

**RATING ACTION COMMENTARY****Fitch Affirms Embotelladora Andina at BBB+; Outlook Stable**

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**Related Content:**

[Embotelladora Andina S.A.](#)

Fitch Ratings - Monterrey - 09 May 2024: Fitch Ratings has affirmed the Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) of Embotelladora Andina S.A. (Andina) and its international senior unsecured notes at 'BBB+'. Fitch has also affirmed the company's national scale ratings at 'AA+(cl)'. The Rating Outlook is Stable.

Embotelladora Andina S.A.'s ratings reflect its resilient operating performance, maintaining strong credit metrics despite challenging economic conditions. The ratings also factor in Andina's solid business position due to the strong brand equity of The Coca-Cola Company.

**KEY RATING DRIVERS**

**Resilient Business Profile:** Andina's strong brand portfolio supports revenue visibility and cash flow stability. Fitch forecasts low single-digit volume increases in 2024-2027, despite weak macroeconomic conditions in Chile and Argentina which represent around 56% of the forecasted volume in 2024. Fitch expects EBITDA margins to be 17%-18% over the next four years, reflecting the company's ability to transfer cost inflation to final prices, while improving product sales mix in Brazil.

**High Exposure to Argentina and Brazil:** The ratings factor Andina's significant EBITDA exposure to Argentina (CC) and Brazil (BB/Stable), which are non-investment-grade countries. The Argentinian operation, which accounted for 19% of EBITDA in 2023, will continue to face challenging macroeconomic conditions in 2024. The forecasted GDP contraction of 3.6% and ongoing hyperinflation are expected to negatively impact Andina's sales volumes in 2024. In contrast, Fitch expects that EBITDA from Brazil, which was

around 30% of total consolidated in 2023, will increase due to higher volumes, at better product price mix and diluting fixed costs.

**Stable Credit Metrics:** Fitch believes Andina will continue to maintain strong credit metrics, with a resilient EBITDA generation and a conservative capital structure. For 2024-2027 Fitch expects debt/EBITDA and Net debt/EBITDA ratio to remain below 2.0x and 1.5x, respectively, which are well positioned in the rating category. We also incorporate operational performance improvements as a result of the implementation of revenue management strategies and higher consolidated sale volumes during the period.

**Adequate FCF Generation:** Fitch expects that Andina's FCF generation will remain positive supporting the company's liquidity position, absent material inorganic growth. For 2024-2027, Fitch expects FCF margin in the low single digits, which is in line with our previous projections. We also consider dividend payments of around CLP160 billion per year combined with annual capex of CLP210 billion in 2024 and CLP170 billion in 2025-2027, approximately.

**Equity Rating:** Andina's equity rating is based on its long track record in the Santiago Stock Exchange and its adequate market cap, free float and high liquidity of 'B'-rated shares. The rating is constrained by the moderate liquidity of 'A'-rated shares and lower voting rights of 'B'-rated shares.

## DERIVATION SUMMARY

Andina's net leverage is higher than its peers Arca Continental, S.A.B. de C.V. (A/Stable) and Coca-Cola FEMSA, S.A.B. de C.V. (KOF; A/Negative), which are roughly 0.5x-1.0x. Andina, Arca and KOF benefit from the Coca-Cola brand, which allows them to have high market shares in the countries where they operate. Andina's credit profile is tempered by the weak sovereign ratings of Brazil and Argentina, while KOF and Arca derive more than half of their EBITDA from investment-grade countries. No Country Ceiling or parent/subsidiary aspects affect the rating.

## KEY ASSUMPTIONS

- Volume growth in line with GDP growth in the countries where the company is present;
- EBITDA margin averaging 17.9% during the 2024-2027 period;
- Annual Capex of USD250 million in 2024 and USD200 million in 2025-2027;

--Dividends payment of USD180 million per year (CLP160 billion).

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Higher EBITDA contribution from investment grade countries;

--Gross and net leverage consistently below 2.0x and 1.5x, respectively;

--A robust product diversification toward multiple beverage categories, different consumption patterns, consumer groups and a wide range of pricing points.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A downgrade of Brazil's sovereign rating would pressure the ratings;

--Gross and net leverage above 3.0x and 2.5x, respectively, for a sustained period of time.

## **LIQUIDITY AND DEBT STRUCTURE**

### **Ample Liquidity:**

Andina reported cash of CLP303 billion as of December 2023. Short-term debt was CLP41.6 billion and total debt reached CLP983 billion as of FY23. Andina issued in 4Q23 a CHF170 million international bond for refinancing purposes that will mature in September 2028, currently hedged. The company uses exchange rate hedging agreements to cover obligations from the acquisition of long-term assets, raw material purchases, and/or to cover interest in short- and long-term debt.

## **ISSUER PROFILE**

Andina is the third largest Latin American Coca-Cola bottler by volume and the seventh largest Coca-Cola bottler worldwide. It produces, distributes and markets Coca-Cola soft drinks along with juices and mineral waters in Chile, Argentina, Brazil and Paraguay. It also distributes beer in Chile, Brazil and Argentina and spirits in Chile.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅		PRIOR ⇅
Embotelladora Andina S.A.	LT IDR	BBB+ Rating Outlook Stable	BBB+ Rating Outlook Stable
	Affirmed		
	LC LT IDR	BBB+ Rating Outlook Stable	BBB+ Rating Outlook Stable
	Affirmed		
	Natl LT	AA+(cl) Rating Outlook Stable	AA+(cl) Rating Outlook Stable
	Affirmed		
	Nat Equity Rating		Primera Clase Nivel 2(cl)
	Primera Clase Nivel 2(cl)	Affirmed	
senior unsecured	LT	BBB+ Affirmed	BBB+

senior unsecured

Natl LT

AA+(cl) Rating Outlook Stable

AA+(cl) Rating  
Outlook  
Stable

Affirmed

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## APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Chilean Equity Rating Criteria \(pub. 10 Aug 2021\)](#)

[Metodología de Clasificación de Acciones en Chile \(pub. 10 Aug 2021\)](#)

[Corporate Rating Criteria \(pub. 03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 3 November 2023 to 21 June 2024 \(pub. 03 Nov 2023\)](#)

[Metodología de Calificación de Finanzas Corporativas \(pub. 22 Dec 2023\)](#)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 ([1](#))

## ADDITIONAL DISCLOSURES

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Embotelladora Andina S.A.

EU Endorsed, UK Endorsed

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