

Chilean Beverages

4Q23e: a summer to forget...weak volume across most markets

Industry Overview

4Q23e: impacted by bad weather and FX headwinds

We expect a low-single digit EBITDA contraction in both CCU and Andina because of the volume weakness in Chile (bad weather) and Argentina (tough economic environment). Also, FX headwinds in Argentina will contribute to the operating contraction. On the positive side, both companies benefited from lower packaging costs. In 2024, we expect top line to be flattish in both companies with a volume recovery in Chile and a positive demand in Brazil offset by volume/FX weakness in Argentina. On margins, we expect an ongoing recovery due to lower packaging costs and manageable sugar costs.

Feedback from Chile: slow consumption recovery

We spent last week in Chile visiting local investors. We noticed interest on Beverages, but mainly on Andina, partly because their EV/EBITDA and P/E are still below their historical average. They also expect the industry to be favored by the recovery of private consumption, although it is expected to be gradual. There is more optimism for the second half of 2024 because lower rates and inflation should spur demand.

Prefer CCU over Andina

We are more constructive on CCU (vs. Andina) in 2024 because of a greater benefit from the recovery of Chile and the decline of packaging costs, which are more representative of its cost structure (36% of total). Also, CCU's results should be supported by the recovery of the wine division following a better demand in Asia. Andina's growth will be limited by weak operating results in Argentina. We reiterate Neutral on CCU and Underperform on Andina.

CCU to expand margins despite volume weakness in 4Q23

We expect CCU to deliver weak operating results in 4Q23 due to the International Business and Wine. Sales will drop 15% YoY affected by the depreciation of the ARS vs. the USD (from AR\$350 in 3Q23 to AR\$808 in 4Q23), offsetting a better pricing in Chile and the International business. Also, a high-single digit decline on volume in all divisions will not help top line performance. EBITDA is expected to drop only 5% YoY on stronger margins in Chile because of lower packaging costs. EPS will drop 3% YoY.

Andina: lower demand in Chile/Argentina offset by Brazil

Andina's operating weakness in 4Q23 will be driven by Chile and Argentina. In terms of volume we expect it to be flattish with improvements in Brazil and Paraguay offset by declines in Chile and Argentina. Revenues will drop 10% YoY as FX headwinds in Argentina overshadow price hikes in Chile and Brazil. On the EBITDA side, we expect a decline of only 2% YoY supported by lower packaging costs across all divisions and a favorable cost absorption in Brazil. EPS of CL\$46.7, -2% YoY.

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Equity
Latin America
Beverages

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Exhibit 1: Ratings and POs

Prefer CCU over Andina

	QrQ	Rating	Price	PO
Beverages				
CCU	B-2-8	Neutral	5623.8	6000.0
CCU	B-2-8	Neutral	12.0	14.0
KO Andina	A-3-8	Underp	2245.0	1800.0
KO Andina	B-3-8	Underp	14.7	11.3

Source: BofA Global Research

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Refer to important disclosures on page 4 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.

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Timestamp: 25 January 2024 06:00AM EST

Exhibit 2: CCU 4Q23 estimates

Volume down 7% YoY due to weakness across all divisions

CLP mn	4Q23E	3Q23A	QoQ	4Q22A	YoY
Net Revenues	652,020	686,677	-5%	768,362	-15.1%
EBITDA	116,726	86,344	35%	122,725	-4.9%
<i>EBITDA margin</i>	17.9%	12.6%	5.3 p.p.	16.0%	1.9 p.p.
Net Income	45,278	9,499	377%	46,853	-3.4%
EPS (CLP/share)	122.5	25.7	377%	126.8	-3.4%

Source: BofA Global Research estimates, company report

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Exhibit 3: Andina 4Q23 estimates

Volume decline in Chile and Argentina will be offset by a positive demand in Brazil and Paraguay

CLP mn	4Q23E	3Q23A	QoQ	4Q22A	YoY
Net Revenues	710,430	670,333	6%	789,934	-10.1%
EBITDA	145,307	110,591	31%	148,257	-2.0%
<i>EBITDA margin</i>	20.5%	16.5%	4.0 p.p.	18.8%	1.7 p.p.
Net Income	44,210	63,709	-31%	45,194	-2.2%
EPS (CLP/share)	46.7	67.3	-31%	47.7	-2.2%

Source: BofA Global Research estimates, company report

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Exhibit 4: Stock Mentioned

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CCU	CCU US	Cia Cervecerias SA	US\$ 12.04	B-2-8
XLUDF	CCU CI	Cia Cervecerias SA	CLP 5623.8	B-2-8
AKOBF	ANDINAB CI	Coca-Cola Andina	CLP 2245	A-3-8
AKOB	AKO/B US	Coca-Cola Andina-ADR	US\$ 14.71	B-3-8

Source: BofA Global Research

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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

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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.

Analyst Certification

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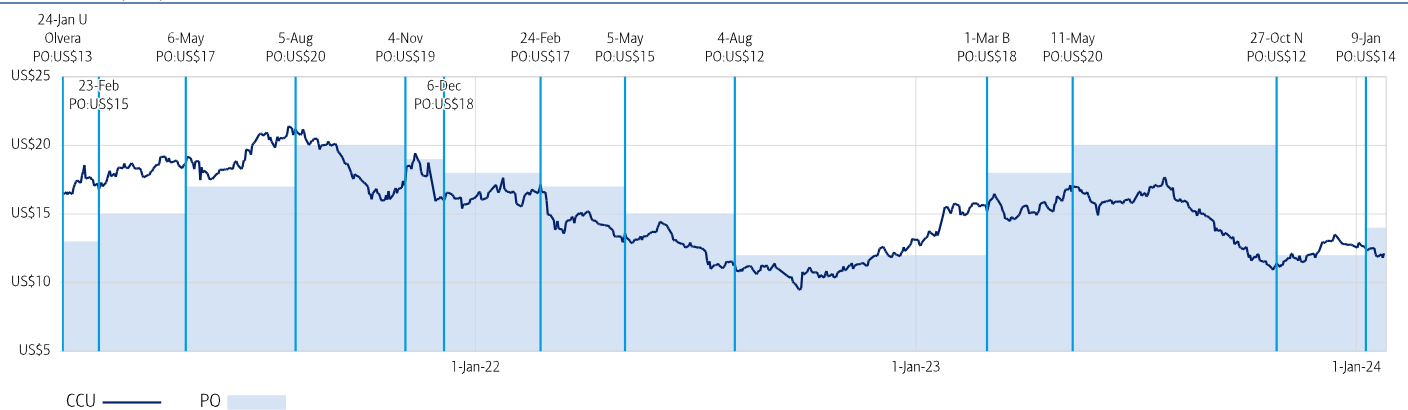
Latin America - Agribusiness, Food & Beverage Coverage Cluster

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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	MRF3 BZ	Isabella Simonato
	Raizen	XUXIF	RAIZ4 BZ	Isabella Simonato
NEUTRAL				
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	CCU - ADR	CCU	CCU US	Fernando Olvera
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	M. Dias Branco	XDMIF	MDIA3 BZ	Isabella Simonato
	Minerva	MRVSF	BEEF3 BZ	Isabella Simonato
	Sao Martinho	SRTOF	SMT03 BZ	Isabella Simonato
	SLC Agricola	SLCJF	SLCE3 BZ	Isabella Simonato
UNDERPERFORM				
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	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
	SQM	SQM	SQM US	Isabella Simonato

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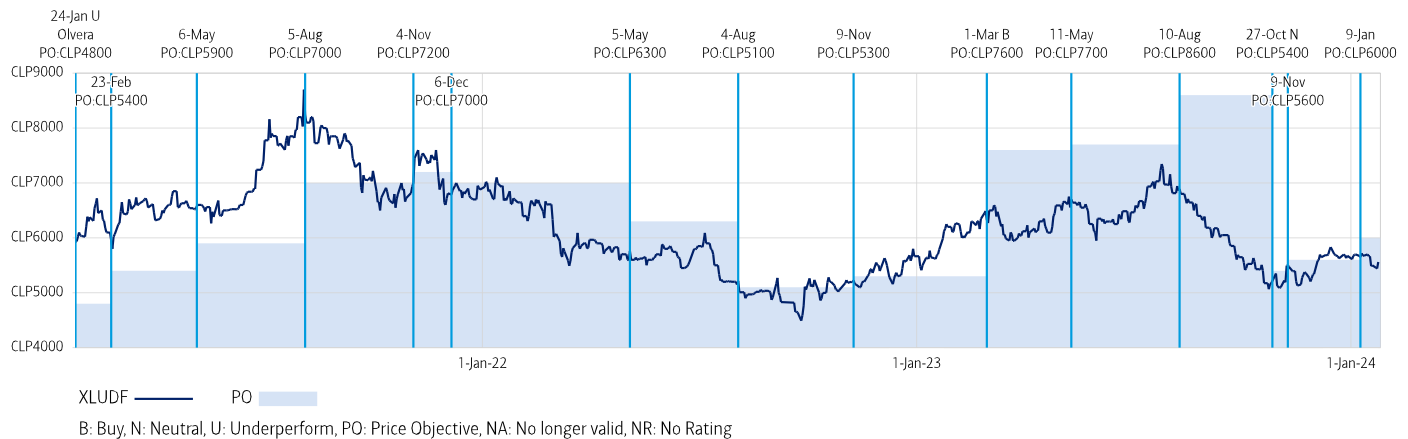
Important Disclosures

Cia Cervecerias SA (CCU) Price Chart

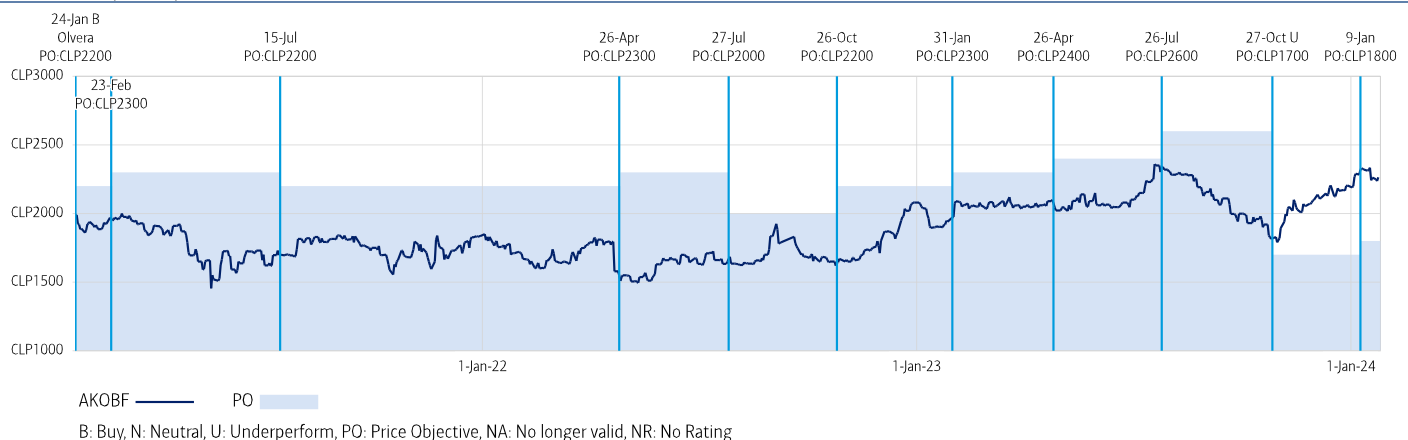


B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Cia Cervecerias SA (XLUDF) Price Chart

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Coca-Cola Andina (AKOBF) Price Chart

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Coca-Cola Andina-ADR (AKOB) Price Chart

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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: 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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