

Fitch Affirms 'AAA(col)' Rating on Almacenes Exito's Straight Bond IssueTuesday, March 31, 2015

Fitch Ratings - Bogota - March 31, 2013. Fitch has affirmed 'AAA (col)' rating on Almacenes Exito's 2005 straight bond issues. The outlook is stable.

KEY RATING DRIVERS

The rating reflects the company's leadership position in the formal retail market both in Colombia and in Uruguay, characterized by the scale of its operations, leadership in the markets it serves and the strength of its brands, segmented according to income profiles of the population. In addition, the rating incorporates income diversification and resilience of margins during the economic cycle. Operational strengths of Almacenes Éxito have been reflected in maintaining a strong financial profile, moderate leverage levels and robust liquidity levels.

Strong competitive position

Almacenes Éxito has established itself in the leading position in the formal retail market in Colombia, reflecting the scale and efficiency of its operations, in leading a number of stores almost twice as those of its nearest competitor. Additionally, the company's multi-format strategy with three brands that serve different segments of the population, contributes to strengthening the competitive position by adapting the sales mix of stores to the requirements of each target segment.

Almacenes Éxito growth strategy has led, on the one hand, to continue the growth in the retail segment via opening of new stores, mainly in intermediate cities, as well as support inorganic growth through acquisitions of other retailers in the national level, such as the recent acquisition of Super Inter, and internationally, the acquisition in Uruguay. On the other hand, Almacenes Éxito has dedicated efforts to develop its complementary businesses, which contribute to the diversification of income sources. Fitch estimates that the financial strength of the company will allow it to continue this strategy and address the competitive environment without affecting its credit profile.

Strong Operating Results

Almacenes Éxito has maintained solid operational generation that has shown resilient through the economic cycle. Proper diversification of company revenue in the retail sector, by maintaining a mixture of 71% of its sales in the food segment and the rest in other products, as well as participation in complementary businesses, most notably real estate and credit card, coupled with the emerging international diversification has enabled the company to have a stable cash flow generation.

Consolidated revenues for 2014 were favored by incorporating Super Inter sales, reaching an increase of 6.8% compared with 4.6% in 2013. This increase is given by organic growth of 2.2% in same-area-sales growth (2% in Colombia and 9.2% in Uruguay), by the acquisition of Super Inter, complementary business growth tops 16% and the opening of new stores. At the close of 2014, generated EBITDAR reached COP\$1.23 trillion, equivalent to a margin of 10.8%, which continues to compare favorably within the retail sector. The expansion strategy in the discount format, although it could generate pressure on margins, is expected to be offset by the greater involvement of complementary businesses within its revenue mix.

Strong Credit Metrics

Almacenes Éxito continued showing a low level of leverage for the 2014 year-end. Income-adjusted leverage, total debt adjusted to EBITDAR and EBITDAR interest coverage / interests and income ratio remained at 1.7x and 4.2x, respectively. Almacenes Éxito continued its strategy of leveraging its organic expansion through operating leases, which give the company flexibility to maintain or close stores according to their performance.

Strong Liquidity Position

The company has a strong liquidity position, supported by high levels of cash available, a low level of leverage and positive free cash flow generation. As at December 2014, the cash balance available was COP\$3 trillion, which more than covers the total financial debt of COP\$151 billion. Fitch expects that the generation of operating cash flow (OCF) and the cash available will allow the company to meet its projected capital investment, as well as to finance a bigger acquisition program without deteriorating its robust credit profile.

KEY ASSUMPTIONS

The key assumptions of Fitch in the baseline scenario projections for the issuer include:

- Revenue increased by 10% in 2015, due to organic sales growth and consolidation of Super Inter sales.

- EBITDA margin pushed in 2015 by the largest proportion of sales in discount stores format. It considers an improvement starting on 2016 for greater share of related businesses within the revenue structure of the company.
- It includes the realization of the Super Inter option to purchase in 2015.
- Payment of cash dividends equal to 50% of net income for the previous year.
- New acquisitions are not set on stage projection. However, it is anticipated that the company will continue to seek opportunities both nationally and internationally and will finance them via available cash in hand.

RATING SENSITIVITY

Fitch considers a rating downgrade to be unlikely for bond issues, given the strong credit profile of Almacenes Éxito. Future developments that could lead to a negative rating action, include:

-An aggressive expansion strategy and/or an acquisition that depletes the cash balance and demands debt resources in an amount that affects the leverage metrics in such a way that the adjusted total debt / EBITDAR ratio remains steadily above the 3.5x range.

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Date of Rating Technical Committee: March 30, 2015.

Minute Number: 3935

Purpose of the Committee: Periodic Review

Defining Rating: 'AAA (col)' represents the highest rating assigned by Fitch Colombia in its domestic rating scale. This rating is assigned to the best credit quality relative to other issuers or issues in the country and usually corresponds to the financial obligations issued or guaranteed by the government.

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Applicable Qualification Criteria and Related Reports:

- 'Rating Methodology Non-Financial Companies' (December 19, 2014);

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