LatAm Food & Beverages

Year Ahead 2024: Mexico is still the place to be, we remain cautious on Chile

Price Objective Change

Growth, valuation and positioning support our view on MX

We reiterate our positive view for Mexican Food & Beverage companies, and our preference versus Brazilian and Chilean names. MX F&B performed in line or better than the MSCI LatAm in 2023 in USD, mostly because of positive earnings surprises. In 2024, we expect earnings growth to remain resilient, multiples to potentially re-rate as interest rates decline globally, while positioning is favorable with investors entering the year mostly underweight Staples in LatAm. In this scenario, we reiterate our Buy rating on KOF as volume growth, price hikes and margin recovery should favor double-digit growth on earnings. Maintain Neutral on CCU and Underperform on Andina.

There are tailwinds for growth, despite tough comps

We estimate Mexican F&B companies had an EBITDA CAGR 2019-23E of 9% (11% in USD), mostly driven by top line growth (low single digit volume growth coupled with mid-single price increase). During this period, the companies benefited from strong US consumption and pass through above inflation in most markets where they operate. Despite the tough comps, we expect growth (including KOF) to remain at similar levels until 2026, driven by margin expansion of ~100bps and high-single digit top line growth. Drivers include low raw material costs, nearshoring, short-term support to consumption from presidential elections in Mexico, and self-help initiatives (M&A, multicategory, etc.).

Remain cautious on Chile mainly given Argentina

Chilean Beverage companies should benefit from an improving consumption outlook in Chile, as well as some continuous cost relief of PET and aluminum. However, earnings should be negatively impacted by tough macro in Argentina, since ~20% of their revenues are generated in the country. Moreover, sugar prices and FX remain headwinds to margins. We have a Neutral on CCU and Underperform on Andina, with both stocks trading at similar valuation, but we view CCU better positioned in this scenario, given exposure to premium beer and greater benefit of packaging cost relief.

Valuation mostly in line with average despite recent rally

Mexican and Chilean F&B stocks rallied ~11% in USD in the 4Q23, driven mainly by the expectation of lower rates in the US. Despite the rally, we see most stocks trading in line or below historical multiples, and we believe there is room for further re-rating given the rates movement and for those companies that can deliver on the growth story.

Raising POs on cost of capital and higher target multiples

We raise the price objectives (exhibit 1) after lowering our US risk-free rate (from 4.0% to 3.5%) and fine tuning our estimates with the latest economic forecasts. Also, our POs are positively impacted by the increase of the P/E targets at F&B companies (50% DCF/50% target multiple), mainly assuming the maintenance of current valuation.

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Equity
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Exhibit 1: Ratings and POs

Prefer Mexican over Chilean F&B companies

	Rating	POs New	POs Old	Last Price
Mexico				
KOF UBL	BUY	180	163	151.5
KOF US	BUY	105	92	90.0
Chile				
CCU	Neutral	6000	5600	5651.0
CCU US	Neutral	14.0	11.8	12.5
Andina	UNDERP.	1800	1700	2320.0
AKO/B	UNDERP.	11.3	11.0	15.3

Note: Prices and POs for KOF US, CCU US and AKO/B are in USD. Rest is in Pesos

Source: Bloomberg, BofA Global Research

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MX – Mexico

F&B – Food & Beverages

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Refer to important disclosures on page 18 to 21. Analyst Certification on page 17. Price Objective Basis/Risk on page 16. **12643169**

Ratings & POs and BofA vs. consensus

Exhibit 2: Ratings and POs

We adjust our POs after lowering the US risk-free rate and raising P/E targets

	Ratings		QrQ		POs		Last	WACC		P/E target		EBITDA change		EPS change	
	New	Old	New	Old	New	Old	Price	New	Old	New	Old	2024E	2025E	2024E	2025E
MEXICO															
KOF UBL	BUY	BUY	A-1-7	A-1-7	180	163	151.5	11.6%	11.9%	16.0	14.5	0.3%	1.5%	0.1%	1.5%
KOF US	BUY	BUY	B-1-7	B-1-7	105	92	90.0	11.6%	11.9%	16.0	14.5	0.3%	1.5%	0.1%	1.5%
CHILE															
CCU	Neutral	Neutral	B-2-8	B-2-8	6000	5600	5651.0	12.3%	12.7%	13.5	12.0	-2.2%	-3.2%	-1.4%	-2.5%
CCU US	Neutral	Neutral	B-2-8	B-2-8	14.0	11.8	12.5	12.3%	12.7%	13.5	12.0	-2.2%	-3.2%	-1.4%	-2.5%
Andina	UNDERP.	UNDERP.	A-3-8	A-3-8	1800	1700	2320.0	12.2%	12.6%	13.0	10.5	-2.8%	-2.7%	-10.5%	-10.5%
AKO/B	UNDERP.	UNDERP.	B-3-8	B-3-8	11.3	11.0	15.3	12.2%	12.6%	13.0	10.5	-2.8%	-2.7%	-10.5%	-10.5%

Note: Prices and POs for KOF US, CCU US and AKO/B are in USD. Rest is in Pesos

Source: BofA Global Research estimates

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Exhibit 3: BofA vs. consensus

We are more optimistic than consensus on margins as we expect companies to benefit from lower costs in 2024. Chilean cos. will be affected by FX (ARS)

	BofA			Consensus			BofA vs. Consensus		
	2023e	2024e	2025e	2023e	2024e	2025e	2023e	2024e	2025e
KOF (MXNmn)									
Revenues	247,636	271,639	300,586	243,320	258,240	278,706	1.8%	5.2%	7.9%
EBITDA	47,359	52,565	59,029	45,643	50,315	55,925	3.8%	4.5%	5.5%
EBITDA mg.	19.1%	19.4%	19.6%	18.8%	19.5%	20.1%	37	-13	-43
Net income	20,626	23,780	27,378	18,996	21,105	23,572	8.6%	12.7%	16.1%
ANDINA (CLPmn)									
Revenues	2,747,024	2,783,226	2,834,211	2,777,578	2,969,937	3,364,119	-1.1%	-6.3%	-15.8%
EBITDA	485,249	501,844	519,564	491,636	529,717	567,336	-1.3%	-5.3%	-8.4%
EBITDA mg.	17.7%	18.0%	18.3%	17.7%	17.8%	16.9%	-4	20	147
Net income	168,388	189,918	210,395	172,486	199,907	213,690	-2.4%	-5.0%	-1.5%
CCU (CLPmn)									
Revenues	2,730,556	2,712,168	2,883,462	2,800,940	2,971,719	3,466,393	-2.5%	-8.7%	-16.8%
EBITDA	418,788	456,606	488,712	405,977	465,283	547,802	3.2%	-1.9%	-10.8%
EBITDA mg.	15.3%	16.8%	16.9%	14.5%	15.7%	15.8%	84	118	115
Net income	140,084	170,636	183,751	126,599	176,242	209,298	10.7%	-3.2%	-12.2%

Source: BofA Global Research, Bloomberg (for Chilean companies), Visible Alpha (for Mexican names)

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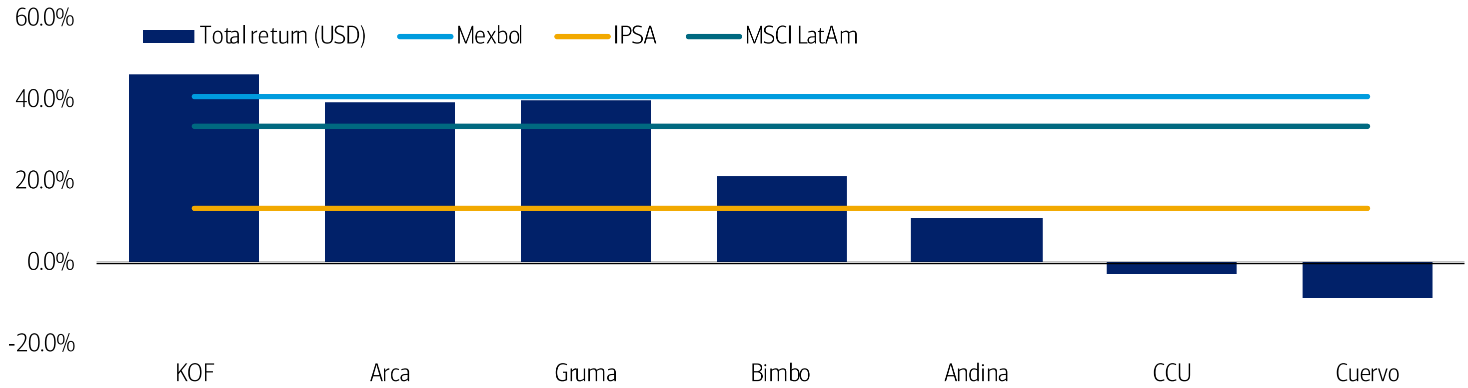
’23 review: MX F&B mostly outperformed

Chilean names underperformed

KOF outperformed the local index and the MSCI LatAm in 2023. Chilean F&B stocks underperformed the local market and the MSCI, given downward earnings revision over the year, mostly associated with weak consumption environment in Chile and macro risks in Argentina. Meanwhile, multiples for both CCU and Andina de-rated during the year.

Exhibit 4: Stocks performance in 2023 (USD)
KOF, Arca and Gruma outperformed



Source: Bloomberg

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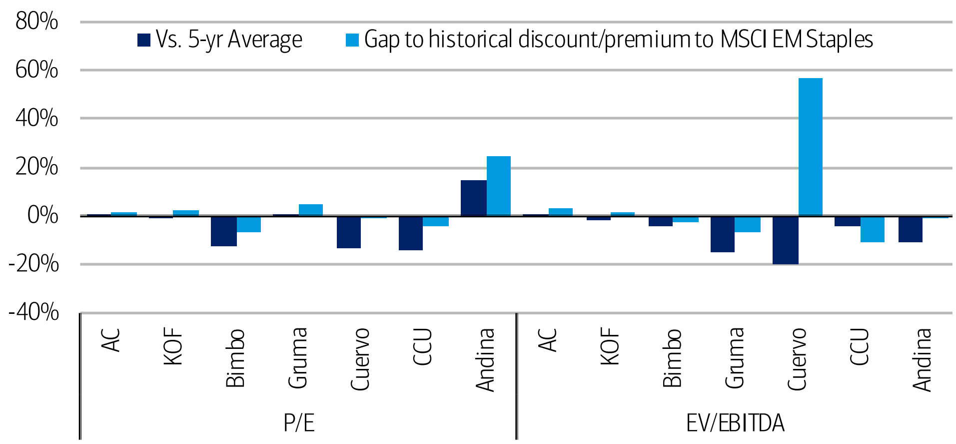
Unexpensive valuation despite the rally, mainly in Mexico

A big part of the stock performance in Mexico happened during the 4Q23, as a result of the expectation of inflation deceleration and lower interest rates in the US and globally, in our view. Despite the rally, we still see the stocks trading in line or at a discount to historical valuations. Further re-rating can be supported by the favorable momentum for equities amid lower rates, light positioning, and those companies that stand out in terms of operational performance could witness a bigger movement, in our view.

Exhibit 5: Valuation for Mexican and Chilean F&B companies relative to historical average and the gap of the current discount/premium to MSCI EM Staples vs. historical

Most of Mexican and Chilean F&B stocks are trading in line or at discount to historical. Andina is an outlier



Source: Bloomberg

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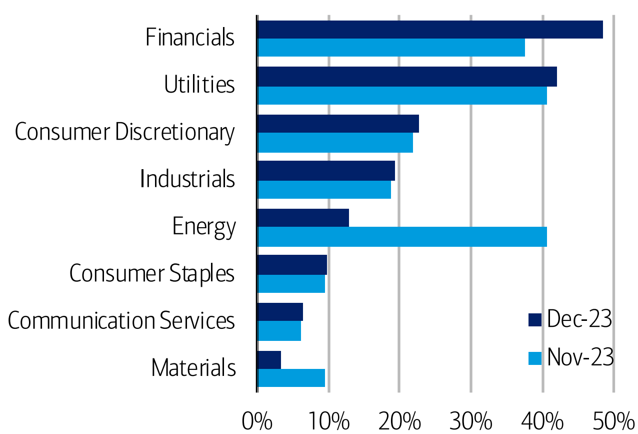
Exhibit 6: Which sectors within equities are you most overweight?

Participants are most overweight Financials, Utilities and C. Discretionary. Fewer participants are overweight Energy, compared to last month.



Source: LatAm Fund Manager Survey – December/2023

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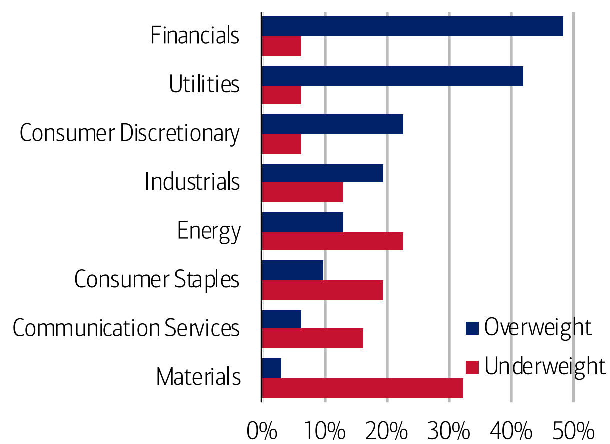
Exhibit 7: Which sectors among equities are you most underweight?

Participants are more underweight Materials, Communication Services, C. Staples and Energy than they are overweight.



Source: LatAm Fund Manager Survey – December/2023

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In this scenario, we are reducing the US risk free rate from 4.0% to 3.5% in our WACC calculation in the 50% DCF/50% target multiple methodology to calculate the price objectives. We are also raising our target P/E 2024 for KOF in Mexico and Chilean consumer staple companies (see Exhibit 2), assuming the maintenance of current valuation, which can be supported, in our view, by the scenario for rates.

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2024 goals: secure growth

In 2024, we believe Mexican and Chilean F&B companies will focus on sustain earnings growth. We estimate Mexican F&B companies had an EBITDA CAGR 2019-23E of 9% (11% in USD), mostly driven by top line growth (low single digit volume growth coupled with mid-single price increase). During this period, the companies benefited from strong US consumption and pass through above inflation in most markets where they operate. In Chile, EBITDA CAGR was 7% (2.4% in USD).

We expect Mexican companies to continue to grow more than Chilean, despite the tough comps. We estimate growth rate in Mexico to be similar in 2023-2026 versus 2019-2023, driven by margin expansion of ~100bps and high-single digit top line growth. Drivers include low raw material costs, nearshoring, short-term support to consumption from presidential elections in Mexico, and self-help initiatives (M&A, innovation, multicategory, etc.).

In Chile, growth should decelerate to mid-single digit. Despite the better outlook for Chilean consumption, companies should face headwinds in Argentina, which is ~20% of their revenues (See *LatAm Food & Beverages: Volatility to prevail in Argentine operations; cautious on Chilean companies 05 December 2023*).

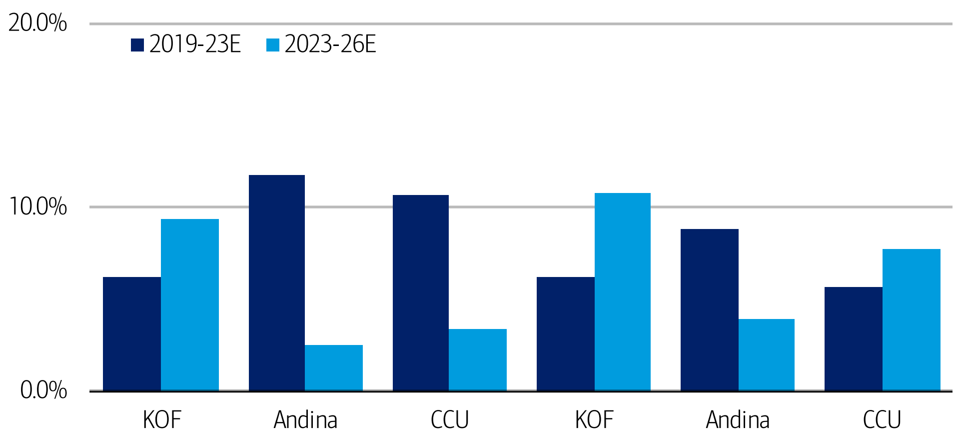
Ahead of the potential re-rating due to lower rates, we believe growth will be a differentiator among the companies in the region and globally. In our view, investors should continue to monitor: 1) volume resilience, which will face tough comps YoY; 2) flexibility on pricing after strong hikes in the last two years; 3) potential benefit from cost relief that help keep a solid EBITDA growth; and 4) bolt-on acquisitions, which could accelerate growth.

Prefer KOF over CCU and Andina

We have a Buy rating in KOF on double-digit growth on earnings, which should benefit from a balanced growth between volume and pricing, and lower raw material costs. We reiterate Neutral on CCU because its operating growth will be limited by FX volatility given the lack of hedges. On Andina, we reiterate Underperform due to the challenges in Argentina.

Exhibit 8: Sales and EBITDA CAGR in local currency

Top line growth is normalizing towards pre-pandemic level; FX impact should be limited, except for Argentina. Margin should expand on low raw material costs



Source: BofA Global Research estimates

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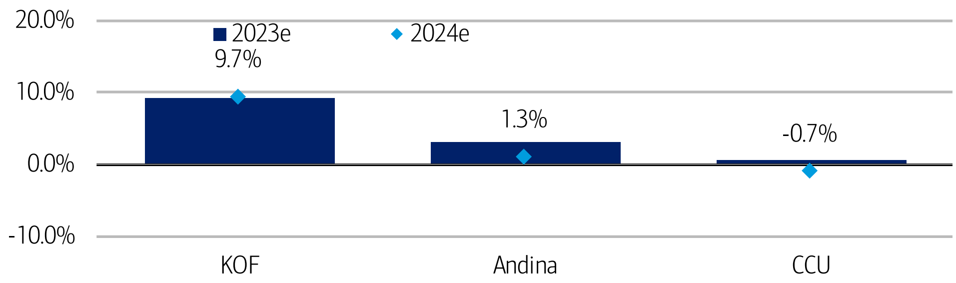
Eyes will be on volume performance

We believe the priority of F&B companies is to keep volume resilient in 2024 despite the tough comparison. Inflation deceleration in key countries like Mexico, the US, Brazil and Chile should be supportive of demand. In Mexico, we estimate companies' volume to grow on average low-single digit this year (vs. mid-single digit in 2023) with Beverages delivering the best performance. Besides the initiatives on innovation, digital expansion and multi-category, nearshoring and federal elections should help consumption. In Chile, we expect Andina and CCU to recover from the local volume weakness seen last year.

Exhibit 9: Sales growth 2024e vs. 2023e (local currency, % YoY)
KOF's top line growth will be strong



Source: BofA Global Research estimates

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Innovation, digitalization and multi-category initiatives are key for growth

Consumer staple companies have been investing on initiatives to trigger additional sales growth. The launching of new products & packages has helped them to target different segments of the population (from low- to high-income). Also, multi-category initiatives, mainly at LatAm KO bottlers and CCU, has generated additional demand of their core products thanks to cross-selling. Finally, the digitalization has allowed companies to be closer to consumers, making promotions more efficient.

KOF, Andina and CCU has focused on improving consumers' experience through digitalization, while their multi-category proposals are oriented to improve their offering to customers.

Exhibit 10: Multi-category
Beverage cos. are betting on multi-category distribution to spark sales

Source: BofA Global Research, KO bottlers

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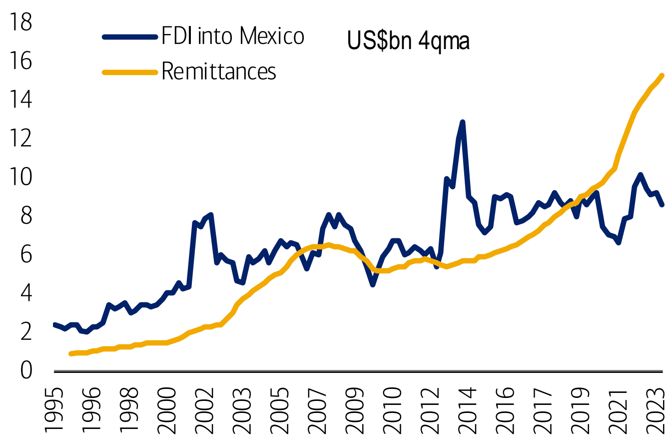
Nearshoring and remittances to be supportive of consumption in Mexico

The geo-localization of companies as well as the investments of the Mexican government at public projects is favoring job creation and higher salaries across the country. These, together with remittances, should be supportive of a higher demand of staple products. US soft landing next year is likely to favor remittances, which continue at all-time highs.

Exhibit 11: Mexico – FDI and remittances (US$bn, 4QMA)
Nearshoring will favor investments in Mexico



Source: BofA Global Research, Banco de México

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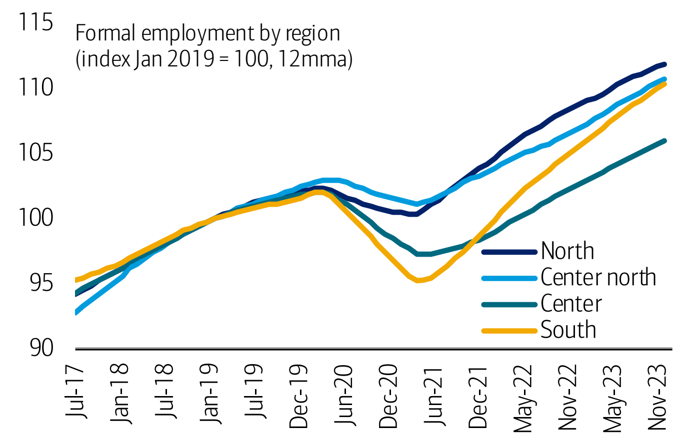
Exhibit 12: Mexico – formal employment by region
Job creation is improving across regions



Source: BofA Global Research, IMSS

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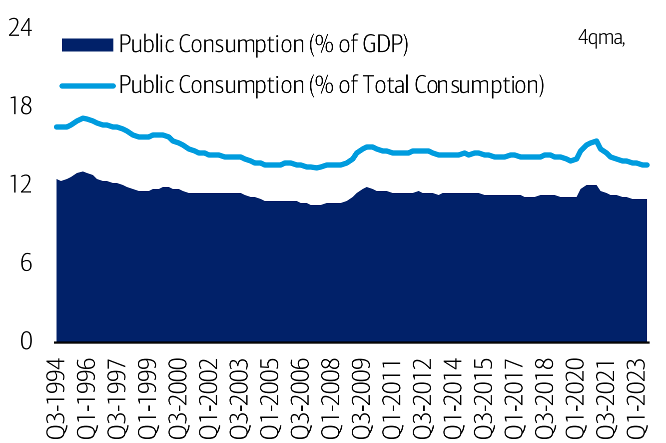
Positive impact is expected from government expenditure

We expect the higher expenditure (exhibit 14) before federal elections in Mexico to favor demand of staple products in 2024. Mexico elections will be in June. Unfortunately, such expenditure drops just after the election process, so consumption could decelerate in the second half of the year. In the US, they will also have presidential elections to be celebrated in November 2024.

Exhibit 13: Mexico – government expenditure (% of GDP)
Government expenditure is relevant within total consumption



Source: BofA Global Research, INEGI

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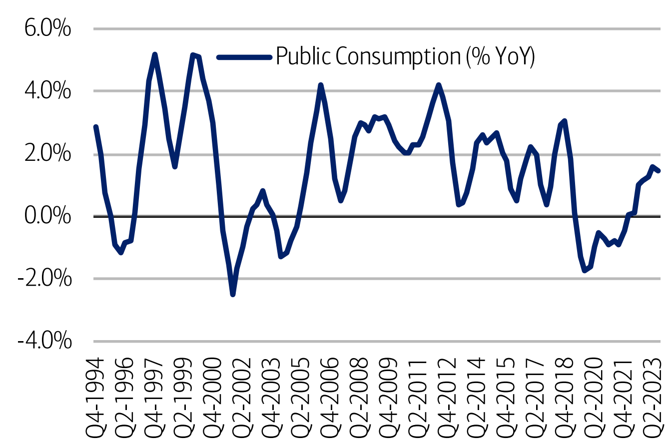
Exhibit 14: Mexico – government expenditure (% YoY)
Government expenditure picks up before federal elections



Source: BofA Global Research, INEGI

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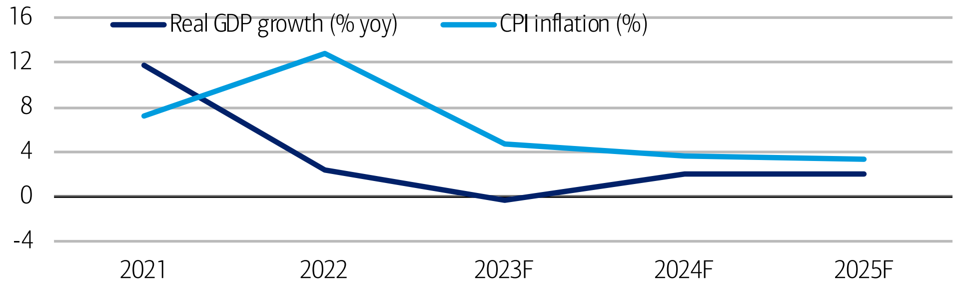
Recovery of Chilean economy to favor Andina and CCU

This year we expect Andina and CCU to be favor by the recovery of the economic activity in Chile, while the deceleration of inflation favors consumers' purchasing power. BofA economists expect GDP to grow 2.0% in 2024 vs. -0.3% in 2023. Such improvement will be partly link to the recovery on private consumption that is expected to grow 2.1% this year vs. -4.8% in 2023. Regarding National inflation, it is expected to end up at 3.7% in 2024, down from 4.7% last year.

Exhibit 15: Chile – GDP and CPI performance (% YoY)

Andina and CCU should benefit from the recovery in Chile, mitigating the challenges in Argentina



Source: BofA Global Research estimates

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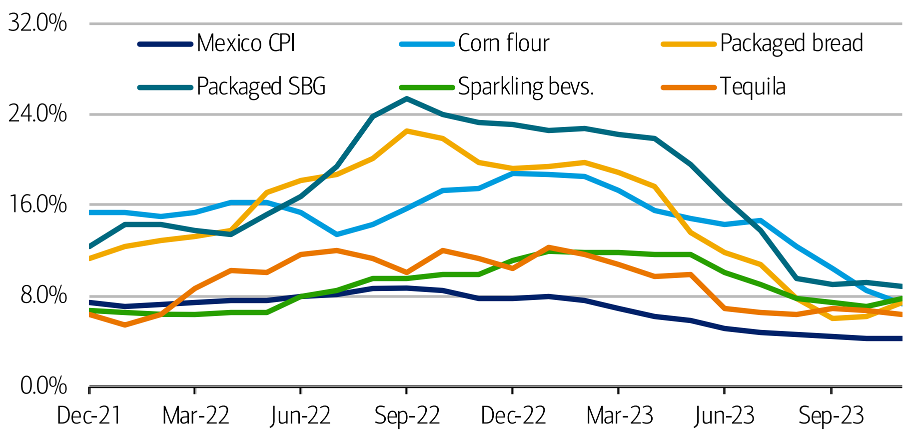
Pricing is not out of the top line equation

Management from Mexican and Chilean companies have been vocal about having a balanced growth between volume and pricing in 2024. Therefore, we expect price hikes to be a growth driver too as companies raise prices at least in line with inflation despite the strong hikes implemented in the last couple of years. We see limited impact on demand because of the strength of consumption and the low elasticity. The main risk continues to be a change of mix.

In Mexico, KOF is expected to increase prices at least in line with inflation supported by their strategies on price/packaging. In Chile, Andina and CCU will raise prices to recover its profitability.

Exhibit 16: Mexico – CPI of key consumer staple products

Mexican and Chilean companies are expected to keep raising prices in 2024, but aligned with inflation



Source: BofA Global Research, INEGI

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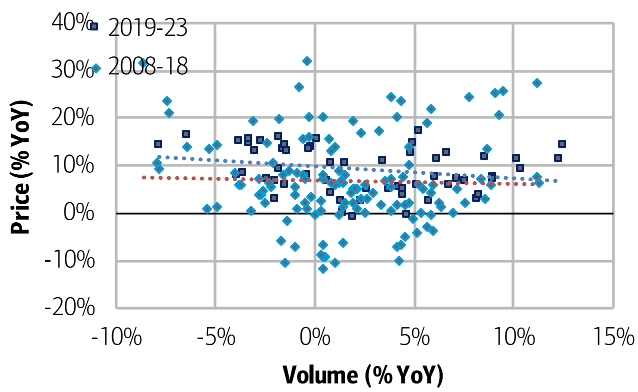
Low price elasticity to favor revenues growth

We expect consumer staple companies in Mexico and Chile to be able to raise prices thanks to the low-price elasticity. Within the products related to the companies under our coverage, the less sensitive to price movements are corn flour and soft drinks. Industrial bakery has been more sensitive to price movements in the last five years, although historically the price elasticity is low. Tequila seems to be more sensitive to price hikes with a similar elasticity in 2008-18 and 2019-23.

Exhibit 17: Corn flour – price vs. volume (2008-23, % YoY)
Historically, price elasticity has been low



Source: BofA Global Research, INEGI

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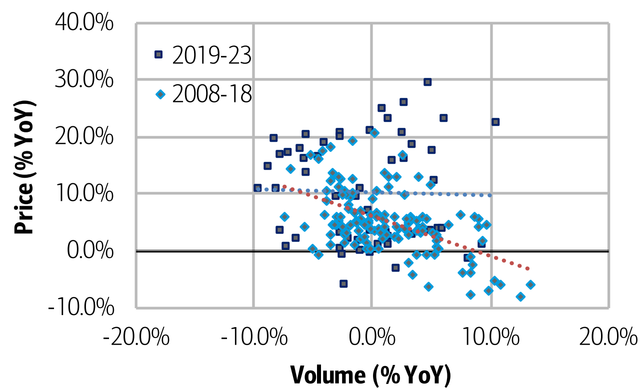
Exhibit 18: Industrial bakery* (2008-23, % YoY)
Higher sensitivity to pricing has been seen in the last 5 years



Source: BofA Global Research, INEGI
*Includes bread, cookies, sweet baked goods

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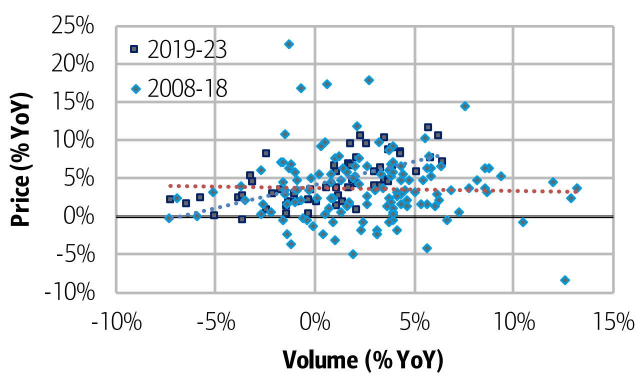
Exhibit 19: Soft drinks – price vs. volume (2008-23, % YoY)
Price elasticity has not changed historically



Source: BofA Global Research, INEGI

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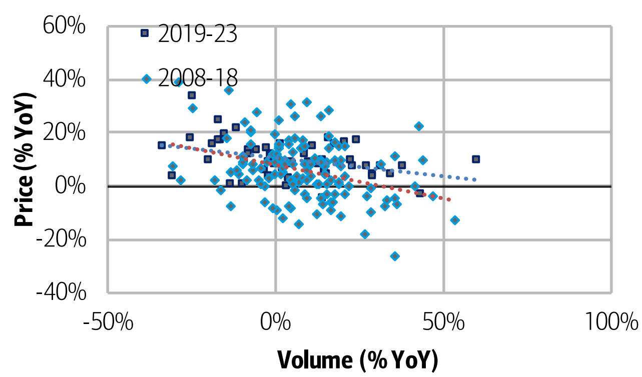
Exhibit 20: Tequila – price vs. volume (2008-23, % YoY)
Tequila is more sensitive to price changes



Source: BofA Global Research, INEGI

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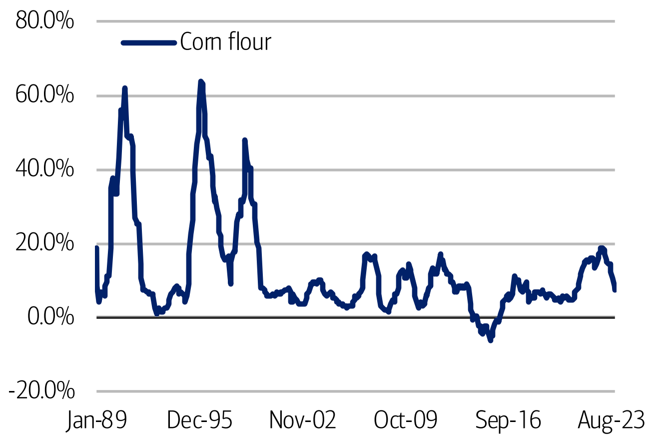
Deflation is unlikely to be a risk

In Mexico, corn flour prices have only declined between 2014 and 2016 following a decline of almost 40% of corn prices in 2012-13. Excluding such period, pricing has been positive. Regarding bread, sweet baked goods & salty snacks, practically no deflation has been seen in the last 30 years. Only sweet baked goods have registered some price decreases, but they have been very limited.

In the last 20 years, carbonated soft drinks and bottled water have not seen price reductions. In the case of tequila, higher prices have been witnessed in the last 10 years as a result of greater agave costs and a strong demand of the product. However, the category saw price reductions between 2003 and 2007 partly due to an excess of production that doubled in such period.

Exhibit 21: Mexico – corn flour (CPI, % YoY)
Corn flour prices decreased in 2015 after corn prices dropped >35%



Source: BofA Global Research, INEGI

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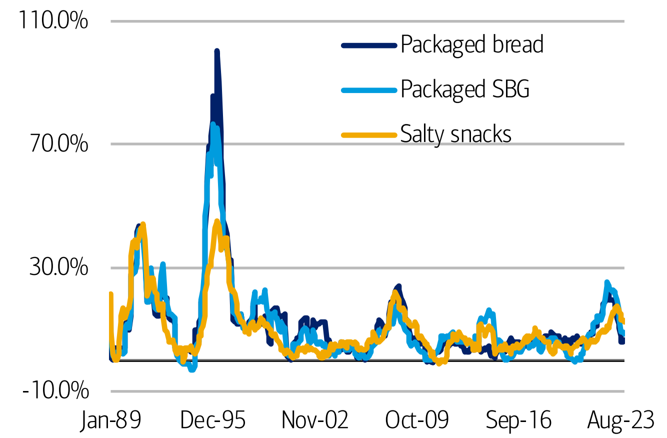
Exhibit 22: Mexico – bread, sweet baked goods and snacks (CPI, % YoY)
Limited deflation in the last 20 years; SBG are the most "sensitive" to pricing



Source: BofA Global Research, INEGI

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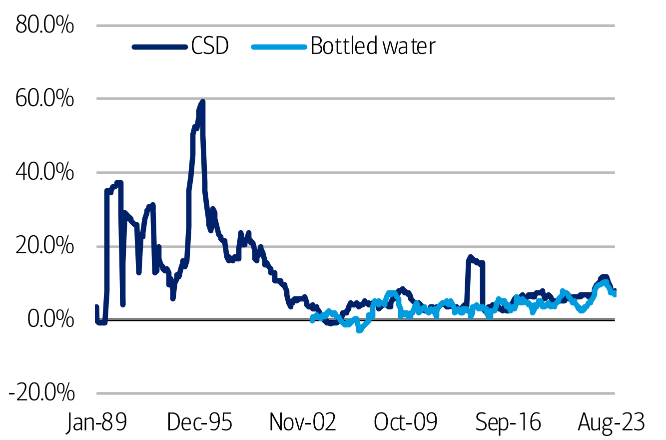
Exhibit 23: Mexico – carbonated SD (CSD) & water (CPI, % YoY)
Soft drinks' price elasticity is low



Source: BofA Global Research, INEGI

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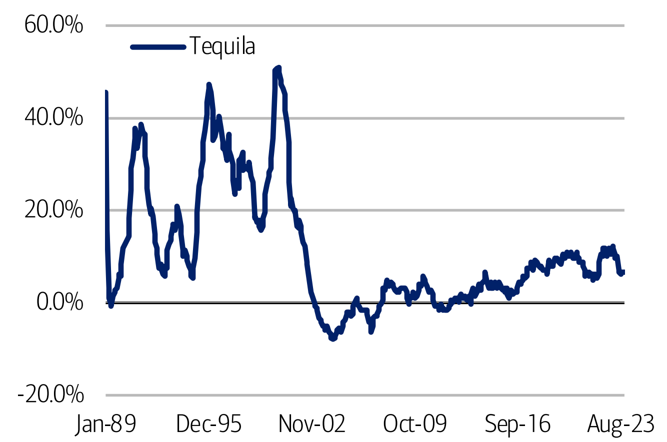
Exhibit 24: Mexico – tequila (CPI, % Yo)
Tequila prices decreased between 2003-07 due to an excess of production



Source: BofA Global Research, INEGI

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Change in product mix is not expected, but could be a concern

Food and Beverage companies do not expect material changes on product mix. The solid consumption away from home should continue to favor the demand of single-serve packages. Also, the deceleration of inflation could prevent a switch to cheaper brands and/or packages. Nonetheless, we believe the change of mix should be followed closely because the demand of non-premium products could impact margins.

KOF saw a positive performance at single-serve and premium products. In Chile, Andina also witnessed a good demand at sing-serve presentations, while CCU was able to keep a positive demand of premium beer (~40% of volume vs. ~20% in 2019)

Costs relief to favor margin recovery

F&B companies should hold margins stable or expand them in 2024 because of lower raw material costs, like grains and packaging. Sugar prices are becoming less of a concern given the recent decline we have witnessed. Also, the strength of the top line will be key to maintain a healthy operating leverage. Labor costs will continue to be a risk across countries, but they should be manageable.

In Mexico, we expect KOF's EBITDA margin to end up at 20.5% and 19.4%, with increases of 50 and 20bps due to lower PET (polyethylene terephthalate) resin and aluminum prices. This should help mitigate the increase on sugar prices seen in the last few months.

In Chile, Andina and CCU are expected to recover margins 40 and 150bps this year, to 18.0% and 16.8%, on lower packaging costs.

Exhibit 25: F&B – cost structure
Packaging costs will be tailwind in 2024

Main costs	Bimbo	Gruma	AC	KOF	Cuervo	Andina	CCU
Corn/Sorghum	-	40%	-	-	-	-	-
Wheat	15-20%	5%	-	-	-	-	-
Soybean meal	-	-	-	-	-	-	-
Barley	-	-	-	-	-	-	6%
Wine							7%
Milk	-	-	-	-	-	-	-
Concentrate	-	-	27%	35%	-	25%	
Sweeteners	-	-	9%	20%	-	8%	10%
Agave	-	-	-	-	45%	-	-
Packaging	<10%	8%	17%	25%	30%	7%	36%
Others	70-75%	47%	47%	20%	25%	60%	41%

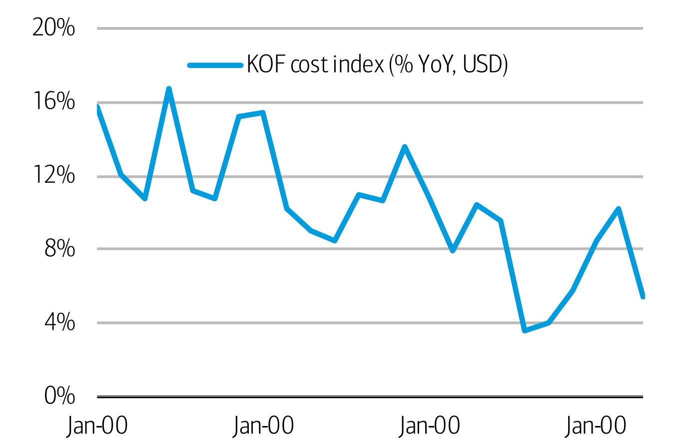
Source: BofA Global Research estimates, companies

BofA GLOBAL RESEARCH

Packaging costs to be stable; less pressure from sugar prices

LatAm KO bottlers (KOF and Andina) and CCU will benefit from lower packaging costs in 2024. Concerns on sugar prices have faded. PET resin prices, which are down 9% YoY, could keep declining because of a higher production towards 2024, mainly in Asia. Additionally, the demand of plastic bottles has slowed down. Also, aluminum spot price (-7% YoY) could move south due to concerns of higher global inventories. Packaging costs represent on average 21% of costs with PET resin being the most relevant for bottlers and aluminum for CCU. On sugar, we are less worried about the 2024 outlook as price dropped 25% in the last month. On a YoY basis, it is up only 2%, becoming a more manageable cost for beverage companies, mainly for the 2H24.

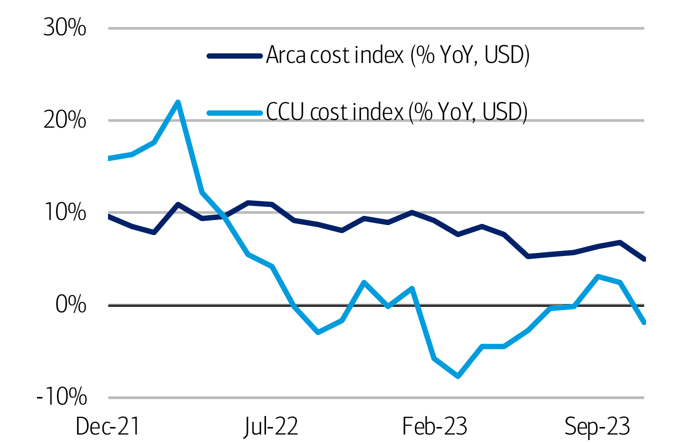
Exhibit 26: KOF cost index (% YoY, USD)
Lower packaging costs will favor cost structure of beverage cos....



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 27: Andina and CCU cost index (% YoY, USD)
...concern on sugar prices have diminished



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

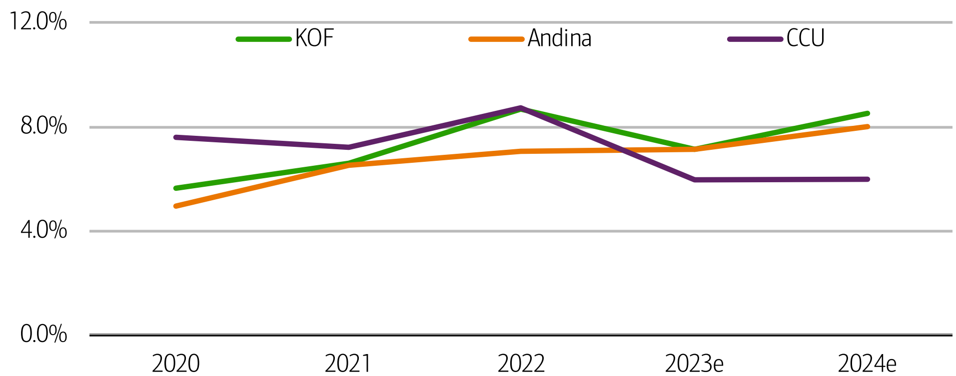
Investments in organic growth goes first

Companies' priority is to invest in organic growth. Nonetheless, we do not discount M&A activity, which could trigger sales growth. In the lack of M&A, dividends and share repurchases are likely to continue.

KOF and Andina are raising their capex in 2024 to increase their production capacity. The first two bottlers will add production lines to attend the higher demand of soft drinks across their markets. Andina will build a line to produce Therezolopolis beer in Brazil.

On the other hand, alcoholic beverage companies like CCU are reducing their capex as they are finishing to increase capacity. CCU will build a new recycling PET plant.

Exhibit 28: Mexican/Chilean F&B cos. – capex to sales (%)
Mainly KO bottlers will raise their capex for next year to increase production capacity



Source: BofA Global Research estimates

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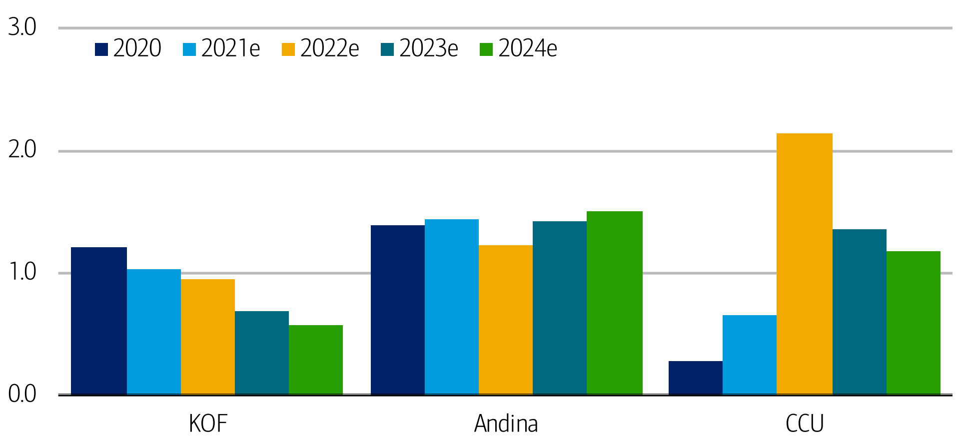
In search of additional growth

US consumer analyst Bryan Spillane recently argued that US companies might be active on mergers and acquisitions to foster top line growth. We expect Mexican/Chilean companies to also look for opportunities given their solid balance sheet. Most companies are open to M&A opportunities across regions and categories. Andina and CCU see a low probability of doing acquisitions. KOF could continue consolidating the KO system.

Exhibit 29: Mexican/Chilean F&B cos. - net debt to EBITDA (x)
Solid financial position across consumer staple companies, mainly Mexican KO bottlers



Source: BofA Global Research estimates, company report

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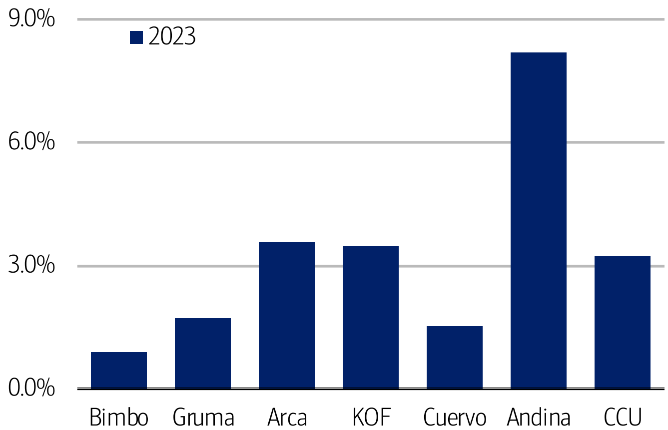
Not interested in accumulating cash

Companies do not want to accumulate cash, so if no acquisition opportunities appear it is likely they distribute the excess of cash and/or repurchase shares. KOF will continue distributing cash among shareholders, although they are analyzing to start repurchasing stocks. Andina and CCU should continue distributing cash to shareholders.

Exhibit 30: Mexican/Chilean cos. – Dividend yield

Chilean companies to keep solid dividends given limited M&A opportunities



Source: BofA Global Research estimates

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Revising estimates

We adjust the estimates of Mexican and Chilean companies to incorporate our latest economic and FX assumptions. Private consumption is expected to hold positive across countries, except Argentina. Despite this, local inflation should keep decreasing in most countries towards the goal of Central Banks. In terms of FX, most LatAm currencies will remain solid vs. the USD.

Exhibit 31: America – economic forecasts

GDP of key countries like Mexico, the US and Brazil are expected to decelerate.

	Real GDP growth (% yoy)			Real Private Consumption (% yoy)			CPI inflation (%)*			FX (eop)		
	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
Argentina	-1.2	-3.0	3.1	2.3	-4.7	3.5	193.6	204.5	100.2	810.0	2330.0	4500.0
Brazil	3.0	2.2	2.5	2.4	2.7	2.8	4.8	3.7	3.5	5.0	4.8	5.0
Chile	-0.3	2.0	2.0	-4.8	2.1	1.9	4.7	3.7	3.3	900.0	875.0	900.0
Colombia	1.4	2.1	3.0	1.1	1.9	3.0	9.7	5.8	3.5	4,050.0	3,950.0	4,100.0
Ecuador	1.5	2.0	2.8	NA	NA	NA	2.1	2.0	2.1	NA	NA	NA
Mexico	3.4	1.8	0.5	4.1	2.9	2.2	4.4	4.7	4.2	17.7	18.5	19.5
Peru	-0.4	2.6	3.0	0.4	2.6	2.9	3.6	2.6	2.5	3.8	3.8	3.8
USA	2.5	1.4	1.3	2.2	1.4	1.2	4.1	2.7	2.3	NA	NA	NA

Source: BofA Global Research estimates

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KOF: Buy & PO of P$180

We expect revenues to grow 10% YoY in 2024 supported by volume improvements in key markets like Mexico, Brazil, Guatemala and Colombia. Efforts will be dedicated to increase per capita consumption in these markets and to recover market share. Pricing is expected to be in line with local inflation. Margins will be flattish because the benefit from lower packaging costs will be offset by higher sugar prices and marketing expenses.

Exhibit 35: KOF – old vs. new estimates

Efforts will be dedicated on volume growth

		2023E	2024E	2025E
Net Revenues (P$mn)	**New Estimates**	**247,636**	**271,639**	**300,586**
	Old Estimates	248,196	269,929	294,554
	Change	*-0.2%*	*0.6%*	*2.0%*
EBITDA (P$mn)	**New Estimates**	**47,359**	**52,565**	**59,029**
	Old Estimates	47,471	52,397	58,130
	Change	*-0.2%*	*0.3%*	*1.5%*
EBITDA margin	**New Estimates**	**19.1%**	**19.4%**	**19.6%**
	Old Estimates	19.1%	19.4%	19.7%
	Change	*-0.0 pp*	*-0.0 pp*	*-0.0 pp*
Net Income (P$mn)	**New Estimates**	**20,626**	**23,780**	**27,378**
	Old Estimates	20,755	23,746	26,980
	Change	*-0.6%*	*0.1%*	*1.5%*
EPS (P$)	**New Estimates**	**9.82**	**11.32**	**13.03**
	Old Estimates	9.88	11.30	12.84
	Change	*-0.6%*	*0.1%*	*1.5%*

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Andina: Underperform & PO of CL$1,800

In 2024, revenues are expected to grow only 1% with a positive demand in Chile, Brazil and Paraguay offset by the weakness in Argentina due to the depreciation of the ARS vs. the USD. Andina is expected to increase prices in line with local inflation, unless volume deteriorates. Margins will be flattish to positive due to lower packaging costs. Only sugar prices will be a headwind, mainly in 1H24.

Exhibit 37: Andina – old vs. new estimates
Growth will be limited by the weakness in Argentina

		2023E	2024E	2025E
Net Revenues (CLPmn)	**New Estimates**	**2,747,024**	**2,783,226**	**2,834,211**
	Old Estimates	2,760,787	2,854,486	2,897,584
	Change	*-0.5%*	*-2.5%*	*-2.2%*
EBITDA (CLPmn)	**New Estimates**	**485,249**	**501,844**	**519,564**
	Old Estimates	490,506	516,053	534,255
	Change	*-1.1%*	*-2.8%*	*-2.7%*
EBITDA Margin	**New Estimates**	**17.7%**	**18.0%**	**18.3%**
	Old Estimates	17.8%	18.1%	18.4%
	Change	*-0.1 pp*	*-0.0 pp*	*-0.1 pp*
Net Income (CLPmn)	**New Estimates**	**168,388**	**189,918**	**210,395**
	Old Estimates	170,879	212,174	235,069
	Change	*-1.5%*	*-10.5%*	*-10.5%*
EPS (CLP)	**New Estimates**	**178**	**201**	**222**
	Old Estimates	181	224	248
	Change	*-1.5%*	*-10.5%*	*-10.5%*

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

CCU: Neutral & PO of CL$6,000

Sales should be flattish YoY in 2024 with a favorable price/volume growth in Chile and Wine businesses offset by the weakness in the International Business because of the ARS depreciation. Nonetheless, EBITDA is expected to grow supported by lower aluminum costs, which should help offset higher sugar prices.

Exhibit 38: CCU – old vs. new estimates
Lack of FX/input hedges will be a risk to our estimates

		2023E	2024E	2025E
Net Revenues (CLPmn)	**New Estimates**	**2,730,556**	**2,712,168**	**2,883,462**
	Old Estimates	2,737,088	2,796,504	3,013,343
	Change	*-0.2%*	*-3.0%*	*-4.3%*
EBITDA (CLPmn)	**New Estimates**	**418,788**	**456,606**	**488,712**
	Old Estimates	420,194	466,650	504,807
	Change	*-0.3%*	*-2.2%*	*-3.2%*
EBITDA margin	**New Estimates**	**15.3%**	**16.8%**	**16.9%**
	Old Estimates	15.4%	16.7%	16.8%
	Change	*-0.0 pp*	*0.14 pp*	*0.19 pp*
Net Income (CLPmn)	**New Estimates**	**140,084**	**170,636**	**183,751**
	Old Estimates	140,877	172,978	188,406
	Change	*-0.6%*	*-1.4%*	*-2.5%*
EPS (CLP)	**New Estimates**	**379.1**	**461.8**	**497.3**
	Old Estimates	381.3	468.1	509.9
	Change	*-0.6%*	*-1.4%*	*-2.5%*

Source: BofA Global Research estimates

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Price objective basis & risk

CCU (XLUDF)

Our P$6,000/share PO (US$14.0/ADR) is based on a 50/50% blend of a DCF model and a target multiple of 13.5x 2024E P/E, in line with the historical discount vs. its largest peer. We base our WACC of 12.3% on the average WACC in each one of the countries in which CCU operates (10.2% for Chile, 23.2% for Argentina) weighted by revenues. We assume Beta of 0.9 and capital structure of 90% equity / 10% debt in the long term.

Upside risks to our price objective are: 1) higher demand for beer in Chile, 2) a better mix, 3) easing packaging/sugar costs, and 4) CLP appreciation vs. the USD.

Downside risks to our price objective are: 1) potential trading down, 2) raw material and FX volatility, 3) slower macroeconomic growth in Chile, 4) deterioration of the political environment in Argentina and 5) stronger competition in Chile and Argentina.

CCU - ADR (CCU)

Our P$6,000/share PO (US$14.0/ADR) is based on a 50/50% blend of a DCF model and a target multiple of 13.5x 2024E P/E, in line with the historical discount vs. its largest peer. We base our WACC of 12.3% on the average WACC in each one of the countries in which CCU operates (10.2% for Chile, 23.2% for Argentina) weighted by revenues. We assume Beta of 0.9 and capital structure of 90% equity / 10% debt in the long term.

Upside risks to our price objective are: 1) higher demand for beer in Chile, 2) a better mix, 3) easing packaging/sugar costs, and 4) CLP appreciation vs. the USD.

Downside risks to our price objective are: 1) potential trading down, 2) raw material and FX volatility, 3) slower macroeconomic growth in Chile, 4) deterioration of the political environment in Argentina and 5) stronger competition in Chile and Argentina.

Coca-Cola Andina (AKOBF / AKOB)

Our price objective of CL$1,800/share (US$11.3/ADR) is based on a 50%/50% blend of a DCF model, using a WACC of 12.2% and 3% terminal growth rate, and a 2024E P/E target multiple of 13.0x, in line with the historical discount vs. Mexican bottlers. Our WACC of 12.2% is the average of the WACCs in each of the countries where Andina operates, being 9.5% for Chile, 20.0% for Argentina, and 10.8% for Brazil.

Upside risks to our PO are: 1) stronger volume growth across all territories, 2) flexibility to increase prices above local inflation, 3) smaller-than-expected depreciation of the ARS, BRL and CLP, 5) higher dividends

Downside risks to our PO are: 1) deterioration of the political environment in Argentina, 2) higher sugar prices, 3) FX volatility, 4) higher taxes in Brazil and 5) smaller dividends.

Coca-Cola Femsa (COCSF / KOF)

Our price objective of P$180/sh (US$105/ADS) is based on a 50% DCF / 50% 2024E P/E target multiple approach of 16.0x our 24E, in line with its historical average, given resilient performance in Mexico and positive recovery in South America. Our DCF is based on a WACC of 11.6% and a terminal growth rate of 3%.

Upside risks to our PO are: 1) better market share recovery in Mexico, 2) stronger volume growth in South America, 3) stronger pricing, 4) potential agreements to distribute spirits, personal care and home products.

Downside risks to our PO are: 1) raw materials volatility, 2) FX depreciation risks in

Argentina, Brazil, Colombia, 3) further increase of concentrate prices, 4) potential trade down

Analyst Certification

We, Fernando Olvera and Isabella Simonato, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Latin America - Agribusiness, Food & Beverage Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	3tentos	XTTUF	TTEN3 BZ	Isabella Simonato
	Adecoagro	AGRO	AGRO US	Isabella Simonato
	AmBev	ABEV	ABEV US	Isabella Simonato
	AmBev	AVBPF	ABEV3 BZ	Isabella Simonato
	Arca Continental	EMBVF	AC* MM	Fernando Olvera
	Bimbo	GRBMF	BIMBOA MM	Fernando Olvera
	Coca-Cola Femsa	KOF	KOF US	Fernando Olvera
	Coca-Cola Femsa	COCSF	KOFUBL MM	Fernando Olvera
	Cosan	CSAIF	CSAN3 BZ	Isabella Simonato
	Cosan	CSAN	CSAN US	Isabella Simonato
	Gruma	GPAGF	GRUMAB MM	Fernando Olvera
	Marfrig	MRRTF	MRFG3 BZ	Isabella Simonato
	Raizen	XUXIF	RAIZ4 BZ	Isabella Simonato
NEUTRAL				
	CCU	XLUDF	CCU CI	Fernando Olvera
	CCU - ADR	CCU	CCU US	Fernando Olvera
	JBS	JBSAF	JBSS3 BZ	Isabella Simonato
	M. Dias Branco	XDMIF	MDIA3 BZ	Isabella Simonato
	Minerva	MRVSF	BEEF3 BZ	Isabella Simonato
	Sao Martinho	SRTOF	SMTO3 BZ	Isabella Simonato
UNDERPERFORM				
	BRF	BRFS	BRFS US	Isabella Simonato
	BRF	BRFFF	BRFS3 BZ	Isabella Simonato
	Camil Alimentos	XSREF	CAML3 BZ	Isabella Simonato
	Coca-Cola Andina	AKOBF	ANDINAB CI	Fernando Olvera
	Coca-Cola Andina-ADR	AKOB	AKO/B US	Fernando Olvera
	Cuervo	BCCLF	CUERVO* MM	Fernando Olvera
	SLC Agricola	SLCJF	SLCE3 BZ	Isabella Simonato
	SQM	SQM	SQM US	Isabella Simonato

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Beverages - Alcoholic Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	22	61.11%	Buy	15	68.18%
Hold	6	16.67%	Hold	4	66.67%
Sell	8	22.22%	Sell	2	25.00%

Equity Investment Rating Distribution: Beverages - Soft Drinks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	11	78.57%	Buy	6	54.55%
Hold	0	0.00%	Hold	0	0.00%
Sell	3	21.43%	Sell	1	33.33%

Equity Investment Rating Distribution: Food Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	**Total return expectation (within 12-month period of date of initial rating)**	**Ratings dispersion guidelines for coverage cluster**[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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