Alicorp S.A.A. (/gws/en/esp/issr/92000696)

FitchRatings

Fitch Affirms Alicorp S.A.A. at 'BBB'; Outlook Stable

Fitch Ratings-New York-22 June 2018: Fitch Ratings has affirmed the 'BBB' Long-Term Foreign and Local Currency 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. The ratings affirmation reflects Alicorp's solid business profile and conservative credit metrics.

KEY RATING DRIVERS

Solid Business Profile: Alicorp's 'BBB' 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 in Latin America with increasing purchasing power. The company's Peruvian operations accounted for 74% of EBITDA during 2017. Profitability in its consumer goods International division (16% of group sales) remains weak due to its lackluster performance in Argentina and Brazil. Alicorp is downsizing its operations in Argentina, which was loss making in 2017, to reflect persistent challenges in that market. The company's profitability in Brazil remains weak due to the subdued consumer environment. The Aquaculture business (exposed to Ecuador, Chile) is performing well.

Conservative Leverage Despite Acquisition: Alicorp's financial profile is expected to remain strong during 2018 for the rating level. This strength offsets the risks of operating in Bolivia, Ecuador and Argentina. Fitch expects net debt/ EBITDA ratio to be below 2x in 2018, which is an increase from 0.8x in 2017. The growth in leverage is due to the group's acquisition of 100% of the shares of Industrias de Aceite S.A. (Fino), a leading integrated CPG and B2B company in Bolivia for USD293 million, and 100% of the shares of ADM-SAO S.A (to be finalized in the coming months), a leading Bolivian oilseeds crusher and CPG company. These acquisitions will significantly increase Alicorp's presence in consumer goods, crushing and B2B segments in Bolivia. They are consistent with the company's strategy of pursuing inorganic growth in the Andean region; Fitch expects the company to continue to pursue more acquisition opportunities whenever leverage falls to around 1x.

Diversified Product Mix: The company has a broad portfolio of products which provides resilience and growth prospects. The company focuses on three core businesses: consumer products (food, personal and home care products) in Peru, Brazil, Argentina, Ecuador, Colombia and other countries (53% of sales), industrial products (B2B) represented 22% of sales, and Aquaculture (25% of sales) in Ecuador and Chile as of FYE17. This product and geographic diversification helps smooth cash flow volatility.

Steady Margin and Positive FCF: Fitch expects EBITDA margins to remain in 13% to 14% range over the next two years due to cost efficiencies measures in procurement, manufacturing and distribution. Improved demand in Peru, strong aquaculture demand in Ecuador and a gradual improvement of the profitability of the Consumer Goods International Division will also be part of this equation. Fitch expects the company to generate positive free cash flow despite increased capex for expansion and higher dividends. FCF was positive at PEN612 million in 2017 due to strong EBITDA growth, limited capex, good m working capital management due to an extension of days payables outstanding.

DERIVATION SUMMARY

Alicorp's 'BBB' ratings reflect the company's strong market position in the Peruvian consumer products industry due to its leading brands, broad product portfolio and extensive distribution network. Alicorp has grown organically and by acquisitions to increase its geographical diversification in South America. Peru remains the company's core market and represents about 74% of EBITDA as of FYE17.

Constraining factors for the ratings are Alicorp's moderate size and a less diversified portfolio of products and brands when compared to other large consumer and packaged goods companies such as Unilever Plc (A+/Stable), Nestle (AA-/Stable), Bimbo (BBB/Stable Outlook), which all have achieved a global presence in developed and developing markets.
Alicorp credit metrics are strong for the rating and compare favourably to its peers; however, Fitch expects the company to continue to explore acquisitions or be more shareholder friendly in the medium term. The company acquired Fino in Bolivia and is finalizing the acquisition of ADM Bolivia for a total amount of about USD400million for both transactions. Fitch expects Alicorp's net leverage to remain below 2x post-acquisition in 2018.Low leverage is also mitigated by Alicorp exposure to higher risk countries such as Argentina or Ecuador, which have a sovereign risk rating of 'b'.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer
--High single digit revenues growth driven by acquisitions;
--EBITDA margin at around 13%-14% range over the next two years;
--Capex to sales of 3.2%;
--Acquisition of Bolivian operations;
--Adjusted Net Debt /EBITDAR below 2x by 2018.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action
--Net debt/ EBITDA below 1.5x on a sustained basis;
--Increased geographic diversification in investment grade countries. Fitch would view improved profitability favorably, particularly in Argentina and Brazil.

Developments That May, Individually or Collectively, Lead to Negative Rating Action
--Net debt/ EBITDA above 3x as a result of a decline in its operating performance or cash flow generation associated to adverse market conditions or acquisitions.

LIQUIDITY

Adequate Liquidity: The liquidity is adequate thanks to the company's cash balance, free cash flow generation and the use of revolving credit facility for working capital. As of March 31, 2018, Alicorp had PEN964 million of cash and cash equivalents and short-term debt of PEN 903 million. Alicorp exposure to U.S. debt dollars is limited. The company 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 (USD62.4million outstanding). About 2.7% of the debt (post-hedge) is exposed to U.S. Dollars. The company has a Long-term investment in Credit Corp Ltd for a total amount of PEN362 million.

FULL LIST OF RATING ACTIONS

Fitch has affirmed the following:

Alicorp S.A.A.
--Long-Term Foreign and Local Currency IDRs at 'BBB';
--Senior Unsecured debt at 'BBB';

The Rating Outlook Stable.

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Applicable Criteria

Corporate Rating Criteria (pub. 23 Mar 2018)
(https://www.fitchratings.com/site/re/10023785)

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