

Chile Beverage Sector

New Beverage Taxes Potential Earnings Impact

- **Citi's Take:** We estimate the proposed higher beverage tax could impact annual EBITDA at between 1% and 4% for CCU, Concha y Toro, and Andina stocks (see Figure 1). Interestingly, this is a similar estimated earnings impact to the Mexican food and beverage companies that are subject the new sugar taxes that began in January. We expect the Chilean beverage industry to lobby against the proposal citing its regressive nature, negative impact on employment and investments. In addition, we expect that congress representatives from regions that grow wine grapes, pisco grapes, and barley to oppose the tax proposal. If the tax is approved, we expect the companies to pass it on to consumers with higher prices ranging between 4% and 26%, depending on the category. We maintain our Buy rating on Concha y Toro and our Neutral rating on CCU and Andina.
- **News:** On April 1, in the afternoon, the details of the Bachelet administration's newly unveiled beverage tax proposal were released. The ad valorem excise tax would increase to 20.5% from 15% in beer, to 24% from 15% in wine, to 35.5% from 27% in pisco, and to 18% from 13% in sugary drinks. In addition, there is a new alcohol tax of 3 UTM per hectoliter of pure alcohol (estimated ChP1,270/Liter). In the coming months, the proposal will be debated in Congress and would require a simple majority for its approval. Our research suggests the congressional debate process is 3-7 months based on the 4 prior alcohol tax proposals during the last 14 years that failed to materialize. Another piece of the tax proposal is a higher statutory corporate tax rate to 25% from 20% staggered through 2017.
- **We estimate 2015E consolidated EBITDA could decrease by 4.1%, 1.6%, and 1.1% for CCU, Concha y Toro, and Andina, respectively, as a result of the new taxes.** The impact for Ambev and Nutresa in Chile is not material. We note that given the lower price/liter, the final price increase would be more for Ambev and Concha y Toro's beer and wine products than CCU's. In addition, with higher relative prices of wine/spirits over beer, we expect trading down between those categories, which would partially offset the impact on CCU and Ambev. Similarly, a moderate trading down to powdered soft drinks from RTD beverages would partially offset the impact on Nutresa.

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Figure 1. Exposure to Chile Beverage Potential Excise Tax Increase

Market	Cap	% of 2015E Consolidated		Retail Price Increase	Price Elasticity	Impact	
		Sales	EBITDA			Sales	EBITDA
CCU beer		29.7%	44.6%	13.7%	0.4	-5.5%	-6.5%
CCU wine		5.0%	3.1%	22.5%	0.3	-6.7%	-9.8%
CCU spirits		6.1%	3.2%	24.2%	0.2	-4.8%	-7.5%
CCU non-alcoholic		21.9%	21.5%	4.4%	0.5	-2.2%	-2.9%
CCU	4,050	62.7%	72.4%	12.2%	0.4	-2.7%	-4.1%
Concha y Toro	1,496	15.6%	14.6%	25.8%	0.3	-1.2%	-1.6%
Andina	3,145	26.0%	37.7%	4.4%	0.5	-0.6%	-1.1%
Ambev	117,486	2.8%	3.0%	15.3%	0.4	-0.2%	-0.2%
Nutresa	6,336	2.5%	2.5%	4.4%	0.5	-0.1%	-0.1%

Source: Company Reports and Citi Research Estimates

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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CCU.N: Fiscal year end 31-Dec					Price: US\$21.92; TP: US\$24.00; Market Cap: US\$4,050m; Recomm: Neutral				
Profit & Loss (ChPm)	2012	2013	2014E	2015E	Valuation ratios	2012	2013	2014E	2015E
Sales revenue	1,075,690	1,197,227	1,251,229	1,386,903	PE (x)	16.7	17.5	15.9	13.5
Cost of sales	-493,087	-536,697	-566,154	-619,223	PB (x)	3.1	2.2	2.1	2.0
Gross profit	582,603	660,530	685,076	767,680	EV/EBITDA (x)	11.5	9.9	8.9	7.8
Gross Margin (%)	54.2	55.2	54.8	55.4	FCF yield (%)	1.4	3.3	3.2	3.7
EBITDA (Adj)	235,948	255,501	263,635	304,284	Dividend yield (%)	3.5	2.9	3.0	3.4
EBITDA Margin (Adj) (%)	21.9	21.3	21.1	21.9	Payout ratio (%)	58	51	47	46
Depreciation	-54,760	-64,246	-67,163	-78,281	ROE (%)	19.4	15.7	13.7	15.3
Amortisation	0	0	0	0	Cashflow (ChPm)	2012	2013	2014E	2015E
EBIT (Adj)	181,188	191,255	196,472	226,003	EBITDA	235,948	255,501	263,635	304,284
EBIT Margin (Adj) (%)	16.8	16.0	15.7	16.3	Working capital	-25,665	-720	-12,602	-20,783
Net interest	-9,362	-15,830	-8,008	-5,370	Other	-71,439	-60,626	-48,719	-57,952
Associates	-177	309	98	113	Operating cashflow	138,845	194,155	202,314	225,549
Non-op/Except	-10,539	-5,136	-1,586	-1,799	Capex	-112,573	-120,710	-131,700	-142,831
Pre-tax profit	161,110	170,598	186,976	218,947	Net acq/disposals	-19,522	-14,566	0	0
Tax	-37,133	-34,704	-37,395	-43,789	Other	-2,245	-1,641	-1,943	-1,792
Extraord./Min.Int./Pref.div.	-9,544	-9,869	-10,284	-10,947	Investing cashflow	-134,340	-136,918	-133,643	-144,623
Reported net profit	114,433	126,025	139,297	164,211	Dividends paid	-66,117	-63,681	-65,909	-74,791
Net Margin (%)	10.6	10.5	11.1	11.8	Financing cashflow	-80,167	251,622	-91,162	-93,329
Core NPAT	114,433	126,025	139,297	164,211	Net change in cash	-75,728	306,516	-22,492	-12,403
Per share data	2012	2013	2014E	2015E	Free cashflow to s/holders	26,272	73,445	70,614	82,718
Reported EPS (ChP)	718.57	687.12	756.11	891.33	Chile Beer (ChPm)	2012	2013	2014E	2015E
Core EPS (ChP)	718.57	687.12	756.11	891.33	Chile Beer Volume (kHL)	5,442	5,536	5,750	6,009
DPS (ChP)	415.18	347.20	357.75	405.96	Chile Beer Revenue	320,844	353,044	378,440	411,377
CFPS (ChP)	871.86	1,058.58	1,098.16	1,224.28	Chile Beer EBITDA	104,359	109,634	120,206	135,622
FCFPS (ChP)	164.97	400.44	383.29	448.99	Ch Beer EBITDA Mgn (%)	32.5	31.1	31.8	33.0
BVPS (ChP)	3,850.64	5,390.49	5,657.80	6,016.27	Non-Alcoholic (ChPm)	2012	2013	2014E	2015E
Wtd avg ord shares (m)	159	183	184	184	Non-Alc Volume (kHL)	8,147	9,759	10,460	11,589
Wtd avg diluted shares (m)	159	183	184	184	Non-Alcohol Revenue	292,133	342,233	379,679	437,512
Growth rates	2012	2013	2014E	2015E	Non-Alcohol EBITDA	57,312	67,481	77,054	94,276
Sales revenue (%)	10.9	11.3	4.5	10.8	Non-Alc EBITDA Mgn (%)	19.6	19.7	20.3	21.5
EBIT (Adj) (%)	1.9	5.6	2.7	15.0	Spirits (ChPm)	2012	2013	2014E	2015E
Core NPAT (%)	-6.8	10.1	10.5	17.9	Spirits Volume (kHL)	264.2	273.0	294.4	312.1
Core EPS (%)	-6.8	-4.4	10.0	17.9	Spirits Revenue	63,552	69,919	76,736	84,594
Balance Sheet (ChPm)	2012	2013	2014E	2015E	Spirits EBITDA	9,836	8,567	8,592	9,867
Cash & cash equiv.	102,337	408,853	386,361	373,958	Spirits EBITDA Mgn (%)	15.5	12.3	11.2	11.7
Accounts receivables	204,571	211,504	225,272	249,698	CCU Argentina (ChPm)	2012	2013	2014E	2015E
Inventory	141,911	153,086	161,851	177,022	Arg Beer Volume (kHL)	4,508	4,457	4,258	4,428
Net fixed & other tangibles	684,508	745,753	810,447	875,161	Argentina Beer Revenue	250,996	272,499	230,670	256,399
Goodwill & intangibles	70,055	81,873	81,054	80,244	Argentina Beer EBITDA	35,121	38,030	25,296	30,093
Financial & other assets	123,066	126,651	126,637	126,635	Arg Beer EBITDA Mgn (%)	14.0	14.0	11.0	11.7
Total assets	1,326,448	1,727,720	1,791,622	1,882,719	Uruguay (ChPm)	2012	2013	2014E	2015E
Accounts payable	173,406	190,794	200,725	219,540	Uruguay Volume (kHL)	211.2	615.0	646.8	679.1
Short-term debt	54,874	120,488	115,725	113,363	Uruguay Revenue	na	9,936	10,974	11,768
Long-term debt	209,123	142,763	137,119	134,321	Uruguay EBITDA	na	-836.0	-380.1	-103.1
Provisions & other liab	178,527	189,431	189,865	190,317	Uru EBITDA Mgn (%)	na	-8.4	-3.5	-0.9
Total liabilities	615,930	643,476	643,433	657,541	Wine (ChPm)	2012	2013	2014E	2015E
Shareholders' equity	613,220	988,676	1,042,338	1,108,379	Wine Volume (kHL)	1,276	1,274	1,327	1,380
Minority interests	97,299	95,568	105,852	116,799	Wine Revenue	149,557	152,255	164,044	174,248
Total equity	710,519	1,084,244	1,148,189	1,225,178	Wine EBITDA	17,619	20,428	22,942	25,263
Net debt	161,660	-145,602	-133,518	-126,275	Wine EBITDA Margin (%)	11.8	13.4	14.0	14.5
Net debt to equity (%)	22.8	-13.4	-11.6	-10.3					

For definitions of the items in this table, please click [here](#).

VCO.N: Fiscal year end 31-Dec						Price: US\$40.04; TP: US\$46.50; Market Cap: US\$1,496m; Recomm: Buy					
Profit & Loss (ChPm)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	422,735	450,545	482,138	563,298	611,713	PE (x)	16.2	27.3	25.6	14.3	12.8
Cost of sales	-280,157	-302,963	-315,509	-348,934	-376,672	PB (x)	2.1	1.9	1.9	1.7	1.6
Gross profit	142,579	147,581	166,628	214,364	235,042	EV/EBITDA (x)	16.2	19.2	19.3	11.9	11.0
Gross Margin (%)	33.7	32.8	34.6	38.1	38.4	FCF yield (%)	-18.9	-3.0	-2.0	-0.1	3.7
EBITDA (Adj)	59,059	53,680	54,110	88,784	96,415	Dividend yield (%)	2.0	2.4	1.5	1.6	2.8
EBITDA Margin (Adj) (%)	14.0	11.9	11.2	15.8	15.8	Payout ratio (%)	33	65	38	22	36
Depreciation	-17,848	-17,688	-18,154	-17,381	-16,622	ROE (%)	13.1	7.3	7.4	12.4	12.7
Amortisation	0	0	0	0	0	Cashflow (ChPm)	2011	2012	2013E	2014E	2015E
EBIT (Adj)	41,211	35,992	35,956	71,403	79,793	EBITDA	59,059	53,680	54,110	88,784	96,415
EBIT Margin (Adj) (%)	9.7	8.0	7.5	12.7	13.0	Working capital	-75,980	-30,866	-24,462	-41,337	-14,252
Net interest	14,033	-6,387	-7,892	-8,220	-8,340	Other	-41	-18,258	-19,272	-31,196	-33,757
Associates	2,031	2,697	2,334	7,489	8,369	Operating cashflow	-16,963	4,556	10,376	16,251	48,406
Non-op/Except	6,249	8,467	11,705	7,581	7,565	Capex	-137,960	-28,760	-26,665	-17,381	-18,284
Pre-tax profit	63,523	40,769	42,104	78,253	87,388	Net acq/disposals	0	0	0	0	0
Tax	-13,041	-10,465	-9,503	-19,172	-21,410	Other	0	0	0	0	0
Extraord./Min.Int./Pref.div.	0	-281	-577	-1,741	-1,944	Investing cashflow	-137,960	-28,760	-26,665	-17,381	-18,284
Reported net profit	50,482	30,022	32,024	57,340	64,033	Dividends paid	-16,770	-19,422	-12,027	-12,829	-22,970
Net Margin (%)	11.9	6.7	6.6	10.2	10.5	Financing cashflow	134,292	35,701	-11,618	-10,612	-32,008
Core NPAT	50,482	30,022	32,024	57,340	64,033	Net change in cash	-20,631	11,497	-27,906	-11,742	-1,886
Per share data	2011	2012	2013E	2014E	2015E	Free cashflow to s/holders	-154,923	-24,204	-16,288	-1,130	30,122
Reported EPS (ChP)	1,351.59	803.79	857.40	1,535.19	1,714.40	Segment Sales US\$m	2011	2012	2013E	2014E	2015E
Core EPS (ChP)	1,351.59	803.79	857.40	1,535.19	1,714.40	Sales - Chile Domestic	128.3	126.5	116.4	103.9	103.6
DPS (ChP)	449.00	520.00	322.00	343.47	615.00	Sales - Chile Domestic Other	51.3	58.3	66.7	62.5	63.5
CFPS (ChP)	-454.16	121.98	277.81	435.09	1,296.00	Sales - Chile Exports	548.5	569.9	623.1	652.8	697.5
FCFPS (ChP)	-4,147.84	-648.02	-436.10	-30.26	806.47	Sales - Argentina Domestic	15.4	14.1	13.8	11.6	12.3
BVPS (ChP)	10,661.54	11,348.68	11,737.16	12,928.88	14,028.28	Sales - Argentina Exports	30.0	30.3	28.9	29.4	30.3
Wtd avg ord shares (m)	37.4	37.4	37.4	37.4	37.4	Sales - Fetzer	85.3	105.8	107.0	110.0	113.3
Wtd avg diluted shares (m)	37.4	37.4	37.4	37.4	37.4	Sales Other Revenues	16.4	18.1	18.0	16.2	16.4
Growth rates	2011	2012	2013E	2014E	2015E	Segment Volume '000 L	2011	2012	2013E	2014E	2015E
Sales revenue (%)	13.0	6.6	7.0	16.8	8.6	Volume - Chile Domestic	65,118	61,934	59,388	59,388	59,388
EBIT (Adj) (%)	-8.7	-12.7	-0.1	98.6	11.8	Volume - Chile Exports	169,931	174,339	181,473	190,880	202,333
Core NPAT (%)	20.4	-40.5	6.7	79.1	11.7	Volume - Argentina Domestic	6,107	5,311	4,520	4,520	4,588
Core EPS (%)	20.4	-40.5	6.7	79.1	11.7	Volume - Argentina Exports	10,263	9,815	9,103	9,103	9,285
Balance Sheet (ChPm)	2011	2012	2013E	2014E	2015E	Volume - Fetzer	15,750	20,366	21,230	21,867	22,523
Cash & cash equiv.	20,855	58,876	23,628	13,628	13,686	Segment Prices \$US/L	2011	2012	2013E	2014E	2015E
Accounts receivables	131,111	143,079	147,944	172,847	179,324	Price - Chile Domestic	1.97	2.04	1.96	1.75	1.74
Inventory	173,974	192,199	210,705	234,937	251,184	Price - Chile Exports	3.23	3.27	3.43	3.42	3.45
Net fixed & other tangibles	373,101	378,722	396,615	406,258	417,548	Price - Argentina Domestic	2.53	2.65	3.05	2.58	2.68
Goodwill & intangibles	28,545	29,764	21,925	21,925	21,925	Price - Argentina Exports	2.92	3.09	3.17	3.23	3.26
Financial & other assets	46,543	52,029	44,554	49,693	55,712	Price - Fetzer	5.42	5.19	5.04	5.03	5.03
Total assets	774,130	854,669	845,371	899,289	939,380						
Accounts payable	69,578	68,906	67,814	75,613	84,085						
Short-term debt	52,921	103,139	70,133	31,388	37,118						
Long-term debt	177,715	169,586	181,045	219,657	202,539						
Provisions & other liab	75,411	88,588	87,010	87,010	87,010						
Total liabilities	375,626	430,219	406,002	413,668	410,752						
Shareholders' equity	398,212	423,877	438,387	482,898	523,960						
Minority interests	292	573	982	2,723	4,668						
Total equity	398,504	424,450	439,369	485,621	528,628						
Net debt	209,781	213,849	227,550	237,417	225,971						
Net debt to equity (%)	52.6	50.4	51.8	48.9	42.7						

For definitions of the items in this table, please click [here](#).

AKOb.N: Fiscal year end 31-Dec					Price: US\$22.19; TP: US\$25.00; Market Cap: US\$3,145m; Recomm: Neutral				
Profit & Loss (ChPm)	2012	2013	2014E	2015E	Valuation ratios	2012	2013	2014E	2015E
Sales revenue	1,172,292	1,523,263	1,618,103	1,698,959	PE (x)	21.9	21.3	23.5	22.4
Cost of sales	-698,955	-915,367	-993,141	-1,048,798	PB (x)	2.2	2.2	2.1	2.0
Gross profit	473,337	607,896	624,962	650,161	EV/EBITDA (x)	9.0	8.5	9.3	8.9
Gross Margin (%)	40.4	39.9	38.6	38.3	FCF yield (%)	0.3	-19.4	2.5	2.6
EBITDA (Adj)	207,987	254,622	254,833	266,803	Dividend yield (%)	4.4	3.9	2.1	2.7
EBITDA Margin (Adj) (%)	17.7	16.7	15.7	15.7	Payout ratio (%)	96	83	50	60
Depreciation	-53,825	-83,336	-88,356	-90,892	ROE (%)	13.5	10.4	9.3	9.3
Amortisation	0	0	0	0	Cashflow (ChPm)	2012	2013	2014E	2015E
EBIT (Adj)	154,162	172,316	166,485	175,911	EBITDA	207,987	255,652	254,841	266,803
EBIT Margin (Adj) (%)	13.2	11.3	10.3	10.4	Working capital	1,633	-45,029	-1,791	-3,016
Net interest	-8,445	-23,971	-43,988	-43,500	Other	-60,300	-69,441	-77,828	-90,698
Associates	1,770	783	866	996	Operating cashflow	149,320	141,181	175,223	173,089
Non-op/Except	-20,716	-34,864	-6,078	-10,753	Capex	-143,764	-514,197	-126,269	-122,859
Pre-tax profit	126,771	114,265	117,284	122,654	Net acq/disposals	1,309	6,861	0	0
Tax	-38,504	-22,966	-33,088	-34,602	Other	21,256	0	0	0
Extraord./Min.Int./Pref.div.	-630	-1,285	-2,316	-2,316	Investing cashflow	-121,199	-507,336	-126,269	-122,859
Reported net profit	87,637	90,014	81,880	85,735	Dividends paid	-69,766	-73,041	-39,061	-49,128
Net Margin (%)	7.5	5.9	5.1	5.0	Financing cashflow	203,711	443,182	-35,938	-49,128
Core NPAT	87,637	90,014	81,880	85,735	Net change in cash	231,831	77,028	13,016	1,102
Per share data	2012	2013	2014E	2015E	Free cashflow to s/holders	5,556	-373,016	48,953	50,230
Reported EPS (ChP)	555.48	570.57	519.01	543.44	Consolidated US\$	2012	2013	2014E	2015E
Core EPS (ChP)	555.48	570.57	519.01	543.44	Consolidated Volume (MUC)	721.0	763.2	846.4	872.1
DPS (ChP)	531.23	472.56	259.38	326.23	Consolidated Sales	2,981	2,904	3,053	3,176
CFPS (ChP)	946.46	894.90	1,110.67	1,097.15	Consolidated Price per case	4.13	3.80	3.61	3.64
FCFPS (ChP)	35.22	-2,364.40	310.30	318.39	Consolidated EBITDA	494.9	485.4	480.8	498.7
BVPS (ChP)	5,540.86	5,455.45	5,726.87	5,958.91	EBITDA Margin (%)	16.6	16.7	15.7	15.7
Wtd avg ord shares (m)	158	158	158	158	Argentina US\$	2012	2013	2014E	2015E
Wtd avg diluted shares (m)	158	158	158	158	Argentina Volume (MUC)	199.5	224.5	245.2	252.2
Growth rates	2012	2013	2014E	2015E	Argentina Sales	825.9	841.1	776.7	768.3
Sales revenue (%)	19.3	29.9	6.2	5.0	Argentina Price per case	4.14	3.75	3.17	3.05
EBIT (Adj) (%)	8.2	11.8	-3.4	5.7	Argentina EBITDA	97.0	100.5	77.7	66.8
Core NPAT (%)	-9.7	2.7	-9.0	4.7	EBITDA Margin (%)	11.7	12.0	10.0	8.7
Core EPS (%)	-27.5	2.7	-9.0	4.7	Brazil US\$	2012	2013	2014E	2015E
Balance Sheet (ChPm)	2012	2013	2014E	2015E	Brazil Volume (MUC)	225.0	242.6	297.4	307.9
Cash & cash equiv.	55,651	79,976	92,983	94,085	Brazil Sales	940.9	937.6	1,094.1	1,155.1
Accounts receivables	158,141	203,463	216,131	226,931	Brazil Price per case	4.18	3.87	3.68	3.75
Inventory	89,320	125,854	136,547	144,199	Brazil EBITDA	168.2	150.1	148.1	160.4
Net fixed & other tangibles	1,147,871	1,506,598	1,544,519	1,576,486	EBITDA Margin (%)	17.9	16.0	13.5	13.9
Goodwill & intangibles	64,793	115,779	115,779	115,779	Chile US\$	2012	2013	2014E	2015E
Financial & other assets	24,060	51,291	46,831	49,669	Chile Volume (MUC)	233.1	234.8	241.0	247.1
Total assets	1,539,836	2,082,961	2,152,791	2,207,150	Chile Sales	991.4	911.0	963.9	1,018.3
Accounts payable	217,045	253,872	275,442	290,878	Chile Price per case	4.25	3.88	4.00	4.12
Short-term debt	106,248	106,877	28,937	28,937	Chile EBITDA	202.5	195.5	220.0	232.5
Long-term debt	173,880	605,362	686,425	686,425	EBITDA Margin (%)	20.4	21.5	22.8	22.8
Provisions & other liab	149,058	235,418	235,418	235,418	Paraguay US\$	2012	2013	2014E	2015E
Total liabilities	646,231	1,201,529	1,226,222	1,241,658	Paraguay Volume (MUC)	63.4	61.3	62.9	64.9
Shareholders' equity	874,164	860,669	903,489	940,096	Paraguay Sales	222.9	214.0	218.3	233.9
Minority interests	19,441	20,764	23,080	25,396	Paraguay Price per case	3.52	3.49	3.47	3.60
Total equity	893,605	881,433	926,569	965,492	Paraguay EBITDA	37.4	48.7	44.4	48.7
Net debt	224,477	632,263	622,379	621,277	EBITDA Margin (%)	16.8	22.7	20.3	20.8
Net debt to equity (%)	25.1	71.7	67.2	64.3					

For definitions of the items in this table, please click [here](#).

Ambev (ABEV.N; US\$7.50; 2); Andina (AKOb.N; US\$22.19; 2); CCU (CCU.N; US\$21.92; 2); Nutresa (NCH.CN; CP\$27,100.00; 1); Concha y Toro (VCO.N; US\$40.04; 1)

Ambev

(ABEV.N; US\$7.50; 2)

Valuation

Our 12-month TP of US\$7.40 per ADR is based on SOTP DCF analysis. Valuation, adjusted for organic growth, remains the steepest in our Latam consumer staples sector, and among its global peers. At our TP, forward EV/EBITDA would be generally in line with its 3-year historical average.

Risks

The main risk is the inability to increase prices without further deterioration of volume growth. In Brazil, aggressive pricing from Kirin or Heineken (which together have approximately 20% beer market share) would also negatively impact our earnings estimates. Argentina accounts for an estimated 7.5% of consolidated EBITDA and is another risk, with depreciation of the Argentine peso/dollar. The net effect of currency translation, slower expected volumes and weaker margins impacts our consolidated EBITDA.

Andina

(AKOb.N; US\$22.19; 2)

Valuation

Our valuation is based on a SOTP DCF analysis. Our TP of US\$25.00 per ADR is based on earnings estimates that assume the capture of synergies from the merger with Coca-Cola Polar (US\$18 million in 2013 period and US\$30 million in 2014) and the integration of Ipiranga as of October 2013, obtaining small benefits due to costs synergies but some benefits from integration and share of good practices reflected in margin growth over time.

Risks

Our main concern is reduced macroeconomic outlook for Chile and Brazil, which account for 92.0% of firm value. Argentina is also a concern, since it contributes 16% of consolidated EBITDA. However, the high country risk partially offsets the effects of significant currency devaluation which led to negative future cash flows in Argentina. So far, the company has been able to cope with inflation but rising labor costs hurts margins. The depreciation of the local currencies versus the US dollar also would negatively impact earnings, twofold: many input costs are dollar-linked (around 40% of total costs) and conversion of figures into the reporting currency would be affected.

CCU

(CCU.N; US\$21.92; 2)

Valuation

We value CCU's shares by using SOTP DCF analysis. Our target price of \$24.00 per ADR reflects the recent Argentine peso depreciation and higher country risk rates.

Risks

Our main concern is Argentina, which accounts for approximately 10% of CCU's consolidated EBITDA. Companies operating in Argentina face three main risks, in our view, including accelerating inflation, restrictions on US dollar convertibility, and rising labor costs. A sharp depreciation of the Chilean peso (versus the US dollar) is another risk that would negatively impact our earnings estimates as many of its beer and soft drink input costs are dollar-linked. However, this would be partly offset by the reverse effect with its San Pedro wine exports. Another risk to our earnings estimates is that beer pricing flexibility in Chile can be threatened by the competition which can delay price increases or aggressively discount prices. However, by the same token, if developments in pricing, exchange rate, labor costs, and inflation are favorable to CCU, this could cause the shares to exceed our target price.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could outperform our target price.

Nutresa

(NCH.CN; CP\$27,000.00; 1)

Valuation

Our 12-month target price is CP\$33,000, based on a SOTP discounted cash flow and multiple analysis. At our target price, the share would trade at 11.5x forward EBITDA multiple, which is 6% premium to its 3-year historical average.

Risks

The main risks to Nutresa's target price being achieved include ongoing weak pricing in processed meats in Colombia, namely from private labels; a sharp deceleration of the consumption environment in Colombia; stepped-up competition in Colombia; sharp increase in raw material costs; and further geopolitical uncertainty in Venezuela.

Concha y Toro

(VCO.N; US\$40.04; 1)

Valuation

We derived our TP of \$46.50 by taking a DCF method, using a 10 year forecast period. We used a 2.7% risk free rate, a 5.5% equity risk premium, beta of 0.85. Valuation considers equity to total capitalization ratio of 68% and a perpetuity growth rate of 2.75%. The calculated WACC discount rate is 7.0% weighted by the contribution of each country (Chile, Argentina & USA's Fetzter) to consolidated sales.

Risks

The main risk to the company is the level and volatility of the exchange rate (Chilean Peso vs US dollar). Export revenues in Dollars, Pounds and Euros account for 35%, 16% and 10%, respectively, while costs are mostly in Chilean pesos. Secondly, the company has agricultural risk, resulting in volatile grape harvests (the biggest component of total production costs). Third, the tax reform that will be proposed on March 31, 2014 in Chile, would include an increase in the tax on alcohol consumption, affecting Concha y Toro domestic sales, which account to around 15% of 2014E consolidated sales. These risks could cause the shares to outperform/underperform our target price.

Appendix A-1

Analyst Certification

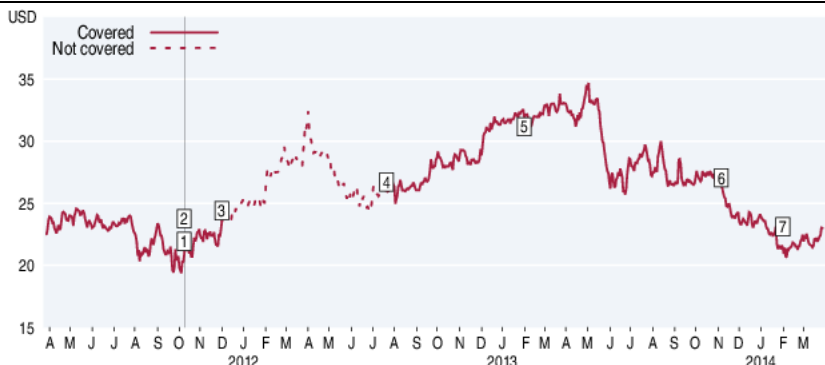
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IMPORTANT DISCLOSURES

CCU (CCU.N)

Ratings and Target Price History Fundamental Research

Analyst: Alexander Robarts
Covered since July 20 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	8-Oct-11	*2	-	20.24
3	1-Dec-11	Coverage terminated		

* Indicates change

	Date	Rating	Target Price	Closing Price
4	20-Jul-12	2	*28.40	26.06
5	31-Jan-13	2	*34.00	31.95
6	6-Nov-13	2	*29.50	26.37

	Date	Rating	Target Price	Closing Price
7	31-Jan-14	2	*24.00	21.40

Rating/target price changes above reflect Eastern Standard Time

CCU (CCU.N)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Alexander Robarts
Covered since July 20 2012



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Nutresa (NCH.CN)

Ratings and Target Price History Fundamental Research

Analyst: Alexander Robarts
Covered since February 26 2013



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
2	26-Feb-13	*2	*29,500.00	26,640.00

	Date	Rating	Target Price	Closing Price
3	26-Aug-13	*1	*33,000.00	26,540.00

Rating/target price changes above reflect Eastern Standard Time

Nutresa (NCH.CN)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Alexander Roberts

Covered since February 26 2013



Ambev (ABEV.N)

Ratings and Target Price History

Fundamental Research

Analyst: Alexander Roberts

Covered since July 20 2012



	Date	Rating	Target Price	Closing Price
1	5-Aug-11	1M	*6.80	4.89
2	8-Oct-11	Stock rating system changed		
3	8-Oct-11	*1	6.80	5.14

	Date	Rating	Target Price	Closing Price
4	30-Nov-11	Coverage terminated		
5	20-Jul-12	1	*9.00	6.03
6	2-May-13	*2	9.00	7.98

	Date	Rating	Target Price	Closing Price
7	18-Jul-13	2	*8.10	7.16
8	28-Jan-14	2	*7.40	6.68

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Ambev (ABEV.N)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Alexander Roberts

Covered since July 20 2012



	Date	Rating	Target Price	Closing Price
1	18-Apr-11	*ADD MP	-	5.03
2	24-May-11	*REM MP	-	5.11

	Date	Rating	Target Price	Closing Price
3	22-Oct-12	*ADD MP	-	6.82
4	23-Jan-13	*REM MP	-	8.85

* Indicates change

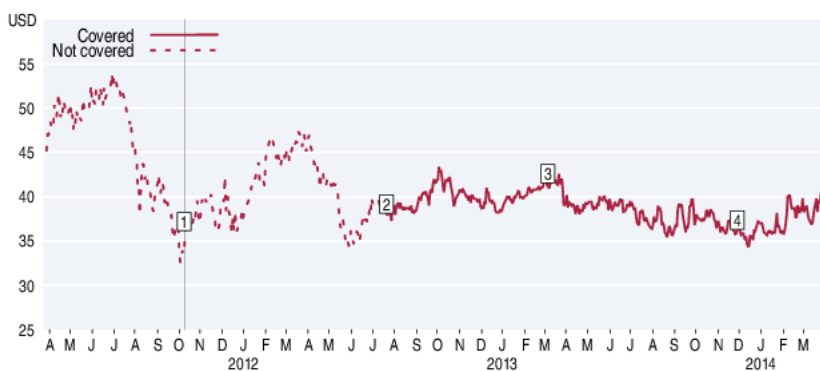
Rating/target price changes above reflect Eastern Standard Time

Concha y Toro (VCO.N)

Ratings and Target Price History

Fundamental Research

Analyst: Alexander Roberts
Covered since July 20 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	20-Jul-12	*1	*47.00	38.03

* Indicates change

	Date	Rating	Target Price	Closing Price
3	6-Mar-13	*2	*46.50	41.40
4	28-Nov-13	*1	46.50	35.85

Rating/target price changes above reflect Eastern Standard Time

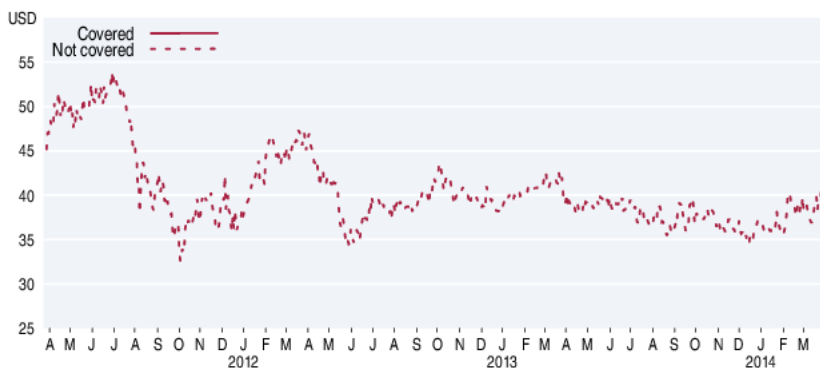
Concha y Toro (VCO.N)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Alexander Roberts
Covered since July 20 2012



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Andina (AKOb.N)

Ratings and Target Price History

Fundamental Research

Analyst: Alexander Roberts
Covered since July 20 2012



	Date	Rating	Target Price	Closing Price
1	3-Oct-11	*2M	*25.00	24.38
2	8-Oct-11	Stock rating system changed		
3	8-Oct-11	*2	-	26.09

* Indicates change

	Date	Rating	Target Price	Closing Price
4	1-Dec-11	Coverage terminated		
5	20-Jul-12	2	*37.00	34.42
6	24-Feb-13	2	*42.10	39.58

	Date	Rating	Target Price	Closing Price
7	4-Nov-13	2	*38.00	34.27
8	30-Jan-14	2	*25.00	22.49

Rating/target price changes above reflect Eastern Standard Time

Andina (AKOb.N)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Alexander Roberts
Covered since July 20 2012



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Data current as of 31 Mar 2014

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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