



## RATING ACTION COMMENTARY

# Fitch Affirms Alicorp's Ratings at 'BBB'; Outlook Stable

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Fitch Ratings - New York - 27 Jan 2023: Fitch Ratings has affirmed Alicorp S.A.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB' and senior unsecured notes at 'BBB'. The Rating Outlook on the corporate ratings is Stable. The rating affirmation reflects Alicorp's resilient business profile in a difficult economic and political environment.

## KEY RATING DRIVERS

**Deleveraging Expected:** Adjusted net debt/EBITDA is expected to move toward 2.5x or below in 2023 from 2.6x-2.7x expected for 2022, which is in line with Alicorp's 'BBB' rating. Performance in 2022 was driven by increased prices, and the strong performance of the Consumer Goods Peru, Aquafeed, and Crushing units. Fitch forecasts steady EBITDA in 2023 (PEN 1.6 billion forecast for 2022) due to the Crushing segment's lower profitability, which benefited from higher prices and volumes in 2022; the Aquafeed business's solid performance, driven by international demand; and the resilience of the Peruvian Consumer Goods unit, despite the country's ongoing challenging political and economic outlook.

**Diversified Product Mix:** The company has a broad, geographically diverse product portfolio, providing resilience and growth prospects and smoothing cash flow volatility. Alicorp focuses on consumer goods, namely Food and Home & Personal Care Products (39% of EBITDA in 2021); B2B (foodservice and bakery) (15% of EBITDA); Aquaculture Feed (22% of EBITDA) in Ecuador and Chile; and Oilseeds crushing (27% of EBITDA).

**Resilient Margin:** Fitch expects EBITDA margins to remain close to 9%-10% over the next two years. EBITDA increased 26% for the nine months ending Sept. 30, 2022 due to the solid performance of the Crushing, Aquafeed units, and the recovery of B2B performance. Fitch projects Peru's Real GDP growth at 2.4% in 2023. Peru's economic outlook remains challenged by a deterioration in political stability and government effectiveness, which poses greater downside risks to investment and the country's economic growth.

Peru's sovereign country ceiling remains at 'BBB+'. Fitch expects the company to continue operating, recognizes that most of the companies' Peruvian operations, mainly located in Lima, have not been materially affected by the social unrest.

**Solid Business Profile:** Fitch believes Alicorp's Peruvian operations is the backbone of the group due to the company's strong market position in the Peruvian consumer products industry, leading brands, broad product portfolio, and extensive distribution network. Fitch estimates that Alicorp's Peruvian operations accounted for approximately 46%, while operations in Bolivia (B/Stable) 35% of EBITDA, respectively in 2022. The company divested its low performing Brazilian and Argentinian units in late 2021.

## **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. Peru remains the company's core market and represents about 46% of EBITDA as of YE 2022, while the company has grown both organically and inorganically to increase its geographic diversification in South America.

Factors constraining Alicorp's ratings include the company'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 (A+/Stable) and Grupo Bimbo, S.A.B. De C.V. (BBB/Stable), which all have global presences in developed and developing markets.

Alicorp's credit metrics are in line for the rating category. Fitch expects Alicorp's net leverage to move toward 2.5x or below in 2023. The company additionally has some exposure to higher-risk countries such as Ecuador, and Bolivia, which have a sovereign risk rating of 'B-' and 'B', respectively.

## **KEY ASSUMPTIONS**

--Steady EBITDA in 2023.

--Single digit volume growth 2023.

--Adjusted Net debt/ EBITDA of 2.5x or below in 2023.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Net debt/EBITDA below 1.5x on a sustained basis;

--Increased geographic diversification in investment-grade countries.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Net debt/EBITDA above 3.0x as a result of a decline in operating performance or cash flow generation associated with adverse market conditions or acquisitions.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **LIQUIDITY AND DEBT STRUCTURE**

**Adequate Liquidity:** Liquidity is adequate based on the company's cash balance, FCF and use of a revolving credit facility for working capital. Alicorp had PEN1.3 billion of cash and cash equivalents at 3Q22 and current debt of PEN1.1 billion excluding leases. Alicorp's exposure to U.S. dollar-denominated debt is limited. About 23% of its total financial liability had FX exposure to U.S. dollars at YE 2021.

## **ISSUER PROFILE**

Alicorp is a Peruvian-based producer of consumer goods, industrial products, and animal nutrition. The company focuses on four core businesses: Consumer Products in Peru,

Ecuador and Colombia, among other countries; B2B Products; Aquaculture; and Oilseeds crushing, which is part of the vertically-integrated consumer business in Bolivia.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

[www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Alicorp S.A.A.	LT IDR	BBB Rating Outlook Stable		BBB Rating Outlook Stable
	Affirmed			
	LC LT IDR	BBB Rating Outlook Stable		BBB Rating Outlook Stable
	Affirmed			
senior unsecured	LT	BBB	Affirmed	BBB

[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

Johnny da Silva

Director

Primary Rating Analyst

+1 212 908 0367

johnny.dasilva@fitchratings.com

Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

**Paula Bunn**

Director

Secondary Rating Analyst

+1 415 732 5620

paula.bunn@fitchratings.com

**Martha Rocha**

Managing Director

Committee Chairperson

+1 212 908 0591

martha.rocha@fitchratings.com

**MEDIA CONTACTS**

**Elizabeth Fogerty**

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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**APPLICABLE CRITERIA**

[Corporate Rating Criteria \(pub. 28 Oct 2022\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 ([1](#))

## ADDITIONAL DISCLOSURES

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Alicorp S.A.A.

EU Endorsed, UK Endorsed

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Corporate Finance    Retail and Consumer    Latin America    Peru

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