

Equity Research

Grupo de Inversiones Suramericana: The holding's valuation upside reflects the positive view on its investment portfolio

Prepared by:

Juan Nicolás Pardo Ayala
 1 607 8090
 jnpardo@valoresbancolombia.com

52-Week Low (COP)	\$ 11,100
52-Week High (COP)	\$ 22,640
Market Price as of 11-Sep'09 (COP)	\$ 22,480
YTD (%)	45.4%
Total Shares Outstanding (mm)	469.04
Market Cap (COP million)	10,543,958
Target Price 2010E	\$28,000
Upside	24.6%

Table 1. Bancolombia ADR Program
 (Analysts Consensus – Base Case Scenario)

Goldman Sachs	\$39.1
Interbolsa	\$38.1
Morgan Stanley	\$39.0
HSBC	\$37.0
Larrain Vial	\$32.0
Average (USD)	\$37.0
Average (COP)	\$17.300

Source: Bloomberg, Valores Bancolombia

Table 2. Price to Book Value
 (Peer Group of Insurance Companies)

Prudential Financial Inc. (EE.UU.)	1.30
Manulife Financial Corp (EE.UU)	1.41
Berkshire Hathaway (EE.UU.)	1.36
Allianz (Alemania)	1.07
Loews Corp. (EE.UU.)	0.98
AON Corp. (EE.UU.)	1.94
Fpic Insurance (EE.UU.)	1.52
Provida S.A. (Chile)	0.90
Sul America Seguros (Brasil)	1.52
Porto Seguro S.A. (Brasil)	1.41
Average (x)	1.4x

Source: Bloomberg

Base Case Scenario

- We are setting our new target price (end date December 2010) on Grupo de Inversiones Suramericana at **COP28,000**, derived from a Sum of the Parts (SOPT) valuation. We take the holding's portfolio as of June '09 as initial conditions and assume that its strategic focus in financial services and insurance, food and cement sectors is maintained in the medium term (Table 3).
- The valuation exercise consolidates the total ownership in the portfolio of Grupo de Inversiones Suramericana, Portafolio de Inversiones Suramericana, Suramericana BVI, Inversiones Otrabanda and Inversiones y Construcciones Estratégicas.
- Valuation of listed assets (89% of the portfolio):
 1. We value the holding's ownership of Grupo Nacional de Chocolates (Colombia's largest food group) and Grupo Empresarial Exito (Colombia's largest retailer) according to the target prices derived from our discounted free-cash flow valuations. The stake in Inversiones Argos (owner of Colombia's largest cement company) is valued through a SOTP exercise.
 2. Due to conflicts of interest, the ownership of Bancolombia is valued at the consensus target price (Table 1).
 3. We value the minority holdings of Fabricato, Enka and Protección at their current market price.
- Suramericana: Colombia's leading insurance company (unlisted) is valued at a 1.4x multiple to book value (up from a 1.2x multiple used in our March '09 valuation exercise), derived from the average of a peer group (Table 2).
- Other Assets: Includes other minor operational and non operational assets held directly by the firm or by its other affiliates or vehicles on which the firm has total control. We value these at book value as of June/09.
- Debt: As of June '09 the firm's outstanding debt stood at COP213,336 million, mainly composed by a syndicated loan acquired in 2007 to increase exposition to the insurance business. Leverage (measured as the debt to equity ratio) stood at 2.1%, in line with historical levels. This low indebtedness favorably positions the company to take advantage of market opportunities to advance its operation in the financial services and insurance sectors, especially abroad.
- Operational expenses: These include the holding's administrative expenses. We forecast these as a perpetuity, with the COP4.237 million observed data as of June '09 as initial conditions, a 3.0% long term inflation rate and a 15.4% estimated cost of equity.

* Refer to important disclosures on page 4.

Table 3. Sum of the Parts – Base Case Scenario

Asset	Methodology	% Stake*	Target Price 2010E	Value (\$ COP Millions)	(%) Total Assets
Bancolombia	Consensus	28.6%	\$17,300	3,898,010	29.1%
Inversiones Argos	SOTP	35.5%	\$16,800	3,850,250	28.7%
GNCH	DCF	36.5%	\$21,500	3,452,052	25.7%
Éxito	DCF	6.8%	\$17,800	349,593	2.6%
Fabricato	Market Price	15.4%	\$22	28,406	0.2%
Enka	Market Price	4.9%	\$7	4,234	0.0%
Protección	Market Price	45.5%	\$39,960	314,182	2.3%
Suramericana	PVB Multiple	81.1%	1.4x	1,188,556	8.9%
Other Assets	Book Value		Jun-09	332,656	2.5%
Total Assets				13,417,940	
Debt				213,336	
Operational Expenses				85,486	
Total Equity				13,119,118	
Total Shares Outstanding				469,037,260	
Net Asset Value (NAV)				\$28,000	

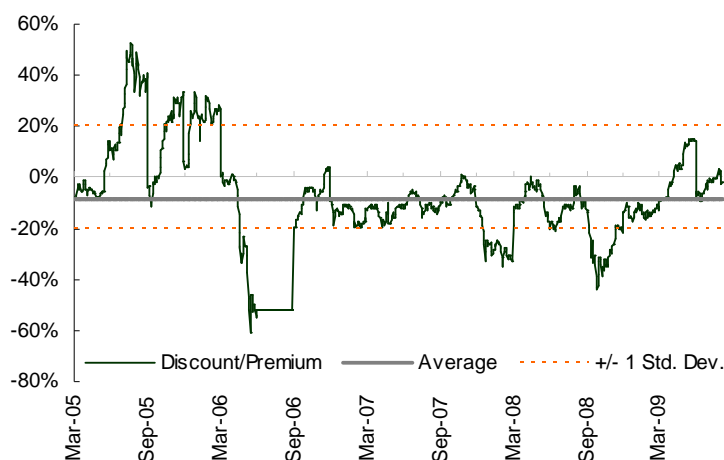
* Consolidated ownership of Grupo de Inversiones Suramericana, Portafolio de Inversiones Suramericana, Suramericana BVI, Inversiones Otrabanda and Inversiones y Construcciones Estratégica.

Source: Valores Bancolombia

Discount to Book Value

Taking into account that 89% of the company's portfolio is publicly listed, investors have the possibility to synthetically replicate it at market prices. In theory, the stock's Price to Book Value multiple should be very close to one. However, the presence of the non-listed assets and the minor operational expenses translates in a deviation from unity, implying a discount or premium on the market price. Since 2005 the stock has traded at an 8% average discount over book value with a 20.3% standard deviation. Currently, it trades at a 1.8% discount over book value (Graph 1). Our base case valuation does not consider any discount/premium over book value.

Graph 1. Discount/Premium to Book Value

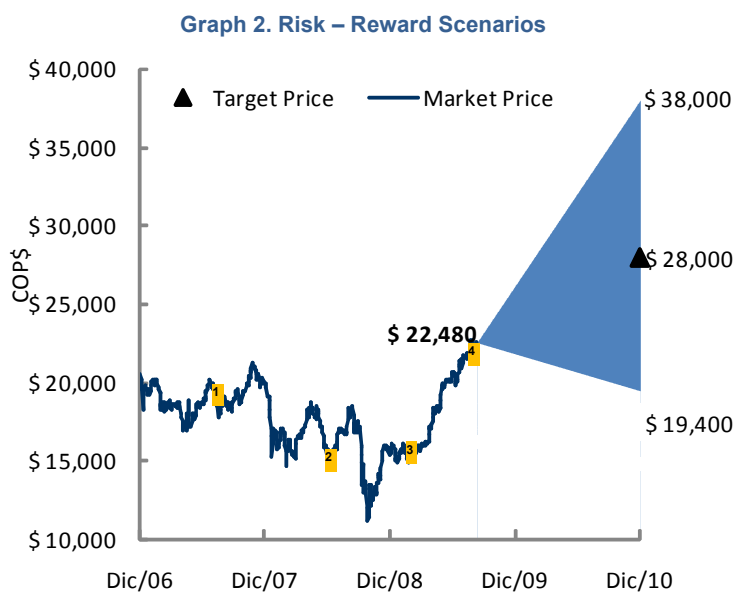


Source: Valores Bancolombia, Bloomberg

Risk – Reward Scenarios

Our risk–reward scenarios (Graph 2) consider the sensitivity of the base case valuation to changes in the value of the portfolio and the market discount to the net asset value (NAV).

- 1) **High case:** Considers a 12.7% increase in the value of the portfolio from COP13,417,940 million in the base case to COP16,141,782 million and a 20.3% premium to NAV. These assumptions are equivalent to one standard deviation over the historical 12-month return on the COLCAP Index and one standard deviation of the historical discount. Under this scenario the equity value increases 36% to COP17,823,415 million and the target price stands at COP38.000.
- 2) **Low case:** Considers a 12.7% reduction in the value of the portfolio to COP10,694,098 million and a 20.3% discount to NAV. These assumptions are equivalent to minus one standard deviation over the historical 12-month return on the COLCAP Index and minus one standard deviation of the historical discount. Under this scenario the equity value falls 31% to COP9,099,322 million and the target price stands at COP19.400.

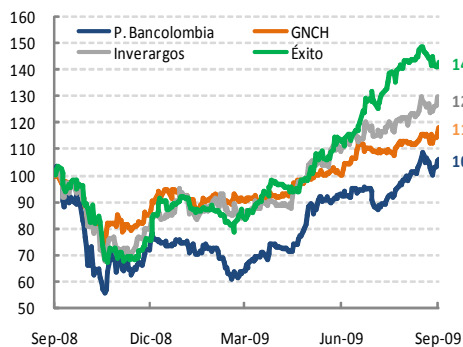


	Date	Target Price	Closing Price
1	13-Ago-07	\$26.727	\$18.920
2	08-Jul-08	\$21.820	\$15.200
3	13-Mar-09	\$22.700	\$18.920
4	11-Sep-09	\$28.000	\$22.480

Source: Valores Bancolombia

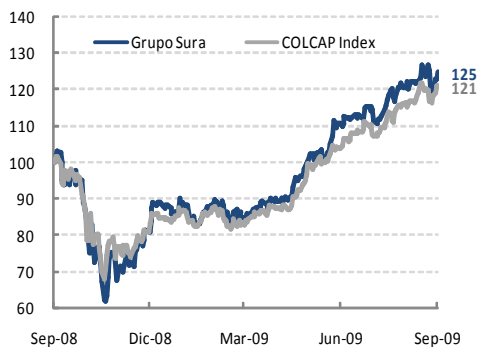
APPENDIX I

Portfolio Market Performance



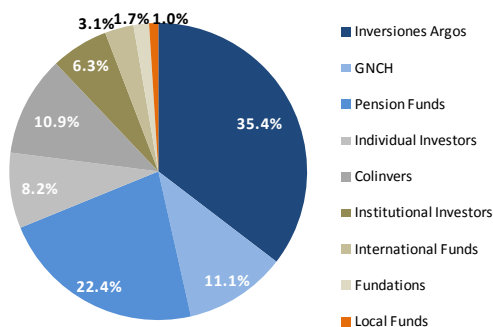
Source: Valores Bancolombia, Bloomberg

Grupo de Inversiones Suramericana Market Performance



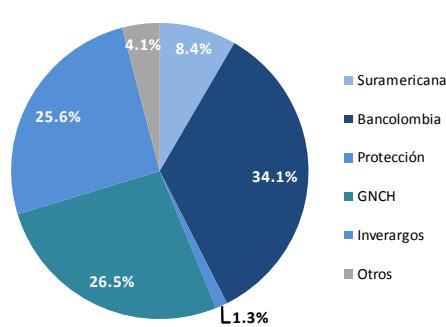
Source: Valores Bancolombia, Bloomberg

Current Shareholders



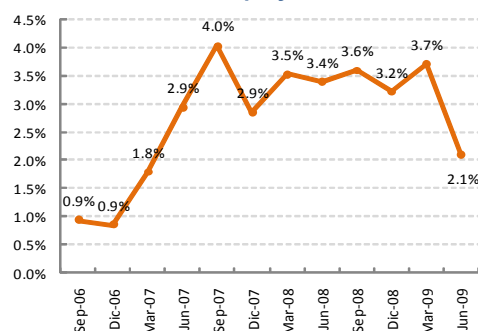
Source: Valores Bancolombia, Grupo de Inversiones Suramericana

Portfolio Composition - June '09



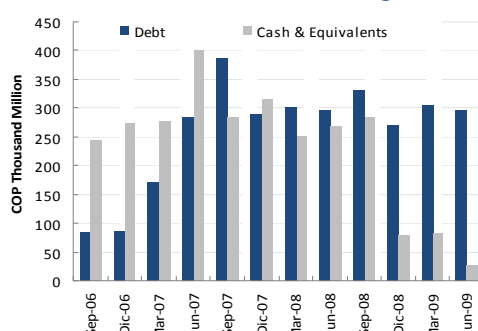
Source: Valores Bancolombia, Grupo de Inversiones Suramericana

Debt to Equity Ratio



Source: Valores Bancolombia, Superintendencia Financiera de Colombia

Debt and Cash Outstanding



Selected Performance Indicators (COP Thousand Million)

	Bancolombia			Inversiones Argos			GNCH			Suramericana		
	IQ09	IQ08	Chg%	IQ09	IQ08	Chg%	IQ09	IQ08	Chg%	IQ09	IQ08	Chg%
Revenue	981	1,111	-11.7%	70	42	65.3%	1,096	925	18.5%	110	14	682.3%
Oper. Profit	300	501	-40.2%	78	41	91.5%	108	102	5.2%	n.a.	n.a.	n.a.
EBITDA	n.a.	n.a.	n.a.	68	38	78.9%	130	126	2.9%	n.a.	n.a.	n.a.
Net Profit	253	375	-32.6%	62	41	52.6%	34	58	-41.4%	102	-6	1729%

Source: Valores Bancolombia, Superintendencia Financiera de Colombia

APPENDIX II

Grupo de Inversiones Suramericana – Individual Financial Statements
(COP Million)

Income Statement	2007	2008	1S08	1S09	Var. (%)
Operational Income	265,496	279,171	48.738	243.673	400%
Operational Expenses	12,523	24,991	8.071	21.809	170%
EBIT	252,973	254,180	40.667	221.864	445.6%
EBIT Margin	95%	91%	83%	91%	
Net Non-Operational Income	10.429	17.681	10.962	9.004	-17%
Net Profit	249,498	273,014	28,188	211,060	649%
Net Margin	94%	98%	38%	87%	
Balance Sheet	2007	2008	1S08	1S09	Var. (%)
Assets	10,396,841	8,702,243	9,159,531	10,743,696	17%
Cash and Equivalents	315,997	80,106	267,011	27,411	-90%
Liabilities	327,436	317,003	441,705	473,399	7%
Short Term Debt	211,944	174,812	189,446	296,595	57%
Other Short Term Liabilities	39,992	47,191	145,780	176,805	21%
Bonds	75,500	95,000	106,479	-	-100%
Equity	10,069,405	8,385,240	8,717,826	10,270,297	18%
Intrinsic Value	22,015	17,878	19,060	21,897	15%

Source: Valores Bancolombia, Superintendencia Financiera de Colombia

Valores Bancolombia | Equity and Portfolio Analysis | (571) 607 80 90 | Bogotá – Colombia

NAME	POSITION	E-MAIL ADDRESS
Luisa Fernanda Charry	Director of Equity and Portfolio Analysis	lfcharry@valoresbancolombia.com
Nicolás Pardo	Retail & Financial Sector Analyst	jnpardo@valoresbancolombia.com
Eduardo Sánchez	Commodities and Industrial Sector Analyst	edusanch@valoresbancolombia.com
Mauricio Amador Pilonieta	International Markets Analyst	mpilonie@valoresbancolombia.com
Sergio Díaz	Local Markets Analyst	seadiaz@valoresbancolombia.com
Lucas Madriñán	Intern	lumadrin@valoresbancolombia.com

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