>P/E:</b> Current: 7.1x Average: 7.0x Peer's median: 8.16x Mineros has been trading at a discount when compared to its peers. The lack of liquidity of the stock has hindered the formation of a correct price level.</p>
<b>Structure / Framework</b>	<p><b>Industry participation on commercial bank loans:</b> The share of the mining and energy industry in the total commercial loan portfolio of Colombia is only 1.3%.</p>	<p><b>Financial leverage:</b> Net Debt / EBITDA = 0.5x D/E = 0.3x The company has refinanced and extended its credit facility in the last 12 months, securing a long-term loan for COP 96,300 MM. All of its debt outstanding is denominated in local currency.</p>	<p><b>P/B:</b> Current: 0.9x Average: 1.2x Peer's average: 1.3x Mineros is currently trading at a deep discount based on its price to book multiple and its five-year historical average.</p>
<b>Potential Recovery</b>	<p><b>Government measures :</b> Current measures are not expected to affect Mineros' performance.</p>	<p><b>Financial strength:</b> The increase in volatility in the financial markets and the increase in risk aversion (leading to higher gold prices), and the general strengthening of the dollar will contribute to enhance the company's earnings.</p>	<p><b>Valuation:</b> As Investors look for shelter in haven assets, precious metals will continue to outperform the market. Under this scenario we expect Mineros' share price to recover. Our DDM yields a value of COP 1,687 implying a market premium of 96.5%. 22/05 Close: COP 3,315</p>

\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana.

# This is where we draw the line on COVID-19 and Oil

1. Overview
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3. Energy Utilities
4. Construction (materials, related holdings)
5. Financials
6. Oil – Gas and mining
- 7. Transportation, travel & leisure**

## ANNEXES

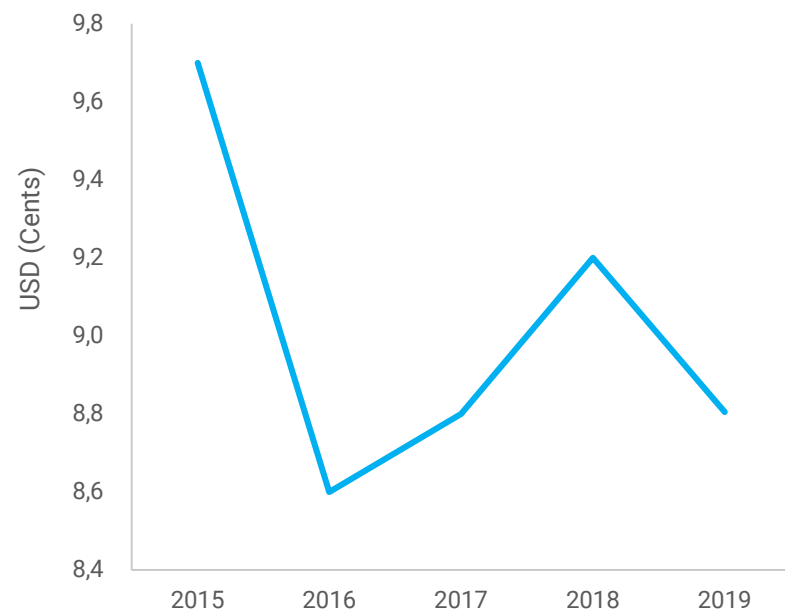
**Liquidity as the main risk:** Avianca is the commercial brand for the collection of passenger airlines and cargo airlines under the umbrella company Avianca Holdings S.A. With a fleet of 171 aircraft, Avianca serves 76 destinations in 27 countries within the Americas and Europe. **The company has recently filed for Chapter 11.** For more information “ [Avianca solicita acogerse al Capítulo 11 del Código de Bancarrota de los EE.UU](#)”

• Transportation, travel & leisure

Trading statistics	
April close (COP)	503
Last (COP)	30
2019 return (%)	+10.5
YTD return (%)	- 98.4
5yr max	3,800
5yr min	30
Trailing P/E (x)	n.a
Trailing P/B (x)	n.a
Dividend yield (%)	n.a
EBITDA 2019 (USD MM)	401.8

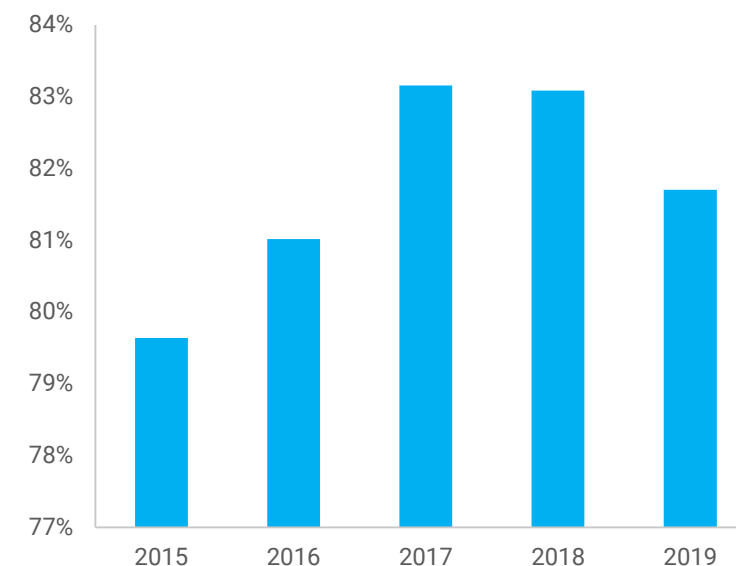
Source: Capital IQ, BVC and Corficolombiana.

### Avianca's historic Yield



Source: Avianca Holdings

### Avianca's historic Load factor



Source: Avianca Holdings.

	Sector Specific	Financials	Trading Overview/ Valuation
Exposure / Risk	<p><b>Sector specific risk</b> Airlines have been hit by COVID-19 in the last months. Around the world, borders were closed in an effort to stop the spread of the virus.</p>	<p><b>Fixed and variable costs:</b> Partial cessation of operations implied that some important costs can be significantly reduced. For example, fuel cost (~ 25% of cost structure), maintenance and repair and airports fee.</p>	<p><b>Stock appreciation:</b> Stock price is the lowest amid tightening liquidity, refinancing risk, reduced travel demand and capacity that generated that the company has recently filed for Chapter 11.</p>
Growth	<p><b>Association with GDP:</b> Air transport is an enabler of economic activity and one of the main drivers of a country competitiveness, facilitating trade, tourism, among others.</p>	<p><b>Revenues:</b> ~ 51% Colombia. ~ 15% USA. ~ 16% Latam without Colombia. ~ 17% Others. A material capacity reduction together with a decline in Available Seat Kilometers (ASK) , will affect the company's top line results.</p>	<p><b>P/E:</b> In 2019 the company presented a net loss of USD 894 MM vs USD 1 MM net income in 2018, amid a weak demand of passengers and cargo. Furthermore, in 2019 the company had special charges corresponding to the value of the impairment loss recognized.</p>
Structure / Framework	<p><b>Probability of systemic risk:</b> Airlines networks are vital to passengers and shippers connectivity, with a key role for economic development. The close of airspace will affect airport concessions, which do not have fixed incomes.</p>	<p><b>Financial leverage:</b> <b>Short – term debt maturities:</b> <b>May 2020:</b> USD 65.6 MM (11.92% of the notes that Avianca did not exchange). <b>Next 12 months:</b> USD 237 MM of aircraft leases and USD 569 MM of financial debt.</p>	<p><b>P/B:</b> Low equity's level results from the structural problem of the company and a sector with a difficult current situation and a significant impairment loss recognized in aircraft, among others.</p>
Potential Recovery	<p><b>Government measures :</b> The Colombian government closed the national and international airspace to passenger travel. Therefore, Avianca ceased national and international passenger capacity that will affect its revenues.</p>	<p><b>Financial strength:</b> After sought bankruptcy protection in a New York court the company will entered into a reorganization process, looking for protect, preserve operations and restructure the Company's balance sheet and obligations.</p>	<p><b>Valuation: Dividend Discount Model</b> The company decided to not distribute dividends for the fiscal year ended December 31, 2019 amid liquidity problems. The company has recently filed for Chapter 11.</p>

\* Source: Company's IR, Superfinanciera, DANE, Capital IQ, BVC and Corficolombiana. Peers: American, Copa, Delta, Aeromexico, Latam, South West, Spirit, United.

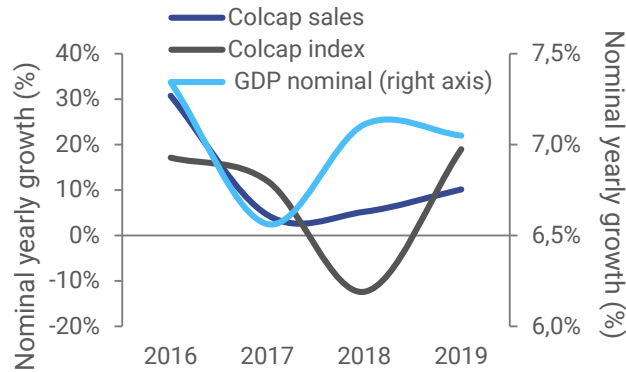
# This is where we draw the line on COVID-19 and Oil

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## ANNEXES

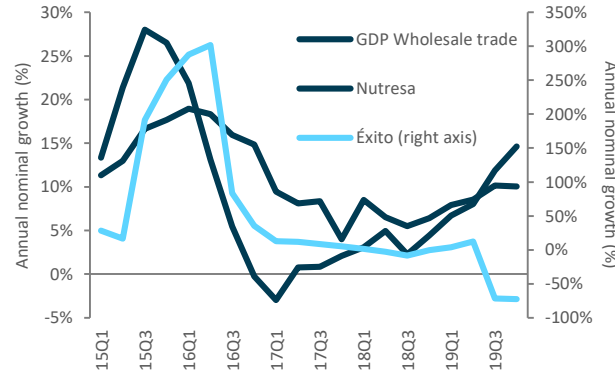
# ANNEX 1: Revenue of COLCAP members by sector and Colombia's GDP

### GDP, COLCAP and revenue



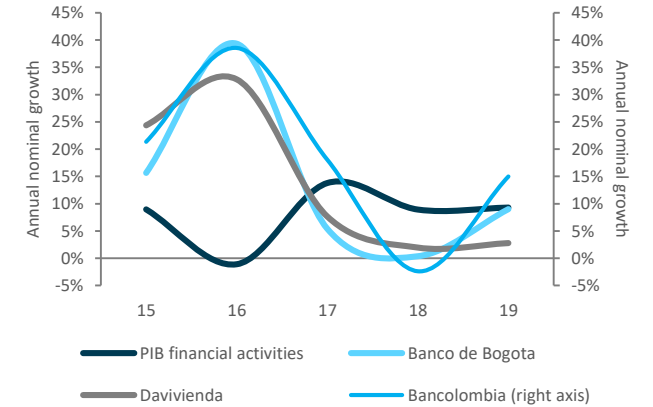
Source: DANE, BVC and Corficolombiana.

### Consumption



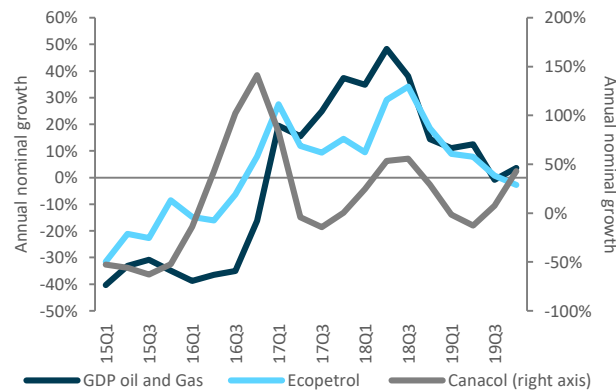
Source: DANE, BVC and Corficolombiana.

### Banks



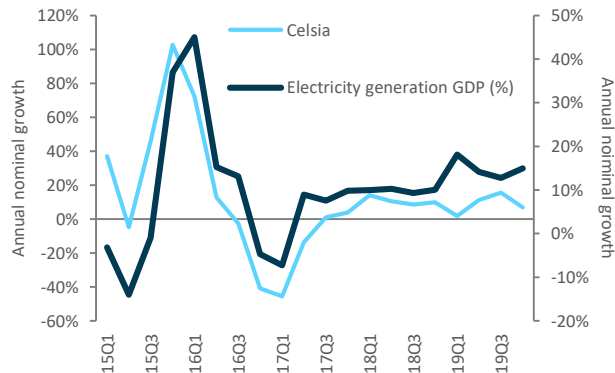
Source: DANE, BVC and Corficolombiana.

### Oil and Gas



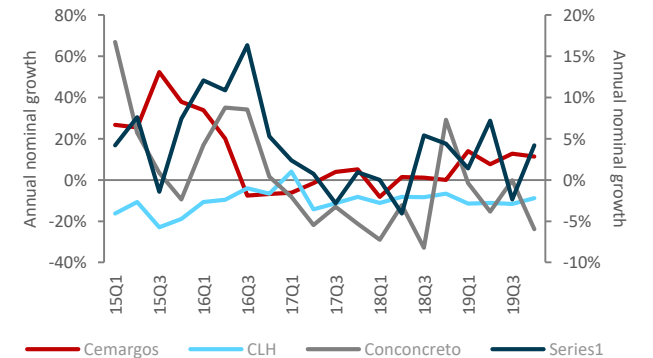
Source: DANE, BVC and Corficolombiana.

### Energy Generation



Source: DANE, BVC and Corficolombiana.

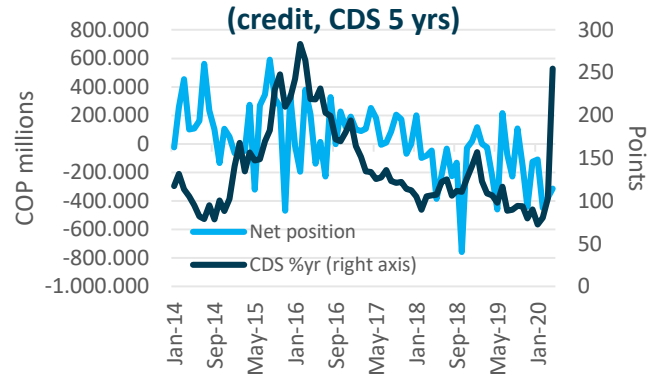
### Cement and Construction



Source: DANE, BVC and Corficolombiana.

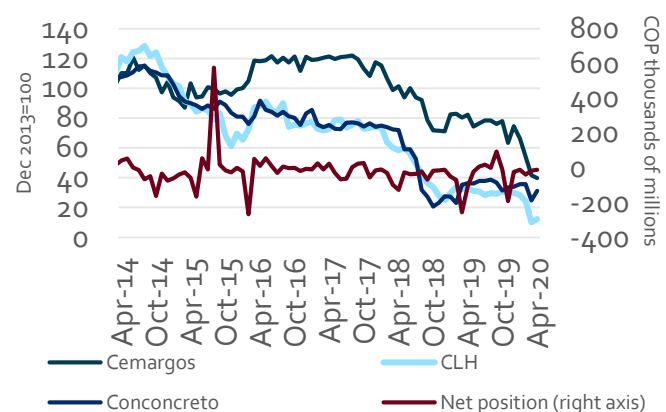
# ANNEX 2: Historic Net Position of Foreign Investors on Colombian stocks by sector

## Foreign net position and Country risk



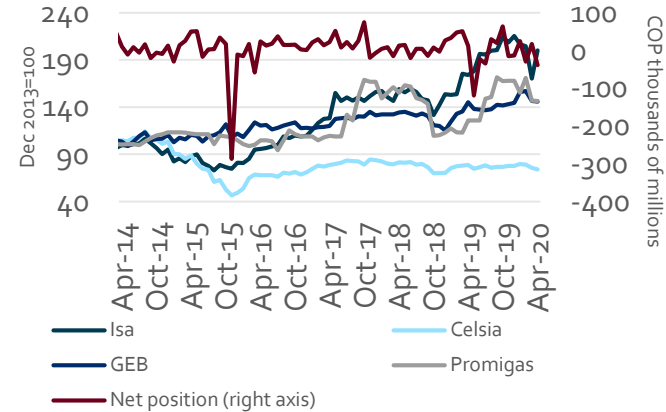
Source: Capital IQ, BVC and Corficolombiana.

## Construction



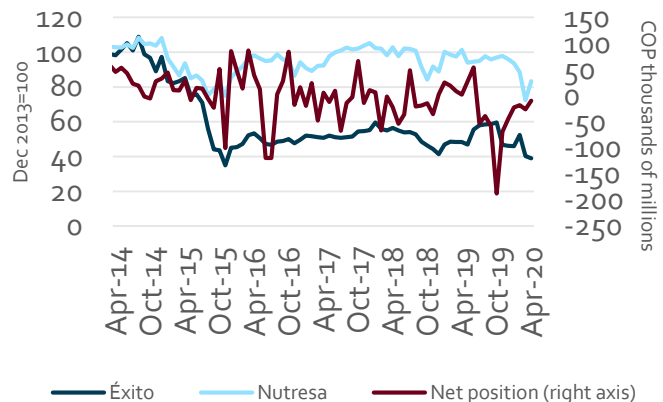
Source: Capital IQ, BVC and Corficolombiana

## Energy utilities



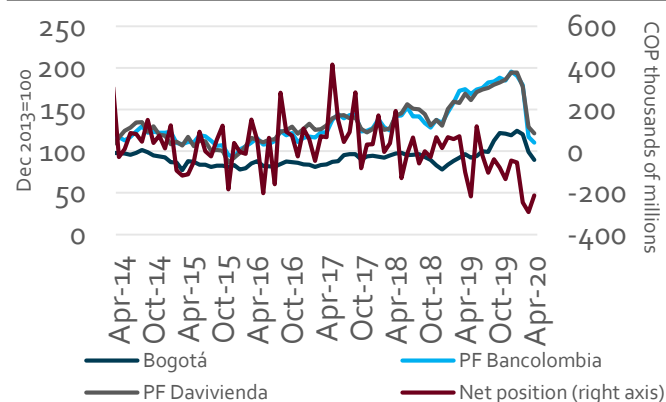
Source: Capital IQ, BVC and Corficolombiana

## Consumption



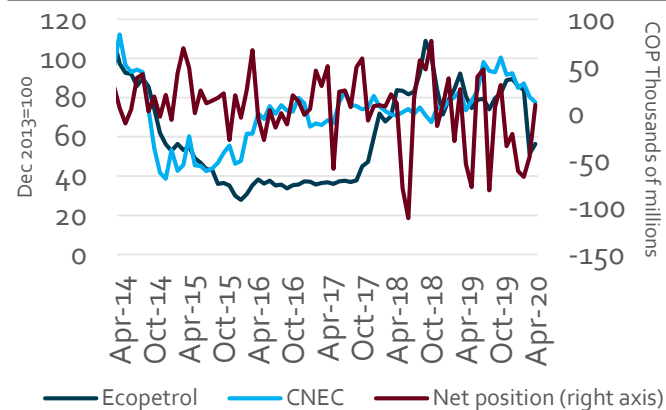
Source: Capital IQ, BVC and Corficolombiana

## Banks



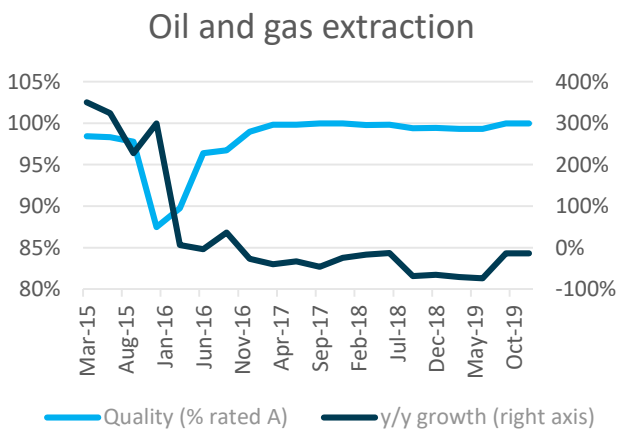
Source: Capital IQ, BVC and Corficolombiana

## Oil and Gas

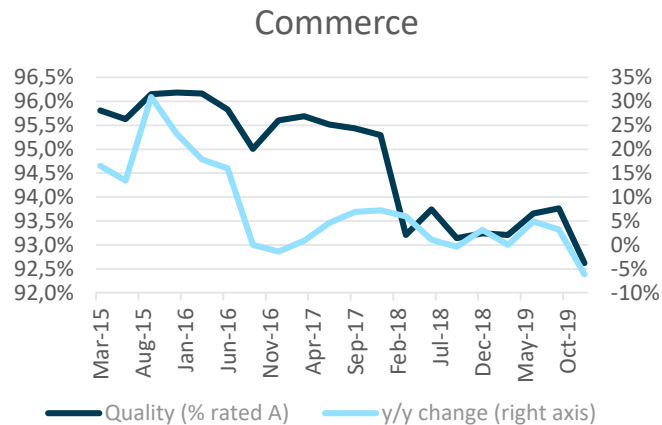


Source: Capital IQ, BVC and Corficolombiana

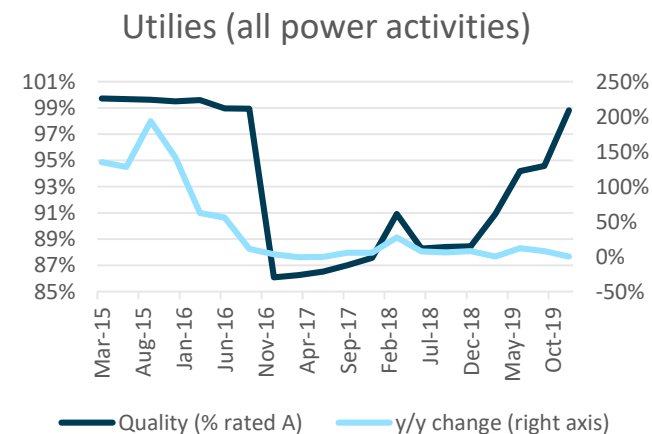
# ANNEX 3: Historic Commercial Credit Growth and Credit Quality by sector



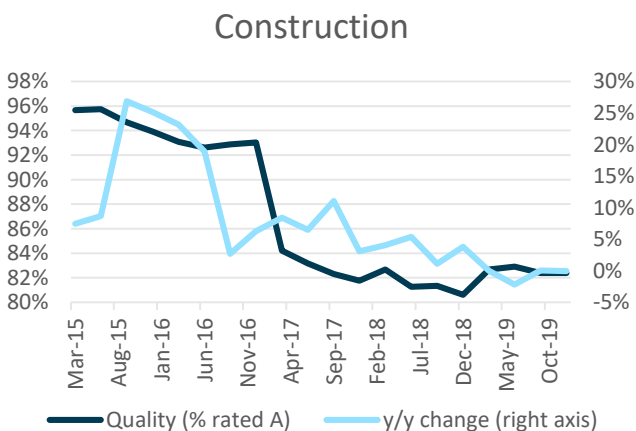
Source: Superintendencia financiera and Corficolombiana.



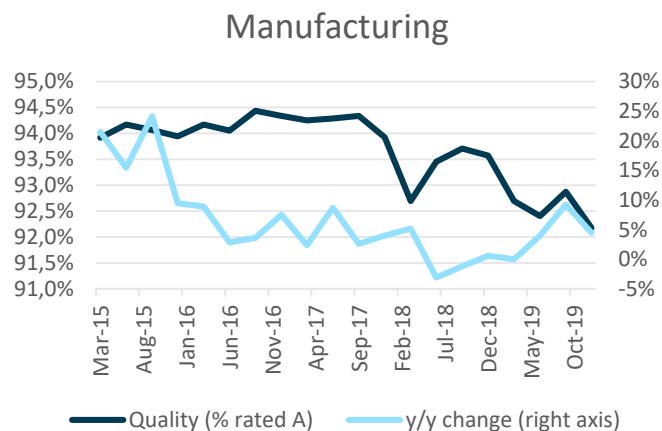
Source: Superintendencia financiera and Corficolombiana.



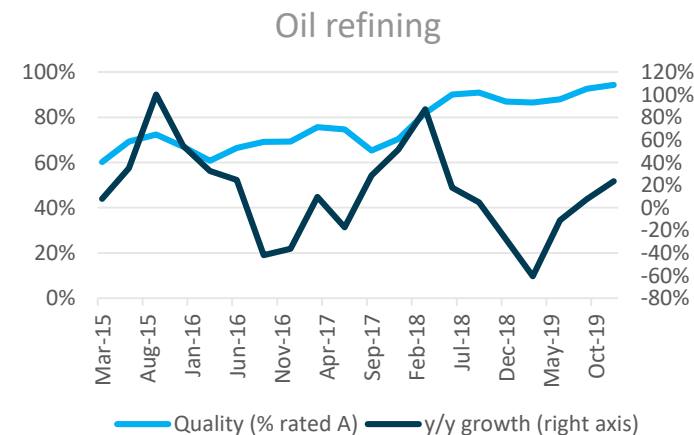
Source: Superintendencia financiera and Corficolombiana.



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Source: Superintendencia financiera and Corficolombiana.

# Research Team

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