

FITCH AFFIRMS ALICORP S.A.A. AT 'BBB'; OUTLOOK STABLE

Fitch Ratings-New York-26 April 2017: Fitch Ratings has affirmed the 'BBB' foreign and local currency long-term Issuer Default Ratings (IDRs) of Alicorp S.A.A. (Alicorp). Fitch has also affirmed Alicorp's senior unsecured notes at 'BBB'. The Rating Outlook on the corporate ratings is Stable.

KEY RATING DRIVERS

Solid Business Profile: Alicorp's ratings reflect the company's strong market position in the Peruvian consumer products industry as a result of its leading brands, broad product portfolio and extensive distribution network. Alicorp is well positioned to benefit from a growing middle class with increasing purchasing power. The company's Peruvian operations accounted for 62% of revenues and 77% of EBITDA. Revenues in other countries of Latin America (notably Ecuador, Chile, Brazil, Argentina) represented 38% of total sales. Fitch expects Peru's economy to grow by 3.5% in 2017.

Diversified Product Mix: The company has a broad portfolio of products which provides resilience and growth prospect. Consumer products accounted for 56% of consolidated revenues as of FYE16, while industrial flour, bulk oils and other industrial products (B2B) represented 23%, and aquaculture in Ecuador and Chile the remaining 22%. Consumer goods and B2B in Peru made up about 60% of revenues as of FYE16. Alicorp has been focusing on the integration of past acquisitions and reducing leverage. However, Fitch doesn't rule out opportunistic M&A activity in the future due to the strong credit metrics.

Steady Margin: Fitch expects EBITDA margins to remain in 12%-13% range in the next two years as a result of efficiencies in procurement, S&GA, and better performance of the Consumer Goods International division due to a gradual improvement of the consumer environment in Argentina and Brazil and lower cost inflation. The Consumer Goods International division's EBITDA margin declined to 3.4% in 2016 from 5.8% in 2015 because of high inflation, fluctuation of the exchange rate and depressed consumer environment in Brazil and Argentina. Fitch expects GDP growth of 0.7% and 3.2% respectively in Brazil and Argentina in 2017.

Conservative Leverage: Alicorp's financial profile is now strong in its rating category and could accommodate inorganic growth which is part of the group's stated growth strategy. The company reported an adj net debt/EBITDAR ratio of 1.6x compared to 2.7x in FYE16 thanks to strong free cash flow generation. Fitch expects Alicorp's net leverage ratio to move towards 1x by FYE 2018 thanks to growing EBITDA. FCF was strong in 2016 due to low capex, dividends and better working capital management. In 2017, Fitch forecasts FCF to be less than PEN100 million (PEN638 million in 2016) due to higher capex, dividends paid and requirement of working capital as the company is growing notably its aquaculture business.

KEY ASSUMPTIONS

- Revenue growth of around 5%;
- EBITDA margin at around 12%-13%;
- Capex of about 3% of total revenues in 2017;
- Dividends of PEN119 million in 2017;
- Adjusted Net Debt /EBITDAR trending toward 1x by 2018.

RATING SENSITIVITIES

Considerations That Could Lead to a Negative Rating Action:

Fitch is likely to downgrade Alicorp's ratings if the company maintains on a sustained basis a total adjusted net debt/ EBITDAR above 3.5x as a result of a decline in its operating performance or cash flow generation associated to adverse market conditions or acquisitions.

Considerations That Could Lead to a Positive Rating Action:

Fitch could upgrade Alicorp's ratings if the company maintains on a sustained basis adjusted net/ EBITDAR below 1.5x and increased geographic diversification in investment grade countries. Fitch would view improved profitability favorably, particularly in Argentina and Brazil.

LIQUIDITY

The liquidity is adequate thanks to the company's cash balance, low short-term and the use of revolving credit facility for working capital. As of December 2016, Alicorp had PEN273 million of cash and cash equivalents and short-term debt of PEN 243 million which is about 15% of total debt. Alicorp reduced its currency risk by issuing local bonds and local currency bank loans to buy back the majority of its USD450 million senior unsecured notes. About 5% of the debt (post-hedge) is exposed to U.S. Dollars.

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Applicable Criteria

Criteria for Rating Non-Financial Corporates (pub. 10 Mar 2017)

<https://www.fitchratings.com/site/re/895493>

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