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Research Update:

Alicorp S.A.A. 'BBB-' Corporate Credit Rating Affirmed, Outlook Remains Stable

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Overview

- Alicorp is planning to acquire two consumer packaged goods (CPG) companies in Bolivia while final stages of due diligence and board of directors' approval are pending.
- We're affirming our 'BBB-' corporate credit rating on Peru-based packaged food maker Alicorp.
- The stable outlook reflects our expectation that if these acquisitions occur, Alicorp will successfully integrate them, strengthening its competitive position in Latin America while maintaining a strong operating and financial performance. We expect the company's EBITDA margins to remain at 12%-13%, debt to EBITDA below 2.0x, and discretionary cash flow (DCF) to debt around 12% in the next two years.

Rating Action

On April 26, 2018, S&P Global Ratings affirmed its 'BBB-' global scale corporate credit rating on Alicorp S.A.A. The outlook remains stable.

Rationale

As of this report's date, Alicorp's potential acquisition of Industrias del Aceite S.A. (Fino) and ADM-SAO S.A. (ADM Bolivia), which the company announced in January 2018, is still pending final stages of due diligence and board of directors' approval. For further information on Alicorp's potential acquisition announcement, please refer to "Alicorp 'BBB-' Credit Rating Affirmed On Potential Acquisition Of Two Bolivia-Based Companies; Outlook Still Stable," published Jan. 22, 2018.

We expect that if the acquisitions were to occur, Alicorp will fund them through a $390-$420 million credit facility. In our view, the company currently has flexibility to accommodate external financing given its solid 2017 operating and financial performance and low leverage, reflected in a debt to EBITDA ratio of 1.0x at the end of the year. Moreover, we expect Alicorp to fund its working capital requirements, capital expenditures (capex), and dividend payments with internal cash flows in the next two years, while maintaining moderate debt levels. Consequently, we believe the company's key credit metrics will remain in line with our current financial risk profile assessment. Specifically, we expect debt to EBITDA to remain below 2.0x and

DCF to debt around 10% by the end of 2018.

Our rating on Alicorp continues to reflect its leading market share in the Peruvian market and improving position in other Latin American countries, strong brand equity in its portfolio of non-discretionary products, successful growth strategy through the launch of new products and formats, and somewhat diverse production facilities. However, the offsetting factors include the company's smaller size in terms of revenues and EBITDA than those its global rated peers, limited geographic diversification, and moderate exposure to economies with a high-risk operating environment, such as Argentina, Bolivia, and Ecuador, and its exposure to raw material price fluctuations and foreign currency volatility. Operations in these three countries represent close to 35% of total revenues on a pro forma basis. However, Alicorp continues to use its hedging strategy to offset increases in the prices of raw materials and foreign exchange fluctuations. We believe Alicorp's EBITDA margin will be 12%-13% in the next two years, in line with the average for the global consumer products sector.

Our base-case scenario assumes the following factors for 2018 and 2019:

- GDP growth in Peru of 3.5% in 2018 and 3.8% in 2019, which will continue to help consumption trends, benefiting Alicorp's sales. We expect the company to continue generating the bulk of its revenue and cash flow in this country in the following years.
- Inflation rate in Peru of 2.6% in 2018 and 2.5% in 2019. We expect consumption of non-discretionary products to remain stable, supporting Alicorp's sales and EBITDA generation.
- End-of-period exchange rate of PEN3.35 per $1 in 2018 and PEN3.40 per $1 in 2019. Some exchange volatility could pressure Alicorp's operating performance, although we expect that it may have a moderate impact on the company's cost structure due to contracted currency forwards.
- Revenue growth close to 27% in 2018 and 3.5% in 2019, reflecting the integration of Fino and ADM Bolivia following their acquisition on a pro forma basis, and the volume expansions in Alicorp's international and aquaculture business segments.
- Partial pass-through cost increases, economies of scale, and operating efficiencies even though we expect somewhat higher costs due to the acquisitions.
- Working capital requirements of PEN160 million in 2018 and PEN90 million in 2019.
- Capex of about PEN225 million in 2018 and PEN200 million in 2019 to support volume expansions, particularly to increase capacity in the aquaculture segment in Ecuador and Chile.
- Annual dividend distributions of about PEN185 million for the next two years.
- Net debt close to PEN2.1 billion in 2018 due to the $390-$420 million credit facility used to potentially acquire Fino and ADM Bolivia,

slipping to PEN1.9 billion in 2019 as the company strengthens its cash balance.

- No additional acquisitions.

Based on these assumptions, we arrive at the following credit metrics for 2018 and 2019:

- EBITDA margins between 12% and 13%;
- Debt to EBITDA of 1.9x and 1.6x, respectively;
- DCF to debt of about 12%.

Our rating on Alicorp incorporates Grupo Romero's 45.8% ownership stake in the company. In our view, Alicorp is a strategically important subsidiary of the group because it's a key driver of the group's long-term growth strategy and would likely to receive support from its parent if necessary.
Although we don't rate Grupo Romero, we view its credit profile as similar to Alicorp's stand-alone credit profile. Therefore, the group's credit profile doesn't constrain the rating.

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 this ratio to remain above 1.0x if EBITDA declines by 15%. We also include qualitative factors in our liquidity analysis, including our view that Alicorp has a strong record of accessing loans from Peruvian banks, tapping funding from domestic and international capital markets, and the ability to absorb high-impact, low-probability events, with limited needs for refinancing.

Principal Liquidity Sources:

- Cash and cash equivalents of PEN1.04 billion as of Dec. 31, 2017; and
- Funds from operations (FFO) of about PEN720 million for the next 12 months.

Principal Liquidity Uses:

- Short-term debt maturities of PEN955 million as of Dec. 31, 2017;
- Working capital outflows of about PEN160 million for the next 12 months;
- Maintenance capex of about PEN125 million for the next 12 months; and
- Dividend distributions of about PEN205 million for the next 12 months.

As of the end of 2017, Alicorp was in compliance with its debt acceleration covenants established under two bank loans, and we expect it will maintain headroom of at least 35%.

Outlook

The stable outlook reflects our expectation that, if abovementioned acquisitions occur, Alicorp will successfully integrate them, strengthening its competitive position in Latin America while maintaining a strong operating and financial performance in the next two years. Specifically, we expect the company's EBITDA margins to remain at 12%-13%, debt to EBITDA below 2.0x, and DCF to debt around 12% in 2018 and 2019.

Downside scenario

A negative action could take place in the next 12 months if Alicorp's liquidity position deteriorates, and/or if the company completes another large debt-financed acquisition that 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.

Upside scenario

A positive rating action could occur in the next 12-18 months if Alicorp expands its scale of operations and geographic diversification while improving its credit metrics and maintaining its adequate liquidity, reflected in 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

- 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

Ratings List

Rating 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.