



RATING ACTION COMMENTARY

Fitch Affirms Frigorifico Concepcion S.A. at 'B+'

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Fitch Ratings - New York - 29 Jun 2022: Fitch Ratings has affirmed Frigorifico Concepcion S.A. (Frigorifico Concepcion) Long-Term Foreign and Local Currency Issuer Default Ratings at 'B+'. In addition, Fitch has affirmed the senior secured bond at 'B+'/'RR4'.

The Rating Outlook is Stable.

The ratings reflect the company's improved business profile and expected deleveraging with the ramp-up of profitability from the recent acquisitions in Brazil and Paraguay.

KEY RATING DRIVERS

Expected Deleveraging: Net debt/EBITDA is expected to decline below 3x in 2022 after reaching 4.1x at YE21, which was low for the rating. Net leverage peaked in 2021 due to negative FCF, high capex, and several acquisitions in Paraguay and Brazil. Fitch forecasts EBITDA close to USD110 million in 2022 compared with USD65 million in 2021. EBITDA is expected to increase due to the ramp-up of companies acquired in 2021, improved performance of the Bolivian operation, and higher export beef prices. In 1Q22, LTM sales increased 37% yoy due to the increase in export sales, and LTM EBITDA reached USD72 million in 1Q22 (EBITDA margin of 9.7%). The group benefits from low production costs, cattle availability in the domestic market, and high international prices.

Expansion: Fitch projects investments of about USD34 million for growth and maintenance in 2022, which in addition to working capital needs, should cause FCF after interest

payment to remain negative in 2022. Frigorifico Concepcion spent USD63 million in investments and acquisitions in 2021. The company expanded its production basis in Paraguay, Bolivia, and entered the Brazilian market by acquiring BMG Foods in 2021. Investments are expected to be related to constructing a pork processing plant in Paraguay in 2022, which should be operational by 2023.

Increased Geographical Protein Diversification: Frigorifico Concepcion operates in beef and pork following the 2021 acquisitions, which in Fitch's view is positive as it diversifies the company's production and revenue base. Beef remains the main protein as Fitch estimates that beef operations in Paraguay and Bolivia will account for more than 80% of EBITDA in 2022. In addition, the company is ramping up production at BMG Foods in Brazil, representing about 13.6% of sales as of 1Q22. As a protein producer, the company remains exposed to sanitary, environmental including cattle traceability, climatic change, quotas, and export restriction risks, which explains its historically volatile performance.

Export Business Model: Frigorifico Concepcion has developed an export platform that benefits from high international protein demand; 78% of revenues came from exports to countries such as Chile, Brazil and China from Bolivia LTM 1Q22. The company can export to China through its 80% controlled subsidiary in Bolivia, as meatpackers in Paraguay are not allowed to export to China, given Paraguay's recognition of Taiwan as a sovereign. In addition, Fitch understands that the company was able to redirect shipments to other export markets that were initially destined for Russia (21% revenues as of 1Q22).

DERIVATION SUMMARY

Frigorifico Concepcion's ratings reflect its solid business profile as a protein company with a leading presence in Paraguay and Bolivia. The company entered the Brazilian protein market by acquiring BMG Foods (beef and pork) in 2021. Beef protein remains the main contributor to the group's profitability. The company has developed an export-oriented business model. About 83% of Frigorifico's revenues were derived from exports in 2021. The company has been able to maintain good operating margins over the years despite facing several challenges such as export restrictions or unfavorable weather conditions.

From a financial standpoint, Fitch expects net leverage to gradually decline as the newly acquired assets enter production gradually. The company benefits from a favorable debt amortization profile and post-bond issuance in 2021. However, FCF remains limited, resulting from investments and working capital needs. The ratings also consider limited scale and exposure to potential import or local restrictions.

KEY ASSUMPTIONS

- Sales driven by higher slaughtering capacity, new acquisitions, and the ramp-up of the Bolivian operations;
- Negative FCF due to working capital and investments;
- No dividends paid in 2022;
- Net debt/EBITDA below 3x in 2022.

KEY RECOVERY RATING ASSUMPTIONS

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 USD54 million reflects the volatility of the protein industry, potential sanitary risks or temporary shutdown of any export markets.

An EV multiple of 5x EBITDA is applied to the GC EBITDA to calculate a post-reorganization enterprise value. 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 'RR3' range for the new senior secured notes. Due to the 'RR4' cap for 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 positive rating action/upgrade:

- Greater scale and profitability;
- Full ramp-up of recent acquisitions and investments;
- Good tracked record on business integration
- Debt/ EBITDA below 3x on a sustained basis;

--Sustainable positive FCF.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Debt/ EBITDA above 4.5x or net debt/ EBITDA above 3.5x a sustained basis;

--Deterioration of liquidity.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

Sound Liquidity: Cash and cash equivalents was USD70 million and short-term debt totaled about USD17 million as of 1Q22. Total debt was USD355 million as of 1Q22, comprised of USD300 million secured notes due in 2028 and bank debt. The company does not hedge as revenues and costs are mainly in U.S. dollars.

ISSUER PROFILE

Frigorifico Concepción S.A. (Frigorifico) is a leading exporter of beef from Paraguay and accounted for 22.2% of Paraguay's beef processing in 2020 based on the number of head of cattle slaughtered. The company was founded in 1997 and is based in Concepción, Paraguay. In addition to its operations in Paraguay, the company has a 80% ownership interest in a Bolivian beef processing facility, which began full operations in October 2019. In 2021, the company started its expansion and geographical and protein diversification (pork) with the acquisition of assets in Brazil (BMG Foods) and in Paraguay.

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 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, which has a negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅	RECOVERY ⇅	PRIOR ⇅
Frigorifico Concepcion S.A.	LT IDR		B+ Rating Outlook Stable
	B+ Rating Outlook Stable		
	Affirmed		
	LC LT IDR		B+ Rating Outlook Stable
	B+ Rating Outlook Stable		
	Affirmed		
senior secured	LT B+ Affirmed	RR4	B+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA[Country-Specific Treatment of Recovery Ratings Criteria \(pub. 05 Jan 2021\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 09 Apr 2021\)](#)
(including rating assumption sensitivity)

[Corporate Rating Criteria \(pub. 15 Oct 2021\)](#) (including rating assumption sensitivity)

[Sector Navigators - Addendum to the Corporate Rating Criteria \(pub. 15 Oct 2021\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.2 ([1](#))

ADDITIONAL DISCLOSURES

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Frigorifico Concepcion S.A.

EU Endorsed, UK Endorsed

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