

CCU

## 4Q23 EBITDA missed estimates given weakness at International Business

Maintain Rating: NEUTRAL | PO: 6,000.00 CLP | Price: 5,700.10 CLP

### EBITDA declined 10% YoY, 5% below ours

CCU delivered weaker operating results in 4Q23 affected by FX headwinds in Argentina (International Business), offsetting better margins in Chile. Volume was down 8% YoY, as expected, due to a lower demand across all divisions. Revenues dropped 25% YoY (12% below ours) explained by the depreciation of the Argentine peso vs. the USD, which overshadowed price improvements in Chile. Thus, EBITDA declined 10% YoY with margin expanding 330bp, to 19.3% (vs. BofAe of 17.9%), on lower wine and aluminum costs. Also, expense controls in Chile favored EBITDA. Excluding the hyperinflationary accounting (IAS 29), EBITDA would have grown 3% YoY. EPS was CP\$112.93, down 11% YoY and 8% below ours, on higher FX losses.

### Solid margin recovery in Chile

In Chile, bad weather caused volume to drop 7% YoY, as expected. This was partially compensated by better average prices allowing top line to be down only 2% YoY (1% below ours). EBITDA grew 21% YoY (2% below ours) favored by lower packaging/energy costs and manufacturing efficiencies. Such performance was also supported by a 2% decline on expenses. EBITDA margin expanded 3.3pp YoY, to 17.5%.

### Int. Business' EBITDA was 9% below our estimate

At the International Business, volume was down 8% YoY (1% above ours) due to a lower demand in Argentina. Volumes in Bolivia, Paraguay and Uruguay improved in 4Q23. Sales decreased 90% YoY, 80% below ours, affected by the hyperinflationary accounting in Argentina causing average prices in CLP to decline 89% YoY. In local currency, pricing was in line with inflation. EBITDA dropped 54% YoY, 9% below ours.

### Better numbers at Wine, but still weak results

In Wine, volume declined 9% YoY, as expected, due to a lower demand in the Chilean market (-10% YoY) and exports (-6% YoY). Top line dropped 12% YoY (1% above ours) on lower pricing in Argentina and exports, offsetting improvement at the domestic market. EBITDA was down 21% YoY (but 5% above ours) with lower wine costs offset by higher marketing expenses.

### Maintain Neutral with PO of CL\$6,000

We maintain Neutral on CCU with a PO of CL\$6,000 because we expect easing packaging costs to favor the margin recovery in Chile (70% of EBITDA) in 2024. However, we are concerned about the weakness in Argentina and the volatility of the CLP vs. the USD, which could limit operating growth.

28 February 2024

#### Equity

**Fernando Olvera >>**

Research Analyst  
Merrill Lynch (Mexico)  
+52 55 5201 3473  
folvera@bofa.com

**Isabella Simonato >>**

Research Analyst  
Merrill Lynch (Brazil)  
+55 11 2188 4243  
isabella.simonato@bofa.com

#### Stock Data

Price (Common / ADR)	5,700.10 CLP / 11.64 USD
Price Objective	6,000.00 CLP / 14.00 USD
Date Established	9-Jan-2024 / 9-Jan-2024
Investment Opinion	B-2-8 / B-2-8
52-Week Range	5,009.00 CLP - 7,390.40 CLP
Market Value (mn)	2,106,203 CLP
Free Float	34.1%
Average Daily Value	1.55 USD
Shares Outstanding (mn)	369.5 / 63.7
BofA Ticker / Exchange	XLUDF / SGO
BofA Ticker / Exchange	CCU / NYS
Bloomberg / Reuters	CCU CI / CCU.SN
ROE (2023E)	10.3%
Net Dbt to Eqty (Dec-2022A)	53.2%

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# CCU 4Q23 results

## Exhibit 1: CCU 4Q23 results

EBITDA missed estimates due to weakness at International Business; solid margin recovery in Chile

CLP mn	4Q23A	4Q23E	A/E	3Q23A	QoQ	4Q22A	YoY
<b>Chile</b>							
Net Revenues	496,226	500,060	-0.8%	398,550	24.5%	507,263	-2.2%
EBITDA	86,925	88,480	-1.8%	52,618	65.2%	71,903	20.9%
EBITDA mg.	17.5%	17.7%	-0.2 p.p.	13.2%	4.3 p.p.	14.2%	3.3 p.p.
Volumes ('000 hl)	6,280	6,298	-0.3%	5,039	24.6%	6,772	-7.3%
<b>International Business</b>							
Net Revenues	19,207	95,710	-79.9%	227,379	-91.6%	197,131	-90.3%
EBITDA	22,096	24,308	-9.1%	25,785	-14.3%	47,755	-53.7%
EBITDA mg.	115.0%	25.4%	89.6 p.p.	11.3%	103.7 p.p.	24.2%	90.8 p.p.
Volumes ('000 hl)	2,736	2,715	0.8%	2,187	25.1%	2,983	-8.3%
<b>Wine</b>							
Net Revenues	63,430	63,145	0.5%	72,380	-12.4%	71,834	-11.7%
EBITDA	10,539	10,073	4.6%	11,606	-9.2%	13,383	-21.3%
EBITDA mg.	16.6%	16.0%	0.7 p.p.	16.0%	0.6 p.p.	18.6%	-2.0 p.p.
Volumes ('000 hl)	340	339	0.2%	361	-5.8%	373	-8.8%
<b>Consolidated</b>							
Volumes ('000 hl)	9,332	9,352	-0.2%	7,556	23.5%	10,097	-7.6%
<b>Net Revenues</b>	<b>572,607</b>	<b>652,020</b>	<b>-12.2%</b>	<b>686,677</b>	<b>-16.6%</b>	<b>768,362</b>	<b>-25.5%</b>
<b>EBITDA</b>	<b>110,556</b>	<b>116,726</b>	<b>-5.3%</b>	<b>86,344</b>	<b>28.0%</b>	<b>122,725</b>	<b>-9.9%</b>
EBITDA mg.	19.3%	17.9%	1.4 p.p.	12.6%	6.7 p.p.	16.0%	3.3 p.p.
<b>Net Income</b>	<b>41,729</b>	<b>45,278</b>	<b>-7.8%</b>	<b>9,499</b>	<b>339.3%</b>	<b>46,853</b>	<b>-10.9%</b>
EPS (CLP/share)	112.93	122.54	-7.8%	25.71	339.3%	126.80	-10.9%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

## 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.

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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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