

FITCH RATES ALICORP'S SENIOR NOTES OFFERING 'BBB'

Fitch Ratings-New York-04 April 2019: Fitch Ratings has assigned a 'BBB' rating to Alicorp S.A.A.'s proposed up to USD500 million equivalent in PEN, senior unsecured notes with intermediate maturity. A full list of Alicorp's ratings follows at the end of this press release. Proceeds from the debt issuance will be used to repay the bridge financing of the recent acquisition of Intradevco for an equity value of USD495 million.

KEY RATING DRIVERS

Good Business Profile: Alicorp's 'BBB' rating reflects 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 in 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 had losses in 2018, to reflect persistent competition and consumer challenges. Profitability in Brazil remains weak, but EBITDA was positive in 2018 due to a better consumer environment. The aquaculture business, which is exposed to Ecuador and Chile, is performing well.

Higher Leverage Due To Acquisition: Fitch expects Alicorp's financial profile to remain in line with its 'BBB' rating. Fitch expects net debt/EBITDA to trend toward 2.5x in 2019, an increase from about 2.0x in 2018. The expected growth in net leverage is due to the group's debt-financed acquisition of Intradevco Industrial S.A. for an enterprise value (EV) of USD515 million in February 2019, or 12.5x EV/EBITDA. Intradevco is a leading home and personal care company in the Andean region. The acquisition is consistent with Alicorp's strategy of pursuing inorganic growth in the Andean region, as Intradevco operates in Peru and exports to several countries in Latin America, including Ecuador and Bolivia. This acquisition reinforces Alicorp's presence in the home and personal care segments and broadens its products mix.

Diversified Product Mix: The company has a broad product portfolio, which provides resilience and growth prospects. The company focuses on consumer goods -- namely food and personal and home care products -- in Peru (55% EBITDA); consumer goods in Bolivia, Argentina, Brazil and Ecuador (-1% of EBITDA); industrial products (B2B; 17% of EBITDA); aquaculture feed (31% of EBITDA) in Ecuador and Chile; and crushing (-1% in EBITDA) as of YE 2018. This product and geographic diversification helps smooth cash flow volatility.

Steady Margin: Fitch expects EBITDA margins to remain in the 13%-14% range over the next two years due to the company's revenue mix; cost efficiency measures in procurement, manufacturing and distribution; and the integration of recent acquisitions. Improved demand in Peru, better performance of the crushing business, recovery of consumer demand in Brazil and the 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 expense, along with 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 geographic diversification in South America. Peru remains the company's core market and represents about 74% of EBITDA as of YE 2018.

Constraining factors for the ratings are Alicorp's moderate size and a less diversified portfolio of products and brands when compared with other large consumer and packaged goods companies such as Unilever PLC (A+/Stable), Nestle SA (AA-/Stable) and Grupo Bimbo, S.A.B. De C.V. (BBB/Stable), which all have 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 transaction for Intradevco for a total equity value of USD490 million in February 2019, and Industrias de Aceite S.A. (Fino) and ADM-SAO S.A. in Bolivia for about USD408 million for both transactions in 2018. Fitch expects Alicorp's net leverage to trend toward 2.5x in 2019. The company has some exposure to higher-risk countries such as Argentina and Ecuador, which have a sovereign risk rating of 'b' and 'b-', respectively.

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: Liquidity is adequate, based on the company's cash balance, FCF and use of a revolving credit facility for working capital. As of YE 2018, Alicorp had PEN1,037 million of cash and cash equivalents and current debt of about PEN920 million. Alicorp's exposure to U.S. dollar-denominated debt is limited. About 12.9% of its debt had FX exposure to U.S. dollars as of YE 2018. The company has a long-term investment in Credicorp Ltd. for PEN378 million. Fitch expects Alicorp to refinance its bridge loan and sell some of Creditcorp shares to reduce net leverage.

FULL LIST OF RATING ACTIONS

Fitch has assigned the following rating:

Alicorp S.A.A.

- Proposed up to USD500 million equivalent in PEN, senior unsecured notes 'BBB'.

Fitch currently rates the following:

Alicorp S.A.A.

- Long-Term Foreign and Local Currency IDRs 'BBB';

--Senior unsecured debt '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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