MOODY'S RATINGS

Rating Action: Moody's Ratings assigns a Baa1 issuer rating to Embotelladora Andina S.A. Y Filiales, stable outlook

06 Feb 2025

New York, February 06, 2025 -- Moody's Ratings (Moody's) assigned a Baa1 Issuer Rating to Embotelladora Andina S.A. Y Filiales (Andina); the outlook is stable.

RATINGS RATIONALE

The Baa1 issuer rating benefits from a one-notch rating uplift, reflecting the implied support from The Coca-Cola Company (TCCC, A1 stable).

The standalone rating is supported by Andina's strong business profile as one of the largest Coca-Cola bottlers in Latin America, consistently demonstrated stable financial performance throughout the years, favorable consumption trends in key markets with positive growth prospects and good liquidity driven by strong operating cash generation, comfortable maturity profile and flexibility under capital investment plans. The rating, however, is constrained by the company's exposure to certain markets with a less stable economic and political environment, which might result in potential performance volatility and foreign-currency fluctuations. Andina's credit profile is also limited by a more narrow geographic diversification and lower scale relative to other bottlers in the Coca-Cola system.

The stable rating outlook reflects our expectation that, despite a generally limited scale, Andina would be able to maintain a stable operating performance throughout demand cycles driven by the strength of its product portfolio and financial prudency. Therefore, the company should continue to generate strong cash from operations and to manage capital investments and dividends in order to protect liquidity. The stable outlook also reflects our assumption that leverage will decline modestly over the next 12-18 months supported by the ramp up of recent expansions. Specifically we expect Moody's adjusted gross debt to EBITDA to remain below 2.0x through 2026. We also expect Andina to remain focused on its core geographies in South America for the period with no significant M&A.

Liquidity is strong. Andina maintains a strong liquidity position with a cash balance of CLP249 billion as of December 2024, enough to cover for the maturities of the upcoming 5 years. The next large maturity is scheduled by 2028, when CLP173 billion in bonds mature followed by CLP220 billion in bonds that mature in 2039. Although we expect free cash flow to be generally flat or slightly negative after capital investments and dividends, our assessment of Andina's liquidity considers strong operating cash generation averaging CLP400 billion each year through 2026 and flexibility to scale back investments, especially after 2024 when expansions, including the one in the Brazilian beer business, are concluded. Through 2026 annual capex would remain at close to CLP230 billion and dividends close to CLP180 billion. Similar to other Latin American companies, Andina does not maintain a committed revolving credit facility for backup purposes, but instead uses uncommitted bank lines and cash reserves to cover unforeseen liquidity needs. Andina's capital structure includes a $300 million global bond due 2050 and a CHF170 million due in 2028. The balance of its debt is denominated in Chilean Pesos. Due to its geographic footprint the company faces foreign currency risk, an exposure that covers through cross currency swaps to better match the currencies in which it generates cash. Considering hedges, the currency breakdown of Andina's total debt is 40% denominated in UF (Unidad de Fomento, Chilean inflation indexed unit), 40% in Chilean pesos, 15% in Brazil Real and 5% in Argentine pesos.

Governance is a key driver of this rating action, as management is a strength with good track record and credibility, as well as conservative measures to ensure consistent strong liquidity and low leverage.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Andina's modest scale and exposure to lowly-rated emerging markets currently limits the upside potential on the rating. However, upward pressure on the rating could materialize if the company's operating performance and credit metrics remain strong, specifically with Moody's-adjusted retained cash flow (RCF) to net debt increasing above 30.0% on a sustained basis, and exposure to riskier markets reduces, while maintaining strong liquidity. Conversely, given the larger exposure to volatility throughout demand cycles given its limited scale, Andina does not have significant leverage cushion under its Baa1 rating. Specifically, downward pressure would arise if our adjusted gross debt to EBITDA raises above 2.5x on a sustained basis. Operational challenges that pressure operating margins and leads to a decline on retained cash flow to net debt below 15% or a deterioration in liquidity would also pressure the rating down.

The principal methodology used in this rating was Soft Beverages published in September 2022 and available at https://ratings.moodys.com/rmc-documents/393388 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Based in Santiago de Chile, Andina is one of the largest Coca-Cola bottlers in Latin America, operating in Argentina, Brazil, Chile, and Paraguay. The company focuses on producing, bottling, and distributing a wide range of beverages, including soft drinks, waters, juices, and alcoholic beverages. Andina is publicly listed in both the Chilean Stock Exchange (Bolsa de Comercio de Santiago) and NYSE and through a 39.3% stake, a group of four Chilean families who have equal parts, control the company; The Coca-Cola Company (TCCC) holds 7.3%. In 2024 the company reported revenues of CLP3,224 billion ($3.4 billion).

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/435880 .

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