

CREDIT OPINION

28 April 2023

Update



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RATINGS

Alicorp S.A.A.

Domicile	Peru
Long Term Rating	Baa3
Type	Senior Unsecured - Fgn Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Alicorp S.A.A.

Annual Update

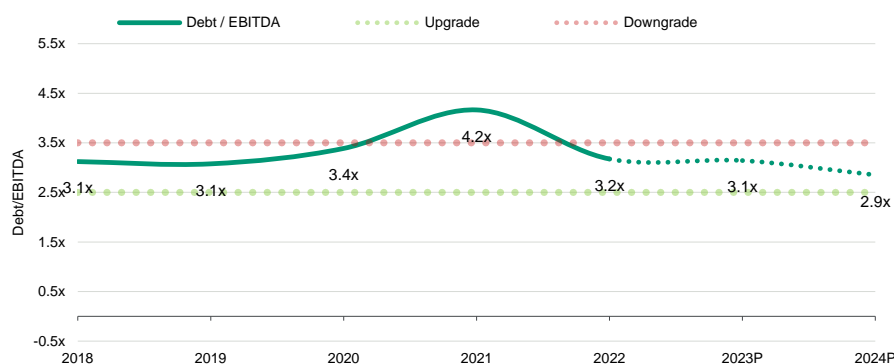
Summary

[Alicorp S.A.A.](#)'s Baa3 rating is supported by its leading market position in [Peru](#) (Baa1 negative) in key product categories, and its extensive and hard-to-replicate distribution network. The rating also reflects its broad product portfolio and experienced management with a successful execution track record in completing acquisitions. The Baa3 incorporates our view that Alicorp will be able to maintain credit metrics comfortably within the rating category while generating positive free cash flow (FCF), which will support the company's ability to meet scheduled debt service and reduce debt toward its stated reported net leverage ratio of 2.5x.

Alicorp's Baa3 also takes into account the company's operating scale, at the lower end of the range for its Baa-rated global industry peers, exposure to commodity price volatility and limited geographic diversification that exposes Alicorp to low-rated countries.

Exhibit 1

Leverage will remain below 3x



All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are financial year-end unless indicated.

Source: Moody's Financial Metrics™

Credit strengths

- » Leading market position in Peru, its largest market, with an extensive and difficult-to-replicate distribution network
- » Good segment and product diversification
- » Experienced management team, with a successful execution and integration track record

Credit challenges

- » Consumers' weakening purchasing power, coupled with inflationary pressures, to limit margin improvement
- » Social and political risk in Peru, its largest market
- » Limited geographic diversification that exposes Alicorp to low-rated countries
- » M&A history

Rating outlook

The negative outlook on Alicorp's rating reflects the challenges the company will face in improving margins; and improving or even sustaining liquidity, given the effect of inflation on commodity prices, and labor and transportation costs, coupled with lower disposable income in the countries where it operates.

Factors that could lead to an upgrade

A rating upgrade could be triggered if Alicorp's:

- » Moody's-adjusted debt/EBITDA is below 2.5x; and
- » Moody's-adjusted EBIT/interest expense is above 5x on a sustained basis

An upgrade would also require the company to maintain strong liquidity and positive FCF.

Factors that could lead to a downgrade

A rating downgrade could be triggered if Alicorp's:

- » debt/EBITDA remains above 3.5x; or
- » EBIT/interest expense declines below 3.5x.

A deterioration in the company's liquidity or operating performance, increased payouts to shareholders, large debt-financed acquisitions or integration challenges could also lead to a downgrade.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Alicorp S.A.A.

US Millions	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	2023P	2024P
Revenue	2,131.5	2,522.5	2,958.8	2,676.9	3,156.5	3,950.3	4,240.8	4,478.5
EBITA Margin %	12.2%	10.7%	10.7%	9.5%	7.7%	8.1%	7.0%	7.0%
Debt / EBITDA	2.0x	3.1x	3.1x	3.4x	4.2x	3.2x	3.1x	2.9x
RCF / Net Debt	45.9%	15.0%	9.6%	5.7%	-7.7%	19.0%	19.9%	20.9%
EBITA / Interest Expense	8.3x	5.8x	3.8x	3.4x	3.4x	4.5x	4.1x	4.2x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Profile

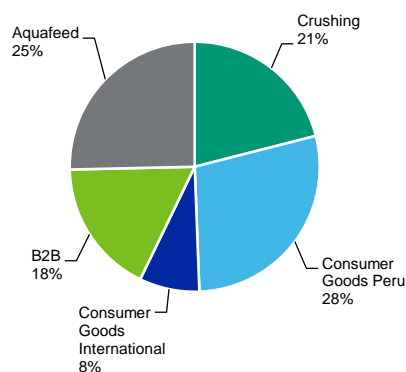
Alicorp S.A.A. is a Peruvian manufacturer and distributor of consumer goods (food, home and personal care products), branded business-to-business (B2B) products (bakeries, industrial products and food service) and aquafeed (shrimp and fish feed). The company also has a crushing business of soybean and sunflower beans, and produces oil, flour and seeds, and it also sells fertilizers.

Alicorp's revenue mainly comes from Peru, where it generated 53% of its consolidated revenue in 2022, followed by 6.7% from [Bolivia](#) (Caa1 review for downgrade), 23.3% from [Ecuador](#) (Caa3 stable), and 8.2% from [Chile](#) (A2 stable).

The company is majority owned by Grupo Romero (45.2% share), and the balance is owned by pension funds (35.1%), mutual funds (7.0%) and others (12.7%). Alicorp reported revenue of PEN15,406 million (\$3.95 billion) in 2022.

Exhibit 3

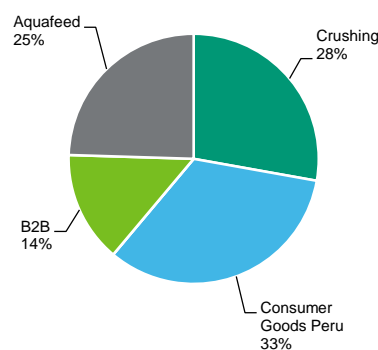
Alicorp's 2022 revenue breakdown by line of business



Source: Alicorp

Exhibit 4

Alicorp's EBITDA breakdown by line of business, 2022



Source: Alicorp

Detailed credit considerations

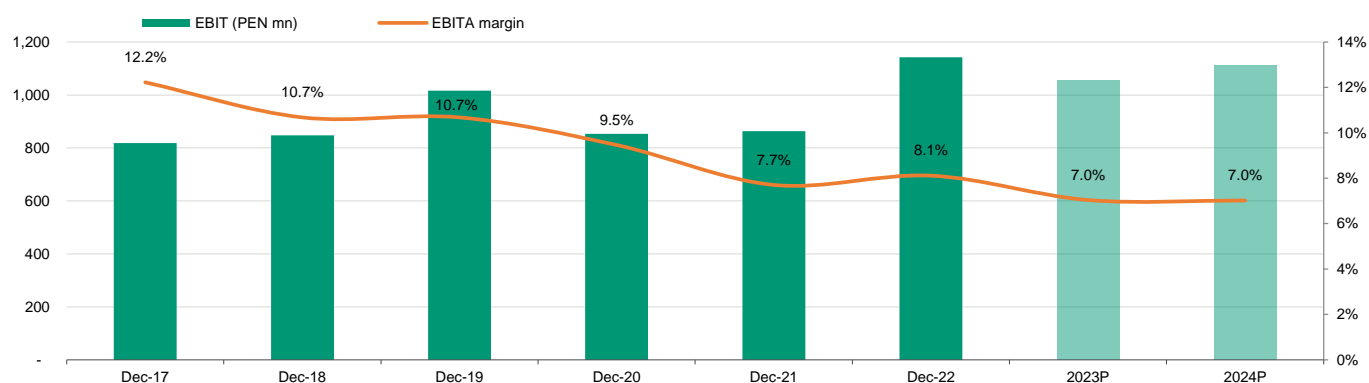
Persistent inflationary pressure will delay further improvements in credit metrics

Alicorp managed to improve credit metrics in 2022 driven by its product rationalization strategy, working capital management, cost reduction initiatives and focus on debt reduction, which led its Moody's-adjusted gross leverage to 3.2x from 4.1x in 2021. We expect the company to maintain leverage at its stated net leverage ratio of 2.5x, which translates into 2.9x Moody's-adjusted gross leverage. We expect any further improvement in leverage to be driven by debt reduction, because we expect Alicorp's adjusted EBITA margin to remain under pressure at around 7% in the foreseeable future, given inflationary pressures, lower disposable income, and political and social uncertainties in Peru, Bolivia and Ecuador.

Profitability has been under pressure since 2020 because of the pandemic, and the social and political unrest in Peru. Although Alicorp has been able to grow its revenue base and cash generation by increasing prices, we do not expect the company's profitability to recover to pre-pandemic levels, when Moody's-adjusted EBITA margin was above 10%. The company's credit metrics deteriorated further in 2021 driven by additional debt related to working capital requirements and a large dividend payout that drove Moody's-adjusted leverage to 4.2x as of 31 December 2021 from 3.4x a year earlier.

Exhibit 5

EBIT improved in 2022, but will be strained in 2023-24



Source: Alicorp

Leading market position in Peru with an extensive distribution network

Alicorp has a leading market position in Peru in its key product categories, which include industrial baking flour, industrial oils, edible oils, laundry detergents, pasta, cookies and crackers, shortenings and mayonnaise, among others. In its international business, the company has a strong market position (ranking mostly first or second) in product categories such as pasta, hair care, laundry detergents, personal care soap and cereal. Despite competing with large multinational companies and with local enterprises, Alicorp has been able to maintain its market leadership because of its broad product portfolio, which targets all socioeconomic segments, product innovation capacity, extensive distribution network and strong brand recognition.

The company has brands across premium, mainstream and value segments, which allow it to reach a broader customer base with different disposable incomes through a differentiated pricing strategy. This strategy has allowed the company to sustain and even increase volumes sold; however, the mix has strained profitability, in line with lower disposable income.

In Peru, the company has leading market positions in most of its main categories. In Ecuador, Bolivia and Chile, the company has strong market shares in some of its most important product categories.

Alicorp's countrywide distribution network in Peru is a credit strength. The company sells its products in the country through around 110,000 points of sale in the traditional (77%) channel and over 3,500 points of sale in the modern (23%) channel. Alicorp sells to third-party exclusive distributors (32%), wholesalers (11%), nonexclusive distributors (34%) and directly to supermarkets (23%). In Ecuador and Bolivia, Alicorp distributes using its own network, while in Chile the company covers key regions through third-party distributors.

Ample product portfolio, sound market leader with high degree of innovation

Alicorp managed to increase its revenue by 26% in 2022 on the back of growth in all its business units and particularly in its crushing, aquafeed and B2B businesses. However, sales volumes were negative — 2.4% for consumer goods in Peru, 2.6% for B2B, and 1% in Bolivia — reflecting logistics disruption related to social and political challenges affecting the Peruvian consumer environment. We continue to expect some of these impacts to be present in Q1 2023 results, affecting the company's full-year 2023 credit metrics.

The [unrest and increasing operational disruptions in Peru since December 2022](#) and protests led consumer companies such as Alicorp to limit some logistics activities preemptively in the southern cities of Arequipa, Cusco and Juliaca. As a result, Alicorp will see contraction in its B2B segment, which represents around 14% of EBITDA, based on hotel, restaurant and other travel cancellations at tourist-dependent areas such as Cusco. We believe that Alicorp will be able to adapt to the economic environment, given its extensive portfolio of brands in different segments, but disruptions will likely make it harder for the company to increase its margins in 2023.

Alicorp's diversification by product is high, with each product category representing less than 7% of revenue in the consumer goods and B2B segments. In consumer goods in Peru, the largest category is laundry detergents, which has six leading brands and contributes 6.9% to consolidated revenue. Edible oils contribute 5.9% to the company's revenue and pasta contributes 3.5%. In the B2B segment, industrial baking flour accounts for 6.5% of the company's revenue and industrial oil accounts for 5.5%. As for aquafeed, shrimp feed is the largest category, contributing 17.6%.

Alicorp's products are sold under four different lines of business that have different market dynamics: consumer goods (36% of revenue), B2B branded products (25%), aquafeed (23%) and crushing (21%). The company's largest business segment, consumer goods, is divided into two categories: food, and home and personal care products.

Geographic diversification exposes Alicorp to countries with lower ratings

Despite the beneficial effects from increased geographic diversification, the company's presence in weaker economies such as Ecuador and Bolivia exposes it to inflationary environments and foreign-exchange volatility.

We expect positive GDP growth of 2.3%, 3.2% and 2.2% in Peru, Bolivia and Ecuador. However, the main challenges relate to social, economic and political disruptions. In Bolivia the drop in liquid international reserves has precipitated a confidence shock that has undermined macrofinancial stability. In Ecuador, the government will face difficulties in advancing macrofiscal adjustments that promote firmer economic growth, regaining access to international markets and ensuring policy continuity over successive governments. To offset some of these risks, Alicorp funds these subsidiaries in the local markets and arranges commercial activities through its trading company in Uruguay.

Alicorp has expanded its international operations over the last few years, but Peru remains its largest market, accounting for 53% of consolidated revenue in 2022. Alicorp has a track record of completing acquisitions. Since 2012, the company has successfully closed nine M&A transactions of local and international companies.

ESG considerations

Alicorp S.A.A.'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 6

ESG Credit Impact Score

CIS-3

Moderately Negative



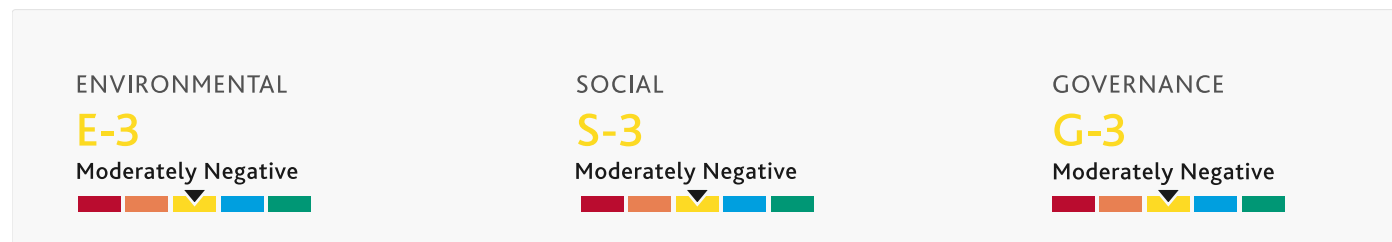
For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Alicorp's ESG Credit Impact Score is moderately negative (**CIS-3**) reflecting the company's policies to sustain adequate liquidity and net leverage at its 2.5x public target. At the same time, the CIS-3 reflects its reliance on natural capital and the environmentally sustainable procurement of some of these raw materials, coupled with moderately negative demographic and societal trend risks due to the evolving focus on health concerns that may impact consumer demand and brand perception.

Exhibit 7

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Alicorp's **E-3** Issuer Profile Score (IPS) reflects a moderately negative impact arising from its exposure to natural capital and the environmentally sustainable procurement of some raw materials. Alicorp also has moderately negative exposure to waste and pollution reflecting the waste created from products packaging material that often cannot be recycled. Alicorp focuses on energy consumption, packaging and waste management and has modified its plants for better energy consumption and to use machinery more efficiently. In previous years, the company has successfully recycled 53% of its waste and is also constantly innovating its packaging to make them more ecological.

Social

Alicorp's **S-3** reflects its moderately negative exposure to responsible production reflecting the sourcing of a number of raw materials, including soybean, sunflower, among others. The company also has moderately negative exposure to health and safety considerations across its business segments but particularly related to its consumer business. We also consider customer relations and demographic and societal trend risks to be moderately negative due to the evolving focus on health concerns, particularly related to some of the products in Alicorp's portfolio like cookies and industrial baking flour, etc. To mitigate this, Alicorp focuses in nutrition and health and complies using natural ingredients and in line with the international regulations of the CODEX Alimentarius and the Food and Drug Administration.

Governance

Alicorp's **G-3** IPS reflects a moderately negative exposure to governance considerations and reflects the company's commitment to the IG rating including financial policies with a public target net leverage ratio of 2.5x. In August 2022, Alicorp closed a \$125 million committed facility available until August 2025 that will further support liquidity. In addition, the G-3 considers stable dividend payouts at around PEN 200 million per year and subject to the company's net leverage ratio. The company has a strong track record of execution and business integration. Alicorp is a public company and is majority owned and controlled by Grupo Romero (45.2% stake, as of December 2022), one of the largest conglomerates in Peru. The board includes nine members, out of which 33% are independent members.

Liquidity analysis

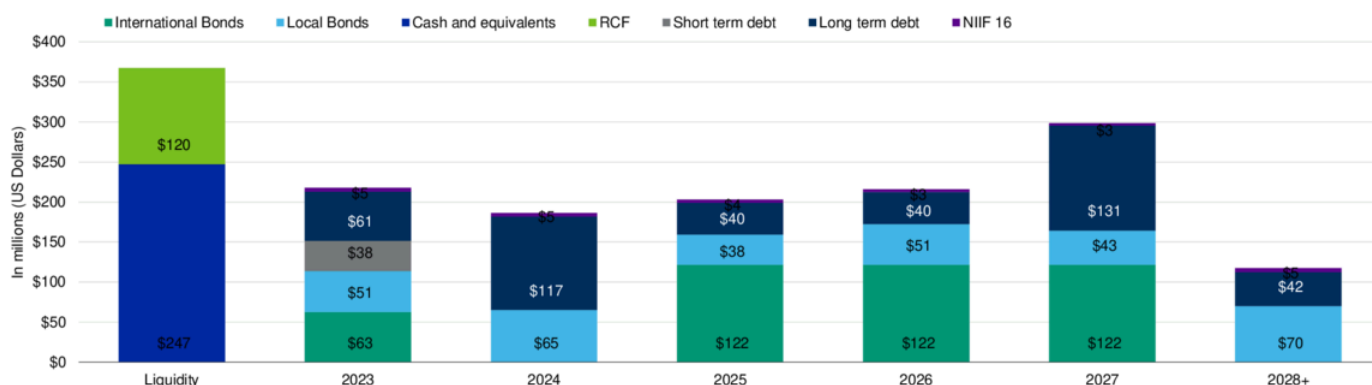
Alicorp has adequate liquidity. As of December 31, 2022 Alicorp reported cash on hand of PEN940 million and we expect positive FCF generation at around PEN110 million in 2023. Nonetheless, Alicorp has exhibited some tolerance to liquidity risk that is not consistent with the investment-grade category. As of December 2022, the company had PEN825 million, on average, in debt coming due every year through 2026, which — coupled with the nature of the crushing business — could strain the company's liquidity from time to time.

To improve its liquidity profile, Alicorp took certain measures in 2022. These include proactive debt reduction — the company paid down PEN279 million of debt in the year and we expect it to reduce debt by another PEN400 million in 2023. Alicorp also increased its committed revolving credit facility from PEN167 million to PEN482 million (\$120 million), which is fully available through August 2025. Furthermore, the company resumed its regular dividend payout, PEN214 million in 2022, which — combined with its working capital management — allowed it to generate positive FCF, despite shares buybacks.

We expect Alicorp to continue to strengthen its liquidity profile keeping cash at least at 100% of short-term debt at all times, maintaining availability under its RCF and generating positive FCF, based on our assumption of annual capital spending of around PEN562 million and stable dividend payouts.

Exhibit 8

Debt maturity profile



As of December 2022.

Source: Alicorp

Methodology and scorecard

The principal methodology used in rating Alicorp was our [Consumer Packaged Goods](#) rating methodology, published in June 2022. The scorecard-indicated outcome is Ba1 based on historical financials and Ba1 in our projections, one notch below the company's assigned rating, reflecting persistent cost pressures and challenges in improving margins in the foreseeable future.

Exhibit 9

Rating factors

Alicorp S.A.A.

Consumer Packaged Goods Industry Scorecard [1][2]			Current LTM 12/31/2022		Moody's 12-18 Month Forward View As of April 2023 [3]	
Factor 1 : Scale (20%)	Measure	Score	Measure	Score	Measure	Score
a) Revenue (USD Billion)	\$4.0	Ba	\$4.4	Ba	\$4.4	Ba
Factor 2 : Business Profile (30%)						
a) Geographic Diversification	B	B	B	B	B	B
b) Segmental Diversification	Baa	Baa	Baa	Baa	Baa	Baa
c) Market Position	A	A	A	A	A	A
d) Category Assessment	A	A	A	A	A	A
Factor 3 : Profitability (10%)						
a) EBITA Margin	8.1%	Caa	7.0%	Caa	7.0%	Caa
Factor 4 : Leverage and Coverage (25%)						
a) Debt / EBITDA	3.2x	Ba	3.1x	Ba	3.1x	Ba
b) RCF / Net Debt	17.8%	Caa	19.9%	Caa	19.9%	Caa
c) EBITA / Interest Expense	4.5x	Ba	4.2x	Ba	4.2x	Ba
Factor 5 : Financial Policy (15%)						
a) Financial Policy	Baa	Baa	Baa	Baa	Baa	Baa
Rating:						
a) Scorecard-Indicated Outcome		Ba1				Ba1
b) Actual Rating Assigned						Baa3

[1] All ratios are based on Adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2022(L). [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

Ratings

Exhibit 10

Category	Moody's Rating
ALICORP S.A.A.	
Outlook	Negative
Senior Unsecured	Baa3

Source: Moody's Investors Service

Appendix

Exhibit 11

Peer comparison

(in US millions)	Alicorp S.A.A. Baa3 Stable			Sigma Alimentos S.A. de C.V. Baa3 Stable			Grupo Bimbo, S.A.B. de C.V. Baa2 Stable			Conagra Brands, Inc. Baa3 Stable			Flowers Foods, Inc. Baa2 Stable		
	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-20	FYE Dec-21	LTM Sep-22	FYE May-21	FYE May-22	LTM Nov-22	FYE Jan-21	FYE Jan-22	FYE Dec-22
	Revenue	\$2,677	\$3,157	\$3,950	\$6,372	\$6,822	\$7,425	\$15,512	\$17,207	\$19,365	\$11,185	\$11,536	\$12,041	\$4,388	\$4,331
EBITDA	\$336	\$326	\$402	\$693	\$740	\$648	\$2,154	\$2,487	\$2,712	\$2,499	\$2,239	\$2,453	\$603	\$577	\$563
Total Debt	\$1,099	\$1,316	\$1,275	\$2,627	\$2,545	\$2,465	\$6,361	\$6,527	\$6,948	\$9,361	\$9,335	\$9,765	\$1,326	\$1,211	\$1,195
Cash & Cash Equiv.	\$158	\$227	\$241	\$818	\$824	\$678	\$465	\$427	\$364	\$79	\$83	\$40	\$307	\$186	\$165
EBIT Margin	9.1%	7.0%	7.4%	7.5%	7.6%	6.0%	8.9%	9.7%	9.4%	18.5%	15.8%	16.9%	9.4%	8.9%	7.7%
EBIT / Int. Exp.	3.2x	3.1x	4.1x	3.8x	4.6x	3.8x	3.4x	4.7x	5.4x	4.8x	4.6x	5.1x	7.7x	9.0x	9.3x
Debt / EBITDA	3.4x	4.2x	3.2x	3.5x	3.5x	3.7x	2.8x	2.6x	2.5x	3.7x	4.2x	4.0x	2.2x	2.1x	2.1x
RCF / Net Debt	5.7%	-7.7%	19.0%	25.9%	19.9%	16.1%	27.4%	25.6%	27.0%	14.6%	9.3%	10.6%	30.1%	25.2%	26.6%
FCF / Debt	3.7%	-20.4%	15.5%	11.2%	2.6%	-4.0%	12.7%	6.3%	2.2%	5.1%	1.1%	1.8%	14.3%	-3.6%	0.3%

All figures and ratios calculated using our estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 12

Moody's-adjusted debt breakdown

Alicorp S.A.A.

(in US Millions)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22
As Reported Debt	602.8	1,000.8	1,268.1	1,098.5	1,316.2	1,275.4
Pensions	0.0	0.0	0.0	0.0	0.0	0.0
Operating Leases	0.0	0.0	0.0	0.0	0.0	0.0
Moody's-Adjusted Debt	602.8	1,000.8	1,268.1	1,098.5	1,316.2	1,275.4

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 13

Moody's-adjusted EBITDA breakdown

Alicorp S.A.A.

(in US Millions)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22
As Reported EBITDA	277.3	320.0	397.0	322.3	325.6	374.7
Unusual	24.2	10.2	11.5	13.7	0.0	28.9
Non-Standard Adjustments	0.9	-0.5	0.5	0.0	0.0	0.0
Moody's-Adjusted EBITDA	302.4	329.7	409.1	336.0	325.6	403.5

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

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