FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Minerva S.A. to 'BB'; Outlook Stable

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Fitch Ratings - New York - 07 Oct 2020: Fitch Ratings has upgraded Minerva S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'BB' from 'BB-'. Fitch has also upgraded the company's National Scale rating to 'AA(bra)' from 'A+(bra)'. The upgrades reflect Minerva's low leverage and improved business position as a result of positive FCF, capital increases and select acquisitions.

The Rating Outlook is Stable.

KEY RATING DRIVERS

Low Net Leverage: Fitch expects Minerva's net leverage to trend toward 2.2x by year-end 2020 (3.6x YE19) due to increased EBITDA and about BRL1.4 billion of cash received from an equity offering implemented in 1Q20 and warrants exercised in 3Q20. Fitch forecasts EBITDA to increase to BRL2.3 billion in 2020 from BRL1.7 billion in 2019. The increase in EBITDA is due to improved export prices and strong export demand, notably from China, which represented about 40% of the consolidated export revenues. The company has been operating despite the disruption caused by the pandemic. Fitch expects gross leverage to be below 4x by 2021.

Strong Regional Production Presence: Minerva operates solely in the beef business in South American countries and, therefore, is less diversified from a product standpoint than

Brazilian-based protein company JBS S.A. (BB+). As a beef producer, Minerva is exposed to sanitary, environmental, deforestation and import restrictions risks. These factors are somewhat mitigated by the group's geographical diversification, as Minerva has operations in several countries, including Paraguay, Uruguay, Argentina, and Colombia, through its subsidiary Athena Foods. Fitch estimates that those operations will represent about 40% of Minerva's total EBITDA in 2020. Exports represented about 77% of Athena Foods' sales during the second-quarter 2020 (2Q20), of which 42% were made in Asia.

Athena Listing in the US: Minerva has entered into a non-binding letter of intent with a NASDAQ-listed Special Purpose Acquisition Company (SPAC), concerning a possible business combination with Athena Foods. The transaction is due to be completed by YE20. SPAC intends to pay US$200 million to Minerva for its stake in Athena and is expected to inject an additional USD100 million of cash into Athena. Minerva will retain about 77% of Athena Foods. The transaction values Athena with an enterprise value of US$1.35 billion, or 5.66x pro-forma 2021 EBITDA. Fitch expects Minerva to use cash proceeds to reduce debt and fund organic and inorganic acquisitions. The transaction will create future cash leakage due to the presence of minority interests.

Good Margins: Minerva's sales and earnings are subject to periodic volatility caused by changes in input costs and protein prices due to the supply and demand dynamics of commodity meat. The company has had the highest EBITDA margin in the beef sector versus its peers over the last three years. Minerva's exports accounted for 69% of total gross revenue as of 2Q20. Minerva is among the largest producers of beef in the region, accounting for 18% of beef exports in Brazil, 43% in Paraguay, 24% in Uruguay, 12% in Argentina, and 70% in Colombia in 2Q20. Fitch expects annual EBITDA margin to remain in the 10%-11% range over the next few years.

Favorable Export Demand: The USDA forecasts Brazilian beef exports to increase by about 10% in 2020, while local consumption is expected to decrease by 5%. Minerva's competitive advantages stem from favorable demand due to export markets from South America and long-term relationships with farmers, customers and distributors. Global beef fundamentals for South American producers are expected to remain positive in the next couple of years due to strong international demand and the impact of the African swine fever (ASF). South American beef producers benefited from the reopening of several markets through the re-opening of Brazilian beef to the United States; the authorization for Colombian beef exports in Russia; the approval of Uruguayan, Paraguayan, and Colombian beef exports in Saudi Arabia; and, more recently, the opening of Thailand for Brazilian beef exports in late 2Q20.

DERIVATION SUMMARY

Minerva's ratings reflect its solid business profile as a pure-player in the beef industry with a large presence in South America. The ratings consider Minerva's lack of diversification across other proteins. Minerva is less diversified from a product standpoint than JBS SA. (BB+/Stable) or Tyson Foods (BBB/Negative).

Minerva has developed a more export-oriented business model, whereas Marfrig Global foods S.A. (BB/Stable) has a strong presence in the U.S. domestic market through its subsidiary National Beef. About 69% of Minerva's gross revenue is derived from exports, maintaining Minerva's position as the largest beef exporter in South America, with a market share of 18% in the continent. The company has been able to maintain a stable operating margin over the years despite several challenges in 2018, 2019, and 2020. These included external factors such as truck driver strikes in Brazil in 2018, the temporary shutdown of the Chinese market for Brazilian beef producers in 2019, and the pandemic in 2020. Fitch expects protein fundamentals to remain positive for the remaining part of 2020 due to export demand as a result of the ASF virus outbreak in China, which will result in substantially more protein products directed to China. Asia represented 42% and 50% of exports from Athena Foods and Minerva's Brazilian divisions, respectively, as of 2Q20.

Minerva is smaller than its peers, such as Marfrig, JBS, or Tyson. From a financial standpoint, the ratings are supported by Minerva's strong liquidity position with cash sufficient to amortize its debt through 2026 and high profitability for the sector due to exports.

KEY ASSUMPTIONS

-- Double-digit revenue growth due to strong prices from the exports market and devaluation of the real against the U.S. dollar

-- EBITDA of about BRL2.3 billion by YE20.

-- Net debt / EBITDA to reach about 2.2x by YE20.

RATING SENSITIVITIES

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

-- Sustainable positive FCF generation.

-- Substantial decrease in gross and net leverage to below 3.0x and 2x, respectively, on a sustained basis.

-- Increased scale, product and geographical diversification in an investment-grade country.

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

-- Sharp contraction of Minerva's performance.

-- Gross leverage above 4.5x and net leverage above 3x on a sustainable basis.

-- Multi-notch downgrade of Brazil's country ceiling.

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

Strong Liquidity: As of 2Q20, cash and cash equivalents totaled BRL6.8 billion and short-term debt totaled about BRL2.1 billion. Total debt was BRL12.4 billion, of which 18% was short-term debt. Minerva's cash and cash equivalents are sufficient to amortize its debt through 2026. 77% of gross debt was denominated in U.S. dollars in 2Q20. The company hedges at least 50% of the long-term FX exposure, protecting its balance sheet against the recent high exchange rate volatility. Also, Minerva has outstanding warrants that could be exercised, which could result in an additional BRL381 million of cash by YE21.

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 -- 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.

Minerva has an ESG Relevance Score of 4 on Governance Structure due to ownership concentration. The shareholders' strong influence upon management could result in decisions being made to the detrimental to the company's creditors, which would have a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Minerva Luxembourg S.A.				
• senior unsecured	LT	BB	Upgrade	BB-

ENTITY/DEBT	RATING			PRIOR
Minerva S.A.	LT IDR	BB Rating Outlook Stable	Upgrade	BB- Rating Outlook Stable
	LC	BB Rating Outlook Stable	Upgrade	BB- Rating

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 01 May 2020) (including rating assumption sensitivity)

National Scale Rating Criteria (pub. 08 Jun 2020)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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Endorsement Policy

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