

FITCH AFFIRMS ALICORP S.A.A AT 'BBB'; OUTLOOK STABLE

Fitch Ratings-New York-15 March 2019: Fitch Ratings has affirmed the 'BBB' Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) of Alicorp S.A.A. Fitch has also affirmed Alicorp's senior unsecured notes at 'BBB'. The Rating Outlook on the corporate ratings is Stable. The rating affirmation reflects Alicorp's solid business profile and adequate credit metrics.

KEY RATING DRIVERS

Good 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. The company's Peruvian operations accounted for about 74% of EBITDA during 2018. Profitability in its consumer goods International division remains weak due to its lackluster performance in Argentina. Alicorp is restructuring its operations in Argentina, which was loss-making in 2018, to reflect persistent competition and consumer challenges in that market. The company's profitability in Brazil remains weak, but EBITDA was positive in 2018 due to better consumer environment. The aquaculture business (exposed to Ecuador and Chile) is performing well.

Higher Leverage due Acquisition: Fitch expects Alicorp's financial profile to remain in line with its 'BBB' rating. Fitch expects net debt/EBITDA ratio to trend towards 2.5x in 2019, which is an increase from about 2x in 2018. The expected growth in net leverage is due to the group's debt-financed acquisition of Intradevco Industrial S.A. (intradevco) for an enterprise value of USD515 million in February 2019 or 12.5x EV/EBITDA. Intradevco is a leading home and personal care player within the Andean region. The acquisition is consistent with Alicorp's strategy of pursuing inorganic growth in the Andean region as Intradevco has operations in Peru and exports to several other countries in Latin America, including Ecuador and Bolivia. This acquisition reinforces Alicorp's presence in the home and personal care segments and broaden its products mix.

Diversified Product Mix: The company has a broad portfolio of products which provides resilience and growth prospects. The company focuses on consumer goods products (food, personal and home care products) in Peru (55% EBITDA), consumer goods international in Bolivia, Argentina, Brazil and Ecuador (-1% of EBITDA), industrial products (B2B) represented 17% of EBITDA, aquaculture feed (31% of EBITDA) in Ecuador and Chile, and Crushing (-1% in EBITDA) as of FYE18. This product and geographic diversification help smooth cash flow volatility.

Steady Margin: Fitch expects EBITDA margins to remain in 13% to 14% range over the next two years due to revenues mix, cost efficiencies measures in procurement, manufacturing, distribution and the integration of the recent acquisitions. Improved demand in Peru, better performance of the crushing business recovery of consumer demand in Brazil and continuing good performance of the aquaculture business will also be part of this equation. Fitch expects the company to generate low positive FCF because of higher expansion capex and interest expenses due to higher EBITDA from the full consolidation of the Intradevco acquisition.

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 FYE18.

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-/Negative), Bimbo (BBB/Stable), which all have achieved a global presence in developed and developing markets.

Alicorp credit metrics are in line for the rating and higher than its peers. The company has been acquisitive with the recent acquisition of Intradevco for a total amount an enterprise value of USD515 million in February 2019. Fitch expects Alicorp's net leverage to trend towards 2.5x in 2019. The company has some 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

- Double digit revenues growth driven by acquisitions;
- EBITDA margin at around 13%-14% range over the next two years;
- Acquisition of Intradevco;
- Net debt /EBITDA towards 2.5x by 2019.

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 with adverse market conditions or acquisitions.

LIQUIDITY

Adequate Liquidity: The liquidity is adequate due to the company's cash balance, FCF generation and the use of revolving credit facility for working capital. As of Dec. 31, 2018, Alicorp had PEN1,037 million of cash and cash equivalents and short-term debt of PEN920 million. Alicorp exposure to U.S. debt dollars is limited. About 12.9% of the debt has FX exposure to U.S. dollars as of FYE18. The company has a long-term investment in Credicorp Ltd. for a total amount of PEN378 million. Fitch expects Alicorp to refinance its bridge loan and sale some of its Credicorp Ltd's shares to reduce net leverage.

FULL LIST OF RATING ACTIONS

Fitch has affirmed the following ratings:

Alicorp S.A.A.

- Long-Term Foreign and Local Currency IDRs at 'BBB';
- Senior unsecured debt at 'BBB'.

The Rating Outlook is Stable.

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Corporate Rating Criteria (pub. 19 Feb 2019)
<https://www.fitchratings.com/site/re/10062582>

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