Capital Markets Argentina

Food

SAN MIGUEL 2Q19

www.capitalmarkets.com.ar
Esmeralda 130 Piso 5 (1035) | 54 (11) 4320-1900

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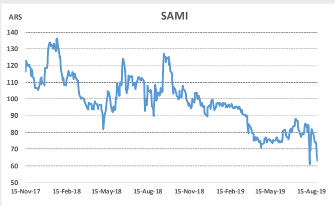
mleiva@capitalmarkets.com.ar
October 19

SAMI
ARS 64.5 Aug, 26th
Target Price:
ARS 160

Rating
Market Out Performer

Price Range (ARS)	
52 wk. Min.	**52 wk. Max.**
ARS 53	ARS 131



	Net Sales (ARS mill)	EBITDA (ARS mill)	Net Income (ARS mill)	EV/ EBITDA (x)	P/BV (X)	P/E (x)	EPS (AR$)
2018	9.958	2.228	-1.103	4.7	0,4	NA	NA
2019E	11.777	2.753	980	4.1	0,4	4.7	13.8
2020E	13.543	4.349	740	2.8	0.4	4.3	10.4

Share Outstanding (ARS m)	71.2	Book Value (ARS m)	12.567
Market Cap (ARS m)	4.611	P/BV (mrq)	0.4
Net Debt (ARS m)	12.078	EPS (ttm)	4.3
EV (ARS m)	20.463	P/E (ttm)	15.2

Adverse climate weighed on the period´s harvest and sales. A recovery is likely in the next quarter, when the majority of sales is booked

As anticipated in the previous release, **Argentina´s lemon production was hit by unfavorable climatic conditions**, impacting on fruit quality and exports. South Africa´s business suffered a similar situation. However, **in the remaining subsidiaries (Uruguay and Peru), production was above last year´s**, with an excellent setting for avocado production and sales in Peru. Furthermore, **Processed Food segment reached maximum capacity due to excess fruit availability**.

Indebtedness levels were as expected, in line with the business's seasonality. A change in accounting standards regarding operating leases, resulted in a USD 18 million financial net debt increase.

Results: Net sales during the first half rose 15.3% to ARS 1.325 million. Prices of goods sold translated to pesos reflected the benefit from the currency´s strong depreciation. However, a smaller harvest in Argentina, turned fixed unit costs higher, hence, Gross Margin dropped to 77.1%. EBITDA fell to ARS 147 million, below last year´s, explained by a smaller Operating Income (ARS 12 million). As operating expenses in pesos were higher, impacted by rising inflation in all four countries. The Operating Margin fell to 0.9%.

Fresh Fruit: Sales totaled ARS 800 million, increasing 86% yoy boosted by sales of grapes and avocado, both from Peru. In particular avocado, which this year´s production was above estimates, as were market conditions. Total production in tons during the first half fell 15%, driven by Argentina´s underperformance, as production in Uruguay, South Africa and Peru was higher. The Gross Margin fell to 91.6%.

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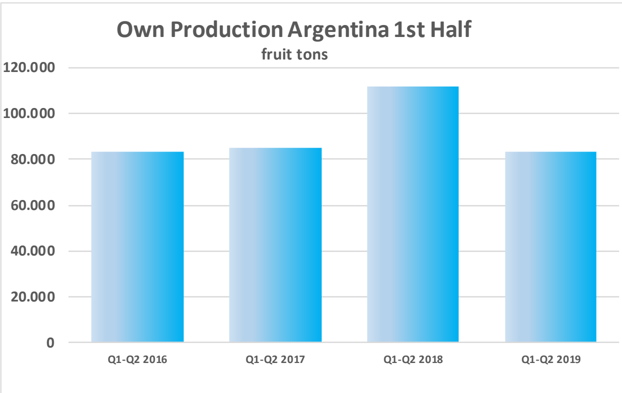
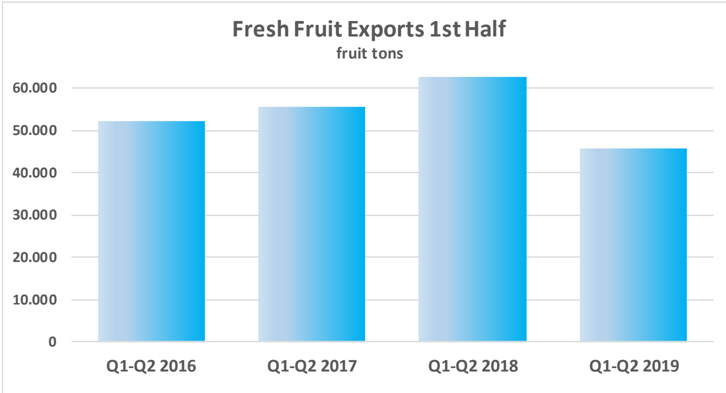
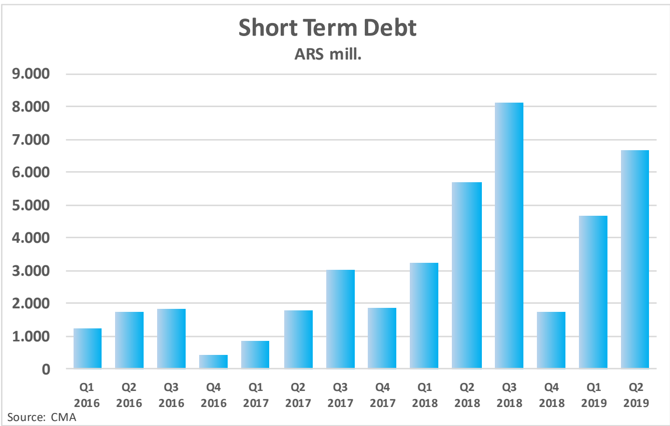
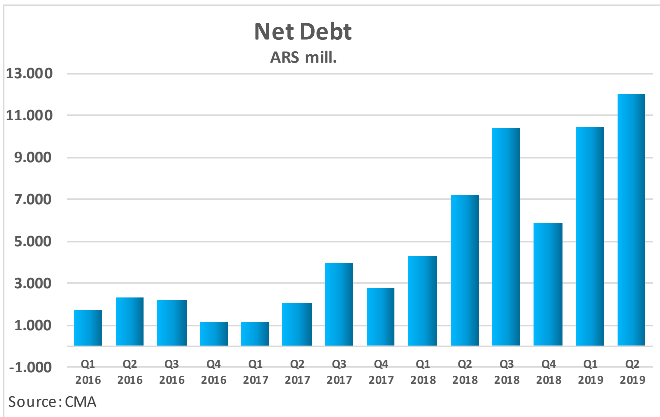
Processed Food: Net sales fell 22% yoy to ARS 525 million, driven by lower processing in Argentina during 1Q. However, the business unit took advantage of excess raw material (i.e. fresh fruit), achieving cost efficiencies and improving Gross Margin from 35.9% to 54.9%.





Indebtedness: Debt levels were within historic parameters. Net Debt, excluding the above mentioned leases, rose to ARS 12.078 million (USD 267 million), aligned with the operation´s requirements. When stated in pesos Net Debt grew 68%, but only 7% when measured in USD, which is the main indebtedness currency.





Outlook: Argentina´s Fresh Fruit underperformance is expected to impact second half results, although subsidiaries are expected to produce above last year´s volumes, offsetting part of the decline. Market conditions signal tight prices but within forecasts, in particular for fresh lemon destined to the US and Russia.

- **Advantages:**
- Export oriented, income in hard currency (USD and Euros)
- Majority of debt denominated in hard currency (USD and Euros), aligned with main income currencies
- Positive impact in Argentina´s operating margins due to export duties' reduction
- Does not rely on domestic market demand in countries where it has operations
- Operating costs in currencies which depreciate relative to sales currencies

- **Disadvantages:**
- High inflation and macro instability in Argentina, main business
- Argentine peso depreciation relative to the currencies of the other three subsidiaries
- Low market cap
- South Africa land expropriation at minimum risk for now

Valuation: Results reflect investment in Peru contributed to smooth seasonal effects of citric production on quarterly figures, and contribution from Expansion Plans aimed at incorporating new distribution channels and diversify sales. As highlighted in the previous report, 2019 is a more conservative year in terms of production and market conditions. Further weakened by political and macroeconomic uncertainty in Argentina. We stick to our Market Outperforming rating. The target price is calculated through DCF is ARS 160.

Sensitivity

Country Risk	WACC	Target Price
2019	%	ARS
2.000	32,0	160
1.000	15,0	165
500	9,6	362

Source: CMA

mleiva@capitalmarkets.com.ar

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APPENDIX

Finacial Statements

(ARS M)	6M 2019	6M 2018	2018	2019e
Income Statement				
Fresh Fruit	800	475	4.805	5.300
Processed Fruit	525	674	5.153	6.477
Net Sales	1.325	1.149	9.958	11.777
Gross Profit	1.021	1.246	3.637	7.251
Gross Margin	77%	108%	37%	46%
Fresh Fruit	92%	211%	22%	35%
Processed Fruit	55%	36%	50%	55%

Balance Sheet		
Property, plant & equipment	18.775	16.493
Inventory	3.823	1.314
Biological Assets	3.012	1.577
Other ST assets	3.511	2.062
Total Assets	30.259	22.833
LT debt	6.174	4.930
ST debt	6.686	1.752
Accounts payable	2.256	2.304
Total Liabilities	18.623	12.213
Net worth	11.636	10.621

Source: CMA - San Miguel

(ARS M)	2018	2019e	2020e	2021e
Net Sales	9.958	11.777	13.543	15.575
Change Biological Assets	1.246	1.393	1.800	1.800
Cost of Revenue	7.567	8.018	8.803	10.124
Gross Profit	3.637	5.152	6.540	7.251
Operating Expenses	1.824	2.908	2.700	3.105
EBIT	1.813	2.244	3.840	4.146
Income Tax	301	673	960	1.037
Net Income	-1.103	980	740	1.169

Source: CMA - San Miguel

Graciela Cairoli
Director

Alejandro Quelch
Head of Research Department
aquelch@capitalmarkets.com.ar

María Teresa Leiva
Macroeconomic Analyst
mleiva@capitalmarkets.com.ar

Jaime Krause
Head of Asset Management
Portfolio Manager

Juan José Guma
Analyst
jguma@capitalmarkets.com.ar

Noelia Lucini, CFA
Fixed Income Strategy.
Portfolio Manager

Valeria Flores
Virtual Library Administrator.
Assistant
vflores@capitalmarkets.com.ar

Nicolas Viveros
Semi Senior Analyst (Fixed Income)
nviveros@capitalmarkets.com.ar

Dolores Jáuregui
Communication with external Analysts
Assistant
djauregui@capitalmarkets.com.ar

Agustin Giannattasio, CFA
Equity Senior Analyst
agiannattasio@capitalmarkets.com.ar

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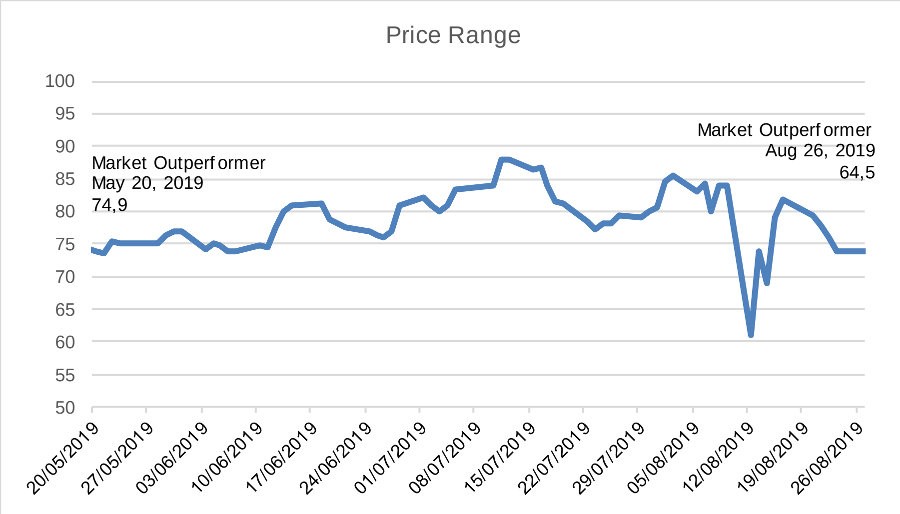

As from August 26, 2019, the formula is:	
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