

City of Medellin (/gws/en/esp/issr/88430467)



Fitch Affirms Municipality of Medellin's Ratings; Outlook Stable

Fitch Ratings-Monterrey-22 November 2017: Fitch Ratings has affirmed the Colombian Municipality (or City) of Medellin's ratings as follows:

- Long-Term Foreign Currency Issuer Default Rating (IDR) at 'BBB';
- Long-Term Local Currency IDR at 'BBB'.

The Rating Outlook is Stable.

The affirmation of the ratings reflects Medellin's national importance and financial strength supported by good administration by the local government. It also reflects that the city's debt is composed of foreign currency, which carries currency exchange risk although with manageable debt metrics. The rating further reflects crucial financial support by Empresas Publicas de Medellin (EPM, Foreign and Local Currency IDRs 'BBB+').

KEY RATING DRIVERS

Fitch considers Medellin's debt profile to be neutral to the rating and likely to remain stable, reflecting that its debt credit metrics are appropriate for the risk level assigned. By December 2016, the debt level was COP1.14 trillion (USD381 million) represented 1.88 years of the state's current balance, lower than the median of entities rated in the 'BBB' category. Out of that amount, 64% is foreign debt, which is still not hedged to the exchange rate risk. Medellin's administration is working to have coverage of external debt to reduce risk exposure to the exchange rate.

The administration is considering new internal debt for COP268,800 million to be disbursed in 2017, COP369,000 million in 2018 and COP126,900 in 2019. Although Medellin's credit metrics will be pressured in the forthcoming years, they are still consistent with Medellin's rating range.

Fitch modelled a scenario which considers the plan of new debt during the 2017 to 2019 period and subjected the financial projections to adverse scenarios. The results showed credit metrics in line with the entity's credit rating range. According to Fitch's projections, the highest ratio of debt to current balance will be 2.63 years; the debt service will not be higher than 45% of its operating balance.

As per the economic factor, Fitch considers it to be neutral with a stable trend denoting the relative importance of the city to the national economy representing almost 7% of Colombian GDP. Its economy is mainly based on services and commerce, although it still maintains a large number of industries important to the national and international trade. It sustains strong socioeconomic indicators with higher coverage of public services, education and health compared to national standards.

Fitch views Medellin's financial performance as a strong rating factor that is likely to remain stable in the future. Medellin's operating margins presented a positive trend in 2015 and 2016. In 2016 the operating balance was COP517,802 million (16.5% operating margin). Fitch expects that the operating margin will remain stable in the medium term with an average of 16%.

Medellin benefits from the important dividends, both common and extraordinary, received from EPM permitting the municipality to be more flexible to allocate them to finance further capital expenditure. As a whole, dividends have represented around 20% of total income of the city since 2012.

On the other hand, management and governance is a strong rating factor with a stable trend. The current administration is led by Mayor Federico Gutierrez, who was elected with no affiliation to any party but with a community movement that promoted his candidature. Fitch acknowledges the fiscal capacity of the administration to improve toll collections particularly now that this entrant government has implemented a new model for efficiently managing tax collection coupled with efforts to restrain operating expenditures.

RATING SENSITIVITIES

The Stable Outlook reflects Fitch's sensitivity analysis, which does not foresee any developments that would lead to a rating action.

The municipality's ratings are capped by Colombia's sovereign rating. An upgrade of the sovereign rating could trigger a positive rating action over the city's international rating. Fitch's sensitivity analysis does not currently anticipate developments with a material likelihood will lead to a rating downgrade.

Contact:

Primary Analyst
Ileana Guajardo
Director
+52 81 8399 9100
Fitch Mexico S.A. de C.V.
Prol. Alfonso Reyes 2612
Monterrey, N.L. Mexico

Secondary Analyst
Carlos Vicente Ramirez
Senior Director
+57 1 326-9999

Committee Chairperson
Christophe Parisot
Managing Director
Phone number
+33 1 4429 9134

DISCLOSURES RELEVANT TO THE RATING ACTION

Previous years' results are not considered in the revenue budget, non-recurring transfers received are classified as capital revenue, and revenue supporting future budget allocations was considered as current conditional transfers independently of its origin.

Media Relations: Benjamin Rippey, New York, Tel: +1 646 582 4588, Email: benjamin.rippy@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016) (<https://www.fitchratings.com/site/re/878660>)

Metodología de Calificaciones en Escala Nacional (pub. 27 Mar 2017) (<https://www.fitchratings.com/site/re/896229>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (<https://www.fitchratings.com/site/dodd-frank-disclosure/1032778>)

Solicitation Status (<https://www.fitchratings.com/site/pr/1032778#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings)

(<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM

(<https://www.fitchratings.com>). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory) (<https://www.fitchratings.com/site/regulatory>). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by

permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Unsolicited Issuers:

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
City of Medellin	-	Long Term Issuer Default Rating	Unsolicited
City of Medellin	-	Local Currency Long Term Issuer Default Rating	Unsolicited

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.