Alicorp S.A.A.

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB
Senior Unsecured	BBB

Local Currency

Long-Term IDR	BBB
Senior Unsecured	BBB

IDR – Issuer Default Rating.

Rating Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Financial Data

Alicorp S.A.A.

(PEN Mil.)	12/31/16	12/31/15
Revenue	6,629	6,580
EBITDA	802	722
EBITDA Margin (%)	12.1	11.0
FFO	597	606
FCF	638	712
Cash and Marketable Securities	273	113
Total Adjusted Debt	1,599	2,059
Total Adjusted Debt/EBITDAR (x)	2	2.8
Total Adjust net Leverage (x)	1.6	2.7
EBITDA/Interest Paid (x)	6.0	3.7

Related Research

Fitch Affirms Fitch Affirms Alicorp S.A.A. at 'BBB'; Outlook Stable. (April 2017)

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Key Rating Drivers

Solid Business Model: Alicorp S.A.A.'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 in 2016. Other countries in Latin America (notably Ecuador, Chile, Brazil and Argentina) represented 38% of total sales.

Diversified Product Mix: The company's broad portfolio of products provides resilience and growth prospects. Consumer products accounted for 56% of consolidated revenues in 2016, while industrial flour, bulk oils and other industrial products (B2B) represented 23%, and aquaculture in Ecuador and Chile the remainder. Consumer goods and B2B in Peru made up about 60% of revenues in 2016. Alicorp has focused on integration of acquisitions and reducing leverage. However, Fitch Ratings doesn't rule out opportunistic merger and acquisition activity due to strong credit metrics.

Steady Margin: Fitch expects EBITDA margins to remain in the 12%–13% range in the next two years as a result of efficiencies in procurement and 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 division's EBITDA margin declined to 3.4% in 2016 from 5.8% in 2015 because of high inflation, exchange rate fluctuation and the depressed consumer environment in Brazil and Argentina.

Conservative Leverage: Alicorp's financial profile is strong in its rating category and could accommodate inorganic growth, which is part of its stated growth strategy. The company reported adjusted net debt/EBITDAR of 1.6x in 2016 compared with 2.7x in 2015 thanks to strong FCF. Fitch expects Alicorp's net leverage ratio to move toward 1.0x by year-end 2018 due to growing EBITDA. FCF was strong in 2016 due to low capex and dividends and better working capital management.

Rating Sensitivities

Positive Rating Action: Fitch could upgrade Alicorp's ratings if the company maintains sustained adjusted net/EBITDAR below 1.5x and increases geographic diversification in investment-grade countries. Fitch would view improved profitability favorably, particularly in Argentina and Brazil.

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

Company Profile

Alicorp is a Peruvian-based producer of consumer goods, industrial products and animal nutrition. The company focuses on three core businesses: Consumer Products (food, personal and home care products), in Peru, Brazil, Argentina, Ecuador and Colombia, among other countries; B2B Products (industrial flour, industrial lard, premix and food service products); and Aquaculture (fish and shrimp feeding). The company has a strong market position in the Peruvian consumer products industry due to its leading brands and extensive distribution network tailored to the local market. These factors, along with its position as the major commodities importer in Peru, provide strong competitive advantages and formidable barriers to entry. Around 62% of Alicorp's revenue and 77% of its EBITDA are generated in Peru.

Financial Overview

Liquidity and Capital Structure

Liquidity is adequate, thanks to the company's cash balance, low short-term debt and use of a revolving credit facility for working capital. As of Dec. 31, 2016, Alicorp had PEN273 million of cash and cash equivalents and short-term debt of PEN243 million, which is about 15% of total debt. As a result of its position as one of the major buyer of commodities within Latin American region, the company operates with revolving credit lines for import financing and working capital requirements. Alicorp has good access to capital markets. There are no major debt amortizations for the next two years after the repurchase of the majority of its senior unsecured notes.

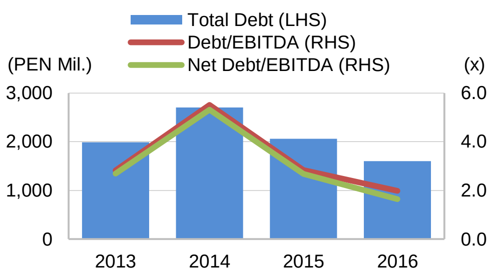
Alicorp refinanced USD387 million of its USD450 million notes with local issuances during 2015 to reduce FX risk exposure. Fitch expects Alicorp to reduce its net debt/EBITDA toward 1.0x by 2018 from 1.6x in 2016 due to increased EBITDA and slightly positive FCF. Fitch is factoring capex to increase to about 3% of total sales due to growing demand, from 1.9% in 2016. Main investments in 2016 were allocated toward the increase of installed capacity at the Inbalnor plant in Ecuador, and the acquisition of new machinery for the oils and flour production lines.

Debt Maturities and Liquidity

(PEN 000, As of Dec. 31, 2016)	
Current Maturity	243,251
Two Year	392,207
Three Year	98,066
Four Year	7,742
Five Year	0
Beyond Five Years	857,578
Cash Flow from Operations	808,537
Cash	273,483
Undrawn Committed Facilities	0

Source: Company data, Fitch.

Total Adjusted Debt and Leverage Ratios



Source: Company reports.

Related Criteria

Criteria for Rating Non-Financial Corporates (March 2017)

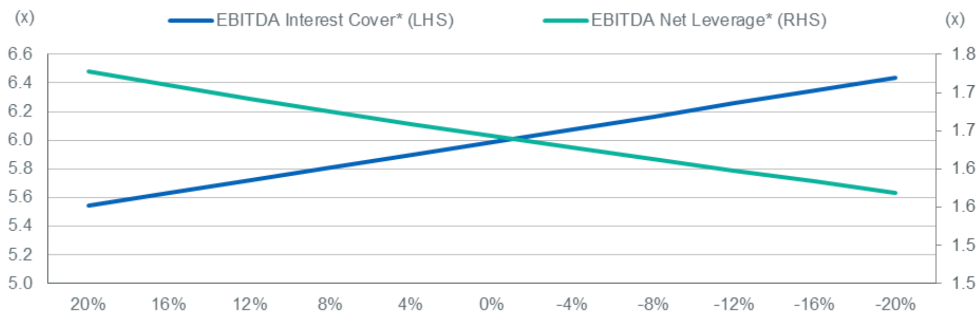
Cash Flow Analysis

Alicorp’s revenues and EBITDA were PEN6.63 billion and PEN802 million, respectively, for 2016. These compare positively with PEN6.58 billion and PEN722 million reported in 2015. The EBITDA margin was 12.3% in 2016, following a period of depressed raw material prices and consumer environment in Latin America, notably in Argentina and Brazil.

EBITDA margins should remain around 12%–13% during 2017–2018 as a result of efficiencies and a gradual improvement in the performance of operations in Brazil and Argentina. Capex decreased to PEN123 million in 2016 from PEN176 million in 2015. FCF was positive PEN638 million in 2016 due to lower capex and inventories and working capital improvements (i.e. improved cash conversion days thanks to lower collection days of 49.7 days in fourth-quarter 2016 versus 57 days in fourth-quarter 2015). Fitch expects FCF to remain positive in the next two years despite higher capex, dividends paid and working capital needs with the development of the aquaculture business.

FX Screener

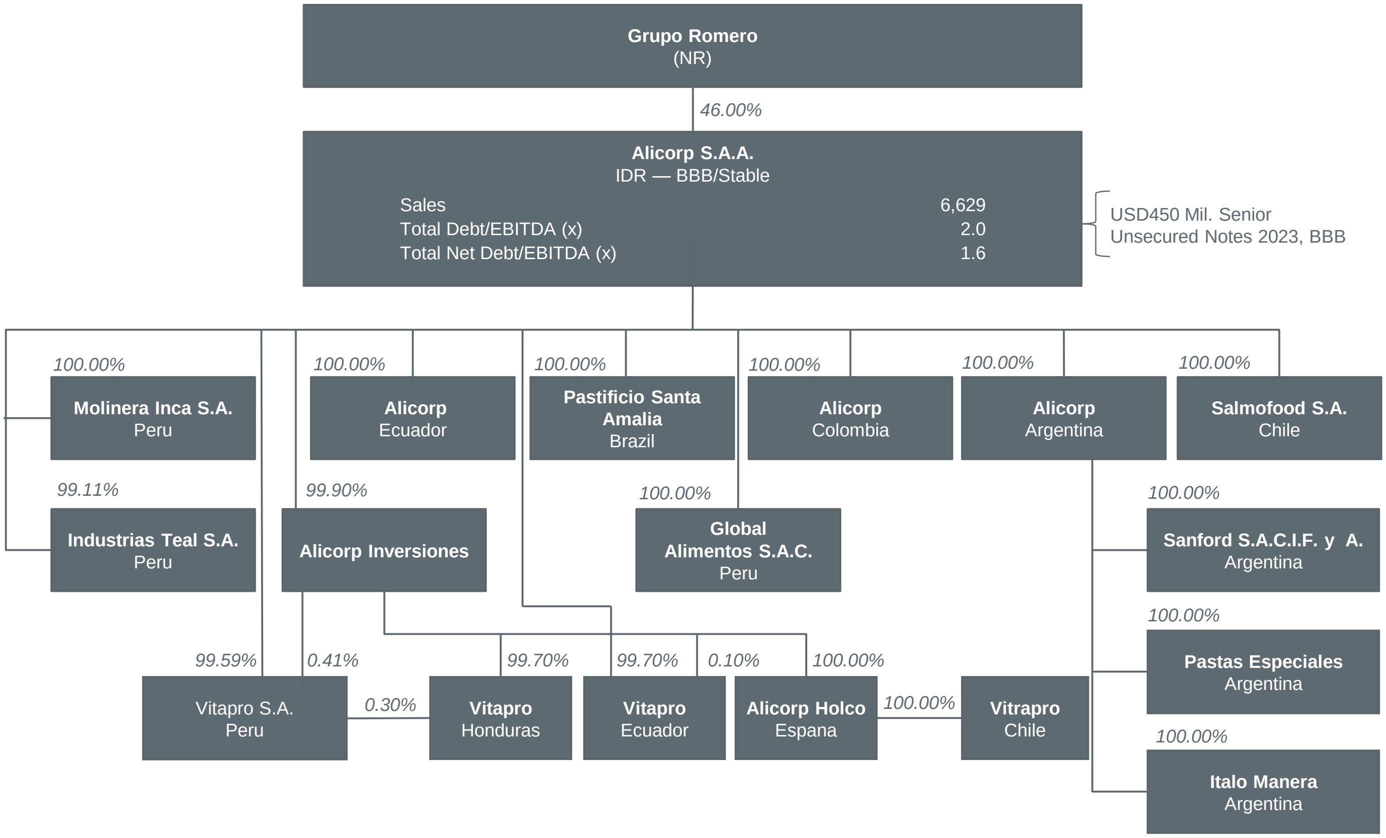
Fitch FX Screener - Foreign to Reported Currency Stress Test - Absolute Variation
(Alicorp S.A.A. — BBB/Stable, Dec-16)



*EBITDA after Dividends to Associates and Minorities
Source: Fitch

Fitch estimates that about 11% of group’s sales are in U.S. dollars and about 85% of Alicorp’s costs are related to U.S. dollars, mainly raw materials. Costs are hedged against their functional currency. Alicorp reduced the currency risk on its debt by issuing local bonds and local currency bank loans to buy back the majority of its USD450 million senior unsecured notes. About 5.1% of the post-hedge debt is exposed to U.S. dollars. Fitch estimates that a 20% depreciation of the local currency could have a negative effect of 0.1x in net debt leverage ratios.

Organizational Structure — Alicorp S.A.A.
(PEN Mil., As of LTM Dec. 31, 2016)



NR – Not Rated. IDR – Issuer Default Rating
Source: Company reports.

Key Forecast Assumptions

- Revenue growth of approximately 5%;
- EBITDA margin around 12%–13%;
- Capex of about 3% of total revenues in 2017;
- Dividends of PEN119 million in 2017;
- Adjusted net debt/EBITDAR trending toward 1.0x by 2018.

Forecast Summary — Alicorp S.A.A.

	Historical		Fitch Forecast		
(PEN 000)	12/31015	12/31/16	12/31/17	12/31/18	12/31/19
Summary Income Statement					
Revenue	6,580,488	6,628,789	6,931,746	7,271,171	7,597,845
Revenue Growth (%)	4.7	0.7	4.6	4.9	4.5
Operating EBITDA	722,486	802,316	861,843	943,395	1,012,955
Operating EBITDA Margin (%)	11.0	12.1	12.4	13.0	13.3
Operating EBITDAR	722,486	802,316	861,843	943,395	1,012,955
Operating EBITDAR Margin (%)	11.0	12.1	12.4	13.0	13.3
Operating EBIT	560,615	632,276	691,878	768,866	833,084
Operating EBIT Margin (%)	8.5	9.5	10.0	10.6	11.0
Gross Interest Expense	(190,522)	(163,842)	(103,057)	(93,777)	(85,480)
Pretax Income	239,473	463,001	595,759	681,572	755,712
Summary Balance Sheet					
Readily Available Cash	112,529	273,483	189,043	243,199	297,398
Total Debt with Equity Credit	2,058,950	1,598,844	1,418,844	1,336,844	1,238,778
Total Adjusted Debt with Equity Credit	2,058,950	1,598,844	1,418,844	1,336,844	1,238,778
Net Debt	1,946,421	1,325,361	1,229,801	1,093,645	941,380
Summary Cash Flow Statement					
Operating EBITDA	722,486	802,316	861,843	943,395	1,012,955
Recurring Associate Dividends Less Distributions to NCI	3,587	4,307	4,307	4,307	4,307
Cash Interest Paid	(196,325)	(134,727)	(103,057)	(93,777)	(85,480)
Implied Interest Cost (%)	8.3	7.4	6.8	6.8	6.6
Cash Interest Received	15,705	9,548	6,938	6,484	8,109
Cash Tax	(109,984)	(77,139)	(178,728)	(184,025)	(204,042)
Other Items Before FFO	171,129	(7,246)	(7,246)	(7,246)	(7,246)
Funds Flow from Operations	606,598	597,059	584,056	669,137	728,603
FFO Margin (%)	9.2	9.0	8.4	9.2	9.6
Change in Working Capital	281,893	211,478	(171,897)	(162,423)	(174,219)
Cash Flow from Operations (Fitch Defined)	888,491	808,537	412,160	506,714	554,383
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—
Capex	(176,605)	(123,965)	—	—	—
Capital Intensity (Capex/Revenue) (%)	2.7	1.9	—	—	—
Common Dividends	—	(46,206)	—	—	—
Net Acquisitions and Divestitures	(4,662)	6,705	—	—	—
Capex, Dividends, Acquisitions and Other Items Before FCF	(181,267)	(163,466)	(316,600)	(370,558)	(402,118)
FCF After Acquisitions and Divestitures	707,224	645,071	95,560	136,156	152,266
FCF Margin (After Net Acquisitions) (%)	10.7	9.7	1.4	1.9	2.0
Other Investing and Financing Cash Flow Items	56,991	(34,906)	0	0	0
Net Debt Proceeds	(751,207)	(449,211)	(180,000)	(82,000)	(98,066)
Net Equity Proceeds	—	—	0	0	0
Total Change in Cash	13,008	160,954	(84,440)	54,156	54,200
Coverage Ratios (x)					
FFO Interest Coverage	4.0	5.4	6.6	8.1	9.4
FFO Fixed-Charge Coverage	4.0	5.4	6.6	8.1	9.4
Operating EBITDAR/Interest Paid + Rents[a]	3.7	6.0	8.4	10.1	11.9
Operating EBITDA/Interest Paid*	3.7	6.0	8.4	10.1	11.9
Leverage Ratios (x)					
Total Adjusted Debt/Operating EBITDAR[a]	2.8	2.0	1.6	1.4	1.2
Total Adjusted Net Debt/Operating EBITDAR[a]	2.7	1.6	1.4	1.2	0.9
Total Debt with Equity Credit/Operating EBITDA[a]	2.8	2.0	1.6	1.4	1.2
FFO-Adjusted Leverage	2.6	2.2	2.1	1.8	1.5
FFO-Adjusted Net Leverage	2.5	1.8	1.8	1.4	1.2

HOW TO INTERPRET THE FORECAST PRESENTED: The forecast presented is based on the agency's internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch's rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch's forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch's own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch's own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch's own internal deliberations, where Fitch, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch may update the forecast in future reports but assumes no responsibility to do so.
[a]EBITDA/R after dividends to associates and minorities. NCI – Noncontrolling interests.
Source: Company reports, Fitch.