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INVESTORS SERVICE

CREDIT OPINION
23 February 2024

Update

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RATINGS

Alicorp S.A.A.

Domicile	Peru
Long Term Rating	Ba1
Type	LT Corporate Family Ratings
Outlook	Stable

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.

Update following downgrade to Ba1, outlook changed to stable

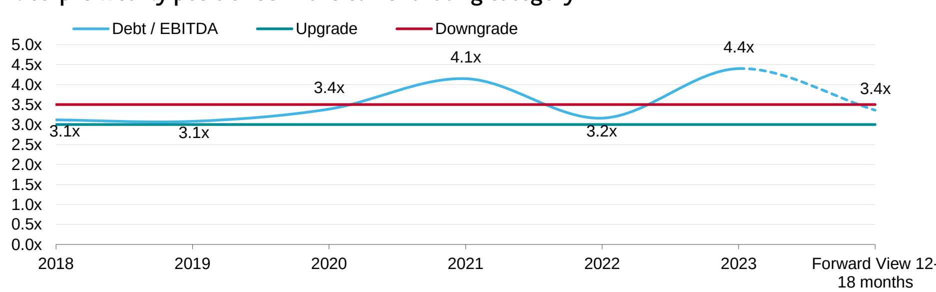
Summary

On 19 January 2024, we downgraded the rating of Alicorp S.A.A.'s senior unsecured global notes to Ba1 from Baa3. The downgrade reflects our view that although Alicorp's operating performance in the core business has improved sequentially, its consolidated business profile remains constrained by the weak performance of and working capital pressure in its aquafeed and crushing businesses, which lead to volatility in credit metrics and a business profile that does not support an investment-grade rating.

Alicorp's Ba1 senior unsecured rating and corporate family rating (CFR) are supported by its leading market position in Peru (Baa1 negative) in key product categories, extensive and hard-to-replicate distribution network, and experienced management team with a successful track record of completing acquisitions and product innovation. Despite competing with large multinational companies and local enterprises, Alicorp has been able to maintain its market leadership because of its broad product portfolio and strong brand recognition.

The ratings are constrained by the company's small size relative to its global peers, limited geographic diversification given its concentration in Peru and certain Latin American markets with weak economies, and exposure to commodity price volatility as a raw material and through its crushing business.

Exhibit 1
Alicorp is weakly positioned in the current rating category



All figures and ratios are calculated using our estimates and standard adjustments. Periods are financial year-end unless indicated. LTM = Last 12 months.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Investors Service forecasts

Credit strengths

» Leading market position in Peru, its largest market, with an extensive and difficult-to-replicate distribution network

» Good segment and product diversification

» Good liquidity

» Experienced management team

Credit challenges

» Volatility in credit metrics, which are currently weak for the rating category

» Consumers' weakening purchasing power, coupled with inflationary pressures, to limit margin improvement

» Limited geographic diversification, which exposes Alicorp to low-rated countries

» History of M&A

Rating outlook

The stable rating outlook reflects our expectation that Alicorp will be able to recover its credit metrics and maintain good liquidity as its operating performance modestly improves in 2024 on the back of productivity initiatives.

Factors that could lead to an upgrade

An upgrade of Alicorp's ratings would require an improved business profile with reduced volatility in credit metrics and sustained growth in revenue, profitability and free cash flow (FCF), along with consistently strong liquidity.

Without greater stability, we could also upgrade the ratings if:

» the company manages to reduce and sustain its leverage below Moody's-adjusted debt/EBITDA 3.0x; and

» its Moody's-adjusted EBIT/interest expense remains above 3.5x on a sustained basis.

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 does not recover toward 3.5x.

A deterioration in Alicorp's liquidity and operating performance, increased payouts to shareholders or large debt-financed acquisitions could also lead to a rating downgrade.

Key indicators

Exhibit 2
Alicorp S.A.A.

US Millions	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Moody's 12-18 month forward view
Revenue	2,522.5	2,958.8	2,676.9	3,153.5	4,018.5	3,651.3	3,555.3
EBITA Margin %	10.7%	10.7%	9.5%	7.7%	8.1%	6.1%	6.8%
Debt / EBITDA	3.1x	3.1x	3.4x	4.1x	3.2x	4.4x	3.4x
RCF / Net Debt	15.0%	9.6%	5.7%	-7.7%	17.8%	8.4%	21.1%
EBITA / Interest Expense	5.8x	3.8x	3.4x	3.4x	4.5x	2.4x	3.1x

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Profile

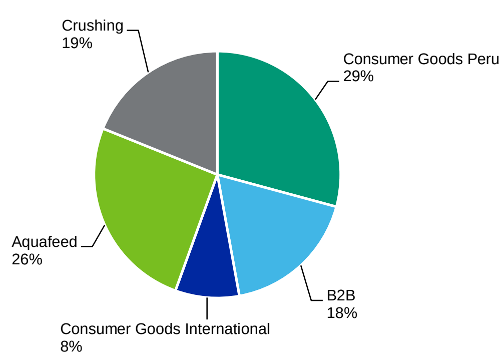
Alicorp S.A.A. is a Peruvian manufacturer and distributor of consumer goods (food, home and personal care products), branded business-to-business (B2B) products (bakeries, industrial products and food services) and aquafeed (shrimp and fish feed). The company also has a crushing business of soybean and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

Alicorp's products are sold under four different lines of business that have different market dynamics: consumer goods (37% of revenue), branded B2B products (18%), aquafeed (26%) and crushing (19%). The company's largest business segment, consumer goods, is divided into two categories: food, and home and personal care products.

Alicorp's revenue mainly comes from Peru, where it generated 56% of its consolidated revenue in 2022, followed by Ecuador (Caa3 stable), Chile (A2 stable) and Bolivia (Caa1 negative).

The company is majority-owned by Grupo Romero (55.79% share). Alicorp reported revenue of PEN13,656 million for the 12 months that ended December 2023.

Exhibit 3
Alicorp's revenue breakdown by line of business, year-end 2023



Source: Company filings

Detailed credit considerations

Higher-than-expected volatility and weak recovery in some segments will delay a substantial improvement in credit metrics

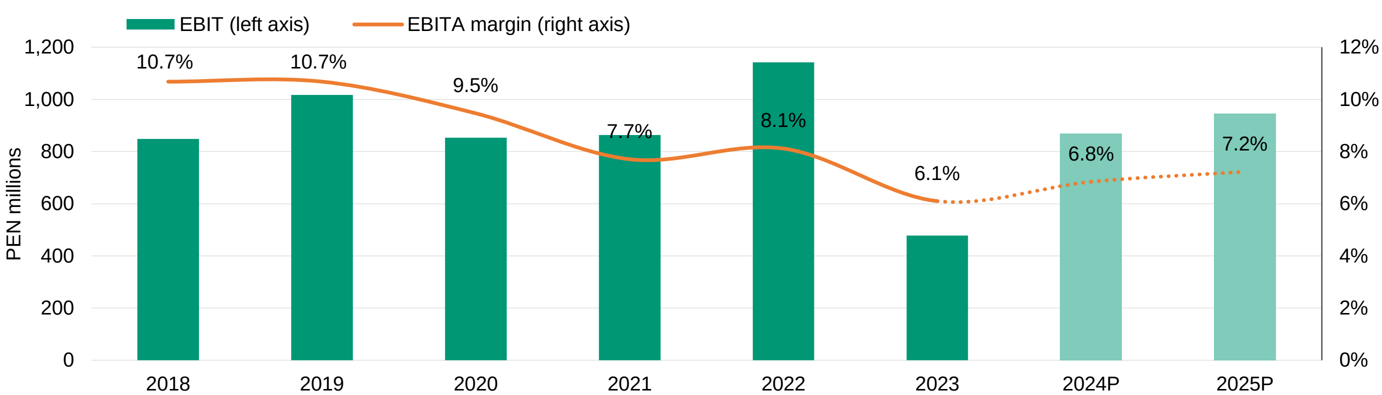
We expect a modest improvement in profitability, with 6.8% EBITA in 2024, up from 6.1% as of December 2023, driven by the company's implemented changes since 2022, such as exiting some of its production lines, simplifying its distribution network, consolidating production centers, and modifying its supply chain model to improve productivity and reduce working capital requirements. The impact of these initiatives amounted to PEN41 million in 2023, with PEN20 million recorded in the third quarter of 2023 alone. The changes already translated into an improved EBITDA margin in Q4 2023 because the company does not expect additional expenses related to these initiatives.

As of December 2023, Alicorp's leverage declined to 4.4x from its peak of 4.9x in September 2023 on debt reduction, and we expect this metric to reach 3.4x as of December 2024. While debt reduction was mostly related to the working capital requirements of the crushing business, we expect consolidated leverage to decline toward 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, given the crushing business' working capital cycle, the reduction in leverage will not be linear and will peak in Q3 2024 as the business builds up inventory before collecting cash in the last quarter.

The company has been successfully executing its strategy and gradually recovering the key metrics in its consumer business in Peru. However, its aquafeed and crushing businesses will remain constrained by volatility in commodity prices and lower demand in China, factors that are outside of the company's control.

Exhibit 4

Despite improvements in 2022, profitability has eroded since 2020



Sources: Moody's Financial Metrics™ and Moody's Investors Service forecasts

Consumer goods (37% of revenue 2023)

The company's business strategy is focused on pushing its flagship products in the traditional channel. While this had a negative impact on volumes, the focus of the company is to recover profitability. Alicorp implemented some changes in 2022 to improve productivity and reduce working capital requirements.

In the international business, volumes and profitability will remain under pressure as consumers' purchasing power remain fragile through 2024.

Since 2020, volumes increased on higher in-home consumption; however, weak purchasing power undermined Alicorp's ability to increase prices or push its tier-one products, particularly in the traditional channel. This situation led to a deterioration in the company's profitability that bottomed in 2022.

B2B (18% of revenue)

Alicorp remains focused on sustaining margins, and the strategy has been further supported by lower commodity prices, leading to a 20% year-on-year increase in adjusted EBITDA in 2023, per the company's filings. The improvement considers a weak Q1 2023 because of the unrest and operational disruptions in Peru since December 2022 that led consumer companies such as Alicorp to limit some logistics activities preemptively in the southern cities of Arequipa, Cusco and Juliaca in early 2023. Therefore, we expect the positive trend to continue in 2024.

Aquafeed (27% of revenue)

This business segment is struggling because of price reductions and aggressive competition, with shrimp prices having dropped particularly during H2 2023. With farmers shifting to lower-tier feeds, and searching for larger discounts and better commercial terms, competitive pressures will persist through mid-2024.

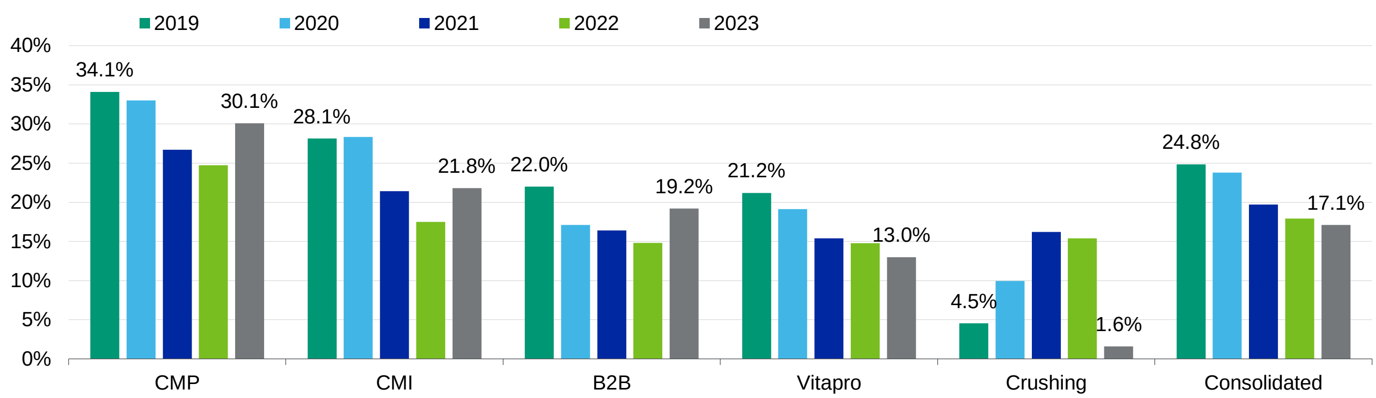
Crushing (17% of revenue)

Since 2022, the crushing business has faced more volatility than we initially expected. In 2022, its EBITDA was around $120 million, equivalent to 25% of the consolidated figure, but it dropped to negative $10 million for full-year 2023. Besides the margin volatility, the crushing business also drives significant working capital swings, which the company finances with short-term debt during the second and third quarters of every year. The company hedges inventory to protect prices; however, in 2023, Alicorp was not able to hedge the entirety of it, triggering additional losses in the year.

Exhibit 5

Mixed segment recovery, but consolidated gross margin remains at historically low levels

Gross margin per segment and consolidated



Gross margin as reported by the company.
Source: Alicorp

Leading market position in Peru, with an extensive distribution network

Alicorp 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. In the past, this strategy allowed the company to sustain and even increase volumes sold; however, the mix has strained profitability, in line with lower disposable income.

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 more than 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, Alicorp has two distribution networks in key regions through local distributors; in Bolivia, Alicorp distributes using its own network, while in Chile, the company covers key regions through third-party distributors.

Ample product portfolio and a sound market leader with a high degree of innovation

Since May 2023, Alicorp changed its strategy to focus on its core brands and the traditional channel to recover profitability. 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 local enterprises, Alicorp has historically been able to maintain its market leadership because of its broad product portfolio that targets all socioeconomic segments, product innovation, extensive distribution network and strong brand recognition.

Alicorp's diversification by product is high, with each product category accounting for 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%.

Geographic diversification exposes Alicorp to countries with lower ratings

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

We revised down our GDP growth estimate for Peru to 0% in 2023 and 2.7% in 2024. We expect Bolivia to grow 1.8% in 2023 and 1.9% in 2024, and Ecuador 1.8% in 2023 and 1.9% in 2024. 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 through 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. In addition, the company does not have substantial assets in Ecuador, as it manufactures its products in Peru and exports to Ecuador instead.

Alicorp has expanded its international operations over the last few years, but Peru remains its largest market, accounting for 56% of consolidated revenue in 2023. 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 CIS-3

Exhibit 6
ESG credit impact score

CIS-3

ESG considerations have a limited impact on the current rating, with potential for greater negative impact over time.

Source: Moody's Investors Service

Alicorp's **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time. ESG scores reflect the company's policies to sustain adequate liquidity and net leverage at its 2.5x public target. At the same time, the score 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

ENVIRONMENTAL
E-3

SOCIAL
S-3

GOVERNANCE
G-3

Source: Moody's Investors Service

Environmental

Alicorp's exposure to environmental risks reflects the impact arising from the environmentally sustainable procurement of some raw materials. It also reflects the 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 exposure to social risks reflects the sourcing of a number of raw materials, including soybean, sunflower, among others. The company is also exposed 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 exposure to governance considerations reflects the company's financial policies with a public target net leverage ratio of 2.5x. In August 2022, Alicorp closed a $120 million committed facility available until August 2025 that will further support liquidity. In addition, the governance score considers stable dividend payouts at around PEN 200 million per year and subject to the company's net leverage ratio; therefore, we expect the company to refrain from paying dividends during the periods in which leverage is above the target . Alicorp is a public company and is majority owned and controlled by Grupo Romero (55.79% stake), one of the largest conglomerates in Peru. The board includes nine members, out of which 33% are independent members.

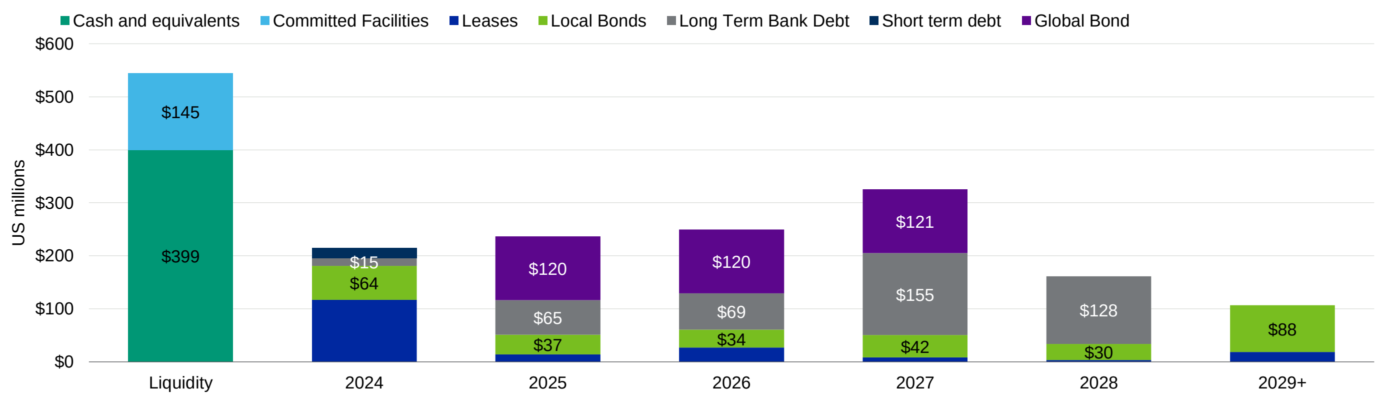
Liquidity analysis

Alicorp has good liquidity, which as of December 2023, included PEN1,397 million in cash, further supported by the company's $120 million committed facility available until 2025 and our expectation of positive FCF in 2024.

The working capital cycle at the crushing business could squeeze liquidity, particularly in the second and third quarters of the year; however, the company has demonstrated ample access to local and international banks through advised credit facilities to cover these needs and refinance debt. In addition, the company's committed facility is fully available.

We assume that excess cash flow generated in 2024 will be directed toward debt reduction and that the company will refrain from paying dividends in 2024, or as long as its reported net leverage remains above its internal target of 2.5x (around 3x as adjusted by Moody's).

Exhibit 8
Debt maturity profile



As of December 2023. Committed Facilities includes a portion of Vitapro Term Loan Commitment
Exchange rate 2023: 3.74 $/PEN, 2024: 3.85 $/PEN.
Source: Company filings

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 Ba2 based on historical financials and Ba1 in our projections, in line with the company's assigned rating, reflecting a modest improvement in its margins and debt reduction with excess cash flow, absent dividend payments.

Exhibit 9

Rating factors

Alicorp S.A.A.

Methodology: Consumer Packaged Goods	Current 12/31/2023		Moody's Forward View Next 12-18 months (as of Feb-24)	
Factor 1: SCALE (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$3.7	Ba	$3.6	Ba
Factor 2: BUSINESS PROFILE (30%)				
a) Geographic Diversification	B	B	B	B
b) Segmental Diversification	Baa	Baa	Baa	Baa
c) Market Position	A	A	A	A
d) Category Assessment	A	A	A	A
Factor 3: PROFITABILITY (10%)				
a) EBITA Margin	6.1%	Caa	6.8%	Caa
Factor 4: LEVERAGE AND COVERAGE (25%)				
a) Debt / EBITDA	4.4x	Ba	3.4x	Baa
b) RCF / Net Debt	8.4%	B	21.1%	Baa
c) EBITA / Interest Expense	2.4x	B	3.1x	Ba
Factor 5: FINANCIAL POLICY (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba2		Ba1
b) Actual Rating Assigned				Ba1

[1] All ratios are based on Adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2023(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.
Sources: Moody's Financial Metrics™ and Moody's Investors Service forecasts

Appendix

Exhibit 10

Moody's-adjusted debt breakdown

Alicorp S.A.A.

(in US Millions)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-23
As Reported Debt	**1,000.8**	**1,268.1**	**1,098.5**	**1,316.2**	**1,304.3**	**1,349.7**
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	**1,000.8**	**1,268.1**	**1,098.5**	**1,316.2**	**1,304.3**	**1,349.7**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted EBITDA breakdown

Alicorp S.A.A.

(in US Millions)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	FYE Dec-23
As Reported EBITDA	**320.0**	**397.0**	**322.3**	**326.9**	**381.1**	**310.8**
Unusual	10.2	11.5	13.7	0.0	29.4	7.3
Non-Standard Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Moody's-Adjusted EBITDA	**330.2**	**408.5**	**336.0**	**326.9**	**410.5**	**303.5**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Ratings

Exhibit 12

Category	Moody's Rating
ALICORP S.A.A.	
Outlook	Stable
Corporate Family Rating	Ba1
Senior Unsecured -Dom Curr	Ba1

Source: Moody's Investors Service

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