



Rating Action: **Moody's assigns B1 first-time rating to Frigorífico Concepción S.A.; stable outlook**

13 Jul 2023

New York, July 13, 2023 – Moody's Investors Service ("Moody's") has assigned a B1 corporate family rating (CFR) to Frigorífico Concepción S.A. ("Frigorífico"). The outlook is stable.

This is the first time that Moody's has assigned ratings to Frigorífico Concepción S.A.

Assignments:

..Issuer: Frigorifico Concepcion S.A.

... Corporate Family Rating, Assigned B1

Outlook Actions:

..Issuer: Frigorifico Concepcion S.A.

...Outlook, Assigned Stable

RATINGS RATIONALE

The B1 rating assigned to Frigorífico Concepción S.A. (Frigorífico) reflects 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 Frigorífico's ability to significantly increase revenues through expansion of processing capacity and strategic acquisitions since 2020, while at the same time maintaining strong profitability aided by its experienced management and good operating environment in Latin America, particularly in Paraguay, where the company benefits from a lower tax burden relative to regional peers. Moody's expects Frigorífico will maintain a prudent capital structure with conservative financial policies to preserve the company's liquidity and address capital spending requirements.

Frigorífico's rating is mainly constrained by its small scale relative to global peers, most of which are based in Latin America, partially offset by the diversification provided by the company's export revenue. In this regard, Frigorífico's credit profile would benefit from a longer track-record as it ramps up new operations in Brazil and Bolivia in 2023-2024, and a new pork processing plant in Paraguay by 2024, that will in turn increase its revenue base to around \$1.8 billion by 2024, from \$1.1 billion in 2022. Also constraining the rating is the company's exposure to the cyclical nature of the protein industry and overall volatility of protein prices, particularly 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 Moody's expectation that Frigorífico will be able to sustain adequate liquidity and credit metrics for the B1 rating level over the next 12-18 months.

As of the last twelve months ended in March 2023, the company's revenues amounted to \$1.3 billion, with a large portion derived from global exports (55% of total revenue as of the last twelve months ended in March 2023) and 87% higher than \$673 million in 2021. Such growth was accomplished through a significant expansion of its processing capacity through strategic acquisitions. Frigorífico has a combined beef slaughtering capacity in Paraguay, Bolivia and

Brazil of 7,040 heads/day today; and 1,750 heads/day slaughtering capacity for pork in Brazil; this represents a significant expansion from 3,128 heads/day only in beef slaughtering capacity back in 2021. In this regard, in 2021, the company made two key acquisitions in Paraguay, BFC PAR, a company dedicated to agriculture and livestock and trading activities; and Cabaña el Nido, dedicated to R&D and breeding of hog inhouse genetically advanced pigs. Through the acquisition of BMG Foods Importación y Exportación Ltda.'s and Frigorífico Vila Bela Eireli in December 2021, the company acquired both beef and pork processing facilities in Brazil. In 2022, the company opened its second beef processing plant in Bolivia, in the city of Cotoca; and in early 2023 inaugurated All PAR Casings S.A., the largest state-of-the-art tripe unit in South America. Also, in agreement with INCKA Foods S.A., the company has a hog processing plant under construction in Paraguay, which Frigorífico Concepción anticipates will start operations by mid-2024.

Although higher working capital requirements derived from high revenue growth will rise the company's debt levels to around \$450-480 million in 2023-2024, from \$397 million in December 2022, improving EBITDA will keep leverage metrics in check, with a slight improvement. Moody's expects EBITDA to rise to around \$160 million in 2023 and \$180 million in 2024, from \$121 million in the last twelve months ended in March 2023. As a result, Moody's adjusted gross debt to EBITDA will remain at around 2.5x-3.0x in 2023-2024, down from 3.5x as of the last twelve months ended in March 2023, while gross debt to book capitalization remains around 50%-56% in that period, down from 57.5% as of March 2023. Regarding interest coverage, higher interest expenses as debt levels rise in 2023-2024 will be compensated by higher EBITA, and the ratio of EBITA to interest expense ratio should remain around 5.0x in that period, up from 4.1x as of the last twelve months ended in March 2023.

As of March 2023, Frigorífico Concepción had an adequate liquidity to cover its upcoming debt maturities through the next 15 months. As of March 2023, Frigorífico Concepción cash balance of \$75 million represented 102% of short-term debt, and the company does not face significant debt maturities until its \$300 million senior unsecured note are due in 2028. Since 2020 the company has grown significantly, which in turn has increased liquidity risk through higher working capital requirements, as reflected in its negative cash from operations in 2020-2022. Moody's expects higher EBITDA in the next 12-18 months as a result of the ramp-up of new capacity will aid the company's liquidity. Also supporting liquidity is the company's track record of access to local and international financial institutions and capital markets.

Frigorífico is a privately held corporation with limited liability; Mr. Jair de Lima is the majority shareholder of the company (94.92%) and chairman of the Board of Directors. There is limited independence of the board because currently one out of seven board members is independent, but this is somewhat balanced by the company's commitment to deleveraging despite significant M&A activity recently. The company has managed to enforce some financial policies to deliver a more sustainable growth through limitations on dividend payments, caps on leverage and strict cash conversion cycles.

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

An upgrade to Frigorífico Concepción's rating would require the company to perform in a more resilient manner regardless of the underlying operating environment in the countries of operations, maintaining good liquidity aided by positive free cash flow (FCF). Quantitatively, a rating upgrade would require the company to maintain debt to EBITDA (Moody's adjusted) ratio close to 3.5x, Cash from Operations (CFO) to gross debt above 15% and EBITA/interest expense ratio above 4.0x, on a sustained basis.

The ratings could be downgraded if there is a deterioration in Frigorífico Concepción's liquidity and operational performance. Specifically, Moody's would downgrade the rating if the company's Moody's-adjusted gross debt to EBITDA ratio were to rise above 4.0x and EBITA to interest ratio were to fall below 3.0x, on a sustained basis.

The principal methodology used in this rating was Protein and Agriculture published in November 2021 and available at <https://ratings.moodys.com/mc-documents/356422>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Headquartered in Asunción, Paraguay, Frigorífico Concepción produces fresh beef and pork in Latin America, with regional diversification of production through facilities located in Paraguay, Bolivia and Brazil, and diversified portfolio of clients globally. The company has made significant efforts to diversify its customer base in recent years through the expansion to different markets. As of fiscal-year 2022, 31.2% of export revenue derived from sales to the Americas, 42.3% to Asia, 16.2% to Commonwealth of Independent States (CIS), 5.7% to the Middle East and the remaining balance to Africa and the EU.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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