

Chile Beverage Sector

Modifications to the Tax Proposal

- **Citi Take: The Chilean government's modification to its recently proposed alcoholic beverage tax would reduce the magnitude of the potential impact on annual EBITDA, and leaves the non-alcoholic beverage tax proposal relatively unchanged.** Our preliminary estimate is that annual EBITDA at CCU and Concha y Toro will be negatively impacted by 1.7% and 0.5%, respectively, which compares to an estimated impact of 4.1% and 1.6%, respectively, following the initial beverage tax proposal announcement (see our related note). For Andina, our previously estimated impact of 1.1% on annual EBITDA remains unchanged. We maintain our Buy rating on Concha y Toro, based on strong earnings momentum, and maintain our Neutral ratings on CCU and Andina.
- **News: On April 22, before market open, the Chilean Treasury Commission (Comision de Hacienda) announced modifications to the beverage tax proposal by the Bachelet administration announced on March 31.** Specifically, the provision for the alcohol tax of 0.03 UTM per pure liter of alcohol was eliminated, while other taxes such as the tobacco taxes were increased. In addition, the definition of "sugary drinks" was clarified as those with sugar content higher than 15 grams per 240 ml. The ad valorem excise tax increases in the proposal was not modified, and are increasing 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.
- **We continue to believe that the earliest these beverage taxes can be collected would be in 2015.** Recall that the tax proposal is still expected to go through a 3-7 month congressional debate process as suggested by the 4 prior alcohol tax proposals during the last 14 years that failed to materialize.
- **A more moderated change in relative prices between wine and beer should prompt less trading down between these categories.** As such, weather becomes a stronger consumption driver, in our view. Generally, beer is consumed more during the summer while wine is consumed more during the winter.

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Figure 1. Modified Chile Beverage Tax Proposal – Potential Impact to Sales and EBITDA (2015)

Market	Cap	% of 2015E Consolidated		Retail Price Increase	Price Elasticity	Impact	
		Sales	EBITDA			Sales	EBITDA
CCU beer		29.5%	42.3%	4.8%	0.4	-1.9%	-2.3%
CCU wine		5.2%	3.7%	7.8%	0.3	-2.3%	-3.3%
CCU spirits		6.1%	3.3%	6.7%	0.2	-1.3%	-2.1%
CCU non-alcoholic		20.6%	19.9%	4.4%	0.5	-2.2%	-2.9%
CCU	4,240	61.4%	69.2%	5.1%	0.4	-1.2%	-1.7%
Concha y Toro	1,528	15.6%	14.6%	7.8%	0.3	-0.4%	-0.5%
Andina	3,421	26.0%	37.7%	4.4%	0.5	-0.6%	-1.1%
Ambev	123,752	2.8%	3.0%	4.8%	0.4	-0.1%	-0.1%
Nutresa	6,424	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\$22.95; TP: US\$24.00; Market Cap: US\$4,240m; Recomm: Neutral				
Profit & Loss (ChPm)	2012	2013	2014E	2015E	Valuation ratios	2012	2013	2014E	2015E
Sales revenue	1,075,690	1,197,227	1,260,919	1,397,239	PE (x)	18.0	18.8	17.5	14.6
Cost of sales	-493,087	-536,697	-573,923	-626,994	PB (x)	3.4	2.4	2.3	2.1
Gross profit	582,603	660,530	686,996	770,245	EV/EBITDA (x)	12.2	10.5	9.7	8.4
Gross Margin (%)	54.2	55.2	54.5	55.1	FCF yield (%)	1.3	3.1	2.6	3.5
EBITDA (Adj)	235,948	255,501	261,715	303,870	Dividend yield (%)	3.2	2.7	2.6	3.1
EBITDA Margin (Adj) (%)	21.9	21.3	20.8	21.7	Payout ratio (%)	58	51	45	45
Depreciation	-54,760	-64,246	-68,024	-78,863	ROE (%)	19.4	15.7	13.4	15.2
Amortisation	0	0	0	0	Cashflow (ChPm)	2012	2013	2014E	2015E
EBIT (Adj)	181,188	191,255	193,690	225,007	EBITDA	235,948	255,501	261,715	303,870
EBIT Margin (Adj) (%)	16.8	16.0	15.4	16.1	Working capital	-25,665	-720	-13,813	-20,899
Net interest	-9,362	-15,830	-8,008	-5,612	Other	-71,439	-60,626	-48,951	-57,940
Associates	-177	309	97	113	Operating cashflow	138,845	194,155	198,951	225,030
Non-op/Except	-10,539	-5,136	-2,156	-1,791	Capex	-112,573	-120,710	-138,103	-142,831
Pre-tax profit	161,110	170,598	183,624	217,717	Net acq/disposals	-19,522	-14,566	0	0
Tax	-37,133	-34,704	-37,056	-43,543	Other	-2,245	-1,641	-1,943	-1,792
Extraord./Min.Int./Pref.div.	-9,544	-9,869	-10,430	-10,886	Investing cashflow	-134,340	-136,918	-140,046	-144,623
Reported net profit	114,433	126,025	136,138	163,288	Dividends paid	-66,117	-63,681	-61,517	-73,284
Net Margin (%)	10.6	10.5	10.8	11.7	Financing cashflow	-80,167	251,622	-86,771	-91,822
Core NPAT	114,433	126,025	136,138	163,288	Net change in cash	-75,728	306,516	-27,866	-11,415
Per share data	2012	2013	2014E	2015E	Free cashflow to s/holders	26,272	73,445	60,848	82,199
Reported EPS (ChP)	718.57	687.12	738.95	886.32	Chile Beer (ChPm)	2012	2013	2014E	2015E
Core EPS (ChP)	718.57	687.12	738.95	886.32	Chile Beer Volume (kHL)	5,442	5,536	5,765	6,024
DPS (ChP)	415.18	347.20	333.91	397.78	Chile Beer Revenue	320,844	353,044	379,352	412,368
CFPS (ChP)	871.86	1,058.58	1,079.90	1,221.46	Chile Beer EBITDA	104,359	109,634	113,873	128,666
FCFPS (ChP)	164.97	400.44	330.28	446.18	Ch Beer EBITDA Mgn (%)	32.5	31.1	30.0	31.2
BVPS (ChP)	3,850.64	5,390.49	5,664.49	6,026.13	Non-Alcoholic (ChPm)	2012	2013	2014E	2015E
Wtd avg ord shares (m)	159	183	184	184	Non-Alc Volume (kHL)	8,147	9,759	10,484	11,616
Wtd avg diluted shares (m)	159	183	184	184	Non-Alcohol Revenue	292,133	342,233	380,529	438,492
Growth rates	2012	2013	2014E	2015E	Non-Alcohol EBITDA	57,312	67,481	75,055	91,872
Sales revenue (%)	10.9	11.3	5.3	10.8	Non-Alc EBITDA Mgn (%)	19.6	19.7	19.7	21.0
EBIT (Adj) (%)	1.9	5.6	1.3	16.2	Spirits (ChPm)	2012	2013	2014E	2015E
Core NPAT (%)	-6.8	10.1	8.0	19.9	Spirits Volume (kHL)	264.2	273.0	294.9	312.6
Core EPS (%)	-6.8	-4.4	7.5	19.9	Spirits Revenue	63,552	69,919	76,859	84,729
Balance Sheet (ChPm)	2012	2013	2014E	2015E	Spirits EBITDA	9,836	8,567	8,848	10,142
Cash & cash equiv.	102,337	408,853	380,987	369,571	Spirits EBITDA Mgn (%)	15.5	12.3	11.5	12.0
Accounts receivables	204,571	211,504	227,016	251,559	CCU Argentina (ChPm)	2012	2013	2014E	2015E
Inventory	141,911	153,086	164,072	179,244	Arg Beer Volume (kHL)	4,508	4,457	4,323	4,496
Net fixed & other tangibles	684,508	745,753	815,989	880,121	Argentina Beer Revenue	250,996	272,499	228,888	254,419
Goodwill & intangibles	70,055	81,873	81,054	80,244	Argentina Beer EBITDA	35,121	38,030	24,588	29,265
Financial & other assets	123,066	126,651	126,637	126,635	Arg Beer EBITDA Mgn (%)	14.0	14.0	10.7	11.5
Total assets	1,326,448	1,727,720	1,795,755	1,887,375	Uruguay (ChPm)	2012	2013	2014E	2015E
Accounts payable	173,406	190,794	203,479	222,295	Uruguay Volume (kHL)	211.2	615.0	632.9	664.6
Short-term debt	54,874	120,488	115,725	113,363	Uruguay Revenue	na	9,936	11,042	11,841
Long-term debt	209,123	142,763	137,119	134,321	Uruguay EBITDA	na	-836.0	-487.2	-203.8
Provisions & other liab	178,527	189,431	189,865	190,317	Uru EBITDA Mgn (%)	na	-8.4	-4.4	-1.7
Total liabilities	615,930	643,476	646,187	660,296	Wine (ChPm)	2012	2013	2014E	2015E
Shareholders' equity	613,220	988,676	1,043,569	1,110,195	Wine Volume (kHL)	1,276	1,274	1,339	1,392
Minority interests	97,299	95,568	105,998	116,884	Wine Revenue	149,557	152,255	171,049	181,689
Total equity	710,519	1,084,244	1,149,568	1,227,079	Wine EBITDA	17,619	20,428	28,372	29,866
Net debt	161,660	-145,602	-128,143	-121,888	Wine EBITDA Margin (%)	11.8	13.4	16.6	16.4
Net debt to equity (%)	22.8	-13.4	-11.1	-9.9					

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

VCO.N: Fiscal year end 31-Dec						Price: US\$40.91; TP: US\$46.50; Market Cap: US\$1,528m; 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)	17.0	28.7	26.9	15.0	13.4
Cost of sales	-280,157	-302,963	-315,509	-348,934	-376,672	PB (x)	2.2	2.0	2.0	1.8	1.6
Gross profit	142,579	147,581	166,628	214,364	235,042	EV/EBITDA (x)	16.9	20.0	20.0	12.3	11.4
Gross Margin (%)	33.7	32.8	34.6	38.1	38.4	FCF yield (%)	-18.0	-2.8	-1.9	-0.1	3.5
EBITDA (Adj)	59,059	53,680	54,110	88,784	96,415	Dividend yield (%)	1.9	2.3	1.4	1.5	2.7
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\$24.17; TP: US\$25.00; Market Cap: US\$3,421m; 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)	24.5	23.8	26.2	25.0
Cost of sales	-698,955	-915,367	-993,141	-1,048,798	PB (x)	2.5	2.5	2.4	2.3
Gross profit	473,337	607,896	624,962	650,161	EV/EBITDA (x)	10.0	9.3	10.1	9.6
Gross Margin (%)	40.4	39.9	38.6	38.3	FCF yield (%)	0.3	-17.4	2.3	2.3
EBITDA (Adj)	207,987	254,622	254,833	266,803	Dividend yield (%)	3.9	3.5	1.9	2.4
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](#).

CCU

(CCU.N; US\$22.95; 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.

Concha y Toro

(VCO.N; US\$40.91; 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.

Andina

(AKOb.N; US\$24.17; 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.

Ambev

(ABEV.N; US\$7.90; 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.

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.

Appendix A-1

Analyst Certification

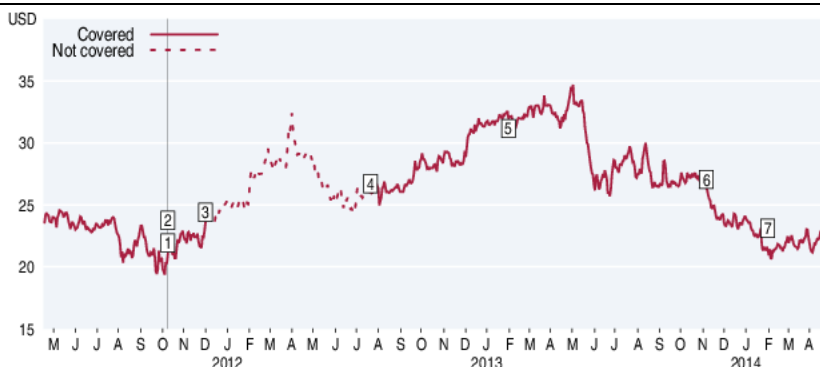
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IMPORTANT DISCLOSURES

CCU (CCU.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	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

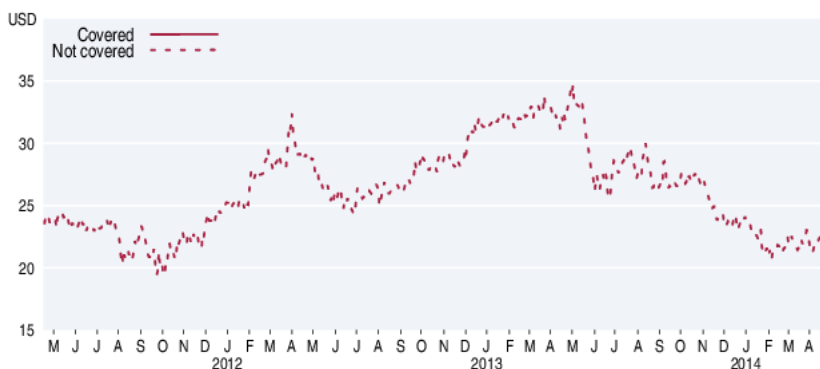
	Date	Rating	Target Price	Closing Price
7	31-Jan-14	2	*24.00	21.40

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 Roberts
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 Roberts
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



* Indicates change

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

* Indicates change

	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

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	24-May-11	*REM MP	-	5.11

* Indicates change

	Date	Rating	Target Price	Closing Price
2	22-Oct-12	*ADD MP	-	6.82

	Date	Rating	Target Price	Closing Price
3	23-Jan-13	*REM MP	-	8.85

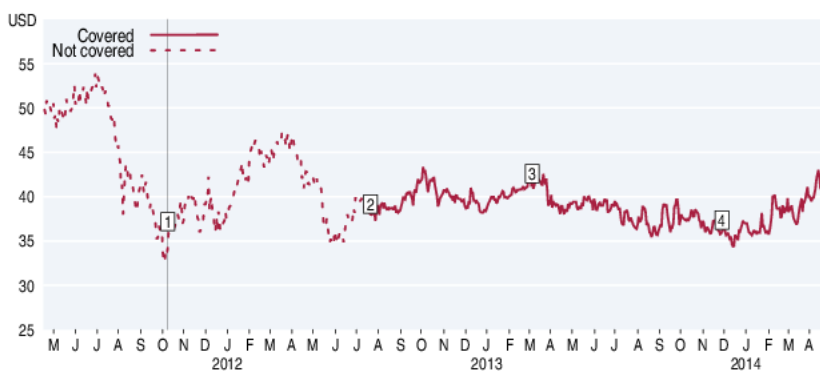
Rating/target price changes above reflect Eastern Standard Time

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

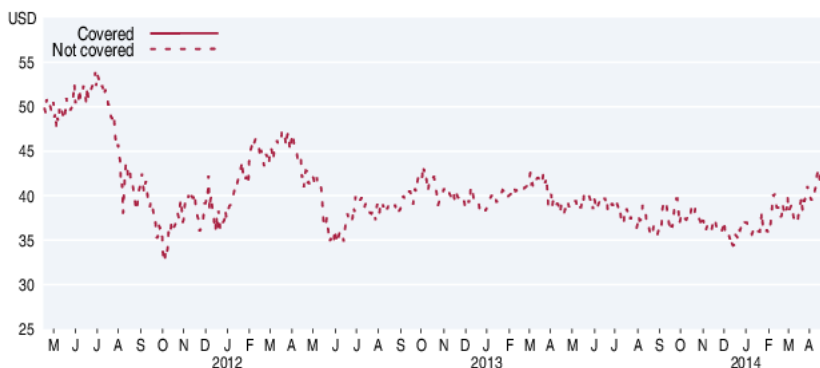
Concha y Toro (VCO.N)

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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