FitchRatings

RATING ACTION COMMENTARY

Fitch Removes Frigorifico Concepcion from Negative Watch; Affirms IDR at 'B'

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Fitch Ratings - São Paulo - 03 Dec 2024: Fitch Ratings has removed Frigorifico Concepcion S.A.'s (FriCon) ratings from Rating Watch Negative (RWN), and has affirmed its Long-Term Local and Foreign Currency Issuer Default Ratings (IDRs) at 'B' and senior secured bond rating of 'B' with a Recovery Rating of 'RR4'. The Rating Outlook is Stable.

The removal from Negative Watch is based on FriCon's ability to roll over their short-term debt over the last six months. It also reflects our expectation that the company will be capable of doing so again over the next 12 months, given improving conditions for both the company and the sector.

FriCon's ratings incorporate the risks of a midscale Latin American beef producer with limited financial flexibility compared to the largest players in the sector. The Stable Outlook reflects our projections that the company's business and financial profiles will not materially change over the next 18 months.

KEY RATING DRIVERS

Neutral Outlook for LatAm Protein: Latin American beef producers are likely to benefit from exports driven by weaker local currencies and reduced supplies from other regions. However, domestic consumption and local prices are not expected to perform as well as exports, as local consumers will be more price-sensitive, generally opting for cheaper proteins and cuts when possible.

Despite the abundant cattle supply in the region, rising cattle prices alongside beef prices are constraining meatpackers' profit margins. However, this trend is boosting farmers' profitability, which may benefit the industry by supporting the maintenance and renewal of cattle herds.

Diversification Strategy: FriCon has expanded its operations to Paraguay and Bolivia while also focusing on increasing revenues in Brazil and investing in the pork industry.

Geographic and protein diversification are important drivers for reducing risks in the long run for cyclical industries such as protein.

Export Business Model: FriCon has developed an export platform that benefits from high international protein demand and low production costs. Currently, 50% of its revenue comes from exports, mainly to Asia, and the other 50% from domestic sales, mainly in Brazil. The company exports to China through its subsidiary in Bolivia, because meatpackers in Paraguay are not allowed to export to China, due to Paraguay's recognition of Taiwan as a sovereign. Brazilian operations will move toward the export market over time, though volumes are being sold in the domestic markets.

Beef Sector Inherent Risks: FriCon is exposed to sanitary, environmental, deforestation and import or export restriction risks and quotas, similar to other issuers operating in the sector and region. The Latin American beef sector, particularly in Brazil, remains under scrutiny by investors and regulators due to concerns over Amazon deforestation, cattle traceability and carbon emissions. Diversifying operations across different countries and several plants reduces but does not eliminate these risks.

Free Cash Flow in 2025: Fitch forecasts EBITDA of about USD200 million in 2024, in line with EBITDA of USD194 million in 2023. Overall EBITDA margins are projected at close to 12% in 2024, cash flow from operation (CFFO) should be negative due to higher working capital needs and interest expenses as per Fitch calculation methodology and free cash FCF should be negative USD 80 million. In our projections CFFO and FCF will start to become positive in 2025 going forward.

Slight Net Leverage Increase: Fitch expects net debt/EBITDA to be about 3.2x in 2024, up slightly from 2.9x in 2023, mainly due to an increase in working capital needs from the company's expansion strategy. Deleveraging will accelerate after 2025 when the company reduces its capex to maintenance levels of about USD 10 million and starts to generate positive FCF.

DERIVATION SUMMARY

FriCon's 'B'/Stable rating compares negatively with peers across the region. The company's scale is smaller, and it maintains less geographic and protein diversification, more leveraged capital structure, and tighter liquidity compared to peers. Although FriCon and Minerva S.A. both concentrate their operations mainly in beef and in assets in South America, Frigorifico Concepcion's rating is three notches below Minerva's (BB/Stable) due to its significantly lower scale. Minerva's positive FCF trends, stronger liquidity was also considered in the ratings.

KEY ASSUMPTIONS

-- Revenue growth of 6% in 2024 and in 11% in 2025 due to increase of production;

-- Working capital needs of about USD150 million in 2024 and USD52 million in 2025;

-- Capex of about USD39 million in 2024 and of USD11 million in 2025;

-- No dividends for the next couple of years.

RECOVERY ANALYSIS

The recovery analysis assumes FriCon would be reorganized as a going-concern (GC) in bankruptcy rather than be liquidated. Fitch has assumed a 10% administrative claim. The GC EBITDA assumption of about USD190 million.

An enterprise value (EV) multiple of 5x EBITDA is applied to the GC EBITDA to calculate a post-reorganization EV. Fitch uses a multiple of 5x that reflects the sector dynamics and the company's business profile as mid-sized company with strong growth prospect and good operating margin.

The above assumption result in a recovery rate assumption within the 'RR1' range for the new senior secured notes. Due to the 'RR4' cap for Brazil's and Paraguay corporates, Fitch limits the recovery for the senior secured bond at 'RR4' despite a higher projected recovery.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--The company not being able to rollover its short-term debt;

--Negative FCF and weak liquidity;

--Cash falling below USD40 million;

-- Debt/ EBITDA above 4.5x and Net debt/ EBITDA above 3.5x on a sustained basis.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Net Debt/EBITDA sustained below 3.0x;

--Sustained positive FCF;

--Improve Debt Maturity profile, materially extending short-term debt.

LIQUIDITY AND DEBT STRUCTURE

Fitch views FriCon's liquidity as weak due to its low levels of cash and cash equivalents compared to short-term debt since 2022, when the company implemented its growth strategy and increased its working capital needs. The company's financial flexibility relies on local bank lines to refinance this short-term debt, which needs to be rolled over every year.

As of September 2024, cash on hand was US81 million, and short-term debt totalled USD216 million. Total debt was USD770 million, comprised of USD284 million secured notes due in 2028, local notes and bank debt.

ISSUER PROFILE

Frigorifico Concepcion S.A. is a family-owned entity founded in 1997 and is based in Concepcion, Paraguay. The company operates as a meatpacker in Paraguay, Bolivia and Brazil.

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

Frigorifico Concepcion has an ESG Relevance Score of '3' for Group Structure revised from '4', because the related parties' transactions are disclosed in their audited reports and were already included in the secured debtdocumentation with limitations and conditions.

Frigorifico Concepcion has an ESG Relevance Score of '3' for Financial Transparency revised from '4', because the company released audited financials with unqualified opinion and the company has been reporting their quarterly financial information limited reviews and establish an external audit committee that reports to the board.

Frigorifico Concepcion S.A. has an ESG Relevance Score of '4' for Waste & Hazardous Materials Management; Ecological Impacts due to ecological impacts due to land use & supply chain management as the company is exposed to cattle sourcing and need to monitor direct and indirect suppliers in South America and it is exposed as well the beef sector in general to export bans which has a negative impact on the credit profile, which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

Frigorifico Concepcion S.A. has an ESG Relevance Score of '4' for Governance Structure due to due to ownership concentration. The shareholder's strong influence upon management could result in decisions being made to the detriment of the company's creditors, which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

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			RECOVERY	PRIOR
Frigorifico Concepcion S.A.	LT IDR	B Rating Outlook Stable	Affirmed		B Rating Watch Negative
	LC LT IDR	B Rating Outlook Stable	Affirmed		B Rating Watch Negative

senior secured	LT	B	Affirmed	RR4	B Rating Watch Negative

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Country-Specific Treatment of Recovery Ratings Criteria (pub. 03 Mar 2023)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 21 Jun 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (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

Frigorifico Concepcion S.A.	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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