

23 MAY 2024

Fitch Downgrades Frigorifico Concepcion's Ratings to 'B' on Rating Watch Negative

Fitch Ratings - Rio de Janeiro - 23 May 2024: Fitch Ratings has downgraded the ratings for Frigorifico Concepcion S.A. (Frigorifico Concepcion) to 'B' from 'B+'. Fitch has also placed the ratings on Rating Watch Negative (RWN).

The downgrade to 'B' reflects the company's lack of financial transparency and weakened governance, as evidenced by it receiving a qualified audit, resulting in the lowering of its ESG governance score for Financial Transparency to '5' from '3.'

The RWN reflects potential credit risks regarding the company's ability to raise financing, the cost of debt, and the impact on its financial flexibility.

Key Rating Drivers

Refinancing Risks: Frigorifico Concepcion could face difficulty accessing financing as well as high debt costs following the market's reaction to the news of the qualified audit. The company has USD178 million of short-term debt and plans to raise additional financing for capex. Borrowing at the current market rate of its bond will negatively affect cash flows and stress liquidity. The company reported having approximately USD40 million in cash as of April 2024.

FCF Pressures: Frigorifico Concepcion has an aggressive capex and production ramp-up plan that would pressure FCF in 2024, likely resulting in negative FCF of BRL 90 million. In 2023, the company experienced a working capital consumption of USD240 million due to a 110-day working capital cycle, a slight improvement from 118 days in 2022. However, increased export-derived sales from 2024 should prevent the working capital cycle from declining further. Fitch estimates the company's maintenance capex could be reduced, giving it flexibility to cut back capex plans to preserve liquidity.

Financial Transparency: Frigorifico Concepcion reported that it received a qualified opinion from its new auditor. The auditor did not have access to the opening balance of its subsidiary, BMG Foods Importacao e Exportacao Ltda (BMG), which represents one-third of its revenues. There was also a lack of clarity regarding trade receivables corresponding to collection agreements by Nostro Beef and Betampex Importacao e Importacao Ltda.

Derivation Summary

Frigorifico Concepcion's rating of 'B'/RWN compares negatively with peers across the region. The company has weaker corporate governance patterns, smaller scale, less geographic and protein diversification, more leveraged capital structure, and tighter liquidity compared to peers.

Although both issuers concentrate their operations mainly in beef and assets in South America, Frigorifico Concepcion's rating is three notches below Minerva S.A.'s (BB/Stable) due to its significantly lower scale. Minerva's positive FCF trends, leverage limited to 3.0x, significantly stronger liquidity and stronger corporate governance standards also differentiate the ratings.

Key Assumptions

- Production of 654 million tons in 2024;
- Average prices of export market in Brazil to increase to USD4.8/kg in 2024;
- Average prices of local market in Brazil to decline to USD4.9/kg in 2024;
- Average prices of export market in Paraguay to decline to USD4.8/kg in 2024;
- Average prices of local market in Paraguay to remain stable at USD3.8/kg in 2024;
- Capex of USD77 million in 2024, and USD10 million of maintenance capex in 2025.

Recovery Analysis

The recovery analysis assumes Frigorifico Concepcion would be reorganized as a going-concern (GC) in bankruptcy rather than be liquidated. We have assumed a 10% administrative claim. The GC EBITDA assumption of about USD200 million reflects the volatility of the protein industry, potential sanitary risks or temporary shutdown of any export markets.

An enterprise value (EV) multiple of 5x EBITDA is applied to the GC EBITDA to calculate a post-reorganization EV. We use 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 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:

- Failure to provide an unqualified audit;
- Inability to refinance short-term debt at a cost that does not negatively affect cash flow;
- Cash falling below USD40 million;
- Material capex overruns or delays in ramping up capacity additions;
- 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:

--An upgrade is unlikely due to the company's financial transparency issues and refinancing risks. An upgrade could be considered if it resolves the qualified audit, addresses its refinancing challenges, and demonstrates positive FCF and debt/EBITDA of 3.0x on a sustained basis.

Liquidity and Debt Structure

Weak Liquidity: Fitch views Frigorifico Concepcion's liquidity as weak due to its historically low levels of cash and cash equivalents compared to short-term debt. The company's financial flexibility relies on local bank lines to refinance debt and finance working capital for ramp-up operations. Fitch believes the company's ability to raise financing will suffer, following the market reactions to the news of the qualified audit. As of December 2023, cash on hand was USD57 million, and short-term debt totaled about USD178 million. Total debt was USD625 million, comprised of USD300 million secured notes due in 2028, local notes and bank debt.

Issuer Profile

Frigorifico Concepcion S.A. was 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.

ESG Considerations

Frigorifico Concepcion S.A. has an ESG Relevance Score of '5' for Financial Transparency due to the company's financial reporting, following its failure to provide the necessary details for the opening balance of December 2023 for its subsidiary, BMG. The lapse resulted in the issuance of a qualified audit opinion, signaling a deterioration in transparency which could potentially affect stakeholder confidence and the company's access to the capital markets. This has a negative impact on the credit profile, and is highly relevant to the rating, resulting in an implicitly lower rating.

Frigorifico Concepcion S.A. has an ESG Relevance Score of '4' for Waste & Hazardous Materials Management; Ecological Impacts due to land use and supply chain management. The company is exposed to cattle sourcing and needs to monitor direct and indirect suppliers in South America, and the beef sector is also exposed to export bans in general. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Frigorifico Concepcion S.A. has an ESG Relevance Score of '4' for Governance Structure 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. This has a negative impact on the credit profile, and is relevant to the rating 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>.

Fitch Ratings Analysts

Gisele Paolino

Director

Primary Rating Analyst

+55 21 4503 2624

Fitch Ratings Brasil Ltda. Av. Barão de Tefé, 27 – Sala 601 Saúde Rio de Janeiro, RJ 20220-460

Johnny da Silva

Senior Director

Secondary Rating Analyst

+1 212 908 0367

Martha Rocha

Managing Director

Committee Chairperson

+1 212 908 0591

Media Contacts





Elizabeth Fogerty


New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Frigorifico Concepcion S.A.	LT IDR	B 	Downgrade	B+ 
	LC LT IDR	B 	Downgrade	B+ 

ENTITY/DEBT	RATING		RECOVERY	PRIOR	
• senior secured	LT	B 	Downgrade	RR4	B+

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Corporate Rating Criteria \(pub.03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.13 Oct 2023\) \(including rating assumption sensitivity\)](#)

[Country-Specific Treatment of Recovery Ratings Criteria \(pub.03 Mar 2023\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub.03 Nov 2023\)](#)

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

[Solicitation Status](#)

Endorsement Status

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts

of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

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.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.