

Rating Action: Moody's upgrades Campofrio to Ba2; outlook positive from stable

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London, 22 March 2017 -- Moody's Investors Service, ("Moody's") has today upgraded Campofrio Food Group, S.A. ("Campofrio") corporate family rating (CFR) to Ba2 from Ba3 and probability of default rating (PDR) to Ba2-PD from Ba3-PD. Concurrently, Moody's has also upgraded to Ba2 from Ba3 the ratings on the EUR500 million senior unsecured notes due 2022. In addition, the outlook on all ratings has been changed to positive from stable.

RATINGS RATIONALE

"Moody's decision to upgrade Campofrio's ratings and to assign a positive outlook reflects the good financial results achieved in 2016 despite the challenging period characterized by the reconstruction of its main factory, the partial repayment of the senior notes, and an increased integration with its parent company." says Emmanuel Savoye, an AVP at Moody's.

Campofrio's improved credit profile was driven by (1) positive 2016 year-end results; (2) the successful reconstruction of the Burgos factory; (3) the partial repayment of the EUR500 million senior notes financed by an intercompany loan from Campofrio's parent company, Sigma Alimentos S.A. de C.V. (Sigma, Baa3 stable).

The company reported 1% revenue growth in 2016 to EUR1,941 million and a 3% increase in volumes to 444 tonnes, in a continued low raw material price environment. The main Southern European segment (Spain, Portugal and Italy) reported a solid 3% sales growth, which mitigated a weaker performance in Northern Europe, where volumes and revenues declined by 6% and 5% respectively. We note positively that the company maintained leading market shares, despite the fire that destroyed its main factory in Burgos (Spain) in late 2014. Campofrio reported EUR150 million of EBITDA in 2016 compared to EUR158 million in 2014 and EUR178 million in 2015. The latter number however included EUR77 million of insurance proceeds for business interruption caused by the fire, and hence is not directly comparable. As of year-end 2016, the Moody's adjusted Debt/EBITDA is 4.5x (3.5x excluding factoring adjustment) and we expect a decrease to around 4.0x in the next 12 months.

Following the completion of the factory reconstruction in November 2016, we believe that the company has successfully completed a challenging transition year. The factory is now ramping-up with current capacity utilisation of 20-30%, and we expect full capacity to be reached as soon as in the Summer of 2017. In the meanwhile Campofrio had to outsource part of its production needs to third parties at a relatively higher cost. With new and technologically advanced production lines the factory will provide sizeable efficiency gains to Campofrio and will support margins from the second half of 2017.

Campofrio has completed repayment of EUR100 million out of the EUR500 million senior notes. The company has repaid the notes with its accumulated cash balance, which was substantial at EUR338 million as of 31 December 2016. According to the bond indenture the company can do an optional prepayment of up to 10% of the notes every 12-month period from the issuance date at a price of 103.

At the same time, the transaction is cash neutral following the issuance of a EUR100 million intercompany loan from Campofrio's parent company, Sigma. In our view, this reflects a strong willingness from the parent to support the company, the strategic importance of Campofrio for the group, and an increased level of integration. Campofrio's CFR of Ba2 incorporates a one notch uplift for parental support from Sigma Alimentos S.A. (Baa3 stable).

Campofrio has a very good liquidity profile. The company has committed credit lines totalling EUR71 million available until 2018, and as of 31 December 2016 cash balances of EUR338 million, accumulated thanks to the insurance claim advances received in 2014-15 and cash flow generation. Campofrio's liquidity will allow to comfortably cover the remaining EUR125 million costs still due in 2017 for the factory reconstruction.

STRUCTURAL CONSIDERATIONS

Campofrio's capital structure is represented by the EUR500 million of senior unsecured notes due 2022 (EUR400 million notional amount outstanding after the partial repayments made in Q1 2017) and the EUR100 million intercompany loan issued by Sigma. The rating on the senior unsecured notes is Ba2, in line with the CFR. The notes have been issued at the parent company, Campofrio Food Group S.A., and benefit from upstream guarantees by operating subsidiaries representing a minimum of 75% of consolidated EBITDA and assets.

OUTLOOK

The positive outlook is based on the expectation that on a standalone basis the company will maintain its current operating performance and achieve gradual deleveraging combined with improvement in its adjusted EBIT margin.

WHAT COULD CHANGE THE RATING UP/DOWN

There could be upward pressure on the rating if there is an improvement in the company's profitability leading to sustainable adjusted Debt/EBITDA of around 3.5x, combined with a material improvement in the adjusted EBIT margin while generating positive free cash flow and maintaining a good liquidity profile.

On a standalone basis, the ratings could be downgraded if adjusted Debt/EBITDA increases towards 5.0x. Any significant negative trends in the company's key markets are also likely to result in downward rating pressure.

Campofrio's ratings could also change if there are any material changes to the nature of parental support.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Packaged Goods published in January 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Headquartered in Madrid, Campofrio is the largest producer of processed meat products in Europe. The company produces cooked ham, hot dogs, dry sausages and dry ham - together, accounting for three quarters of the company's sales volumes - as well as poultry, cold cuts, ready meals and pâtés. Campofrio generated revenue of EUR1,941 million in 2016 and Moody's-adjusted EBITDA of EUR162 million. The company is 100% owned by Sigma Alimentos España, S.L., a subsidiary of Sigma Alimentos S.A. de C.V. (Sigma, Baa3 stable), a subsidiary of Alfa, S.A.B. de C.V. (Alfa, Baa3 stable).

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