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Research Update:

Alicorp 'BBB-' Credit Rating Affirmed On Potential Acquisition Of Two Bolivia-Based Companies; Outlook Still Stable

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Research Update:

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Overview

- Peru-based packaged food maker Alicorp has announced that it's assessing the potential acquisition of two consumer packaged goods (CPG) companies in Bolivia for an estimated value of $390 million - $420 million.
- We're affirming our 'BBB-' corporate credit rating on Alicorp.
- The stable outlook reflects our expectation that, if these acquisitions occur, Alicorp will successfully integrate them, while maintaining a financial policy and growth strategy that prevents a significant weakening of its credit metrics and liquidity.

Rating Action

On Jan. 22, 2018, S&P Global Ratings affirmed its 'BBB-' global scale corporate credit rating on Alicorp S.A.A. The outlook remains stable.

Rationale

On Jan. 15, 2018, Alicorp announced that it's assessing the potential acquisition of Industrias del Aceite S.A. (Fino) and ADM-SAO S.A. (ADM Bolivia). Alicorp is considering acquiring both companies for $390 million – $420 million. Discussions about the transaction are still preliminary and subject to further due diligence and negotiations of final terms and agreements.

Assuming their completion, Alicorp will fund the acquisitions with cash in hand and new debt, which our previous base case scenario excluded. However, in our view, the company currently has flexibility to accommodate external financing, and we still expect its key credit metrics to remain in line with our current financial risk profile assessment. Specifically, we expect debt to EBITDA to remain below 2.0x and discretionary cash flow to debt around 10% by the end of 2018. We also believe the integration of Fino and ADM Bolivia with Alicorp's Bolivian operations could provide certain benefits in terms of economies of scale and potential synergies, which will continue to expand the company's core business in Latin America.

We will continue monitoring Alicorp's growth strategy, including further potential acquisitions, and new production capacity. Another transaction in the near term that results in further significant incremental debt and/or cash reduction could pressure the ratings.

Fino is a leading integrated consumer goods and business to business (B2B) company in Bolivia. ADM Bolivia is a leading oilseeds crusher and consumer goods company in the same country, producing edible oils, margarines and spreads, cooking fats, and operates in the home care industry. Both companies' combined sales totaled $500 million during 2017.

Liquidity

We assess Alicorp's liquidity as adequate under our criteria. We expect its sources to exceed its uses by more than 1.2x in the next 12 months and the ratio to remain above 1.0x even if EBITDA declines by 15%. We also include qualitative factors in our liquidity analysis, including our view that Alicorp will be able to absorb low-probability events with limited need for refinancing, as well as a consistent track record of accessing credit facilities from Peruvian banks, and domestic and international capital markets.

Principal Liquidity Sources:

- Cash and cash equivalents of PEN1.27 billion as of Sept. 30, 2017; and
- Funds from operations of about PEN693 million for the next 12 months.

Principal Liquidity Uses:

- Short-term debt maturities of PEN1.06 billion as of Sept. 30, 2017;
- Working capital outflows of about PEN170 million for the next 12 months (including peak in intra-year working capital);
- Maintenance and expansionary capex of PEN139 million for the next 12 months; and
- Dividend payments of about PEN148 million for the next 12 months.

As of the end of September 2017, Alicorp was in compliance with its incurrence covenant limitations, and we expect it will maintain headroom of at least 35% in 2018 and 2019.

Outlook

The stable outlook reflects our expectations that, if the announced acquisitions occur, Alicorp will successfully integrate them, while maintaining a financial policy and growth strategy that prevents a significant weakening of its credit metrics and liquidity. Specifically, we expect debt to EBITDA will be close to 2.0x and discretionary cash flow around 10% in the next 12 months.

Downside scenario

We could lower the ratings in the next 12 months if Alicorp completes another large debt-financed acquisition that further hampers its key credit metrics. We could also lower the ratings if the company's expansion program becomes more aggressive, and weakens its cash flow generation and key credit metrics, particularly with a debt to EBITDA consistently above 3.0x. A deteriorating liquidity position could also trigger a negative rating action.

Upside scenario

Although an upgrade is unlikely in the next 12-18 months, it could occur if Alicorp expands its scale of operations and geographic diversification, while improving its credit metrics and maintaining its adequate liquidity with a debt to EBITDA below 1.5x on a consistent basis. Additionally, the company should demonstrate a longer-track record of maintaining financial discipline despite its expansion plans.

Ratings Score Snapshot

Corporate Credit Rating BBB-/Stable/--

Business Risk: Satisfactory
- Country Risk: Moderately High
- Industry Risk: Low
- Competitive Position: Satisfactory

Financial Risk: Intermediate
- Cash Flow/Leverage: Intermediate

Anchor: bbb-

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and Governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - Industrials: Key Credit Factors For The Branded Nondurables Industry, May 7, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed

Alicorp S.A.A.	
Corporate Credit Rating	BBB-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.