
20 DECEMBER 2021

COLOMBIA: READING THE MARKET SIGNALS IN THE GILINSKI VS. GEA SAGA

KEY DRIVERS

- 🕒 The market is pricing in a 71% likelihood of a successful tender offer from Nutresa, and 53% from Grupo Sura.
 - 🕒 Nutresa's tender price looks appealing. EV/EBITDA Fwd implies an ROIC above recent history, our estimates, and the consensus.
 - 🕒 Tender price for Grupo Sura implies valuation of non-listed assets near its L5Y average. In a context of profitability under pressure on these assets, the offer looks attractive.
 - 🕒 The success of both tender offers would cut free floats in half, negatively impacting liquidity.
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Luis Ramos

Peru & Colombia Equity Strategy

lramos@larrainvial.com

+511 611 4326

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- ☞ Tender price for Grupo Sura implies valuation of non-listed assets near its L5Y average. In a context of profitability under pressure on these assets, the offer looks attractive.
- ☞ The success of both tender offers would cut free floats in half, negatively impacting liquidity. Our estimates suggest that both companies could face ADTV reductions of USD ~0.2mn.

CONTACT US

Luis Ramos
lramos@larrainvial.com
+511 611 4326
Peru & Colombia Equity Strategy

The market is pricing in a high probability of success for both tender offers: 71% likelihood for Nutresa and 53% for Grupo Sura. In our view, Gilinski intends to enter the Antioqueño keiretsu through large but not necessarily controlling interests in at least two of the three heads of the group: Nutresa and Grupo Sura. As such, we see it as not unlikely that Gilinski will pay Nutresa's tender offer price (and therefore the control premium) even if he does not reach a 50% stake.

Nutresa: Tender prices are attractive and involve ROICs above those in recent history. We find that the tender price incorporates fundamentals above recent history, our estimates, and the consensus. In effect, we estimate that Gilinski's tender offer price assumes an ROIC close to 15.3%, 7pp above the reported ROIC and 4pp above ROIC adjusted for goodwill. Meanwhile, our sensitivity analysis shows that from the perspective of fundamentals there is limited room for a higher control premium, as that would involve even more optimistic assumptions, particularly in terms of long-term growth and ROIC.

Grupo Sura: Tender price offers immediate mean reversion of non-listed asset valuation. We estimate that the tender price implies that non-listed assets are trading at a PB multiple of 0.92x, close to their historical average (~0.98x). We believe that the immediacy of the re-rating and the recent pressures on these assets' profitability may tip the balance for some investors to accept the tender offer. However, unlike in Nutresa's case, and in line with the market's implied probabilities, we project that opinions will be more divided

Success in the two tender offers would cut free floats in half, affecting both names' liquidity. Our base scenario is that Gilinski will obtain a 25-30% stake in both Nutresa and Grupo Sura, which would mean adoption rates by non-strategic investors of around 45-50%. In this context, we can expect both stocks' liquidity measured by ADTV to reduce by USD ~0.2mn.

I. MARKET IS PRICING IN HIGH LIKELIHOOD OF TENDER OFFER SUCCESSES

In accordance with the paper by Samuelson and Rosenthal (1986)¹, we calculated the implicit probabilities of success for the Nutresa and Grupo Sura tender offers, taking as reference the market prices and the respective tender offer prices for both companies (Nutresa: USD 7.71/share and Grupo Sura Sura: USD 8.0/share). We find that the market is pricing in a 71% likelihood of success for Nutresa's tender offer, and 53% for and Grupo Sura's.

In our opinion there are two factors to highlight. First, the probability of the Nutresa tender offer's success increased after Gilinski obtained approval for Grupo Sura's tender offer from the regulators. This opens the way for Gilinski to continue with a strategy that goes beyond being a shareholder in two of the most relevant companies in their respective industries. Indeed, in our opinion, Gilinski intends to enter the Antioqueño keiretsu through large but not necessarily controlling interests in at least two of the three heads of the group: Nutresa and Grupo Sura. With these holdings and given the cross-holding structure of the Antioqueño Business Group (GEA), Gilinski could indirectly enter the shareholding of subsidiary companies, among which Bancolombia stands out.

Indeed, in a regulatory document, Gilinski makes explicit his interest in "returning" to Bancolombia, and even opens up the possibility of a merger with his bank, GNB. In this context, we do not rule out Gilinski presenting a tender offer for Grupo Argos, the third GEA head, which would increase the implicit likelihood of the Nutresa and Grupo Sura tender offers.

Second, we consider that the market is interpreting the "success" of the tender offers as Gilinski paying the control premium, rather than obtaining the minimum stake of his proposal. As we will see in detail later, it will be difficult for Gilinski to reach the proposed minimum stake in Nutresa, particularly given the explicit rejection of his offer by Grupo Sura and Grupo Argos, as well as Nutresa's recent announcement that it will seek a strategic partner. However, to the extent that Gilinski's strategy is to enter the GEA, he could accept a relevant but non-controlling stake ($\geq 25\%$), similar to what is currently proposed for Grupo Sura (25% - 31%). In this scenario, we agree with the market that it is not unlikely that Gilinski can pay the tender offer price (and therefore the control premium).

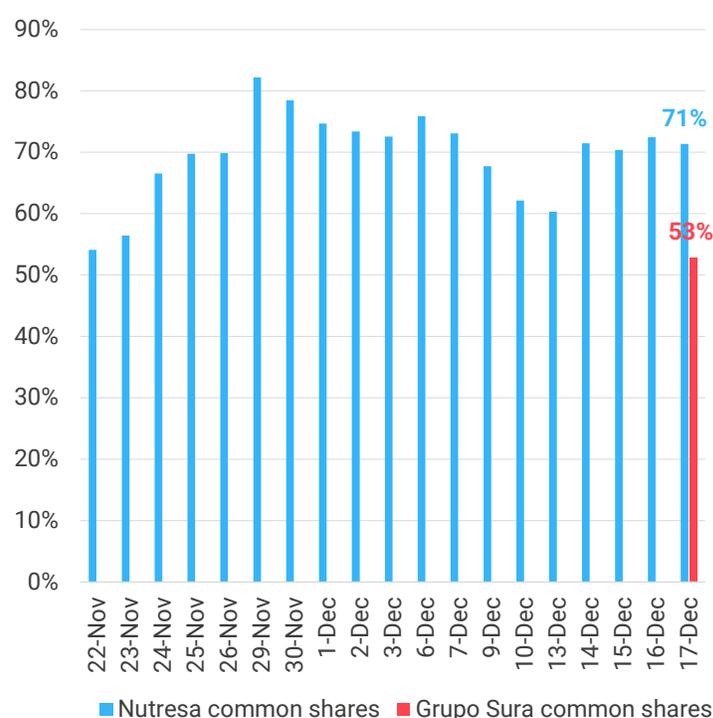
Table 1: Implied Tender Offer Probabilities Calculation

	Nutresa	Grupo Sura
Before Tender (COP/share)	21,740	25,150
Tender Announcement Date	11-Nov	30-Nov
Tender Price (USD/share)	7.71	8.00
Current FX Rate	4,028	4,028
Tender Price (COP/share)	31,057	32,225
Expected Tender Date	12-Jan	11-Jan
Current Price (COP/share)	28,390	28,890
Implied Probability	71%	53%

Source: Bloomberg and LarrainVial Research Department

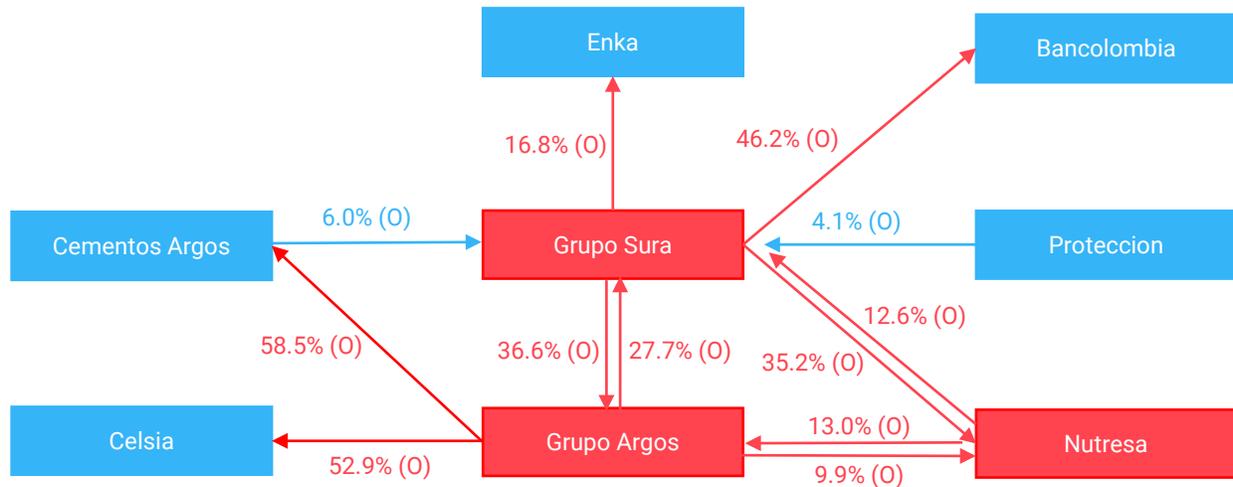
¹ SAMUELSON, W. and ROSENTHAL, L. (1986), Price Movements as Indicators of Tender Offer Success. *The Journal of Finance*, 41: 481-499

Graph 1: Implied Tender Offer Probabilities



Source: Bloomberg and LarrainVial Research Department

Graph 2 : Antioqueño Business Group (GEA) Diagram



Source: Company Reports and LarrainVial Research Department

Table 3: Estimated Direct and Indirect Ownership that Gilinski could obtain from Nutresa's Tender Offer

Nutresa		Direct and Indirect Ownership in				
Stake obtained	Implicit adoption rate	Grupo Argos	Grupo Sura	Nutresa	Bancolombia	Cementos Argos
25%	46%	3.6%	3.7%	26.7%	0.9%	2.1%
35%	64%	5.0%	5.2%	37.3%	1.3%	2.9%
45%	82%	6.4%	6.6%	48.0%	1.6%	3.7%
55%	100%	7.8%	8.1%	58.6%	2.0%	4.6%

* Adoption rates calculated as a percentage of non-strategic investors

Source: Company Reports and LarrainVial Research Department

Table 4: Estimated Direct and Indirect Ownership that Gilinski could obtain from Grupo Sura's Tender Offer

Grupo Sura		Direct and Indirect Ownership in				
Stake obtained	Implicit adoption rate	Grupo Argos	Grupo Sura	Nutresa	Bancolombia	Cementos Argos
25%	49%	8.9%	28.4%	10.9%	6.9%	5.2%
30%	59%	10.6%	34.0%	13.0%	8.3%	6.2%
35%	69%	12.4%	39.7%	15.2%	9.7%	7.3%

* Adoption rates calculated as a percentage of non-strategic investors

Source: Company Reports and LarrainVial Research Department

II. BACKWARD INDUCTION FAVORS ACCEPTING TENDER OFFER PRICES

Nutresa: Tender prices are attractive and involve ROICs above recent history

The tender offer price for Nutresa (USD 7.71/share; COP 31,057/share) implies an EV/EBITDA fwd of 10.3x. However, for more robust analysis, this multiple should be “cleaned” of the company’s investment portfolio, made up of investments in Grupo Sura and Grupo Argos. Cleaning up this effect, we find that the multiple EV/EBITDA Food fwd at the tender price is ~8.4x.

The underlying question is: does the tender offer price imply an attractive multiple? In our opinion, the answer is yes. We find that Gilinski’s offer incorporates fundamentals above those seen in recent history, our estimates, and the consensus.

In our opinion, the most appropriate thing in this situation is to assess the fundamentals of the company itself, rather than to review past transactions that may not be adequately comparable, particularly in terms of profitability, growth, and/or cost of capital. Therefore, we carried out a backward induction exercise to make the assumptions of the different valuations explicit. For this, we use the justified multiple approach for EV/EBITDA fwd. Under this approach, the multiple is a function of the variables: tax rate, depreciation rate, growth, WACC, and ROIC. We start our analysis assuming that the tax and depreciation rate data are known by the market and are close to what has been seen in the company’s recent history.

Table 5: Implied ROIC from Different Valuation Scenarios

	Current Prices	Tender Price	LV TP	Consensus TPs
EV/EBITDA Food fwd (x)	7.81	8.43	7.19	7.68
Growth	5.0%	5.0%	5.0%	5.0%
Tax Rate	32%	32%	32%	32%
Depre. Rate	25%	25%	25%	25%
WACC	9.1%	9.1%	9.1%	9.1%
Imp. ROIC	13.3%	15.3%	11.7%	12.9%

* $EV/EBITDA = ((ROIC - g) / (ROIC * (WACC - g))) * (1 - T) * (1 - D)$

** Consider tender prices for Nutresa and Grupo Sura

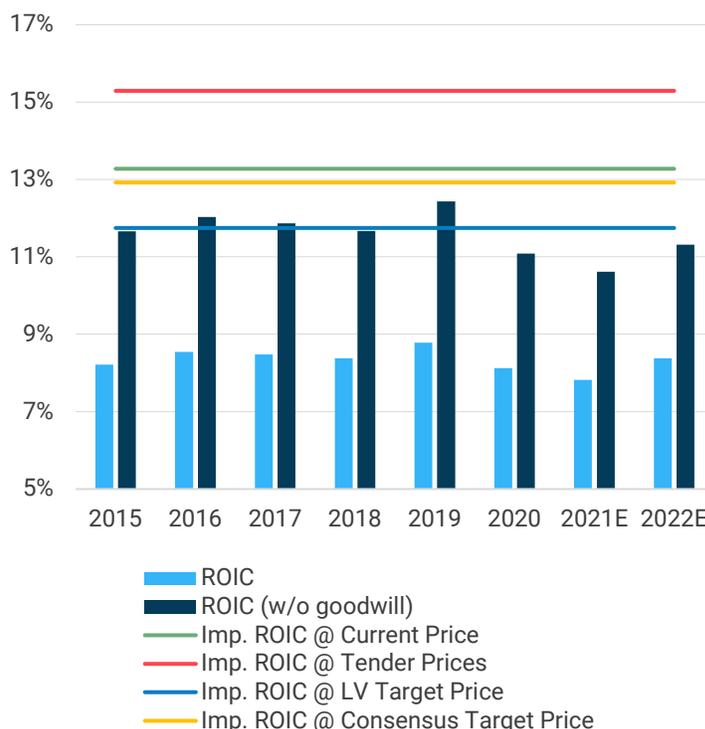
*** Depreciation rate defined as Depreciation/EBITDA

Source: Company Reports and LarrainVial Research Department

We initially assume the market incorporates growth close to 5%, in line with our medium-long-term EBITDA growth projections. Likewise, we use a 9.1% WACC, which is consistent with the cost of capital used by Grupo Sura to assess Nutresa’s intrinsic value (~9.3%). Finally, we leave the ROIC as a dependent variable and calculate its implicit level in each of the valuations to contrast it with historical performance.

In this context, we estimate that Gilinski’s tender offer price assumes an ROIC close to 15.3%. This profitability ratio would not only be higher than our estimate, the market’s, and the consensus, but it would be significantly higher than the one the company has reported in recent history. Indeed, on average, we estimate that the company has reported an ROIC close to ~8.3%, 7pp below the one implicit in the Gilinski valuation. If we adjust the ROIC for the goodwill effect, we find that the ratio should be around ~11.5%, still almost 4pp below the number implied by the Gilinski valuation. Although we consider that the company has good intentions and has made efforts to improve its value creation indicators, we project that the path to a ~15% ROIC (even adjusting for goodwill) is quite steep and will require an activist role (perhaps like the one Gilinski wants to take on in the company), and it will take some time to reach that number.

Graph 3: Implied ROIC vs ROIC (with and w/o goodwill)



Source: Company Reports, Bloomberg and LarrainVial Research Department

We are aware that these estimates depend largely on the assumptions used, and more than seeking an exact calculation, our focus is on the insight that the exercise provides and the direction of its conclusions.

We consider the tax rate, depreciation rate, and WACC assumptions to be relatively robust, due to their links to history and/or their consistency with other market practices. In this sense, we consider it relevant to make the growth and ROIC assumptions more flexible in order to assess the plausibility of the different valuations.

Our sensitivity analysis shows that to obtain multiples equal to or greater than those proposed by Gilinski (EV/EBITDA Fwd 8.4x), one must at least assume: (i) a growth rate of 6.0% and ROIC of 12.5%; or (ii) a 7.0% growth rate

and 11% ROIC. We believe that these figures involve relatively optimistic assumptions for the company and support our view that the tender price is attractive for a minority investor (non-strategic and without interest to control).

The question that arises then is whether there is room to increase the control premium. In our opinion, strategic considerations can always lead control premiums to increase. However, we consider that the current tender price already assumes attractive medium-long-term fundamentals that require an active role in company management in order for them to materialize. In this sense, justifying premiums above the current level based solely on fundamentals is very difficult, and we consider there to be limited room for improvements to Gilinski's proposed price.

Table 6: Sensitivity Analysis EV/EBITDA fwd : ROICs and Growth Rates

EV/EBITDA		Growth rate						
		4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%
Implied ROIC	10.0%	6.03	6.14	6.26	6.42	6.64	6.94	7.38
	10.5%	6.22	6.37	6.56	6.80	7.11	7.55	8.20
	11.0%	6.40	6.59	6.83	7.14	7.55	8.11	8.95
	11.5%	6.56	6.79	7.08	7.45	7.94	8.62	9.63
	12.0%	6.70	6.97	7.31	7.73	8.30	9.09	10.26
	12.5%	6.84	7.14	7.51	8.00	8.63	9.52	10.83
	13.0%	6.96	7.29	7.71	8.24	8.94	9.91	11.36

Source: LarrainVial Research Department

Table 7: Sensitivity Analysis Control Premiums: ROICs and Growth Rates

Control Premium		Growth rate						
		4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%
Implied ROIC	10.0%	1.3%	3.0%	5.1%	7.8%	11.3%	16.3%	23.6%
	10.5%	4.5%	6.9%	10.0%	13.9%	19.2%	26.4%	37.1%
	11.0%	7.3%	10.5%	14.5%	19.5%	26.3%	35.6%	49.4%
	11.5%	10.0%	13.8%	18.6%	24.7%	32.8%	44.0%	60.7%
	12.0%	12.4%	16.8%	22.3%	29.4%	38.7%	51.7%	71.0%
	12.5%	14.6%	19.6%	25.7%	33.7%	44.2%	58.8%	80.4%
	13.0%	16.6%	22.1%	28.9%	37.7%	49.2%	65.3%	89.2%

Source: LarrainVial Research Department

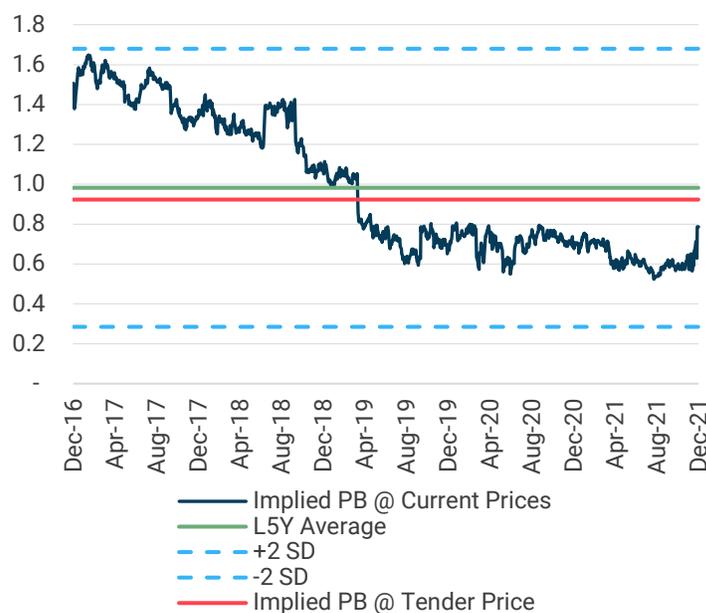
Grupo Sura: Tender price offers immediate mean reversion of non-listed asset valuation

Given our call that Gilinski's bets are aimed at entering the Antioquia keiretsu, it is relevant to assess the Grupo Sura tender offer.

Although we do not formally cover the name, we have carried out a rough valuation in order to find the implicit value of non-listed assets, which account for ~44% of the NAV and have recently seen their valuations under pressure, trading at an implied PB below 1.0x.

According to our calculations and taking the market prices of listed assets as a reference, we estimate that the tender price implies that non-listed assets are trading at a PB multiple of 0.92x, close to their historical average (~0.98x). This multiple is 43% above the implied multiple before the announcement of the tender offer, and 18% above the current implied multiple. We believe that the immediacy of the re-rating and the recent pressures on these assets' profitability (Suramericana ROE: -1.7% vs. ~4.4% L3Y average; SUAM's ROE: 7.1% vs. ~5.0% L3Y average) may tip the balance for some investors to accept the tender offer. However, unlike in Nutresa's case, and in line with the market's implied probabilities (~53% likelihood of success), we project that opinions will be more divided.

Graph 4: Non-Listed Assets' Implied PB @ Current Prices vs @ Tender Price



Source: Company Reports and LarrainVial Research Department

Table 8: Rough Non-listed Asset Valuation at Grupo Sura current prices

In mn and COPmn	@ Current Prices	@ CPs and Nutresa's Tender Price	@ Consensus TPs
Market Prices			
Com. Shares	28,890	28,890	28,890
Pref. Shares	23,000	23,000	23,000
# of shares			
Com. shares	467	467	467
Pref. shares	113	113	113
Market Cap	16,088,943	16,088,943	16,088,943
Holding Dct	10%	10%	10%
Equity Value	17,876,604	17,876,604	17,876,604
Asset Value	25,559,729	25,559,729	25,559,729
Listed Assets	15,876,364	16,299,526	16,816,081
Implied Non-Listed Assets	9,683,366	9,260,203	8,743,648
Implied PB (x)	0.79	0.75	0.71

Source: Company Reports and LarrainVial Research Department

Table 9: Rough Non-listed Asset Valuation at Grupo Sura tender price

In mn and COPmn	@ Current Prices	@ CPs and Nutresa's Tender Price	@ Consensus TPs
Market Prices			
Com. Shares	32,152	32,152	32,152
Pref. Shares	23,000	23,000	23,000
# of shares			
Com. shares	467	467	467
Pref. shares	113	113	113
Market Cap	17,613,057	17,613,057	17,613,057
Holding Dct	10%	10%	10%
Equity Value	19,570,064	19,570,064	19,570,064
Asset Value	27,253,189	27,253,189	27,253,189
Listed Assets	15,876,364	16,299,526	16,816,081
Implied Non-Listed Assets	11,376,826	10,953,663	10,437,108
Implied PB (x)	0.92	0.89	0.85

Source: Company Reports and LarrainVial Research Department

3. SUCCESS OF TENDER OFFERS WOULD CUT FLOATS IN HALF, AFFECTING LIQUIDITY FOR BOTH NAMES

In addition to the expected return on the transaction, one thing to consider (particularly for institutional investors) is the potential loss of liquidity after the tender offer process. According to our analysis of the Colombian market, there is a direct relationship between ADTV and free float. In this sense, any reduction in free float after the tender offers could have a negative impact on ADTV. This could be an additional incentive for investors to accept the proposal and avoid being left with illiquid stocks.

In Nutresa's case, we consider it unlikely that Gilinski will obtain his "minimum stake" of 50.1%, since this would involve a 91.4% adoption rate from non-strategic investors. In any case, we consider that Gilinski is more likely to get a stake close to 25%, which would mean an adoption rate of ~45.6%. If this happened, the company's float would drop to ~30% (vs. ~55% current), negatively impacting its ADTV. Our regression analysis suggests that ADTV could theoretically shrink to USD ~0.6mn (vs USD ~0.8mn current).

In Grupo Sura's case, we project that Gilinski will have a greater chance of reaching his minimum stake of 25.3%. To achieve this percentage, Gilinski would have to convince ~49.7% of non-strategic investors. If this happens, the company's float would fall to ~26% (vs. ~51% current), hitting its ADTV. Our regression analysis suggests that ADTV could theoretically shrink to USD ~1.0mn (vs. USD ~1.2mn current)

Table 11: Relationship between ADTV and free float in Colombian Equity Market

	Percentile								
	1st	10th	25th	35th	50th	65th	75th	90th	99th
ADTV (USD mn)	0.02	0.05	0.10	0.18	0.38	0.81	0.97	2.15	5.38
Free float (%)	0.10	0.24	0.42	0.44	0.51	0.86	0.97	1.00	1.00
ADTV/Float	0.05	0.08	0.19	0.30	0.66	1.70	2.37	4.39	45.08

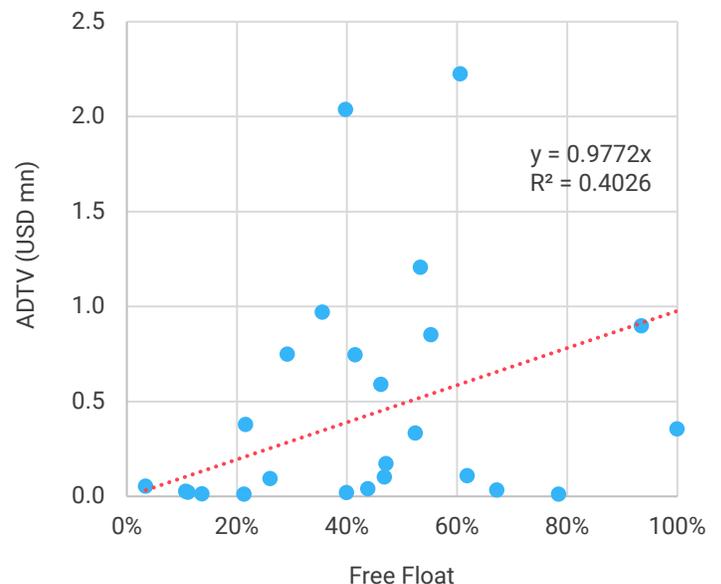
Source: BVC, Bloomberg and LarrainVial Research Department

Table 10: Adoption Rate Analysis for Nutresa and Grupo Sura Tender Offers

	Nutresa	Grupo Sura
Strategic investors		
Grupo Sura	35.4%	
Grupo Argos	9.8%	30.0%
Nutresa		13.0%
Cementos Argos		6.0%
Non-strategic investors	54.8%	51.0%
Tender offers		
Gilinski's min stake	50.1%	25.3%
Gilinski's max stake	62.6%	31.7%
Non-strategic investor adoption rates		
Min adoption rate	91.4%	49.7%
Max adoption rate	114.3%	62.1%

Source: Company Reports and LarrainVial Research Department

Graph 5: Relationship between ADTV and free float in Colombian Equity Market



Source: BVC, Bloomberg and LarrainVial Research Department

RESEARCH DEPARTMENT

Director of Research

Leonardo Suarez
(562) 2339 8668
lsuarez@larrainvial.com

Co-Head of Research Utilities

Alexander Varschavsky
Executive Director
Senior Analyst
(562) 2339 8610
avarschavsky@larrainvial.com

Co-Head of Research Financials

Florencia Stefani
Executive Director
Senior Analyst
(562) 2339 8597
fstefani@larrainvial.com

EQUITY STRATEGY

Strategy Peru & Colombia

Luis Ramos
Senior Vice President
Senior Analyst
(511) 611 4326
lramos@larrainvial.com

Consumer Services

Marko Kraljevic
Vice President
Senior Analyst
(562) 2616 5603
mkraljevic@larrainvial.com

Basic Materials

Leopoldo Silva
Vice President
Senior Analyst
(562) 2519 5546
lsilva@larrainvial.com

Financials

Magdalena Rosende
Associate
Analyst
(562) 2616 5264
mrosende@larrainvial.com

FIXED INCOME & CREDIT

Corporate Credit Strategy, Mining, O&G, Airlines

Cristian Campos
Senior Vice President
Senior Analyst
(562) 2339 8425
ccampos@larrainvial.com

Telco, Consumer Services, Gas Distribution

Juan Djivelekian
Vice President
Senior Analyst
(562) 2339 8656
j djivelekian@larrainvial.com

ECONOMICS

Chief Economist

Javier Salinas
Senior Vice President
(562) 2339 8531
jsalinas@larrainvial.com

Senior Economist

Francisco de la Cerda
Senior Associate
(562) 2339 8289
fdelacerda@larrainvial.com

ADMINISTRATION & SUPPORT

Head of Institutional Client Relationships

Consuelo Solis
(562) 2339 8639
consuelo.solis@larrainvial.com

Editing

David Arenas
(562) 2616 5649
darenas@larrainvial.com

Design

Paula Borquez
(562) 2616 5659
pborquez@larrainvial.com

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