FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Chicago - 23 Jan 2024: 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 along with management's emphasis on preserving a strong liquidity position. The Stable Outlook reflects Fitch's expectation of a recovery in Alicorp's leverage profile driven by strong FCF generation in 2024.

KEY RATING DRIVERS

Operating Performance Recovery: Fitch expects a recovery in Alicorp's EBITDA in 2024 after a weak 2023. Alicorp's sales and profitability in its Consumer Goods Peru business have been impacted in 2023, in part due to a weak economic environment in 1H23 along with a drag on gross margins due to weak product and channel mix. The company has addressed its channel issues by repositioning brands with a greater focus on improving unit-level profitability which Fitch expects will result in a recovery in gross margins in 2H23 near pre-pandemic levels in the business unit, and Fitch expects this positive momentum to continue.

Alicorp has also faced a major headwind in its EBITDA in 2023 due to weak performance in its Crushing business, which has largely been impacted by weak commodity prices. Fitch expects some modest recovery in the Crushing business in 2024 based in part on more favorable trends in commodity prices. Fitch also anticipates a recovery in volumes in the Aquafeed unit to contribute to modestly improving EBITDA in the business.

Deleveraging in 2024: Fitch projects adjusted net debt/EBITDA to recover to below 3.0x in 2024 and towards 2.5x in 2025 in-line with Alicorp's 'BBB' rating, after exceeding 3.0x in 2023. This deleveraging trend is driven by Fitch's expectations of improving EBITDA and FCF generation into 2024. In 2024, Fitch expects positive momentum in results from an expected stronger 2H23 to continue across the business, with a return to modest positive total volume growth driven by improvements in the Consumer Goods Peru and Aquafeed business, along with a partial recovery in margins. As a result of these factors, Fitch forecasts adjusted EBITDA (after leases) to grow to around PEN1.2 billion in 2024, up from about PEN1.0 billion in 2023.

Resilient FCF: Fitch expects lower capex and dividends to positively contribute to FCF in 2024. Fitch also expects EBITDA margins to partially recover close to historic levels around 9% by 2025. Additionally, a more favorable macroeconomic environment in 2024 should contribute to a recovery in margins. Fitch projects Peru's Real GDP growth at 2.1% in 2024, following a slight contraction experienced in 2023.

Solid Business Profile: 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 (43% of LTM EBITDA as of September 2023); B2B (foodservice and bakery; 24% of EBITDA); Aquaculture Feed (32% of EBITDA) in Ecuador and Chile; and Oilseeds Crushing (2% of EBITDA). Alicorp maintains the leading position in several categories across its portfolio, including edible oils, pasta, sauces, laundry care, and industrial baking flour. 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.

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 63% of LTM EBITDA as of September 2023, 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 leverage metrics are currently high for the rating category. Fitch expects Alicorp's net leverage to improve toward below 3.0x in 2024 based on improving FCF after a weak 2023. The company additionally has some exposure to higher-risk countries such as Ecuador, and Bolivia, which have sovereign ratings of 'CCC+' and 'B-', respectively.

KEY ASSUMPTIONS

--EBITDA margins partially recovering in 2024 after a depressed 2023;

--Total volume growing low single digits in 2024;

--Adjusted net debt/ EBITDA below 3.0x in 2024 after rising above 3.0x at YE 2023 due to improving FCF generation in 2024;

--Lower capex needs and no dividends expected in 2024.

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 sustained above 3.0x as a result of a decline in operating performance or cash flow generation associated with adverse market conditions or acquisitions;

--Dividends paid in 2024 which could adversely prevent deleveraging.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: Liquidity is adequate based on the company's cash balance, expected FCF generation and availability of a revolving credit facility for working capital. Alicorp had PEN589 million of cash and cash equivalents at 3Q23 and current debt of PEN1.5 billion excluding leases. Alicorp's exposure to U.S. dollar-denominated debt is limited. About 7.5% of its financial debt had FX exposure as of 3Q23.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

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

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 03 Nov 2023) (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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Alicorp S.A.A.	EU Endorsed, UK Endorsed

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