

Fitch Ratings Upgrades Minerva to 'BB-'; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch has upgraded the long-term and local currency issuer default ratings (IDRs) of Minerva S.A. (Minerva) and the IDRs and Senior Unsecured ratings of Minerva Luxembourg S.A. to 'BB-' from 'B+'. Fitch has also upgraded Minerva's National Scale rating to 'A-(bra)' from 'BBB+(bra)'. The Rating Outlook is Stable.

A full list of Minerva's ratings follows at the end of this release.

Minerva's rating upgrades reflects the improving fundamentals for beef in Brazil due to the consolidation of the industry during the past few years, and Fitch's expectation of an improvement in the company's credit profile over a sustained period. The recent transaction with BRF S.A. (BRF: Long-Term IDR 'BBB-/Stable'), if completed as planned, will result in BRF owning 15.2% of equity in Minerva. Fitch views this agreement as beneficial to Minerva as it will increase the company's processing capacity, lower the company's leverage, and provide partial ownership and guidance from one of Brazil's largest food companies.

KEY RATING DRIVERS

Positive Industry Fundamentals

The fundamentals of the Brazilian beef industry remain positive due to the abundant cattle herd, low cost structure and positive revenue momentum derived from strong revenue growth from exports, a situation that Fitch does not expect to change in the short term. The industry has been through a consolidation process over the last few years that culminated in the creation of three large export players. Fitch expects this consolidation process to give more stability to the industry at the end of the positive cattle cycle in Brazil. Minerva continues to fully take advantage of that situation due to its strong exposure to export markets (70%). Fitch views Minerva's strategy to expand its processing and distribution capacity in the local market positively. The group's expansion into South America provides further business and geographic diversification to varying degrees.

Reduced Leverage Expected

Fitch expects Minerva's net debt to EBITDA ratio to improve to below 3x over the next two years (3.4x as of the LTM to September 30, 2013), as a result of improved EBITDA due to strong international demand for beef. Fitch also acknowledges the credit-friendly measures taken by the company through its decision to issue or offer equity to finance expansion in the past. This approach taken by management should allow the company to continue to balance its growth while focusing on gradually improving its leverage ratios. Fitch considers Minerva's acquisition of the two slaughtering and deboning plants currently held by BRF as a positive development. This will increase the group slaughtering capacity by 23% without adding new debt. The acquisition is subject to the approval of the administrative council for Economic Defense (CADE).

Positive Performance Expected and Liquidity

Minerva reported improving volumes, revenues and EBITDA in the third quarter of 2013 (3Q'13). For the LTM ended Sept. 30, 2013, Minerva's EBITDA increased to BRL543 million from BRL446 million for the same period in 2012. EBITDA margins remained relatively flat at 10.4% compared to 10.5% in 2012. Fitch projects Minerva will generate positive free cash flow (FCF) from 2013 onwards while continuing to exhibit robust cash flows from operations (CFFO). The company benefits from a strong liquidity position with cash and cash equivalents of BRL1.2 billion, enough to pay the debt amortizations due until 2019. The next material maturity date is 2023 when the USD850million unsecured note is due.

Product and Country Concentration Risks: The ratings incorporate risks associated with geographic and product concentration in beef protein. Being mainly an exports company, Minerva's performance is exposed to exchange rate variations; a downturn in the economy of a given export market; imposition of increased tariffs or commercial or sanitary barriers; strikes or other events that may affect the availability of ports and transportation. Minerva is more exposed to these risks than Brazilian competitors such as JBS S.A. and Marfrig S.A. because of its higher export concentration. Exports represented about 70% of revenues in the third quarter of 2013. The company has managed this risk by arbitraging demand from export markets and expanding its production to other South American countries (Uruguay, Paraguay).

RATING SENSITIVITIES

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A negative rating action could occur as a result of a sharp contraction of the group's performance, increased net leverage as a result of either a large debt-financed acquisition or asset purchases, or as a result of a sharp operational deterioration due to disruptions in exports.

A positive rating action could be triggered by additional geographic and protein diversification and substantial decrease in gross and net leverage.

Fitch upgraded the following as indicated:

Minerva S.A.:

--Local currency Issuer Default Rating (IDR) 'BB-' from 'B+';

--Foreign currency IDR 'BB-' from 'B+';

--National scale rating 'A-(bra) from 'BBB+(bra)';

Minerva Luxembourg S.A.:

--Local currency IDR 'BB-' from 'B+';

--Foreign currency IDR 'BB-' from 'B+';

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--Senior unsecured notes due in 2017, 2019, 2022 and 2023 upgraded to 'BB-' from 'B+/RR4'.

The corporate Rating Outlook is Stable.

Additional information is available at 'www.fitchratings.com'

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 5, 2013);

--'Parent and Subsidiary Rating Linkage' (Aug. 5, 2013).

Applicable Criteria and Related Research:

Corporate Rating Methodology - Effective from 8 August 2012 - 5 August 2013

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=684460

Parent and Subsidiary Rating Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685552

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=812004

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