

Fitch Affirms Sigma Alimentos Ratings at 'BBB-'; Removes Negative Watch; Outlook Stable

Written by Australian Business

MONTERREY, Mexico--([BUSINESS WIRE](#))--Fitch Ratings has affirmed Sigma Alimentos, S.A. de C.V.'s (Sigma) ratings and removed the ratings from Rating Watch Negative as follows:

--Long-term foreign currency Issuer Default Rating (IDR) at 'BBB-';

--Long-term local currency IDR at 'BBB-';

--National scale long-term rating at 'AA(mex)';

--USD450 million senior notes due 2018 at 'BBB-';

--USD250 million senior notes due 2019 at 'BBB-';

--Local Certificados Bursatiles Issuances at 'AA(mex)'.

The Rating Outlook is Stable.

The affirmation and Stable Outlook reflects Fitch's expectation that Sigma's gross leverage measured as total debt to EBITDA will gradually decrease to levels around 2.5x in the following 18 to 24 months after it closes the acquisition of a 63% equity stake of Campofrio Food Group, S.A. (Campofrio). As of May, 2014, Sigma owns 46.75% of Campofrio. Fitch also estimates that Sigma will maintain its growth trend in revenues and EBITDA, combined with solid free cash flow generation and adequate liquidity to face its debt amortizations. Sigma expects to close the acquisition of Campofrio during the second quarter of 2014.

KEY RATING DRIVERS

Strong Business Position

Sigma's ratings are supported by its important size, scale and solid positions as a producer of processed food (processed meats, cheese, yogurt and pre-cooked meals), in Mexico, the U.S., Central America, the Dominican Republic and Peru, with a strong and diversified portfolio of brands, and an extensive distribution network. In Mexico, its main market, the company has a relevant position as a producer of processed meats, cheese and yogurt, while in the U.S. Sigma is the largest producer of packaged meats in the value segment under the brand Bar-S. Additionally, Fitch anticipates that Sigma will strength is business position in the industry with the acquisition of Campofrio, which is a largest producer of processed meat products in Europe based on revenues.

Geographical and Product Diversification

Fitch believes that geographic diversification of revenues and EBITDA generation lowers business risk and cash flow volatility. Once the integration of Campofrio is concluded, Sigma will enhance its geographically diversified revenue stream and cash flow generation, as well as its portfolio of brands. On a proforma basis including Campofrio, Sigma will generate approximately 60% and 43% of its total revenues and EBITDA, respectively, from its operations outside of Mexico. Hard currency generation from Europe and the U.S. will represent around 40% and 14% of total revenues, and 28% and 13% of total EBITDA, respectively. In terms of product diversification, approximately 55% of Sigma's total revenues will come from chilled processed meats, 19% from dry meats, 17% from dairy products (cheese and yogurt, among others) and 9% from others.

Solid Operating Performance

Fitch expects a significant growth in Sigma's revenues and EBITDA and a slight decline in its consolidated profitability margins once the acquisition of Campofrio is concluded. Campofrio's annual revenues and EBITDA generation during 2013 were EUR1.9 billion and EUR146 million, respectively, which represented around 69% and 39% of Sigma's consolidated figures. Fitch estimates that Sigma's consolidated EBITDA

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margin will slightly decline to levels of approximately 11% to 12% due to the consolidation of Campofrio. Fitch considers that current pressures in Sigma's profitability coming from higher costs of raw materials are expected to be offset by price increases and continuous cost reduction initiatives and operating efficiencies.

Deleverage Expected after Campofrio's Acquisition

The ratings incorporate a decrease in Sigma's gross leverage following the integration of Campofrio. Fitch expects Sigma's proforma total debt to operating EBITDA will increase to approximately 3.1x by 2014 and will gradually decrease to levels around 2.5x in the following 18 to 24 months through a combinations of debt reduction using free cash flow generation and EBITDA growth. In addition, Fitch will view as positive for the ratings if Sigma uses the proceeds of a potential initial equity issuance to further deleverage the company. Sigma's long-term net debt target is between 1.5x to 2.5x.

Strong Free Cash Flow Generation

Fitch anticipates that Sigma will maintain a solid free cash flow generation after covering capex and dividends. For 2014, excluding Campofrio, Fitch estimates that Sigma's capital expenditures and dividends will be approximately MXN1.9 billion and MXN1.1 billion, respectively. Going forward, on a proforma basis including Campofrio, Fitch expects that Sigma will increase its FCF generation over the medium to long term due to its increase in revenue base and EBITDA generation. Sigma's FCF has averaged annually in the last two years approximately MXN1.6 billion, which provides financial flexibility to manage its capital structure.

Adequate Liquidity

Sigma's liquidity position is adequate with cash and marketable securities of MXN1.8 billion, USD100 million of committed credit facilities and MXN3.9 billion of short term debt as of Mar. 31st, 2014. The company's debt amortization of MXN1.6 billion related to local issuances due in 2014 will be paid as scheduled. Fitch also incorporates in the ratings that Sigma will assume around EUR585 million of debt coming from Campofrio of which EUR500 million is related to Senior Notes due in 2016. Given the company's ample access

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to capital markets and bank loans, Fitch believes Sigma will be able to refinance these notes before its maturity. In addition, Fitch believes Campofrio can pay dividends to Sigma once the operations are fully integrated.

RATING SENSITIVITIES

Fitch will view as positive to credit quality a combination of debt reductions or higher operating income and cash flow generation that will approximate gross leverage, measured as total debt to EBITDA, to around 2.0x. However, Sigma's ratings could come under pressure by a deterioration of its financial performance and cash flow generation or by a large debt acquisition that results in a sustained increase in gross leverage above 3.0x.

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

Applicable Criteria and Related Research:

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

Applicable Criteria and Related Research:

Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139

Additional Disclosure

Solicitation Status

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