



Rating Action: **Moody's downgrades Alicorp's rating to Ba1; stable outlook**

19 Feb 2024

New York, February 19, 2024 – Moody's Investors Service (Moody's) has today downgraded Alicorp S.A.A. (Alicorp)'s Senior Unsecured Global Notes to Ba1 from Baa3, with a stable outlook. Previously, the rating was on review for downgrade. At the same time, Moody's has assigned a Ba1 corporate family rating (CFR) to Alicorp.

This rating action concludes the review for downgrade initiated on 16 November 2023.

RATINGS RATIONALE

The downgrade to Ba1 reflects that although Alicorp's operating performance in the core business has sequentially improved, the consolidated business profile remains challenged by the weak performance and working capital pressure in its Aquafeed and Crushing businesses; which leads to a degree of volatility in credit metrics and a business profile that is not reflective of an investment grade rating.

Moody's expects a modest improvement in profitability with EBITA at 6.8% in 2024 from 6.1% as of December 2023, driven by the company's changes implemented since 2022, exiting some of its production lines, simplifying its distribution network, consolidating production centers, and making changes in its supply chain model to improve productivity and reduce working capital requirements. The impact of these initiatives in 2023 amounted to PEN41 million, with PEN20 million only during Q3 2023. The changes already materialized in an improved EBITDA margin starting in Q4 2023 because the company does not expect additional expenses related to these initiatives. However, in the international business, volumes and profitability will remain under pressure as consumers' purchasing power will remain fragile through 2024.

As of December 2023, Alicorp's leverage declined to 4.4x from its peak 4.9x in September 2023 driven by debt reduction and Moody's expects this number to reach 3.4x as of December 2024. While debt reduction was mostly related to the working capital requirements of the Crushing business, Moody's expects consolidated leverage to decline towards the company's internal net leverage target of 2.5x (around 3x as adjusted by Moody's) driven by the company's own cash generation. However, Moody's notes that given the Crushing business working capital cycle, the deleverage will not be linear and will peak in the 3Q as the business builds up inventory before collecting cash in 4Q.

Alicorp has a good liquidity which as of December included PEN1,397 million which are further supported by the company's USD120 million committed facility available until 2025 and Moody's expectation of positive free cash flow (FCF) in 2024. Moody's assumes that excess cash flow generated in 2024 will be directed towards debt reduction and that the company will refrain from paying dividends in 2024, or as long as the company's reported net leverage

remains above its internal target of 2.5x (around 3x as adjusted by Moody's).

Alicorp's Ba1 ratings are supported by its leading market position in Peru in key product categories, its extensive and hard to replicate distribution network. The ratings also reflect its broad product portfolio, and its experienced management team with a successful track record of completing acquisitions and product innovation. The ratings consider the company's relative small size compared to global industry peers, its limited geographic diversity given its concentration in Peru and certain Latin American markets with weak economies, and its exposure to commodity price volatility as a raw material and through its Crushing business.

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. 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 that targets all socioeconomic segments, product innovation capacity, extensive distribution network and strong brand recognition.

The stable outlook reflects Moody's view that Alicorp will be able to recover credit metrics and maintain good liquidity as operating performance modestly improves in 2024 reflecting productivity initiatives.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

Moody's has changed the subfactor score on Alicorp's governance, on 'financial strategy and risk management' to 3 from 2 – to reflect the company's tolerance for high leverage and its often aggressive acquisition and shareholder return strategy. The company's governance issuer profile score (G-IPS) is unchanged at G-3. The Credit Impact Score also remains unchanged at CIS-3.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A downgrade could be triggered if the company's debt/EBITDA remains above 3.5x or if its EBIT/interest expense does not recover towards 3.5x. A deterioration in Alicorp's liquidity, further deterioration in operating performance, increased payouts to shareholders or large debt-financed acquisitions could lead to a downgrade.

An upgrade of Alicorp's ratings would be conditional on an improved business profile that results in reduced volatility in credit metrics and showing sustainable growth in revenue, profitability and free cash flow, while maintaining good liquidity. Absent greater stability, Moody's could also upgrade the ratings if the company manages to reduce and sustain its leverage below Moody's-adjusted debt/EBITDA 3x and its Moody's-adjusted EBIT/interest expense is above 3.5x on a sustained basis.

Alicorp S.A.A. is a Peruvian manufacturer and distributor of consumer goods (food, home & personal care products), business-to-business (B2B) branded 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. Alicorp's revenues come mainly from Peru (56%), followed by Ecuador, Chile and Bolivia. The company is majority owned by Grupo Romero (55.79% share). Alicorp reported revenues of PEN13,656 million for the last twelve months ended December 2023.

The principal methodology used in these ratings was Consumer Packaged Goods published in June 2022 and available at <https://ratings.moody's.com/rmc-documents/389866>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody's.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody's.com/rating-definitions>.

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