FITCH WIRE

Ample Liquidity Offsets Macro, Policy Risks for Colombian Corps.

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Fitch Ratings-New York/Bogota-14 February 2023: Corporates in Colombia (BB+/Stable) face significant challenges in 2023 from weaker macroeconomic conditions, political instability and sizable near-term debt maturities, according to Fitch Ratings. Positively, our rated Colombia corporates portfolio entered the year with healthy liquidity, with many having delayed spending plans to preserve liquidity and reduce dependence on access to funding in 2023. The majority (roughly 95%) of our rated Colombia corporates have Stable Rating Outlooks, with the remainder having Negative Rating Outlooks.

Median liquidity measures, such as cash/short-term debt, will be close to 1.5x for 2022 and 1.3x in 2023, while cash plus cash flow from operations/short-term debt will be 5.5x for 2022and 5.0x in 2023. These metrics averaged 1.3x and 3.7x, respectively, in the past three years. Close to 50% of Fitch-rated issuers operate in regulated sectors (mostly utilities) with stable and predictable cash flows that support liquidity profiles.

However, we expect macroeconomic conditions in Colombia to deteriorate in 2023, driven by lower consumption. High and still rising nominal interest rates (currently 12.75%) will erode purchasing power. The Colombian peso depreciated by 21.0% versus the U.S. dollar during 2022 while inflation was 13.2%, above the regional average.

The political landscape will also directly affect creditworthiness of corporates in Colombia, primarily due to energy policy uncertainty , as the government has taken steps recently to consolidate its influence in the sector. Government messaging, particularly in the energy sector, has also weakened investor confidence.

Colombian corporates rated by Fitch face significant maturities in 2023–2024, reaching an aggregate of USD11.7 billion. Of this, USD7.9billion is bank debt, USD1.5 billion is in local bonds, and USD2.3 billion in international bonds. Issuers with the largest outstanding amounts are Ecopetrol S.A. (BB+/Stable) with more than USD4 billion, Grupo Energia Bogota S.A. E.S.P. (GEB; BBB/Stable) and Empresas Publicas de Medellin E.S.P. (EPM; BB+/Rating Watch Negative) with more than USD1 billion each, and Enel Colombia S.A.E.S.P. (BBB/Stable) and Cementos Argos S.A. with close to USD500 million each.

The building materials and construction sector contributes 52% of total maturities in 2023–2024, excluding energy and utilities. Rising commodity prices, energy costs and freight charges, along with the inability to pass through cost increases to customers, will affect FFO generation and increase refinancing risk for issuers.

Homebuilders maintain capital structures with significant short-term maturities of close to 70% of total debt, limiting flexibility under stress conditions. The telecom sector represents 16% of maturities in 2023–2024 and faces pressure from heightened competition and negative trends in ARPU. We estimate liquidity ratios for the construction and telecom sectors will be the weakest, with medians for cash/ short-term debt of 0.3x for construction and 1.8x for telecom in 2022. Energy and utilities are forecasted to have the strongest ratios in 2022 with a median of 2.8x for energy and 1.2x for utilities.

Positively, most Colombian banks have sufficient liquidity to support corporate loan growth. We project loan growth to moderate to 8%, on average, in 2023, driven by macroeconomic factors such as slower GDP growth, higher interest rates, inflation and market volatility. This compares to low double-digit loan growth during 2022. We expect commercial/corporate lending to be stable. The Colombian capital market is open to issuances in the high rating categories, given low activity in 2021–2022, but corporates are likely to favor bank loans as a less expensive option.

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