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Research Update:

Alicorp 'BBB-' Ratings Affirmed, Off Watch Negative On Likely Rapid Deleveraging After Recent Acquisition, Outlook Stable

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Rating Action Overview

- On Jan. 31, 2019, Peru-based packaged food maker Alicorp announced the acquisition of Intradevco, a personal and home care products company, for $490.4 million through a $500 million bridge loan.
- Although the transaction was 100% debt financed, we believe Alicorp will integrate Intradevco rapidly, improving profitability and credit metrics gradually.
- On March 13, 2019, S&P Global Ratings affirmed its 'BBB-' long-term issuer credit rating on Alicorp and removed it from CreditWatch, where we placed it with negative implications on Feb. 4, 2019.
- The stable outlook reflects our expectation that Alicorp will successfully integrate Intradevco. We believe that its top-line growth and improving margins will support its deleveraging for the next two years, with debt to EBITDA below 2.5x in the next 12 months and close to 2.0x for the next 24 months.

Rating Action Rationale

Earlier this year, Alicorp announced the acquisition of Tecnología Aplicada S.A. (TASA), Intradevco's holding company, for $490.4 million. Although Alicorp financed the acquisition with a $500 million bridge loan, in our view, the company will deleverage rapidly in the upcoming years. Alicorp expects to sell non-core assets for about $120 million, which the company will use for debt prepayment. Alicorp has a long track record of engaging in M&A activity, mostly debt financed, while sustaining its capital structure. We believe the plan for the integration of Intradevco is in line with past acquisitions. The rating affirmation reflects our view that Alicorp will be able to successfully integrate Intradevco into its business while maintaining its leverage metrics in line with our expectations, with debt to EBITDA trending towards 2.0x and a discretionary cash flow (DCF) close to zero in the next 12 months.

We believe the transaction represents an opportunity for Alicorp to strengthen its operations in the home care division while it enters the personal care segment. The company will benefit from Intradevco's leading brands such as Sapolio, Avala, and Dento. Therefore, the acquisition will represent an additional barrier for new entrants into the Peruvian market given that Alicorp will increase its scale of operations. We expect the integration of

Intradevco to provide certain benefits in terms of economies of scale and potential synergies. These factors, along with Intradevco's higher margins, should increase Alicorp's EBITDA margins to 13.5%-14.5% in the next two years, in line with the average for the global consumer products sector.

Our rating on Alicorp continues to reflect its leading position in Peru and improving market shares in other Latin American countries, strong brand recognition of its portfolio of products, successful growth strategy through the launch of new products and formats, and somewhat diverse production facilities. However, the company's revenue and EBITDA remain smaller than those of its global rated peers. In addition, Alicorp has a limited geographic diversification and moderate exposure to economies with a high-risk operating environment, such as Argentina, Bolivia, and Ecuador, along with exposure to raw material price fluctuations and foreign currency volatility. Nevertheless, Alicorp continues to use its hedging strategy to offset increases in the prices of raw materials and foreign exchange fluctuations.

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

Outlook

The stable outlook reflects our expectation that Alicorp will integrate Intradevco rapidly, given its experience operating in the Peruvian market, which will support its top-line growth and improve its EBITDA margin to 13.5%-14.5%. Additionally, we expect the company to deleverage in the next two years, with debt to EBITDA below 2.5x in the next 12 months and close to 2.0x for the next 24 months.

Downside scenario

A negative rating action in the next 12 months could follow a failure to integrate Intradevco, which could pressure Alicorp's margins, cash flow generation, liquidity, and leverage metrics, with debt to EBITDA consistently above 3.0x. A downgrade could also occur if the company completes another large debt-financed acquisition or if its expansion plan becomes more aggressive than expected.

Upside scenario

We could upgrade Alicorp in the next 12-18 months, if it demonstrates a consistent track record of a successful integration of its recent acquisitions, while it improves its operating and financial metrics, resulting in debt to EBITDA below 1.5x on a consistent basis. Additionally, we should see an expansion of the company's scale of operations and geographic diversification, while maintaining financial discipline despite its expansion plans.

Company Description

Alicorp is the leading consumer branded products company in Peru and one of the largest in South America. It was founded in 1956 and is based in Peru. Alicorp produces, distributes, and commercializes branded consumer products under five business segments:

- Consumer Goods Peru (offering food, home, and personal care products);
- Consumer Goods International (focused on expanding in Latin America and offering pasta, hair products, and laundry detergents);
- Business-to-business (consisting primarily of industrial baking flour and food-based products for restaurants and industries);
- Aquaculture (offering shrimp and fish feed); and
- Crushing (producing soybean and sunflower in Bolivia).

Alicorp is part of Grupo Romero, which owns 45.8% of the company, and is one of the largest business conglomerates in Peru, with over 120 years of operations in more than 20 countries worldwide. However, Grupo Romero doesn't have control over Alicorp.

Our Base-Case Scenario

- GDP growth in Peru of 4.0% and 4.1% in 2019 and 2020, respectively, which will help consumption trends, benefiting Alicorp's sales.
- Average inflation rate of 2.2% in 2019 and 2.1% in 2020. Given this low inflation, we expect consumption of non-discretionary products to remain stable, supporting Alicorp's sales and EBITDA generation.
- End-of-period exchange rate of PEN3.4 per $1 in 2019 and PEN3.45 per $1 in 2020. Given these currency fluctuations, we expect some volatility that could pressure Alicorp's operating performance, but a moderate impact on the company's cost structure due to contracted currency forwards.
- Revenue growth close to 25% in 2019 and 10% in 2020, mainly reflecting the integration of Intradevco, coupled with volume expansions in Alicorp's international and aquaculture segments.
- Partial pass through of cost increases, and greater economies of scale and operating efficiencies mainly stemming from the integration of Intradevco.
- Working capital requirements of PEN200 million and PEN190 million, respectively, in 2019 and 2020.
- Capex of about PEN430 million and PEN560 million in 2019 and 2020, respectively, mainly for the SAP S/4HANA implementation, new facilities in Peru and Brazil, and the expansion of the company's aquaculture plants.
- Annual dividend distributions of about PEN205 million for 2019 and PEN250

million for 2020.

- Intradevco's acquisition for about PEN1.6 billion.
- Sale of non-core assets for around $120 million in 2019.
- Higher debt, of about PEN3.2 billion in the next two years, due to the bridge loan for $500 million used to acquire Intradevco.

Based on these assumptions, we arrive at the following credit metrics for 2019 and 2020:

- EBITDA margins between 13.5% and 14.5%;
- Debt to EBITDA between 2.0x and 2.5x;
- DCF close to zero for the next two years.

Liquidity

We continue to assess Alicorp's liquidity as adequate because 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 a limited need for refinancing.

Principal Liquidity Sources:

- Cash and cash equivalents of PEN1.04 billion as of Dec. 31, 2018;
- Funds from operations (FFO) of about PEN860 million for the next 12 months; and
- Net amount of PEN72 million, stemming from a bridge loan of about PEN1.7 billion minus the payment for Intradevco's acquisition of about PEN1.6 billion.

Principal Liquidity Uses:

- Short-term debt maturities of PEN927.8 million as of Dec. 31, 2018;
- Working capital outflows of about PEN200 million for the next 12 months;
- Maintenance capex of about PEN115 million for the next 12 months; and
- Dividend distributions of about PEN205 million for the next 12 months.

Covenants

As of the end of 2018, Alicorp was in compliance with its debt acceleration covenants established under two bank loans, and we expect it will maintain headroom of at least 12% for 2019 and 25% for 2020.

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

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Ratings Affirmed

Alicorp S.A.A.
 Analytical Factors
  Local Currency                        bbb-

Ratings Affirmed; CreditWatch/Outlook Action
                                        To                 From
Alicorp S.A.A.
 Issuer Credit Rating                   BBB-/Stable/--     BBB-/Watch Neg/--
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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 S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.