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

Fitch Ratings - New York - 16 Jun 2023: Fitch Ratings has affirmed Frigorifico Concepcion S.A.'s Long-term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'B+'. In addition, Fitch has affirmed the company's senior secured bonds at 'B+'/'RR4'. The Rating Outlook is Stable.

The ratings reflect Frigorifico Concepcion's improved geographical diversification, steady net leverage and the assumption that the company will be able to ramp up its operations and generate positive FCF in 2024 and beyond.

Key Rating Drivers

High Working Capital Need: Fitch expects Frigorifico Concepcion's FCF to remain negative in 2023 due to working capital requirement for the ramp-up of its operations and for capex. Working capital consumption is estimated at about USD130 million. The working capital cycle is about 118 days, and the company plans to lower it to about 110 days by extending payable days. Fitch projects capex of about USD44 million, which includes the investment of USD30 million in INCKA, a Paraguayan unit dedicated to the slaughter and processing of pigs that is currently under construction.

EBITDA to Ramp Up: Fitch forecasts EBITDA of about USD150 million to USD160 million in 2023, up from USD115 million in 2022. The increase is driven by the ramp-up of operations in Brazil and increased volumes in Bolivia, and the overall EBITDA margin is projected at close to 9%-10% in 2023 (10.1% in 2022). LTM EBITDA reached USD128 million in 1Q23 (EBITDA margin of 10.2%). The group benefits from low production costs and good cattle availability.

Steady Net leveraging: Net debt/ EBITDA is expected to remain steady at about 3x (3.1x in 2022) thanks to the increase in EBITDA in 2023. The company is publicly seeking USD50 million to USD100million of new financing to fully finance its rapid growth this year. The deleveraging will accelerate beyond 2023 as acquired assets mature and the company starts generating positive FCF.

Increased Geographical and Protein Diversification: The increase in diversification lowers business risks as it mitigates sourcing and exports bans inherent to the volatile protein sector. Operations in Bolivia and Brazil are estimated to represent about 60% of EBITDA in 2023, while pork and pork products represented about 19% group sales in 1Q23. Frigorifico Concepcion is exposed to sanitary, environmental, deforestation and import or export restriction risks, and quotas, which have resulted in its historically volatile performance.

Export Business Model: Frigorifico Concepcion has developed an export platform that benefits from good international protein demand and low cost of production. 60% of revenues came from exports, mainly to Asia and Latin America (Chile, Brazil) in 2022. The company can export to China through its

subsidiary in Bolivia, as meatpackers in Paraguay are not allowed to export to China, given Paraguay's recognition of Taiwan as a sovereign. In Brazil, Fitch understands that the operations will move toward the export market over time as volumes are initially sold in the domestic markets during the ramp-up phase.

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 is ramping up its operation in Brazil with BMG Foods (beef and pork). Beef protein remains the main contributor to the group's profitability. The company has developed an export-oriented business model and 60% of Frigorifico Concepcion's revenues were derived from exports in 2022.

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. FCF remains negative, resulting principally from high working capital needs due to the company's growth. Net leverage is expected to remain steady in 2023.

Key Assumptions

- Revenues growth driven by the ramp up of the company's operations in 2023 (notably Brazil);
- Working capital need of about USD130 million in 2023;
- Capex of about USD44million to finance the INCKA projects;
- WK days between 110-118 days;
- Net debt/ EBITDA stable at 3x at YE23;
- New financing to finance the ramp up of its operations.

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 USD92 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 a mid-sized company with strong growth prospects and a good operating margin.

The above assumptions result in a recovery rate assumption of 'RR4' for the secured notes due to the cap for Paraguayan Corporate.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Debt/ EBITDA below 3x on a sustained basis;
- Sustainable positive FCF.
- Increased financial flexibility.

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

- Debt/ EBITDA above 4.5x or Net debt/ EBITDA above 3.5x on a sustained basis;
- Deterioration of liquidity;
- Negative FCF beyond 2023.

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

Weak Liquidity: Fitch views Frigorifico Concepción's liquidity as weak due to the need of financing working capital to fully ramp up its operations. Cash and cash equivalents were USD75 million, and short-term debt totaled about USD73 million as of 1Q23. Total debt was USD419 million as of 1Q23, comprised of USD300 million secured notes due in 2028, local notes and bank debt.

Issuer Profile

Frigorifico Concepción S.A. was founded in 1997 and is based in Concepción, 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 '4' for Waste & Hazardous Materials Management; Ecological Impacts due to chain management. The company is exposed to cattle sourcing and needs to monitor direct and indirect suppliers in South America. 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, which has a negative impact on the credit profile, and is relevant to the ratings 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

Fitch Ratings Analysts

Johnny da Silva

Director

Primary Rating Analyst

+1 212 908 0367

Fitch Ratings, Inc. Hearst Tower 300 W. 57th Street New York, NY 10019

Gisele Paolino

Director

Secondary Rating Analyst

+55 21 4503 2624

Martha Rocha

Managing Director

Committee Chairperson

+1 212 908 0591

Media Contacts

Elizabeth Fogerty

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com





Jaqueline Carvalho

Rio de Janeiro




+55 21 4503 2623

jaqueline.carvalho@thefitchgroup.com

Rating Actions

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

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Corporate Rating Criteria \(pub.28 Oct 2022\) \(including rating assumption sensitivity\)](#)

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

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

[Sector Navigators: Addendum to the Corporate Rating Criteria \(pub.12 May 2023\)](#)

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

Frigorifico Concepcion S.A. EU Endorsed, UK Endorsed

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