

Research Update:

Frigorifico Concepcion 'B' Ratings Placed On CreditWatch Negative On Weaker Liquidity And Potential Refinancing Risk

May 31, 2024

Rating Action Overview

- Paraguayan protein-processing company Frigorífico Concepción S.A. will continue posting cash flow deficits throughout 2024, pressuring its liquidity.
- Concepción has restated its 2022 financial statements, raising reporting transparency and investor concerns, and increasing bond yield volatility and refinancing risk.
- On May 31, 2024, S&P Global Ratings placed its 'B' issuer credit rating on Concepción and its 'B' issue-level rating on the company's senior secured notes on CreditWatch with negative implications.
- The CreditWatch placement reflects the company's weaker liquidity and potentially higher refinancing risk, as well as its additional financing needs this year. We could lower the rating on Frigorifico Concepción in the next three months if its liquidity further deteriorates, or if it encounters hurdles to refinance its short-term debt.

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Rating Action Rationale

Liquidity worsened in the first quarter of 2024, and investor concerns and market volatility could hinder refinancing. The company's cash position fell to \$15 million as of March 31, 2024, from \$56 million as of Dec. 31, 2024. During the same period, short-term debt increased to \$203 million from \$178 million. Concepción's management has said that the cash position somewhat increased to about \$40 million at the end of April. Additionally, the company does not have any individual material amortization in the next 12 months--amortizations during that timeframe mostly relate to diversified bilateral banking financing.

However, Concepción will need to refinance short-term debt and fund working capital and capital expenditure (capex) needs. The recent 2022 financial restatement and the release of preliminary 2023 financial statements with an auditor qualified opinion have raised reporting transparency and investor concerns, which in turn have increased bond yield volatility. We think this volatility

adds some uncertainty about the company's ability to continue smoothly accessing new funding. We'll monitor this in the next three months.

A sound operating performance wouldn't be enough to revert cash flow deficits in 2024. The company continues to report solid operating performance with increasing volumes, revenues, and EBITDA in the first quarter of 2024. However, this was not enough to cover the high working capital needs of \$114 million, resulting in negative free operating cash flow (FOCF) of \$72 million in the quarter. We expect the FOCF deficit to persist in the rest of 2024, further pressuring liquidity.

The company's growth requires funding. Concepción is expanding its geographic and product diversification through bovine and pork facilities in Paraguay, Brazil, and Bolivia. We estimate around 55% of total production will come from Brazilian assets and around 25% from pork production in 2024, with pork contribution increasing to about 40% in 2025.

We expect a 20% increase in heads of cattle processed in 2024 and 40% in 2025, especially after the company obtains a license to export to the U.S. from its Paraguayan facility and to China from its Brazilian subsidiary. This will translate into greater working capital outflows and capex. As a result, we expect Concepción's leverage to peak at 4.2x in 2024 and improve in 2025 to 3.7x.

CreditWatch

The CreditWatch placement reflects the company's weaker liquidity and potentially higher refinancing risk. The placement also reflects its additional financing needs through 2024, amid large working capital outflows and potential expansionary capex.

We could lower the rating on Concepción in the next three months if its liquidity further deteriorates. We could also lower the rating if the company runs into obstacles to refinance its short-term debt commitments.

Company Description

Concepción is a protein-processing company based in Paraguay that is involved in the beef supply chain from production to processing, distribution, and exporting. It's among the top five beef exporters in Latin America, and it's the second-largest in Paraguay. Concepción's installed cattle slaughtering capacity totals 8,345 heads of cattle per day. The company also participates in the pork processing business with swine slaughtering capacity of 2,238 heads per day. Concepción operates three production units in Paraguay, two plants in Bolivia, and nine plants in Brazil. The company exports to about 45 countries.

Liquidity

We assess Concepción's liquidity as less than adequate because we expect cash sources to be below cash uses for the next 12 months. The liquidity assessment also reflects the short track record of the company's issuances in capital markets and relationships with banks, as well as its volatile credit metrics.

Also, Concepción is exceeding its leverage incurrence covenant, therefore reducing financial flexibility, which weighs on our liquidity assessment.

Principal liquidity sources:

- Cash and equivalents of \$15 million as of March 31, 2024;

- Funds from operations of about \$110 million in the next 12 months; and
- New secured loan of \$161 million issued in April 2024.

Principal liquidity uses:

- Principal debt maturities of about \$203 million as of March 31, 2024;
- Working capital outflows of about \$130 million in the next 12 months; and
- Maintenance capex of about \$40 million 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, Concepción is required to publish a sustainability report or have an environmental, social, and governance (ESG) evaluation annually. Failure to do so will raise the annual interest rate by 0.25%, but it won't constitute a default.

Compliance expectations

In 2024 and 2025, we expect the net leverage ratio to exceed 3.0x covenant limit. Noncompliance with the covenant impairs Concepción's ability to issue new debt.

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Transparency and reporting

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Frigorifico Concepcion S.A.		
Issuer Credit Rating	B/Watch Neg/--	B/Stable/--
Frigorifico Concepcion S.A.		
Senior Secured	B/Watch Neg	B

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