MOODY'S
RATINGS

Rating Action: Moody's Ratings confirms Frigorifico Concepcion S.A.'s B2 rating; stable outlook

14 Feb 2025

New York, February 14, 2025 -- Moody's Ratings (Moody's) has confirmed Frigorifico Concepcion S.A. (FriCon)'s B2 corporate family rating and the outlook was changed to stable from rating under review. This action concludes the review for downgrade that was initiated on October 25, 2024.

The confirmation of the rating is based on the company's good operating performance over the second half of 2024, which presents a significant reduction in the company's cash burn, and strategic liability management initiatives that contribute to strengthen its liquidity.

RATINGS RATIONALE

The confirmation of FriCon's B2 corporate family rating with a stable outlook is based on the company's reduction of cash outflow through strong operating performance in the second half of 2024 that we expect will continue to improve through 2025; and liability management efforts performed recently and planned for the next few months to extend short-term debt maturities. Additionally, the decision considered the company's business strategy and alternatives to raise debt in the domestic markets to fund its 2025 production expansion while maintaining leverage and liquidity in check.

FriCon's good operating margins through the end of 2024 have contributed to a reduction in cash outflows and leverage. The company's robust profitability, maintaining an EBITDA margin (Moody's adjusted) at approximately 11%, coupled with continuous revenue growth, enabled the company to lower gross leverage to around 4.0x by year-end 2024 (as reported in its December 2024 Operational Update report), from 4.9x for the last twelve months (LTM) through September 2024. The company presented positive cash flow from operations in Q3 2024 due to an increase in funds from operations and reduced growth, which lowered working capital requirements. As FriCon continues to optimize its operations, it is likely to achieve neutral-to-slightly negative Free Cash Flow (FCF) by 2025, supported by further top-line growth resulting from the ramp-up of new beef and pork slaughtering capacity during that year. These milestones are crucial for enhancing its financial stability.

FriCon recorded $184 million in negative FCF in 2023, and we expect approximately $160 million in negative FCF for the fiscal year 2024, primarily due to $117 million negative FCF in the first half of the year. Additionally, as EBITDA increases through 2025, the company plans to raise new debt and improve its cash position by the end of 2025 to enhance liquidity, while maintaining gross leverage levels in line with the company's 4.0x target and current rating.

FriCon's short-term debt liability management will help reduce liquidity pressures by mitigating refinancing risks and managing working capital, especially as rising production demands more resources to optimize cattle and pork processing. Regaining access to international long-term cross-border capital markets remains key for improving the company's long-term liquidity, however.

A key element of the company's debt liability management strategy is the extension of its debt maturities due in 2025. FriCon intends to convert a portion of its short-term facilities in Bolivia, Paraguay, and USA into longer-term financings. This initiative includes the BFC USA Private lending facilities worth $161 million, with $69 million maturing in 2025, as well as certain short-term debts in Bolivia ($59 million due in 2025) and in Paraguay ($41 million due in 2025). By securing extensions and expanding credit facilities, FriCon will further reduce liquidity pressures. Also, the company's good track record in collecting accounts receivable and maintaining inventory value, as demonstrated by very low bad debt ratio and minimal inventory write-downs, ensures that working capital financing remains readily available when needed. Currently, the company does not engage in factoring or reverse factoring.

Rising production will continue to require additional working capital to optimize cattle and pork processing at existing facilities in 2025. But production expansion will yield a close to 25% growth in EBITDA, to around $250 million for 2025, from around $200 million in 2024. We expect gross debt to EBITDA will remain around 3.8x-4.0x in 2025, similar to the 4.0x reported for year-end 2024, as debt rises to around $900 million by year-end 2025 from $816 million the year before. However, we expect net leverage to decrease because the company intends to increase its cash balance to improve liquidity over the next few quarters.

Regarding the company's growth plans, by mid-2025 FriCon expects to finalize its beef slaughtering capacity expansion in Bolivia to 2,100 heads/day from 1,450 as of December 2024. In Brazil, beef capacity will grow from 4,000 to 4,800 heads/day, and pork capacity from 2,200 to 3,200 heads/day in the same period. Paraguay's new Inka plant will add 1,200 heads/day for pork by mid-year, reaching 2,500 heads/day by 2026. As a result, we expect FriCon's beef slaughtering activity to rise from around 1.5 million heads/year in 2024 to around 2 million by 2025, and pork slaughtering from around 480 thousand to close to 600 thousand heads/year.

The rating of FriCon continues to be supported by its leading position in the production and sale of fresh beef and pork, with regional diversification of production through facilities located in Paraguay, Bolivia and Brazil, which in turn supports the company's access to a diversified pool of export markets. The rating also incorporates the company's ability to significantly increase revenues through expansion of processing capacity and strategic acquisitions since 2020, while at the same time maintaining strong profitability.

FriCon's ratings are mainly constrained by its small scale relative to LatAm based peers with global operations. This risk is partially offset by the diversification provided by the company's export revenue. In this regard, FriCon's credit profile would benefit from a longer track-record as it continues to ramp up new beef and pork operations in 2025-2026. Also constraining the rating is the company's exposure to the cyclical nature of the protein industry and overall volatility of protein prices, particularly because of the concentration in beef, which is the company's main protein in terms of revenue today, because EBITDA and working capital requirements may suffer significantly in response to a sudden rise in cattle costs.

The stable outlook reflects our expectation that FriCon's strong profitability and liability management efforts will continue to strengthen the company's liquidity over the next 12-18 months. At the same time, the stable outlook reflects our view that FriCon will continue to execute its growth strategy while maintaining its leverage metrics in check.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

An upgrade of the rating would require the company to demonstrate more resilience regardless of the operating environment in the countries where it operates, with an improvement in its liquidity profile based on liability management that combines an extension of its debt maturity profile and positive free cash flow generation. Quantitively, a rating upgrade would require the company to maintain a gross debt to EBITDA (Moody's adjusted) ratio below 4.0x, EBITDA/interest expense around 4.0x, and retained cash flow to net debt around 15%, on a sustained basis.

The ratings could be downgraded if there is a deterioration in the company's liquidity due to restrictions on refinancing its short-term debt at a reasonable cost; if the company is unable to effectively extend its debt maturity profile; or if the company fails to reverse the outflow of funds in the next 12 months. Quantitively, we would downgrade the rating if the company's gross debt to EBITDA ratio were to rise above 5.0x, EBITDA/interest expense below 3.0x, and retained cash flow to net debt below 10%, on a sustained basis.

The principal methodology used in this rating was Protein and Agriculture published in August 2024 and available at https://ratings.moodys.com/rmc-documents/426548. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Founded in 1997 and headquartered in Asunción, Paraguay, FriCon has a leading position in the production and sale of fresh beef and pork in Paraguay, Bolivia and Brazil, with a diversified portfolio of clients around the world. Since 2017, FriCon has also incorporated industrialized product lines such as burgers, premium burgers, meatballs and sausages. As of the nine months through September 2024, around 49% of revenues were derived from exports to 37 countries, and the remaining balance were sales to the local markets.

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