FitchRatings

NON-RATING ACTION COMMENTARY

Impact of Avian Influenza Case Manageable for Agrosuper

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Fitch Ratings-New York/Santiago-21 March 2023: Fitch Ratings believes that the impact of the recent case of the avian influenza virus in Chile is manageable for Agrosuper S.A. (Agrosuper). However, a prolonged suspension of exports could put pressure on the company's costs and prices if chicken exports are redirected to the domestic market.

Agrosuper announced a case of avian influenza in one of its poultry facilities located in the O'Higgins region on March 14, 2023. The case was detected after a preventive health screening in a productive sector of chickens, which resulted in discovery of deviations observed in certain productive parameters, activating the protocol in conjunction with National Livestock Agricultural Service (SAG). Biohazard protocols and sanitary measures were activated to contain the outbreak and prevent its spread in other production facilities. All affected chickens were culled, and reinforced monitoring and controls of nearby facilities were implemented. No new cases have been detected.

As a result of the international sanitary protocols, SAG implemented the self-suspension of export certificates for Chilean poultry products for 72 hours, the deadline for which expired Friday, March 17. If the country is free from new cases for the next 28 days after the case was detected, it could recover its status as an "Avian flu free country".

Fitch believes that the initial financial impact of the measures taken is limited, considering that the estimated value of the 41,400 breeding birds (0.16% of the total chicken's stock) culled would reach USD435,000 plus USD800,000 in mitigation costs.

A large part of Agrosuper's chicken and turkey revenues coming from local consumption (around 63% of revenues in 2021). In addition, poultry has shorter production cycles than other proteins such as salmon or pork. This shorter cycle allows for a certain degree of production and commercial flexibility. The chicken and turkey businesses represent 26% and 4%, respectively, of the consolidated revenues in 2021.

However, additional cases could trigger an extension of the ban on exports, which could put additional pressure on the industry and company performance. Reduction of poultry production levels and reallocation of volumes from exports to the local market could have a negative impact on prices and, therefore, on the EBITDA margin of the poultry business.

Agrosuper has a solid business model and conservative capital structure. At the end of 2022, revenues increased by 4.5% to USD4.1 billion, and EBITDA reached USD695 million, resulting in an EBITDA margin of 16.6%. Higher raw costs and a relevant increase in Chinese pork production pressured the meat segment's profitability. This was partially offset by the relevant increase in the salmon segment due to higher prices. Gross and net leverage ratios reached 1.9x and 1.8x, respectively at YE22.

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