S&P Global Ratings

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Research Update:

Alicorp S.A.A. Assigned 'BBB-' Issuer Credit Rating; Outlook Stable

June 12, 2024

Rating Action Overview

- S&P Global Ratings assigned its 'BBB-' long-term issuer credit rating to Peru-based consumer branded products company Alicorp S.A.A.

- The rating reflects Alicorp's diversified consumer product offerings, leading market positions in Peru and strong market share in other Latin American countries, extensive and multi-channel distribution network, and prudent financial policy with a targeted adjusted leverage below 3x, at all times.

- Partial offsets include the company' smaller scale of operations than those of other rated global consumer product companies, as well as its moderate exposure to economies with high operating risk and to its crushing business line, which can have more volatile margins, working capital requirements, and funding.

- The stable outlook on Alicorp reflects our expectation that the company will deliver solid operating and financial performance in the next two years through resilient basic consumption end-markets, effective internal measures to sustain its EBITDA margin above 10%, and prudent financial policies toward investments, shareholder rewards, and debt. We expect this will lead to adjusted debt to EBITDA at 2.0x-3.0x in the next 12-24 months and continued adequate liquidity.

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Rating Action Rationale

We assigned a 'BBB-' issuer credit rating to Alicorp, reflecting its diversified product portfolio across categories and consumer segments, strong innovation and product development capabilities, and relative resilience through economic cycles. With around 90 product categories and 150 brands under management at the end of 2023, Alicorp has a diversified product portfolio across categories and consumer segments.

Its products are divided into premium, mainstream, and value segments, allowing it to price for each socioeconomic client level and to adjust its product mix volumes to economic cycles. For instance, during the peak of the COVID-19 pandemic in 2020, this diversification of staple and high-consumption products kept Alicorp's top-line growth and cash flow somewhat resilient. Moreover, Alicorp's management continuously invests in research and development (R&D) to develop new products to satisfy consumer needs and trends.

We also believe that its extensive multichannel distribution network, industrial capacity, and leading market position provide significant barriers to entry to new competitors. In our view, Alicorp captures economies of scale thanks to its go-to-market strategy that encompasses around 110,000 points of sale in the traditional channel and 815 points of sale through modern retailers. The company operates 37 production facilities, most of them recently upgraded to optimize production costs. These factors, coupled with its high brand equity, leading market position in Peru, and strong market shares in other Latin American countries, give it a large competitive advantage and create significant barriers to entry for potential new competitors.

Partially offsetting factors include its relatively smaller scale of operations and limited geographic diversification compared to global consumer product peers. Our rating on Alicorp reflects its smaller size in terms of revenue and EBITDA than those of its global rated peers, such as Grupo Bimbo S.A.B. de C.V., Sigma Alimentos S.A. de C.V., and Campbell Soup Co., for instance. Alicorp's revenue and EBITDA reached Peruvian sol (PEN) 13.2 billion and PEN1.2 billion, respectively, in the 12 months ended March 2024.

Our rating also incorporates Alicorp's limited geographic diversification; exposure to raw material price fluctuations and foreign currency volatility; and moderate exposure to economies with high operating risk such as Bolivia and Ecuador. Operations in these three countries represented close to 30% of total revenue in 2023, although none individually represented more than 20%.

We expect Alicorp's EBITDA margin to continue to recover toward 10%-11% thanks to the company's reorientation strategy toward its more profitable product categories and abating input cost inflation across its business lines. Our forecast considers that the effects of inflation peaked during 2023, and we expect more favorable macroeconomic conditions going forward that should lead to healthier consumption patterns and stabilizing input costs.

We believe Alicorp will continue to support this gradual recovery in EBITDA margin towards 10%-11% range (trends that has been confirmed in the past two quarters) by refocusing on more profitable products and categories where it's well positioned among consumers. Moreover, a broadly stable cost structure across its business division (especially at its crushing division) and more dynamic sales price initiatives, passing through raw material price swings to final consumers, should also improve Alicorp's profitability margins going forward.

The company struggled during 2023 with certain less profitable product categories within its consumer divisions, coupled with higher raw material prices due to inflation and limited price increases for certain product categories targeted to low-income consumers. In addition, the company's crushing business unit contracted given lower commodity prices. These factors dented Alicorp's EBITDA margin by about 210 basis points (bps) to 8.5% in 2023.

We forecast Alicorp's adjusted leverage to be comfortably below 3x by the end of 2024 and onward, after peaking above 3x in 2023. Based on our expectation of better operating performance; no incremental debt; and prudent financial policies, particularly toward capital allocation and shareholder rewards, we forecast that the company should close 2024 and 2025 with an adjusted net leverage close to 2.5x.

Alicorp's 2023 adjusted net debt to EBITDA ended at 3.0x due to lower revenue and profitability and challenges for the company's crushing division that increased working capital debt.

Outlook

The stable outlook reflects our expectation that Alicorp will deliver solid operating and financial performance in the next two years through resilient basic consumption end-markets. We expect its EBITDA, in nominal terms, to grow about 18% by the end of 2024 from the previous year as its margins gradually recover to around 10%-11%. Moreover, we expect Alicorp to maintain a prudent financial policy in terms of investments and shareholder rewards. As a result, we expect the company to keep its adjusted debt to EBITDA at 2x-3x in the next 12-24 months, alongside adequate liquidity.

Downside scenario

We could lower the rating in the next 12-24 months if the company adopts a more aggressive financial policy through either debt-financed acquisitions, dividend payments, or share repurchases, or it suffers an unexpected substantial drop in profitability, resulting in leverage sustained over 3.5x. Moreover, a deterioration of Alicorp's liquidity such that its sources of liquidity are less than 1.2x over its uses of liquidity over a 12-month timeframe, could also pressure the rating.

Upside scenario

Although unlikely in the next 12-24 months, we could raise the rating on Alicorp if it substantially expands its operational scale and further diversifies its geographic footprint while it maintains or improves its operating and financial metrics, resulting in net leverage consistently below 2.0x. This would also require Alicorp to pass our rating above the sovereign stress test for Peru.

Company Description

Alicorp is the leading consumer branded products company in Peru and one of the largest in South America. It was founded in 1956 and is based in Peru. Alicorp produces, distributes, and commercializes branded consumer products under four business segments:

- Consumer goods: offering food, home, and personal care products;
- Aquafeed: offering shrimp and fish feed;
- Business-to-business: consisting primarily of industrial baking flour and food-based products for restaurants and industries; and
- Crushing: collection of soybean and sunflower beans from third parties for crushing and marketing for by-products (oil and flour).

As of March 31, 2024, Grupo Romero (not rated) owns 62.7% of Alicorp, pension funds own 22.1%, investment and mutual funds 3.0%, and other minority shareholders 12.2%. While Grupo Romero is not a legally constituted group, it is one of the largest economic groups in Peru, with over 120 years of operations in more than 20 countries worldwide.

Our Base-Case Scenario

- GDP growth in Peru of 2.7%, Bolivia 1.9%, and Ecuador 1.2% in 2024, and 3.0%, 1.9%, and 2.0% for 2025, respectively, which should support higher consumption trends for Alicorp's products in those regions.

- Average inflation rate in Peru of 2.3%, Bolivia 4.0%, and Ecuador 1.7% in 2024, and 2.3%, 3.0%, and 1.5% in 2025, respectively. We expect the company could increase sales prices in line or slightly below our inflation estimates.

- Average exchange rate of PEN3.8 per $1 in 2024 and 2025. Foreign exchange rate volatility could pressure Alicorp's operating performance, but we expect a moderate impact on the company's cost structure due to currency forwards and hedges on some main raw materials and debt.

- For 2024, we expect Alicorp's sales revenue to fall near 6% due to lower volumes and average sale prices in the aquafeed division, because exports to Asia remain constrained. This will be somewhat offset by higher volume growth in Alicorp's consumer goods and business-to-business divisions due to expected higher demand as inflation falls and the company adjusts its products and category mix. For 2025, we expect Alicorp's revenue growth to rebound to near 9% through higher volumes and sales prices.

- We expect a broadly stable cost structure, with partial pass-through of cost increases with greater economies of scale and operating efficiencies. This should result in stable EBITDA margins of about 11% in the next two years. We expect the company to refocus its business strategy to regain profitability through its core brands across its product categories.

- We expect average capital expenditure (capex) in 2024-2025 to be PEN300 million-PEN400 million to increase installed capacity in its production facilities and for capital allocation in operating systems and maintenance.

- No dividend payments for 2024. Dividend distributions of PEN 250 million-PEN300 million for 2025 and onward, assuming that Alicorp's net debt to EBITDA will be below 2.5x and/or if the company's cash flow allows a dividend payment without altering its net debt to EBITDA beyond its financial policy target of about 2.5x.

- Share repurchases of PEN513 million only for 2024.

- No significant increase in debt for 2024-2025, and some debt reduction through scheduled bank debt amortizations.

Key metrics

Alicorp S.A.A.--Key metrics

	--Fiscal year ended Dec. 31--			
(%)	2022a	2023a	2024e	2025f
EBITDA margin	10.5	8.6	10.8	11

Alicorp S.A.A.--Key metrics (cont.)

	--Fiscal year ended Dec. 31--			
(%)	2022a	2023a	2024e	2025f
Debt to EBITDA (x)	2.5	3	2.5	2.3
Free operating cash flow to debt	25.7	19.4	17.4	11.6
Discretionary cash flow to debt	6.2	13.4	3	4.4

All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Liquidity

We currently view Alicorp's liquidity as adequate, because we expect its sources to exceed its uses of liquidity by more than 1.2x in the next 12 months. We anticipate this ratio would remain above 1.0x even if EBITDA were to decline by 15%. We also include qualitative factors in our liquidity analysis, including Alicorp's strong record of accessing loans from Peruvian banks and tapping funding from domestic and international debt capital markets, as well as its ability to absorb high-impact, low-probability events with limited need for refinancing.

Principal liquidity sources:

- Cash and cash equivalents of PEN1.5 billion as of March 31, 2024
- Available committed credit facility with maturity date beyond the next 12 months of about PEN450 million (around $120 million)
- Funds from operations (FFO) of about PEN780 million for the next 12 months
- Working capital inflows of about PEN30 million for the next 12 months

Principal liquidity uses:

- Short-term debt maturities of PEN690.9 million as of March 31, 2024
- Capex of around PEN320 million for the next 12 months
- Share repurchases of about PEN513 million for the next 12 months

Covenants

The company is not subject to any financial covenants at Alicorp's level. The only subsidiaries that are subject to financial covenants are Industrias de Aceite S.A. (not rated) within its corporate bonds program and Inbalnor, Vitapro Chile, and Vitapro S.A. through a syndicated loan, as co-borrowers (without Alicorp's guarantee). As of March 2024, Alicorp's subsidiaries were in compliance with all covenants, and we expect them to keep complying in the next 12-24 months.

Environmental, Social, And Governance

Environmental, social, and governance (ESG) factors have had no material influence on our credit rating analysis of Alicorp S.A.A., similar to many operators in the global consumer (branded nondurables) industry. Given the nature of its operations, the use of basic consumer and food products could have environmental and social impacts related to the waste of packaging, expired products, items that are no longer useful, or spoiled food, but we do not believe that these could have a material impact on the company's credit profile in the medium term. In our view, Alicorp operates with strict supply chain management and internal standards that include ESG-evaluated suppliers, among others. We expect amounts earmarked for environmental investments and controls will be immaterial to Alicorp's credit metrics, at least in the next few years.

Ratings Score Snapshot

Issuer Credit Rating: BBB-

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Low
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb-

Modifiers:

- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Financial policy: Neutral
- Liquidity: Adequate
- Management and governance: Neutral
- Comparable rating analysis: Neutral

Stand-alone credit profile: bbb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10,

2021

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Credit Outlook 2024: Consumer Products, Jan. 9, 2024
- Alicorp S.A.A. 'BBB-' Ratings Withdrawn At Issuer's Request, Feb. 24, 2022
- Alicorp S.A.A., June 14, 2021

Ratings List

New Rating; CreditWatch/Outlook Action

	To	From
Alicorp S.A.A.		
Issuer Credit Rating	BBB-/Stable/--	NR/--/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.