MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes SMU's outlook to positive; affirms B3 ratings

Global Credit Research - 12 Mar 2018

New York, March 12, 2018 -- Moody's Investors Service ("Moody's") has revised SMU S.A (SMU)'s outlook to positive from stable and affirmed its B3 corporate family rating and the B3 rating on its USD 300 million senior unsecured notes due 2020.

RATINGS RATIONALE

The change on SMU's outlook to positive from stable primarily reflects the clear advances in the company's operating performance and credit metrics over the last several quarters driven both by liquidity events and the ongoing improvement in operating performance. Accordingly, the company completed capital increases in January and November 2017 for about USD 350 million. In addition, SMU expects to sell Construmart, a subsidiary that the company has identified as non-core, for about USD 75 million by mid-2018. The company has already signed a binding agreement for the sale and is awaiting regulatory approval to finalize the transaction.

We expect such initiatives to be fully incorporate in SMU´s balance sheet by 1H18. Leverage measured by adjusted debt/EBITDA reduced to 6.2x in the LTM ended September 2017 (from 10.9x in 2014) and an adjusted EBITDA margin reached 8.1% (versus 5.5%) in the same period. Going forward, we expect further -- additional improvements in credit metrics, with Adjusted Debt/Ebitda ratio to reach 5.2x and 4.8x as of 2018 and 2019 respectively.

The company has been also improving its operating performance following the implementation of a number of efficiency measures under its updated "Triennial Plan" in 2014-6. For 2017-19 SMU's new profitability strategy plan, known as CIMA, continues to aim for profitable and sustainable organic growth in six strategic pillars: customer experience; operating efficiency; organizational excellence; sustainability; technological development; and strengthening its financial position. Operating margins have increased to 4.8% as of LTM ended September 2017 from 1.5% as of December 2014. Going forward, we expect stability in operating results, with room for further marginal improvements.

SMU's liquidity is still tight, with cash on hand covering only about 40% of its short term debt as of September 2017, despite the recovery in cash generation since 2015. Moody´s considers that a low liquidity cushion exposes the company to high refinancing risk and leaves it vulnerable in case of any potential external shocks.

SMU´s ratings are supported by the company's exposure to the defensive food industry through its extensive supermarket footprint in Chile, which potentially reduces revenue and margin volatility. Although Moody's acknowledges the company's improvements during the last quarters, SMU's B3 ratings are constrained by the company's weak liquidity position, amidst a competitive operating environment.

An upgrade could occur over time if SMU continues to improve its overall credit metrics, cash generation and operational performance. A positive rating action would also be dependent on an improvement in the company ´s liquidity profile. Quantitatively, an upgrade would also require leverage ratios below 5 times and interest coverage of at least 2.25x on a sustained basis.

On the other hand, the ratings could be downgraded in case of deterioration in SMU's credit metrics, operating performance or liquidity.

The principal methodology used in these ratings was Retail Industry published in October 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Based in Santiago, Chile, SMU is a diversified retailer with operations across the entire country and Peru. The company's multi-brand and multi-sector strategy focuses on supermarkets, wholesale, convenience stores and e-grocery outlets, as well as a construction materials business that is currently held for sale. As of last twelve months ended September 30, 2017 SMU reported total revenues of approximately USD 3.8 billion.

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