FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Agrosuper Proposed Senior Unsecured Notes 'BBB-'

Fri 07 Jan, 2022 - 12:41 ET

Fitch Ratings - New York - 07 Jan 2022: Fitch Ratings has assigned a 'BBB-' rating to the senior unsecured notes to be issued by Agrosuper S.A. Proceeds from the expected USD500 million note issuance will be used for debt repayment and general corporate purposes. In addition, Fitch has affirmed Agrosuper's Long-Term Local and Foreign Currency Issuer Default Ratings (IDR) at 'BBB-', and the company's National Long-Term ratings at 'AA-(cl).' The Rating Outlook is Stable.

These ratings reflect Agrosuper's solid business model and conservative capital structure. The company's operations benefit from product and protein diversification, vertical integration, strong brand recognition, and an extensive distribution network. Risks include exposure to the protein industry's inherent price volatility, and sanitary risks that can impact production. Additional rating constraints include Agrosuper's limited scale and geographical diversification relative to global peers.

KEY RATING DRIVERS

Solid Business Profile: Agrosuper is the leading producer of pork, chicken, turkey and salmon in Chile, with domestic market share of 48%, 54%, 74% and 23%, respectively as of November 2021. In the salmon farming business, Agrosuper is the second largest supplier of salmon globally, with an estimated market share of 8%. The company has highly recognized brands, multiple proteins, and it is vertically integrated from feed production through distribution.

Agrosuper's strong brands, market position, and distribution capacity from mom-and-pop stores through larger retail chains have resulted in higher margins than its global peers, with the export market accounting for about 60% of revenues in 2020. Asia (mainly China and Japan) and North America represented 45% and 29% respectively of revenue from export sales in the year ended Dec. 31, 2020.

High Protein Diversification: Agrosuper benefits from a highly diversified protein business. Fitch expects Agrosuper's Meat and salmon division to represent about 67% and 33%, respectively, of EBITDA in 2022. EBITDA margins and prices in the meat divisions (poultry and pork) are expected to normalize after reaching a peak in 2021, driven by increased consumer demand following the reopening of the foodservice, and strong export markets.

The gradual recovery of pork production in China should negatively impact prices in both domestic and export markets. The performance of the salmon division is forecast to grow in 2022 due to increased volume (notably the Atlantic Salmon) and lower costs.

Leverage will Remain Low: Agrosuper has a long track record of maintaining a strong capital structure. The projected reduction of Agrosuper's Debt/EBITDA ratio from 3.3x in 2020 to 1.8x in 2021, is due to strong EBITDA growth as a result of the recovery of the salmon sector and the poultry segment's strong profitability. The company paid a dividend of USD474 million in 2021 (USD1.4 million in 2020). Fitch forecasts dividends to remain at about 30% of net profit in the coming years, and conservative level of capex intensity in the range of 3% to 4% of the revenues. The group is expected to continue to pursue organic or inorganic growth opportunities while maintaining a conservative capital structure.

Salmon Division Recovery: Agrosuper has grown in the salmon business inorganically, including the acquisition of Friosur in 2018, and Empresas Aquachile in 2019, the latter a large transaction that more than tripled its salmon production capacity. This transaction was financed with a combination of 50% equity and 50% debt. Fitch projects EBITDA for the salmon division at about USD170 million in 2021. The EBITDA margin for this business is expected to recover to about 14% due to higher salmon prices, as a result of the rebound of the international food service demand.

The EBITDA margin is expected to improve in 2022, due to projected single-digit price increases and lower production costs and better optimization of the acquired assets. Agrosuper's performance suffered from a sharp decline in salmon prices in 2020 due to the disruption caused by the coronavirus pandemic, which resulted in a sharp drop in the consumption of salmon in the foodservice segments.

Protein Sector and Industry Risks: Fitch expects long-term fundamentals for the protein sector to remain positive due to the growing global demand for protein. World supply for Atlantic salmon is expected to increase about 3.6% in 2022 (around 5% in 2021) driven by growth in Norway and Chile. The main risk factors of the protein industry come from supply-demand volatility, negative impact from new highly contagious coronavirus variants, such as Omicron, sanitary risks that are inherent to animal production and potential restrictions in international markets.

DERIVATION SUMMARY

The ratings reflect the company's leading position in the protein industry in Chile and a high operating margin attributable to its strong distribution network and market position. The company has leading position in the Salmon industry where barriers of entry are high and scale is important, as it provides h leverage in negotiations with its suppliers (grains, freight, packaging). Fitch expects the company's financial profile to remain conservative over the next 24 months with gross leverage below 2.0x, which is more in line with the 'BBB-' and 'AA-(cl)' ratings.

The company maintains higher protein diversification than its global peers, such as Marfrig (BB) or Minerva (BB), as well as lower gross leverage ratios. The rating is constrained by its limited scale and less geographical diversification of its production base compared to its international peers, such as JBS (BBB-) or Tyson (BBB).

KEY ASSUMPTIONS

Fitch's Key Assumptions Within its Rating Case for the Issuer Include:

--Growth in revenues in the lower single digits between 2022 and 2024;

--EBITDA margin normalization to 15%-16% in 2021-2024 from 12% in 2020;

--Dividend Distribution equivalent to 30% of Net income in 2022-2024 period;

--Annual Capex of USD100 to USD150 million in the 2022-2024 period.

RATING SENSITIVITIES

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

--Debt to EBITDA below 1.5x (Net debt /EBITDA of 1.0x) on a sustained basis;

--Increased scale and geographical diversification outside Chile;

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

--Debt/ EBITDA above 2.5x (Net debt/ EBITDA of 2x) on a sustained basis due to material reduction in operational performance, aggressive capex or dividends;

--EBITDA margin lower than 10%.

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

Adequate Liquidity: Agrosuper has a strong liquidity position with USD271 million of cash at the end of September 2021, which represents 1.5x coverage of short-term debt of USD182 million that mainly comprises revolving and export finance credit facilities. In addition to having broad access to local financial markets, Agrosuper maintains four registered and available bond programs for a total amount of UF17 million (around USD615 million), of which UF6.5 million are available (USD235 million). The new international senior unsecured bond aims to extend the group's debt maturity profile and improve financial flexibility.

ISSUER PROFILE

Agrosuper is the leading producer and trader of pork, poultry, turkey and frozen food in Chile, with an average national market share around 50%, and is the second largest world player in the salmon industry.

SUMMARY OF FINANCIAL ADJUSTMENTS

--Hedge derivative to financial debt;

--Adjustment for leasing opex.

ESG CONSIDERATIONS

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.

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.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Agrosuper S.A.	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
	LC LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
	Natl LT	AA-(cl) Rating Outlook Stable	Affirmed	AA-(cl) Rating Outlook Stable
senior unsecured	LT	BBB-	New Rating	

senior unsecured	Natl LT Affirmed	AA-(cl) Rating Outlook Stable	AA-(cl) Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Johnny da Silva
Director
Primary Rating Analyst
+1 212 908 0367
johnny.dasilva@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Francisco Mercadal
Associate Director
Secondary Rating Analyst
+56 2 2499 3340
francisco.mercadal@fitchratings.com

Joe Bormann, CFA
Managing Director
Committee Chairperson
+1 312 368 3349
joe.bormann@fitchratings.com

MEDIA CONTACTS

Jaqueline Carvalho
Rio de Janeiro
+55 21 4503 2623
jaqueline.carvalho@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

Metodología de Calificación de Finanzas Corporativas (pub. 13 Apr 2021)

Corporate Rating Criteria (pub. 15 Oct 2021) (including rating assumption sensitivity)

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

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Agrosuper S.A.	EU Endorsed, UK Endorsed

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