

# Alicorp

## 1Q20: a good Q despite one-time impact from Covid-19

### EBITDA grew 19% y/y excluding non-recurring expenses; ND/EBITDA at 2.1x

Alicorp reported strong recurring results, as the company's core consumer goods business benefitted from increased demand for its products at the end of the quarter due to the Covid-19 pandemic. Sales grew 10% y/y (volume: +11.5% y/y), 3.5% above us, driven mainly by double-digit growth in consumer goods Peru. The gross margin climbed 1.1pp y/y boosted partly by Argentina and Brazil. Reported EBITDA declined 13.5% y/y, but excluding PEN\$113mn in non-recurring expenses mostly related to the impact of Covid 19 (including a PEN48mn impairment in Brazil and PEN\$37mn in bad debt provisions), EBITDA climbed 19% y/y, 10% above us. The stronger-than-expected recurring result stemmed mainly from strong results in consumer goods Peru. Net income declined 90% y/y but recurring net income increased 12% y/y, 10% above us. The company had PEN\$1.5bn in cash as of the end of March, 1.5x its short term debt, while net debt/EBITDA closed the quarter at 2.1x, down from 2.4x in 4Q19.

### CG: Peru drives operating growth, as top line accelerates across countries

In CG Peru, sales grew 12.5% y/y (volume: +17.6% y/y) partly driven by the consolidation of Intradevco at the end of January 2019, as well as strong sales of food (oils and pastas) and homecare (cleaning products) during the second half of March. The gross margin declined 20bps y/y due mainly to a higher proportion of sales to the modern channel and a lower-margin product mix. Recurring EBITDA grew 16% y/y (margin: +0.2pp). In Bolivia, sales rose 10% y/y, also boosted by homecare and food products. But recurring EBITDA decreased 12% y/y (margin: -2.8pp) mainly as a result of gross margin pressure on the back of higher commodity prices and growth of value categories. In Brazil, sales grew 5.7% y/y in BRL, (volume: 4.8%), but fell 8.9% y/y in PEN due to the BRL devaluation. Gross margin expanded 1.1pp y/y driven by higher prices, while recurring EBITDA (excluding the impairment provision) was PEN\$3mn (margin: 3.5%), up from a PEN\$4mn loss in 1Q19. In Argentina, sales (in PEN) jumped 22% y/y, with volume increasing 6.9% y/y, while EBITDA was PEN\$14mn (margin: 13.1%) up from a PEN\$2mn loss in 1Q19.

Valuation	12/2018	12/2019	12/2020E	12/2021E	12/2022E
RoC (EBIT) %	18.5	16.0	16.3	17.5	18.8
EV/EBITDA	11.2	9.3	7.0	6.3	5.7
P/E	18.4	16.4	11.1	10.0	8.9
Net dividend yield %	2.5	2.6	3.4	4.1	4.7

Financials (PENmn)	12/2018	12/2019	12/2020E	12/2021E	12/2022E
Revenues	8,288	9,875	10,489	11,136	11,840
EBITDA	940	1,212	1,376	1,463	1,560
Net Income	453	480	584	650	728
EPS (PEN)	0.53	0.56	0.68	0.76	0.85
Net DPS (PEN)	0.24	0.24	0.26	0.31	0.35
Net (debt) / cash	(2,250)	(3,387)	(3,067)	(2,710)	(2,333)

Source: Company reports, Bovespa, BTG Pactual S.A. estimates. / Valuations: based on the last share price of the year; (E) based on a share price of PEN7.60, on 13 May 2020.

### ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5

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**Rating** Buy

**12m Price Target** PEN13.00/US\$3.78

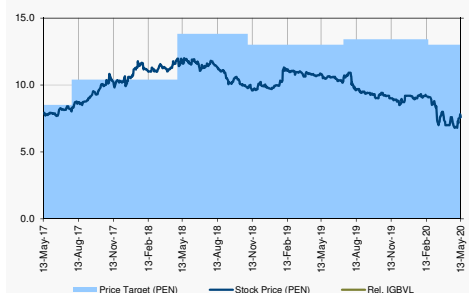
**Price** PEN7.60/US\$2.21

**RIC: ALI.LM, BBG: ALICORC1 PE**

### Trading Data and Return Forecasts

52-wk range	PEN10.90-6.80/US\$3.31-1.97
Market cap.	PEN6,495m/US\$1,888m
Shares o/s (m)	854.6
Free float	54%
Avg. daily volume('000 Shares)	477
Avg. daily value (PEN m)	3.6
Forecast price appreciation	+71.1%
Forecast dividend yield	3.4%
Forecast stock return	+74.4%

### Stock Performance (PEN)



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## 1Q20 earnings summary

### **Aqua-feed: bad debt provision weighed on EBITDA; crushing EBITDA recovers**

Sales in aqua-feed increased 5.3% y/y with volume jumping 9.7% y/y driven mainly by the salmon segment, where strikes affected production in 1Q19. The gross margin expanded 30bps y/y due to lower commodity prices, but EBITDA declined 13% y/y, impacted by a \$3mn bad debt provision and a US\$1mn donation related to Covid-19. Excluding such expenses, EBITDA would have grown 11% y/y. In crushing, sales rose 17% y/y (volume: +14% y/y) and EBITDA increased to US\$3mn from a US\$3mn loss in 1Q19.

### **B2B: operating results impacted by bad debt provision**

The B2B segment posted sales growth of 4.0% y/y (volume: +6.0%) despite the country lockdown in the second half of March, which impacted the food service segment. The company booked a PEN\$21mn bad debt provision to account for the impact of Covid-19 on the business, which drove a 60% y/y decline in EBITDA. Excluding this provision and a PEN\$3mn donation, also related to Covid-19, EBITDA increased 10% y/y (margin: +0.7pp). Results in 2Q should show a bigger impact on B2B from weaker food service sales (~36% of B2B) as the quarantine has been extended through May 25.

### **A good place to be during the crisis, and beyond**

Alicorp's results show the strong competitive positioning of the business despite some initial negative impact from Covid-19. With lockdowns being extended across countries, as well as in its main market, Peru, demand for Alicorp's consumer goods products should remain strong in the short term. The company also has a solid balance sheet and a strong liquidity position. Some segments will suffer, such as food service and aqua-feed, and the devaluation of BRL will continue to weigh on results from Brazil, but with our view that the crisis will last at least until the first half of 2021, we believe the stock is one of only a few that provide relatively good earnings visibility. We maintain a positive view on the stock.

Table 1: 1Q20 earnings summary, PENmn

Key Figures	1Q20A	1Q20E	A/E	4Q19	Q/Q	1Q19	Y/Y
Net Income	10	103	(90,7%)	123	(92,2%)	92	(89,5%)
EBITDA	211	283	(25,5%)	358	(41,1%)	244	(13,5%)
EPS	0,01	0,12	(90,7%)	0,14	(92,2%)	0,11	(89,5%)
Summary Income Statement	1Q20A	1Q20E	A/E	4Q19	Q/Q	1Q19	Y/Y
Sales	2.448	2.365	3,5%	2.592	(5,5%)	2.226	10,0%
Cost of Sales	-1.822	-1.781	2,3%	-1.949	(6,5%)	-1.681	8,4%
Gross Profit	626	584	7,2%	643	(2,6%)	545	15,0%
SG&A	-435	-365	19,3%	-353	23,2%	-353	23,2%
Other Operating Expenses/Income	-64	-2	NA	-45	42,4%	-8	692,4%
EBIT	128	218	(41,2%)	245	(47,9%)	184	(30,3%)
Net Financial Expenses & Other	-67	-69	(3,0%)	-76	(11,6%)	-37	79,9%
Pretax Profit	61	149	(58,9%)	170	(64,0%)	146	(58,3%)
Taxes	-52	-45	15,5%	-47	9,2%	-53	(2,2%)
Minority Interest	0	-1	NA	0	NA	-2	NA
Net Income	9,6	103,1	(90,7%)	122,5	(92,2%)	91,6	(89,5%)
Effective Tax Rate	84,3%	30,0%		27,8%		36,0%	
EBITDA	211	283	(25,5%)	358	(41,1%)	244	(13,5%)
Margins	1Q20A	1Q20E	A/E	4Q19	Q/Q	1Q19	Y/Y
			in bps		in bps		in bps
Gross Margin	25,6%	24,7%	89	24,8%	78	24,5%	112
SG&A / Sales	17,8%	15,4%	235	13,6%	414	15,9%	190
Total Expenses / Sales	20,4%	15,5%	486	15,3%	502	16,2%	414
EBIT Margin	5,2%	9,2%	-398	9,5%	-424	8,2%	-302
EBITDA Margin	8,6%	12,0%	-336	13,8%	-519	11,0%	-234
Sales by Segment	1Q20A	1Q20E	A/E	4Q19	Q/Q	1Q19	Y/Y
Consumer	1.272	1.221	4,2%	1.329	(4,3%)	1.147	10,9%
B2B	389	391	(0,6%)	435	(10,6%)	374	4,0%
Animal Nutrition	527	532	(1,0%)	579	(9,0%)	490	7,6%
Crushing	255	221	15,5%	249	2,5%	215	18,7%

Source: Company reports and BTG Pactual

Income Statement (PENmn)	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020E	12/2021E	12/2022E
Revenue	6,580	6,629	7,101	8,288	9,875	10,489	11,136	11,840
Operating expenses (ex depn)	(5,864)	(5,827)	(6,177)	(7,374)	(8,613)	(9,105)	(9,666)	(10,272)
<b>EBITDA (BTG Pactual)</b>	<b>693</b>	<b>772</b>	<b>870</b>	<b>940</b>	<b>1,212</b>	<b>1,376</b>	<b>1,463</b>	<b>1,560</b>
Depreciation	(134)	(140)	(130)	(153)	(260)	(261)	(263)	(264)
<b>Operating income (EBIT, BTG Pactual)</b>	<b>560</b>	<b>632</b>	<b>740</b>	<b>787</b>	<b>952</b>	<b>1,114</b>	<b>1,200</b>	<b>1,296</b>
Other income & associates	0	0	0	0	0	0	0	0
Net Interest	(327)	(169)	(100)	(111)	(250)	(272)	(259)	(246)
Abnormal items (pre-tax)	0	0	0	0	0	0	0	0
<b>Profit before tax</b>	<b>233</b>	<b>463</b>	<b>641</b>	<b>677</b>	<b>701</b>	<b>843</b>	<b>941</b>	<b>1,050</b>
Tax	(75)	(161)	(187)	(222)	(217)	(253)	(285)	(315)
<b>Profit after tax</b>	<b>157</b>	<b>302</b>	<b>453</b>	<b>455</b>	<b>484</b>	<b>590</b>	<b>657</b>	<b>735</b>
Abnormal items (post-tax)	0	0	0	0	0	0	0	0
Minorities / pref dividends	(4)	0	0	(2)	(5)	(6)	(7)	(7)
Net Income (local GAAP)	154	302	453	453	480	584	650	728
<b>Adjusted Net Income</b>	<b>154</b>	<b>302</b>	<b>453</b>	<b>453</b>	<b>480</b>	<b>584</b>	<b>650</b>	<b>728</b>
Tax rate (%)	32	35	29	33	31	30	30	30
Per Share	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020E	12/2021E	12/2022E
EPS (local GAAP)	0.18	0.35	0.53	0.53	0.56	0.68	0.76	0.85
EPS (BTG Pactual)	0.18	0.35	0.53	0.53	0.56	0.68	0.76	0.85
Net DPS	0.00	0.05	0.15	0.24	0.24	0.26	0.31	0.35
BVPS	2.57	2.99	3.37	3.76	4.01	4.44	4.89	5.39
Cash Flow (PENmn)	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020E	12/2021E	12/2022E
Net Income	154	302	453	453	480	584	650	728
Depreciation	134	140	130	153	260	261	263	264
Net change in working capital	642	335	37	(538)	(71)	(66)	(66)	(70)
Other (operating)	550	671	1,010	1,718	1,409	889	963	1,045
<b>Net cash from operations</b>	<b>1,478</b>	<b>1,449</b>	<b>1,630</b>	<b>1,785</b>	<b>2,078</b>	<b>1,667</b>	<b>1,809</b>	<b>1,967</b>
Cash from investing activities	(152)	(103)	(223)	(1,203)	(1,465)	(283)	(271)	(296)
Cash from financing activities	(922)	(665)	116	323	188	(419)	(469)	(502)
<b>Bal sheet chge in cash &amp; equivalents</b>	<b>(10)</b>	<b>161</b>	<b>770</b>	<b>(6)</b>	<b>(197)</b>	<b>120</b>	<b>157</b>	<b>176</b>
Balance Sheet (PENmn)	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020E	12/2021E	12/2022E
Cash and equivalents	113	273	1,043	1,037	840	960	1,117	1,293
Other current assets	2,306	1,951	2,245	3,067	3,651	3,872	4,114	4,370
<b>Total current assets</b>	<b>2,418</b>	<b>2,225</b>	<b>3,288</b>	<b>4,104</b>	<b>4,491</b>	<b>4,832</b>	<b>5,230</b>	<b>5,664</b>
Net tangible fixed assets	2,022	1,946	1,866	2,749	3,657	3,679	3,694	3,726
Net intangible fixed assets	0	0	0	0	0	0	0	0
Investments / other assets	1,773	1,963	1,961	2,417	3,095	3,104	3,113	3,123
<b>Total assets</b>	<b>6,214</b>	<b>6,134</b>	<b>7,115</b>	<b>9,271</b>	<b>11,242</b>	<b>11,614</b>	<b>12,038</b>	<b>12,513</b>
Trade payables & other ST liabilities	1,550	1,531	1,862	2,145	2,659	2,813	2,989	3,176
Short term debt	523	255	962	963	804	604	404	204
<b>Total current liabilities</b>	<b>2,074</b>	<b>1,786</b>	<b>2,824</b>	<b>3,108</b>	<b>3,463</b>	<b>3,417</b>	<b>3,393</b>	<b>3,380</b>
Long term debt	1,566	1,376	1,000	2,325	3,423	3,423	3,423	3,423
Other long term liabilities	351	394	392	610	898	951	1,010	1,073
<b>Total liabilities</b>	<b>3,991</b>	<b>3,556</b>	<b>4,216</b>	<b>6,043</b>	<b>7,784</b>	<b>7,791</b>	<b>7,826</b>	<b>7,875</b>
Equity & minority interests	2,223	2,579	2,899	3,228	3,459	3,823	4,212	4,637
<b>Total liabilities &amp; equities</b>	<b>6,214</b>	<b>6,134</b>	<b>7,115</b>	<b>9,271</b>	<b>11,242</b>	<b>11,614</b>	<b>12,038</b>	<b>12,513</b>

## Company Profile:

Alicorp is Peru's largest consumer products company with a leading market share in most product categories. Peru's Grupo Romero controls 46% of the shares of the company. Sales are segmented in 3 groups: consumer goods, the main segment, industrial products and animal nutrition and are sold in more than 20 countries, with the majority of sales coming from Peru. The company's main international markets are Brazil, Argentina, Ecuador and Chile.

Financial ratios	12/2018	12/2019	12/2020E	12/2021E	12/2022E
EBITDA margin	11.3%	12.3%	13.1%	13.1%	13.2%
Operating margin	9.5%	9.6%	10.6%	10.8%	10.9%
Net margin	5.5%	4.9%	5.6%	5.8%	6.1%
RoE	14.9%	14.5%	16.2%	16.3%	16.6%
RoIC	18.5%	16.0%	16.3%	17.5%	18.8%
EBITDA / net interest	8.5x	4.8x	5.1x	5.7x	6.4x
Net debt / EBITDA	2.4x	2.8x	2.2x	1.9x	1.5x
Total debt / EBITDA	3.5x	3.5x	2.9x	2.6x	2.3x
Net debt / (net debt + equity)	41.1%	49.5%	44.5%	39.1%	33.5%

Source: Company reports and BTG Pactual estimates. Valuations: based on the last share price of that year(E) based on share price as of 13 May 2020

## Required Disclosures

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BTG Pactual Rating	Definition	Coverage *1	IB Services *2
Buy	Expected total return 10% above the company's sector average.	55%	50%
Neutral	Expected total return between +10% and -10% the company's sector average.	43%	35%
Sell	Expected total return 10% below the company's sector average.	2%	0%

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

### Absolute return requirements

Besides the abovementioned relative return requirements, the listed absolute return requirements must be followed:

- a) a Buy rated stock must have an expected total return above 15%
- b) a Neutral rated stock can not have an expected total return below -5%
- c) a stock with expected total return above 50% must be rated Buy

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Alicorp S.A.A. [PEALI] (Primary) - We believe the key operating risks are commodity exposure, integration of acquired companies and competition. Other risks include, but are not limited to, the volatile nature of Latin American currencies, particularly given Alicorp's exposure to many countries, regulatory and political risk. Valuations can also be affected by "contagion" from developments in other emerging markets.

## Valuation Methodology

Alicorp S.A.A. [PEALI] (Primary) - Our 12-month target price for Alicorp is based on a discounted cash flow methodology which uses a WACC accounting for weighted country risks based on the company's geographical footprint, an equity risk premium of 5.5% and a perpetuity rate of 5%. We use further support from a comparables analysis.

## Company Disclosures

Company Name	Reuters	12-mo rating	Price	Price date
Alicorp <sup>18, 19, 20, 21, 22</sup>	ALI.LM	Buy	PEN7.60	13-5-2020

18. As of the end of the month immediately preceding the date of publication of this report, neither BTG Pactual US nor its affiliates or subsidiaries beneficially owned 1% or more of a class of this company's common equity securities.

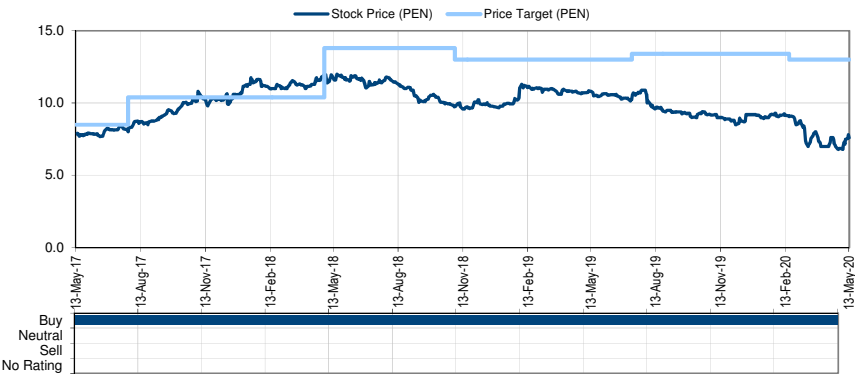
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Alicorp



Source: BTG Pactual and Economática. Prices as of 13 May 2020

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