

RATING ACTION COMMENTARY

Fitch Ratings has downgraded Three Colombian Governments' IDRs After Sovereign Downgrade

Feedback

Thu 08 Jul, 2021 - 16:59 ET

Fitch Ratings - Mexico City - 08 Jul 2021: Fitch Ratings has downgraded the Issuer Default Ratings (IDRs) for Bogota, Medellin and Barranquilla. Long-Term Foreign Currency (FC) and Local Currency (LC) IDRs for Bogota and Medellin were downgraded to 'BB+' from 'BBB-'. The Rating Outlook is revised to Stable from Negative. Barranquilla's FC and LC IDRs were downgraded to 'BB' from 'BB+', Outlook Stable.

Fitch has also downgraded Bogota's senior unsecured Colombian-peso denominated notes for USD300 million and fixed interest rate of 9.75% due 2028 to 'BB+' from 'BBB-'.

Fitch did not review the local governments' National Ratings.

KEY RATING DRIVERS

The downgrade is due to Fitch's recent rating action on the Colombian sovereign rating on July 1, 2021. For further information, please see Fitch's press release "Fitch Downgrades

Colombia's Rating to 'BB+'; Outlook Revised to Stable" at <https://www.fitchratings.com/site/pr/10168639>.

Fitch lowered Bogota and Medellin's Standalone Credit Profiles (SCPs) to 'bbb+' from 'a-', and to 'bb+' from 'bbb+', respectively. This results from a reassessment of their risk profiles to 'Low Midrange' from 'Midrange', which is, in turn, driven by a reassessment of their 'Liabilities and Liquidity Flexibility' Key Risk Factor (KRF 3b) to 'Weaker' from 'Midrange'. This leads both issuers to now have a combination of KRFs with a majority of 'Midrange' (5) and some 'Weaker' (1).

The reassessment of KRF 3b for Bogota and Medellin is explained by Fitch's view that the counterparty risk of potential liquidity providers for both issuers will be mostly below investment grade, given the new sovereign credit environment.

Barranquilla's LC and FC IDR downgrade is explained by the deterioration in the sovereign rating and the District's position relative to the strongest peers within the 'BB' category. Therefore, the SCP was lowered to 'bb' from 'bb+'.

The risk profile for Barranquilla remains unchanged at 'Low Midrange'. However, 'Revenue Robustness' (KRF 1a) was reassessed to 'Weaker' from 'Midrange' as a result of a deterioration in the transfers to operating revenue ratio, leading to an expectation of greater dependency to current transfers from a counterparty rated below investment grade.

No changes were applied to the DS score of any of the issuers, which remain at 'aa' for Bogota and at 'a' for Medellin and Barranquilla.

The LC and FC IDRs of Bogota are capped by the sovereign rating (BB+/Stable), reflecting Fitch's view that a subnational in Colombia cannot be rated above the sovereign, in recognition of a certain degree of interdependence between subnational finances, given the centralized framework in Colombia.

DERIVATION SUMMARY

Bogota's SCP is assessed at 'bbb+', reflecting a combination of a 'Low Midrange' risk profile and debt sustainability metrics assessed in the 'aa' category. Bogota's IDRs are capped by Colombia's sovereign rating of 'BB+'.

Medellin and Barranquilla's IDRs are based on their SCPs, which are assessed at 'bb+' and 'bb', respectively, reflecting a combination of a 'Low Midrange' risk profile and debt sustainability metrics assessed in the 'a' category. In addition, their SCPs reflect a peer analysis. No other factors affect the ratings.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

For Bogota & Medellin:

--IDRs are constrained by the sovereign rating. Colombia's IDR upgrade would lead to a corresponding rating action on the entities.

Barranquilla:

--Payback ratios sustainably below 9.0x and debt service coverage ratio (DSCR) above 1.5x;

--Payback ratios sustainably below 5.0x on the scenario horizon, as a result of an improvement in operating balance and decreasing tendency in long-term debt.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

For Bogota:

--If the payback ratio is close to 9.0x coupled with a synthetic DSCR below 1.5x, under Fitch's rating case.

--A downgrade of Colombia's IDR.

For Medellin:

--If the enhanced payback ratio is close to 9.0x coupled with an enhanced synthetic DSCR below 1.5x, under Fitch's rating case.

--A downgrade of Colombia's IDR.

For Barranquilla:

--Payback ratios sustainably exceeding 9.0x under Fitch's rating case;

--Coverage ratios sustainably below 1.0x;

--A further deterioration in the RP; Fitch will continue monitoring the entity's compliance with local regulation indicators considering a legal implication could negatively impact the assessment of the corresponding KRF.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Bogota and Medellin ratings are affected by the sovereign ratings.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the

entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
City of Medellin	LT IDR	BB+ Rating Outlook Stable	Downgrade	BBB- Rating Outlook Negative
●	LC LT IDR	BB+ Rating Outlook Stable	Downgrade	BBB- Rating Outlook Negative
Distrito Especial Industrial y Portuario de Barranquilla	LT IDR	BB Rating Outlook Stable	Downgrade	BB+ Rating Outlook Stable
●	LC LT IDR	BB Rating Outlook Stable	Downgrade	BB+ Rating Outlook Stable

Feedback

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FITCH RATINGS ANALYSTS

Gerardo Enrique Carrillo Aguado

Senior Director

Primary Rating Analyst

+52 55 5955 1610

gerardoenrique.carrilloaguado@fitchratings.com

Fitch Mexico S.A. de C.V.

Bldv. Manuel Avila Camacho No. 88, Edificio Picasso, Piso 10, Col. Lomas de Chapultepec, Mexico City 11950

Alejandro Guerrero

Associate Director

Primary Rating Analyst

+52 55 5955 1607

alejandro.guerrero@fitchratings.com

Fitch Mexico S.A. de C.V.

Blvd. Manuel Avila Camacho No. 88, Edificio Picasso, Piso 10, Col. Lomas de Chapultepec,
Mexico City 11950

Scarlet Lorena Ballesteros Avellan

Associate Director

Primary Rating Analyst

+52 81 4161 7002

scarletlorena.ballesterosavellan@fitchratings.com

Fitch Mexico S.A. de C.V.

Prol. Alfonso Reyes No. 2612, Edificio Connexity, Piso 8, Col. Del Paseo Residencial,
Monterrey 64920

Andres Felipe Arteta Isaacs, CFA

Associate Director

Secondary Rating Analyst

+57 1 443 3553

andresfelipe.artetaisaacs@fitchratings.com

Bibiana Acuna Castillo

Associate Director

Secondary Rating Analyst

+57 1 443 3550

bibiana.acuna@fitchratings.com

Ileana Selene Guajardo Tijerina

Senior Director

Committee Chairperson

+52 81 4161 7013

ileana.guajardo@fitchratings.com

MEDIA CONTACTS

Elizabeth Fogerty

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[International Local and Regional Governments Rating Criteria \(pub. 27 Oct 2020\)](#)
(including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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ENDORSEMENT STATUS

Bogota, Distrito Capital

EU Endorsed, UK Endorsed

City of Medellin

EU Endorsed, UK Endorsed

Distrito Especial Industrial y Portuario de Barranquilla

EU Endorsed, UK Endorsed

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Colombia
