

## Company Update – Grupo Sura

### Downgrading to UPERF based on market valuations and ROEs

We are updating our recommendation on Grupo Sura (Uperf, TP: 28,800) and cutting it to Uperf, while leaving our model unchanged. Our downgrade is based on: i) a lack of clear positive catalysts for the name in the short term, ii) weak ROEs currently and going forward (see page 3, scenario 2 and page 5), iii) tight market valuations and fw multiples (see page 4 and page 5) and iv) lower liquidity.

- **We no longer see a positive catalyst for Grupo Sura in the short term.** We raised our recommendation on Grupo Sura in December ([see report](#)) to Buy based on: i) an enhancement in the value of the company's portfolio and ii) the deletion of our 15% holding discount on the name, both explained by the tender offers announced in November. As these tender offer processes conclude today (February 28<sup>th</sup>), we are downgrading our recommendation for Grupo Sura to Uperf as market prices have exceeded our target price and we no longer see a positive catalyst for the name.
- **Weak ROEs continue to be part of the reason for our cautious view on Grupo Sura** (see page 3, scenario 2). Our fundamental view on Grupo Sura's controlled investments remains unchanged, and we have not updated our estimates for Suramericana and SUAM (also related to the company's inability to provide guidance during the tender offer process). We believe that ROEs should remain pressured, especially for SUAM given its high amount of intangible assets. SUAM's ROE has been consistently below the cost of capital (3.2% in 2018, 6.8% in 2019 and 4.7% in 2020), and we expect this trend to continue in our projection period (see page 5). This is mostly due to intangible assets and their amortizations. Indeed, our model factors in a successful voluntary business, but this does not generate a material improvement in the company's ROEs.
- **Liquidity could now become a hurdle for Grupo Sura.** After the first round of tender offers, Grupo Sura's float fell to 25%, down from 50% ([see report](#)). Furthermore, two pension funds completely liquidated their positions in Grupo Sura, and pension funds' position fell from 18.3% of the common shares of the company to 2.2% ([see report](#)).

#### Valuation Summary

Grupo Sura	2019	2020	2021E	2022E	2023E
P/E	12.6	63.8	18.9	14.9	12.4
P/BV	0.8	0.6	0.8	0.8	0.7
Div. Yield	1.7%	2.6%	1.8%	1.9%	2.1%

Sources: Company Reports, Bloomberg and Credicorp Capital

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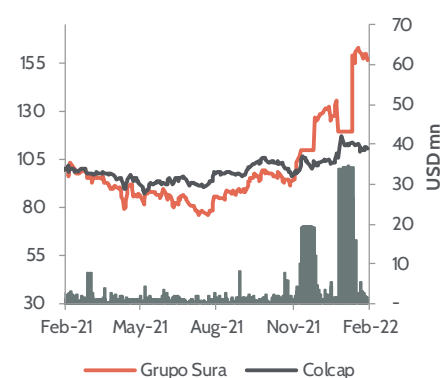
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#### Stock Data

Rating	Uperf
Ticker	gruposur cb
Price (COP)	35,500
Target (COP)	28,800
LTM Range	37,200 - 17,300
Market Cap (USD mn)	4,254.1
Shares Outstanding (mn)	467
ADTV (USD mn)	4.1

#### Price Chart (COP) and Volume (USD mn)



Source: Bloomberg

Source: Bloomberg

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## A recap of the tender offer process

Gilinski owns 25.42% of the common shares of Grupo Sura after the first tender offer.

The main topic in the last few months in the market has been the dynamic set by the tender offers for the GEA companies. Recall that on November 10<sup>th</sup> a tender offer for 50.1% to 62.25% of Nutresa's stake was announced to the market with a confirmation of Nugil (Gilinski Group and Aflaj Investment LLC) as the parties interested in the name. This tender offer was set at a price of USD 7.71/share (implying a ~41% premium in USD vs. the price of COP 21,740/share as of November 10<sup>th</sup>). Later, on November 30<sup>th</sup>, a tender offer for 25.344% to 31.68% of the common shares of Grupo Sura was announced with a tender offer price of USD 8.01/share and Gilinski Group as the interested party (implying a ~26% premium in USD vs. the price of COP 25,150/share as of November 30<sup>th</sup>). The results of the tender offers came in on January 12<sup>th</sup> and January 11<sup>th</sup>, respectively, with 27.69% of the common shares of Nutresa tendered and 25.42% of Grupo Sura's.

Tender offers for Grupo Sura and Nutresa finish on February 28<sup>th</sup>.

On January 14<sup>th</sup>, once the first tender offer for Grupo Sura was completed, a second tender offer for 5.0% to 6.25% was launched (to reach between 30.42% and 31.67%) with a new price of USD 9.88/share (implying a ~44% premium in USD vs. the price of COP 27,250/share as of January 14<sup>th</sup>). Later, on January 17<sup>th</sup>, once the tender offer for Nutresa was completed, a new tender offer by Gilinski Group was launched for 18.3% to 22.88% (to reach a stake of 45.99% to 50.57% in the company) with a new price of USD 10.48/share (implying a ~25% premium in USD vs. the price of COP 33,600/share as of January 17<sup>th</sup>). **The tender offers for Grupo Sura and Nutresa finish today (February 28<sup>th</sup>).**

Grupo Sura reduced the number of independent members from four to three.

We analyzed simplified scenarios (one list per shareholder, 100% of the quorum) of what could happen in the company's election of the BoD ([see full report](#)). With Gilinski's 25.42% stake, it could potentially have two members in the BoD. And if Gilinski were to acquire a 30.42% stake or 31.67% stake, it would remain at two members. **We highlight that Grupo Sura reduced the number of independent members from four to three last week, shifting the number of equity members to four, possibly as a strategy to protect control of the BoD, but our simplified scenarios do not incorporate these nuances.**

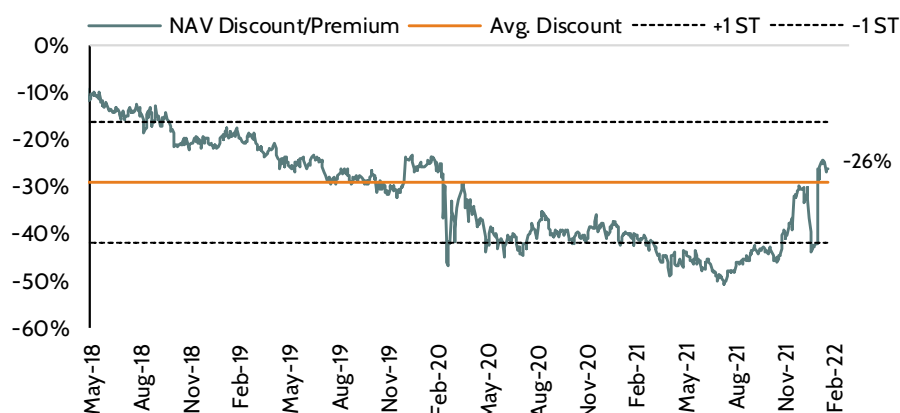
Moreover, the Colombian regulator released the detailed portfolios of the Colombian pension funds as of January 31<sup>st</sup>. According to the [document](#), pension funds no longer have a stake in Nutresa (down from 17.1% in 2Q21), while the stake of the pension funds in Grupo Sura's common shares went from 18.3% in 2Q21 to 2.2% as of January 31<sup>st</sup> ([see full report](#)). We will continue to monitor news on this front and evaluate the domino effect the tender offers could generate in the market. **All in, we believe that these tender offers represent several changes for the Colombian market.**

We saw a catalyst for Grupo Sura that justified our Buy recommendation made in December.

In the case of Grupo Sura, we saw a clear catalyst for the name, which justified our Buy recommendation made on December 1st based on increased interest. However, our fundamental view on Grupo Sura's controlled investments remains unchanged. Thus, we are downgrading our recommendation of Grupo Sura to Uperf as the second tender offers are coming to an end and market valuations are above our target price.

## NAV analysis

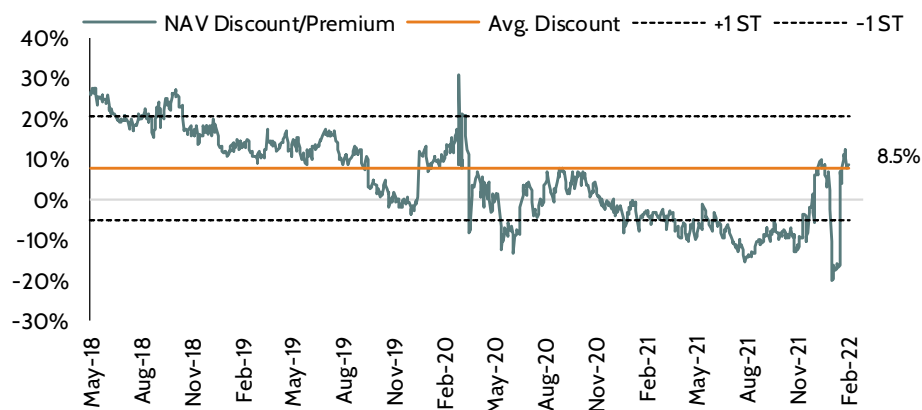
**Scenario 1.** We considered the BV of both Suramericana and SUAM, and we reached the conclusion that there is a discount of ~26% considering P/BV of 1.0x.



Sources: Bloomberg, Credicorp Capital

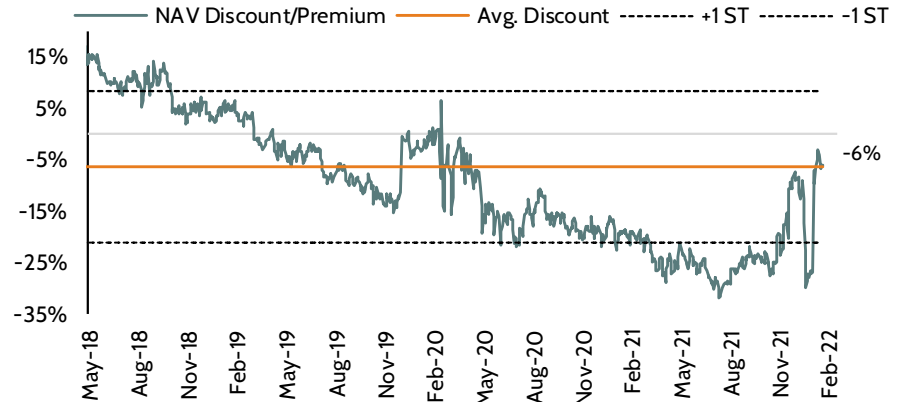
If we analyze the P/BV considering a cost of equity of 12% and ROEs, we find that the P/BV is not always 1.0x, but rather it is often close to zero. In this line, we introduce a second scenario.

**Scenario 2.** We restrained the value of P/BV to a minimum of 0.3x and found that historically the market has been paying a premium of ~8% for Grupo Sura (in relation to ROEs for each period). We believe this could be an indication that the market has been expecting an improvement in ROEs that has not taken place.



Sources: Bloomberg, Credicorp Capital

**Scenario 3.** We considered only the tangible BV for SUAM taking into account that SUAM acquired very expensive assets in 2011 and thus has very large intangibles. In this case, the discount reaches ~6%.

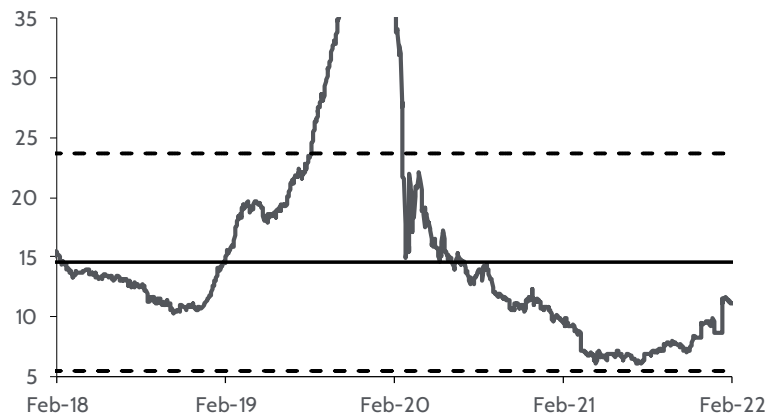


Sources: Bloomberg, Credicorp Capital

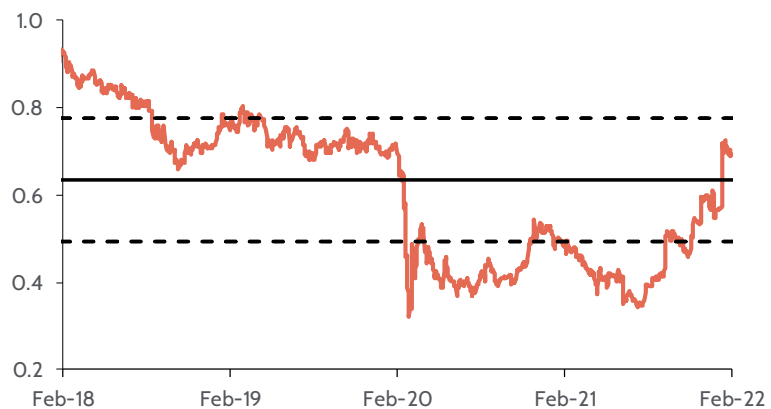
## Forward Multiples

We are forecasting P/E multiples of 14.9x for 2022YE and 12.4x for 2023YE, compared to the P/E 12M FWD average of 14.6x since 2016. As for the P/BV multiple, we expect levels of 0.8x for 2022YE and 0.7x for 2023YE. Note that the average of P/BV 12M FWD since 2016 is 0.6x. Note that these levels, especially for P/BV, do not seem particularly attractive.

### P/E 12M FWD



### P/BV 12M FWD

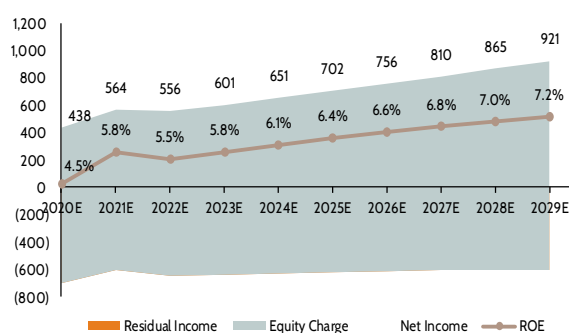


Sources: Bloomberg, Credicorp Capital

# Valuation

Investment	Mn Shares outstanding	Mn Grupo Sura shares	% ownership	Current price/ Trailing PBV	Target price/Fw PBV	Valuation
<b>Strategic Investments</b>						
Bancolombia	962	236	24.5%			8,394,392
Common shares	510	236	46.2%	32,370	38,900	8,394,392
Preferred shares	452	0	0.0%			
SUAM			83.6%	1.0x	0.44x	3,711,039
Suramericana S.A.			81.1%	1.0x	1.05x	4,444,027
<b>Portfolio Investments</b>						
Grupo Argos	863	236	27.4%			2,979,471
Common shares	651	236	36.3%	12,600	12,600	2,979,471
Preferred shares	212	0	0.0%			
Grupo Nutresa	460	163	35.4%	29,050	29,050	4,735,313
<b>Underlying assets value</b>						<b>24,264,242</b>
(+) Cash and equivalents						50,669
(-) On-balance sheet debt						-5,206,381
(-) NPV of operating expenses					(12.9%)	-2,363,487
<b>Equity Value</b>						<b>16,745,042</b>
Shares outstanding						581
Common shares						468
Preferred shares						113
EqV/share						28,838
Holding discount					0%	0
<b>Fair price</b>						<b>28,800</b>

## SUAM value generation estimates



SUAM's ROEs do not surpass our cost of capital (12%) in the projection period. Hence, some of the equity charge remains below the line of zero, indicating value loss. This explains our valuation of 0.4x P/BV but 1.3x P/TBV.

## Suramericana value generation estimates

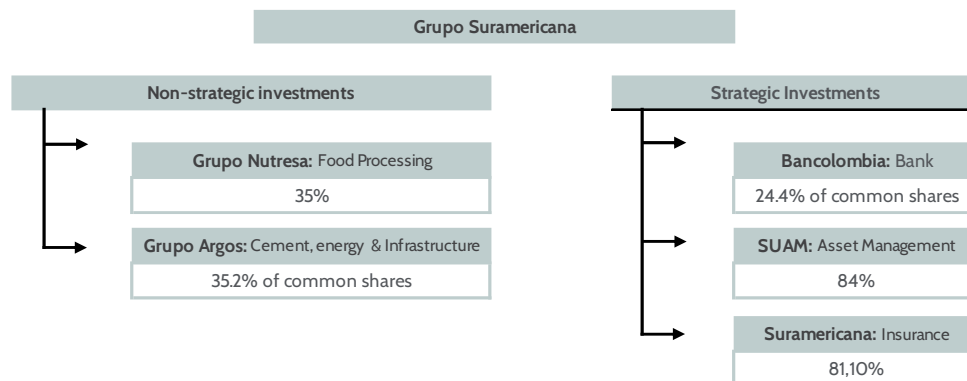


Suramericana's ROEs surpass our cost of capital (12%) in 2027, leading to value generation and residual income thereafter (area in orange). The value generated in the final years of our projection and its perpetuity combined with a value loss in the short term leads to our 1.0x P/BV valuation.

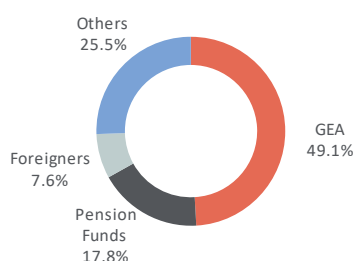
# Grupo Sura

## Company Description

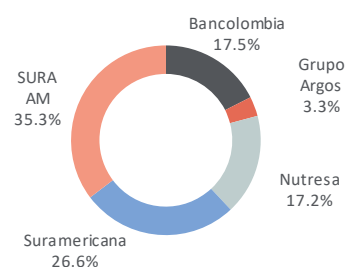
Grupo Suramericana is a financial holding that controls local and regional leading companies in the asset management (Sura Asset Management) and insurance business (Suramericana) in Latin America. It also holds a participation in Colombia's largest bank (Bancolombia) and non-strategic stakes in food processing (Nutresa) and infrastructure (Grupo Argos).



## Ownership Structure



## Dividend breakdown 2021 E



## Management

CEO: Gonzalo Pérez  
CFO: Ricardo Jaramillo  
HIR: Daniel Mesa  
[www.gruposura.com](http://www.gruposura.com)

## Income Statement

COP bn	2019	2020	2021 E	2022 E	2023 E
<b>Revenues</b>	21,914,783	22,022,089	24,589,750	26,964,781	29,252,005
Premiums	14,358,274	15,359,278	18,123,124	21,082,436	23,184,702
Life	4,946,154	5,283,414	5,977,953	6,603,410	7,399,098
P&C	5,632,641	5,520,964	5,411,930	5,639,921	5,872,613
Health & others	3,779,479	4,554,900	6,733,241	8,839,105	9,912,991
Equity method	1,255,222	362,495	1,262,381	1,317,940	1,508,490
Investment income	1,090,921	786,932	860,172	1,188,352	1,190,521
Others	5,210,366	5,513,384	4,344,073	3,376,053	3,368,293
<b>Total expenses</b>	(18,609,377)	(19,234,054)	(22,141,145)	(23,147,253)	(24,832,784)
Claims	(10,448,925)	(10,858,703)	(14,045,051)	(14,551,194)	(15,873,533)
Brokerage commissions	(2,439,073)	(2,571,943)	(2,348,406)	(2,626,779)	(2,657,926)
Administrative expenses	(4,048,768)	(4,215,894)	(4,279,875)	(4,651,827)	(4,966,888)
Others	(1,672,611)	(1,587,514)	(1,467,813)	(1,317,453)	(1,334,437)
<b>Net Income</b>	<b>1,525,537</b>	<b>225,124</b>	<b>1,254,462</b>	<b>1,395,799</b>	<b>1,668,741</b>
EPS (COP)	2.621	387	2.155	2.398	2.867
<b>Net Margin</b>	<b>7.0%</b>	<b>1.0%</b>	<b>5.1%</b>	<b>5.2%</b>	<b>5.7%</b>

## Balance Sheet

COP bn	2019	2020	2021 E	2022 E	2023 E
<b>Total Assets</b>	<b>69,037,830</b>	<b>74,064,264</b>	<b>69,578,409</b>	<b>69,737,100</b>	<b>69,981,864</b>
<b>Total Liabilities</b>	<b>40,946,828</b>	<b>45,522,539</b>	<b>39,414,445</b>	<b>38,470,932</b>	<b>37,329,139</b>
Minority Interest	2,454,242	2,536,893	2,557,383	2,639,130	2,732,284
Shareholders Equity	25,636,760	26,004,832	27,606,580	28,627,039	29,920,440
<b>Total Liabilities + Equity</b>	<b>69,037,830</b>	<b>74,064,264</b>	<b>69,578,409</b>	<b>69,737,100</b>	<b>69,981,864</b>
ROAE	6.1%	0.9%	4.7%	5.0%	5.7%
ROAA	2.2%	0.3%	1.7%	2.0%	2.4%

Sources: Company Reports and Credicorp Capital

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**Buy:** Expected returns of 5 percentage points or more in excess over the expected return of the local index, over the next 12-18 months.

**Hold:** Expected returns of +/- 5% in excess/below the expected return of the local index over the next 12-18 months.

**Underperform:** Expected to underperform the local index by 5 percentage points or more over the next 12-18 months.

**Under Review:** Company coverage is under review.

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\*Percentage of investment banking clients in each rating category.

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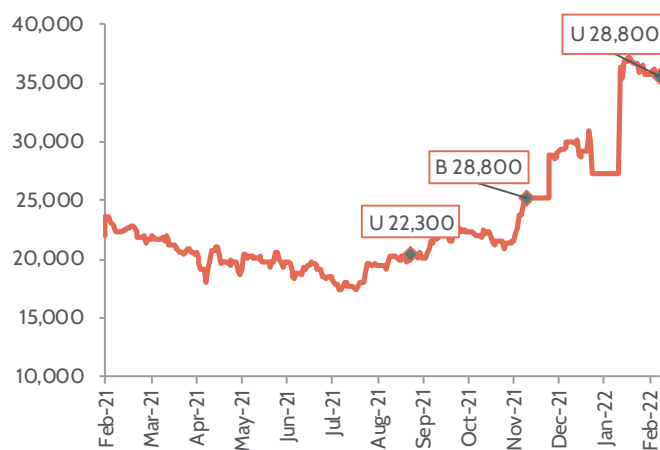
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## I. Price Chart.

Grupo Sura ( gruposur cb )



Date	Rating	Price (COP)	T.P. (COP)
24/10/2014	hold	40,320	46,400
9/02/2015	buy	35,760	42,000
23/10/2015	hold	37,240	41,600
10/02/2016	hold	35,740	38,300
6/09/2016	buy	39,360	44,200
27/04/2017	hold	38,440	41,500
5/09/2017	hold	41,720	44,400
5/09/2018	hold	34,040	39,100
8/08/2019	hold	32,800	37,600
28/08/2019	hold	32,820	35,300
11/09/2020	underperform	23,200	24,700
16/09/2021	underperform	24,800	22,300
1/12/2021	buy	25,150	28,800
27/02/2022	underperform	35,500	28,800

Source: Bloomberg and Credicorp Capital  
Credicorp Capital ratings: B = Buy, H = Hold, U = Underperform

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