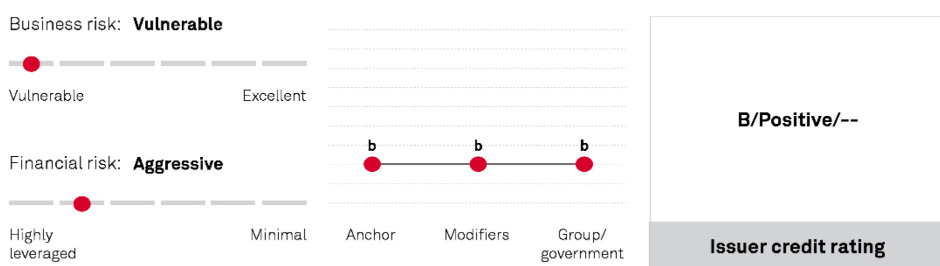
Frigorifico Concepcion S.A.

August 9, 2022

Ratings Score Snapshot



PRIMARY CONTACT

Francisco Gomez Comelli
Buenos Aires
54-11-4891-2112
Francisco.Comelli
@spglobal.com

SECONDARY CONTACT

Amalia E Bulacios
Buenos Aires
54-11-4891-2141
amalia.bulacios
@spglobal.com

Credit Highlights

Overview

Key strengths	Key risks
Cash flows benefitting from high global meat prices and high protein demand.	Exposure to cyclical industry and protein commodity prices, which can lead to volatile earnings and credit metrics.
Considerable cattle availability in domestic markets (Bolivia and Paraguay) at competitive prices.	Small scale of operations.
No material financial debt amortization until 2028.	Exposure to global trade barriers for exports and to uncontrollable risk factors such as animal diseases.
	Export volume in Bolivia limited to the quota allowed by the government.
	Exposure to rainfall and seasonality of cattle availability.

Frigorífico Concepción (Concepción)'s recent expansion provides larger size and scale, as well as diversification. The company has performed valuable business expansion over the past 12 months, improving geographical and product diversification and significantly increasing slaughter capacity. It expanded its Bolivian meat plant nearly 50% to a slaughter capacity of about 1,200 heads per day in 2022 from 480 heads per day in 2021. Concepción also acquired Cabaña El Nido in Paraguay in August 2021, with a slaughter capacity of 1,000 heads per day, and acquired BMG foods in Brazil in December 2021, adding a pork slaughter capacity of 1,750 heads per day and beef slaughter capacity of 1,900 heads per day. Furthermore, in December 2021, Concepción agreed with Incka Foods to invest in the construction of a pork processing plant in Paraguay, which should begin operations at year-end 2023. Although still dependent on appropriate regulatory approvals, entering the U.S. market remains a possibility that would allow for higher export volumes.

High prices and recent acquisitions should increase EBITDA. Considering the expansion mentioned previously, S&P Global Ratings expects slaughter activity to increase to 1,294 thousand cattle heads in 2022 and 1,600 thousand cattle heads in 2023, from 594 thousand cattle heads in 2021. At the same time, the company benefits from favorable market conditions, high meat demand, and good momentum for meat prices, with a beef export price of about $5.4 per kilogram (/kg) in first-quarter 2022, fostering EBITDA generation. China remains supportive of high beef demand and is importing pork protein due to reduced internal production and restocking. Moreover, the football world cup in Qatar has increased demand and orders from that market. We now expect EBITDA of about $135 million in 2022, from $65 million in 2021.

Margin recovery and deleveraging will take longer than we expected. Although EBITDA should increase along with production growth in a high price context, margin recovery is lagging our previous expectation of 14%-15%. Together with higher cattle prices, Concepción faced cost inflation, particularly grain prices and shipping costs. The company has also faced some delays in its products arriving at its main export markets since 2021. For example, exports to China have been significantly affected by bottlenecks at its ports. Global logistics are gradually returning to normal after the pandemic, warehouse staff shortages, and mobility restrictions. This was shown in Concepción' EBITDA margin of 12% in first-quarter 2022 and we now expect about 12%-13% in 2022-2024, allowing the company to deleverage from a 5.5x peak in 2021. After issuing the notes due in 2028, Concepción's gross debt should remain stable in the next few years, but higher sales volumes will likely lead to high working capital needs. We forecast working capital needs of about $150 million in 2022 and $30 million in 2023, which would prevent the company from deleveraging faster. We now expect leverage of close to 3.0x in 2022, reducing to about 2.5x in 2023.

Concepción has shown resilience to the effects of the Russia-Ukraine conflict. At year-end 2021, Russian exports represented 30% of Concepción´s export share. However, it has demonstrated resilience to the Russia-Ukraine conflict mainly by quickly redirecting shipments and exports from Russia to Brazil and Chile, which are closer markets that allow for working capital reduction. Chile and Brazil have 60-70 days cash collection cycles versus three months for Russian exports. Considering demand from Qatar, the company expects an annual average cash collection cycle of about 80-90 days in 2022.

Outlook

The positive outlook reflects our belief that Concepción will continue to increase production volumes, improving its size and scale, and overall business profile in a high meat price scenario. We expect gross leverage of close to 3.0x and funds from operations (FFO) to debt of about 25% in 2022, improving to about 2.5x and 30% in 2023.

Downside scenario

We could lower the rating if operating performance worsens due to lower-than-expected slaughter activity, weaker meat prices or increasing cattle prices, or working capital misuse, leading to gross debt to EBITDA consistently above 3.0x and FFO to debt constantly below 30%. We could also lower the rating if liquidity weakens, either due to high capital expenditure (capex) or working capital outflows, which could translate into free operating cash flow (FOCF) shortfalls or more aggressive shareholder remuneration.

Upside scenario

An upgrade in the next 12 months could stem from production growth and a more stable EBITDA margin of about 13%, which lead us to review our assessment of Concepción's business risk. This would be accompanied with consistently low leverage, including gross debt to EBITDA below 3.0x and FFO to debt above 30%, and positive FOCF, even amid cattle-price-cycle downturns.

Our Base-Case Scenario

Assumptions

- Total slaughter activity of 1.3 million heads in 2022 increasing to 1.6 million in 2023;
- Total meat production of about 225,000 tons in 2022, and 270,000 tons in 2023;
- Total pork production of about 28,000 tons in 2022, and 38,000 tons in 2023;
- Export prices of about $4.70/kg for 2022 and $4.10/kg for 2023. A domestic market price of about $3.50/kg in 2022 and about $3.10/kg in 2023;
- A pork export price of about $2.00/kg for 2022 and 2023. A domestic market price of about $1.10/kg in 2022 and 2023;
- Annual capex of $5 million in 2022 and 2023, entirely for maintenance purposes;
- Acquisitions of $30 million in 2022 and $15 million in 2023 (related to the Cabaña El Nido, BMG Foods, and Incka Foods transactions);
- No dividend distributions; and
- Debt of about $380 million in 2022 and $360 million in 2023.

Key metrics

Frigorifico Concepción S.A.--Key Metrics*

Mil. $	2020A	2021A	2022E	2023F	2024F
Revenue	514,554.6	673,380.9	1,092,764.3	1,176,797.3	1,221,209.4
Revenue growth (%)	72.5	30.9	62.3	7.7	3.8
EBITDA	64,512.6	65,499.2	137,153.2	146,098.9	151,024.0
EBITDA margin (%)	12.5	9.7	12.6	12.4	12.4
Funds from operations (FFO)	47,476.6	42,414.4	103,456.1	112,301.0	119,672.1
Capital expenditure	6,226.3	41,740.1	5,000.0	5,000.0	5,000.0
Free operating cash flow (FOCF)	(44,619.0)	(56,809.9)	(52,328.0)	75,273.0	97,766.6
Dividends	0.0	0.0	0.0	0.0	0.0
Debt	191,263.6	361,815.6	382,495.7	356,815.6	324,315.6
Debt to EBITDA (x)	3.0	5.5	2.8	2.4	2.1
FFO to debt (%)	24.8	11.7	27.0	31.5	36.9
FOCF to debt (%)	(23.3)	(15.7)	(13.7)	21.1	30.1
EBITDA interest coverage (x)	4.1	3.2	4.7	5.0	5.7
FFO interest coverage (x)	4.0	3.1	4.5	4.8	5.5

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

Company Description

Concepción is an animal protein-processing company based in Paraguay that's involved throughout the beef supply chain, from production to processing, distribution, and exporting. It's among the top five beef exporters in Latin America and the second-largest beef exporter in Paraguay. Concepción has the capacity to produce 69,000 heads of cattle per month. Its processing facilities consists of 22 refrigeration chambers, and it has meat freezing capacity of 8,050 metric tons (MT), chilled meat deposit capacity of 3,980 MT, and offal meat freezing capacity of 1,625 MT. The company recently entered the pork protein business through the acquisition of Cabaña El Nido in Paraguay and BMG Agricola in Brazil.

The company operates three production units in Paraguay; a service contract with Frigonorte, which adds additional production capacity; two plants in Bolivia; and four plants in Brazil.

Overall, it serves about 38 export countries. Concepción produces mainly "in natura" beef, but also chilled beef cuts, frozen products, leather, and pork products.

Peer Comparison

Frigorifico Concepción S.A.--Peer Comparisons

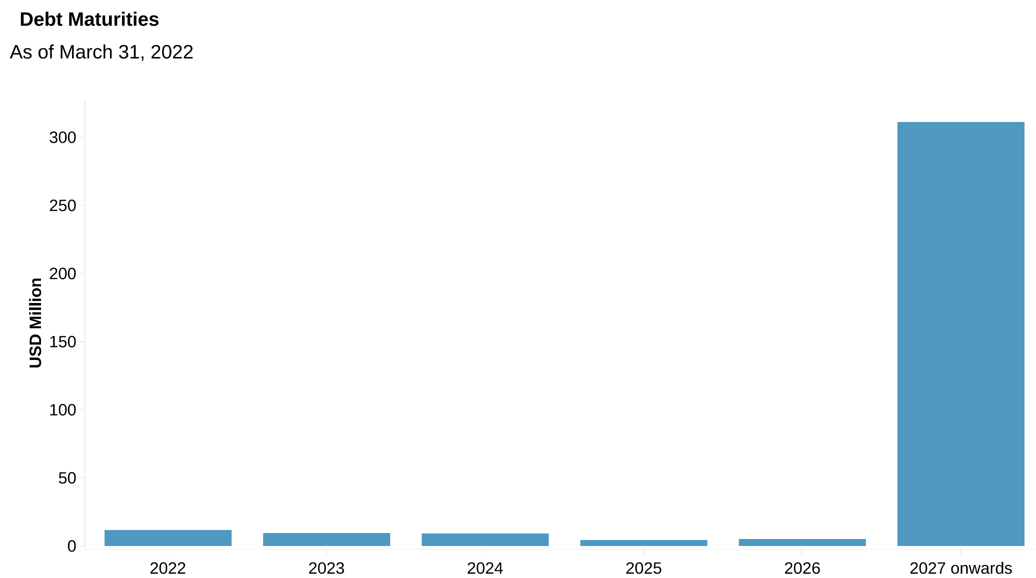
	Frigorifico Concepción S.A.	Minerva S.A.	JBS S.A.	Marfrig Global Foods S.A.	BRF S.A.	Tyson Foods Inc.
Foreign currency issuer credit rating	B/Positive/--	BB/Stable/--	BBB-/Stable/--	BB+/Stable/--	BB/Stable/--	BBB+/Stable/A-2
Local currency issuer credit rating	B/Positive/--	BB/Stable/--	BBB-/Stable/--	BB+/Stable/--	BB/Stable/--	BBB+/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31	2021-12-31	2021-09-30
Mil.	$	$	$	$	$	$
Revenue	673,381	4,840	62,944	15,326	8,677	47,049
EBITDA	65,499	427	8,142	2,548	1,015	5,767
Funds from operations (FFO)	42,414	245	6,342	2,256	791	4,629
Interest	21,612	182	945	313	359	446
Cash interest paid	20,475	182	708	291	224	455
Operating cash flow (OCF)	(15,070)	298	4,606	1,330	646	4,012
Capital expenditure	41,740	84	1,727	378	491	1,209
Free operating cash flow (FOCF)	(56,810)	214	2,878	952	155	2,803
Discretionary cash flow (DCF)	(56,810)	106	(358)	162	107	2,100
Cash and short-term investments	91,435	1,311	4,171	1,508	1,414	2,507
Gross available cash	91,435	1,311	4,171	1,508	1,494	2,606
Debt	361,816	1,142	14,949	4,490	4,081	8,121
Equity	204,740	117	8,579	1,000	1,584	17,854
EBITDA margin (%)	9.7	8.8	12.9	16.6	11.7	12.3
Return on capital (%)	13.2	32.8	31.9	48.7	9.7	16.6
EBITDA interest coverage (x)	3.0	2.3	8.6	8.1	2.8	12.9
FFO cash interest coverage (x)	3.1	2.3	10.0	8.7	4.5	11.2
Debt/EBITDA (x)	5.5	2.7	1.8	1.8	4.0	1.4
FFO/debt (%)	11.7	21.4	42.4	50.3	19.4	57.0
OCF/debt (%)	(4.2)	26.1	30.8	29.6	15.8	49.4

Frigorifico Concepción S.A.--Peer Comparisons

FOCF/debt (%)	(15.7)	18.7	19.3	21.2	3.8	34.5
DCF/debt (%)	(15.7)	9.2	(2.4)	3.6	2.6	25.9

Financial Risk

Debt maturities



Source: S&P Global Ratings.

Frigorifico Concepcion S.A.--Financial Summary

Period ending	Dec-30-2015	Dec-30-2016	Dec-30-2017	Dec-30-2018	Dec-31-2019	Dec-31-2020
Reporting period	2015a	2016a	2017a	2018a	2019a	2020a
Display currency (mil.)	$	$	$	$	$	$
Revenues	392	427	435	330	46	75
EBITDA	30	21	22	19	4	9
Funds from operations (FFO)	27	14	14	10	3	7
Interest expense	5	8	11	10	1	2

Frigorifico Concepcion S.A.--Financial Summary

Cash interest paid	2	6	7	7	1	2
Operating cash flow (OCF)	(24)	(20)	(0)	(8)	2	(6)
Capital expenditure	4	6	4	2	0	1
Free operating cash flow (FOCF)	(27)	(27)	(4)	(9)	2	(6)
Discretionary cash flow (DCF)	(27)	(27)	(6)	(9)	2	(6)
Cash and short-term investments	3	1	7	1	0	5
Gross available cash	3	1	7	1	0	5
Debt	72	98	119	118	16	28
Common equity	53	79	92	92	15	23
Adjusted ratios						
EBITDA margin (%)	7.6	4.8	5.0	5.7	9.6	12.5
Return on capital (%)	21.9	12.2	10.5	8.1	3.5	22.4
EBITDA interest coverage (x)	5.8	2.7	2.0	1.9	3.1	4.3
FFO cash interest coverage (x)	16.6	3.4	3.1	2.4	3.0	4.0
Debt/EBITDA (x)	2.4	4.8	5.5	6.3	3.7	3.0
FFO/debt (%)	37.5	13.8	11.4	8.9	17.7	24.8
OCF/debt (%)	(32.8)	(20.6)	(0.0)	(6.6)	14.0	(20.1)
FOCF/debt (%)	(37.9)	(27.1)	(3.5)	(8.0)	13.6	(23.3)
DCF/debt (%)	(37.9)	(27.1)	(5.0)	(8.0)	13.6	(23.3)

Reconciliation Of Frigorifico Concepcion S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2020									
Company reported amounts	191,264	161,036	514,555	64,513	62,389	14,846	64,513	(23,894)	-	6,226
Cash taxes paid	-	-	-	-	-	-	(1,431)	-	-	-
Cash interest paid	-	-	-	-	-	-	(15,605)	-	-	-
Nonoperating income (expense)	-	-	-	-	138	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(14,499)	-	-
Total adjustments	-	-	-	-	138	-	(17,036)	(14,499)	-	-

Reconciliation Of Frigorifico Concepcion S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	191,264	161,036	514,555	64,513	62,528	14,846	47,477	(38,393)	-	6,226

Liquidity

We view Concepción's liquidity as less than adequate. We expect cash sources will be slightly above cash uses for the next 12 months. However, we believe Concepción has limited ability to absorb low-probability, adverse events without refinancing. The liquidity assessment also reflects the short track record of the company's issuances in capital markets and the absence of ample relationships with banks, as well as high credit metrics volatility.

Principal liquidity sources

- Cash position of $69.9 million as of March 31, 2022;
- FFO about $105.0 million in the next 12 months; and
- Net cash proceeds from the local bond issuance of $7 million.

Principal liquidity uses

- Debt maturities of $17.4 million as of March 31, 2022;
- Working capital of about $120 million in the next 12 months;
- Capex of $5.0 million in the next 12 months; and
- Cash outflows from acquisitions of about $25 in the next 12 months.

Covenant Analysis

Requirements

Under the 2028 notes, the company must comply with debt- incurrence covenants that include gross leverage below 3.0x and net interest coverage above 2.5x. In addition, it will be required to publish a sustainability report or an ESG rating annually from 2021. Failure to deliver will result in an annual interest rate step-up of 0.25% but not constitute a default.

Compliance expectations

We expect little headroom for the leverage covenants in 2022. However, we expect the company will improve covenant headroom in 2023. A hypothetical covenant breach would impair Concepción's ability to take out new loans.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	G-2	**G-3**	G-4	G-5

Environmental	Social	Governance
- Other environmental factors	- N/A	- Risk management, culture, and oversight - Governance structure

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental and governance factors are a moderately negative consideration in our credit rating analysis of Concepción, while social factors have no material influence.

Concepción's environmental risk is in line with that for the industry because droughts can drive up cattle prices, making cattle feed more expensive, influencing cattle availability, and bringing cash flow volatility. In addition, an industrial leakage of liquid effluent occurred in November 2020 through a facility wall adjacent to the Paraguay River, while an ammonia leak in a refrigerator affected 20 workers at a processing plant one month later. Both accidents had little effect on the company's production and cash flows and, consequently, our ratings. On the bright side, Concepción recently invested in technology solutions that ensure traceability of cattle, and committed to reliably calculating its carbon footprint. Additionally, the company ensured that its business priorities are in line with at least 9 of out 17 the UN's sustainable development goals, such as zero hunger, clean water and sanitation, responsible consumption and production.

Regarding governance, we believe Concepción still has an entrepreneurial culture, with heavy reliance on its founding owner's strategic decisions. Also, it was allegedly involved in illegal exports in 2018 that resulted in export restrictions to Russia, which at that time represented about 54% of the company's exports and resulted in significant revenue drop that year and in 2019. We believe Concepción has implemented compliance policies and initiatives to improve transparency. We acknowledge that the company has recently updated many key policies and procedures and created Sustainability and ethics committees to improve across the entire spectrum of material non-financial aspects that are vital for ongoing prosperity of the company. Still, there's a limited track record to assess effectiveness. The company also widened the range of its export destination markets.

See "General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021," published Oct. 10, 2021.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of March 31, 2022, Concepción's capital structure mainly consisted of $304 million in senior secured notes due 2028 and $50 million in bank loans. Short-term debt represented 4% of total debt and dollar-denominated debt represented 95%.

Analytical conclusions

We rate Concepción's senior secured bond at the same level as the issuer credit rating, given that the bond is the only secured debt and represents about 86% of total debt.

Rating Component Scores

Foreign currency issuer credit rating	**B/Positive/--**
Local currency issuer credit rating	**B/Positive/--**
Business risk	**Vulnerable**
Country risk	High
Industry risk	Intermediate
Competitive position	Vulnerable
Financial risk	**Aggressive**
Cash flow/leverage	Aggressive
Anchor	**b**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Less than Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**b**

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

Ratings Detail (as of August 09, 2022)*

Frigorifico Concepcion S.A.	
Issuer Credit Rating	B/Positive/--
Senior Secured	B

Ratings Detail (as of August 09, 2022)*

Issuer Credit Ratings History

07-Jul-2021	B/Positive/--
17-Mar-2021	B/Stable/--
30-Jan-2020	B-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.