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# Hortifrut

## The road ahead has cleared following the end of the USITC investigation and the expected improved results. Buy.

- Reinstating Coverage with a Buy rating with a TP of ChP1,440/sh (51% ETR)** – The stock is trading at a 2021e P/E and EV/EBITDA of 16.2x and 8.1x, respectively, with implicit discounts vs. its closest global peers of 50%. Even though we believe HF should trade at valuation ratios below its historical averages, as result of an increased exposure to the farm business, and at lower multiples compared its peers (2020-2022 EBITDA CAGR of ~21% vs. 28% for Calavo Growers and Costa Group), HF current valuations don't seem to internalize the expected growth that will come from: (i) new ventures (raspberries plantations in Mexico, frozen products to serve export markets from Chile and rising royalties related to the commercialization of proprietary varieties of blueberries in Peru, and eventually in Colombia); (ii) productivity gains associated to more mature fields in China; and, (iii) better farm management in Peru. And last but not least, we estimate that, at current stock value, investors have already internalized an scenario with avg. realized prices for blueberries US\$0.4/Kg lower than our base case. This means ~US\$6.6/kg by the season 2023-2024 (~US\$1.1/kg lower than 2019-2020), which is near the level what Chilean growers would consider as break-even, while for Peruvian farms it would not be attractive enough to encourage investments in new plantations in a context of rising labor costs. In this regard, we don't see room for further downside risk in share price.
- Investment Attractiveness** – (i) Blueberry is the fruit with the fastest per capita consumption growth in the USA during the last five years; (ii) New plantations in China and Mexico will reinforce HF's agricultural footprint in those key producing basis, strengthening its positioning as supplier throughout the year for the main consumer markets; (iii) the company is realizing new growth opportunities with the aim of gradually rebalancing its business portfolio; (iv) in a context of lower prices for blueberries, HF has been able to keep EBITDA margin/kg vs. the 2018-2019 campaign; (v) Attractive growth in EBITDA for '20-22 (21% CAGR); and, (vi) limited downside risk (-3% under our bear case).
- Risk Considerations** – (i) HF EBITDA is highly sensitive to blueberry price fluctuations. Blueberry prices will likely to continue decline in the next few years as result of additional supply from other Latam countries, yet at a slower pace than the observed in recent seasons. Colombia is a key market to monitor as new entrant; (ii) To remain competitive, blueberries varietal renewal in Chile is a must, however lower export prices may slow down the process; and, (iii) Container freight rates are up over 100% in the past three months. We estimate a potential annualized adverse EBITDA impact of US\$18 million for the blueberries 2021-2022 season (12% of that segment).
- Short-term catalysts** – We see two events will serve as short-term catalysts for the stock. First, the day of yesterday, the USITC determined that fresh, chilled, or frozen blueberries are not being imported into the U.S. in such increased quantities as to be a substantial cause of serious injury, or the threat of serious injury, to the domestic industry. As a result of yesterday's vote, the investigation will end, and the Commission will not recommend a remedy to the President. Second, we believe investors will welcome 4Q20 results to be released during the second half of March, as we expect EBITDA will grow 37% y/y due to higher blueberry prices and lower production costs partially offset by a fall in volumes as result of earlier harvest.

<b>Recommendation</b>	<b>Buy</b>
<b>Target Price (CLP)</b>	<b>\$1,440</b>
Current Price (CLP)	\$979.09
Market Cap (US\$ million)	778
Expected Total Return (ETR)	51%

### Price Performance



Source: Bloomberg, Banchile Equity Research.

Note: Price in Chilean Peso (base = 100, 12/31/2017)

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## Financials

**Figure 2. Financial Summary**

Income Statement (USD th)	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
<b>Sales revenue</b>	<b>426,796</b>	<b>388,250</b>	<b>528,157</b>	<b>576,045</b>	<b>622,667</b>	<b>823,344</b>	<b>921,827</b>	<b>991,465</b>
Cost of sales	-356,758	-324,718	-414,184	-475,881	-488,216	-658,773	-742,966	-807,221
<b>Gross profit</b>	<b>70,038</b>	<b>63,532</b>	<b>113,973</b>	<b>100,164</b>	<b>134,450</b>	<b>164,572</b>	<b>178,861</b>	<b>184,244</b>
Gross margin (%)	16.4	16.4	21.6	17.4	21.6	20.0	19.4	18.6
<b>EBITDA</b>	<b>46,473</b>	<b>56,305</b>	<b>106,627</b>	<b>97,802</b>	<b>161,721</b>	<b>165,523</b>	<b>174,153</b>	<b>177,988</b>
Depreciation & amortization	22,408	23,794	30,234	54,761	59,436	63,036	63,137	65,996
<b>EBIT = Operating Income</b>	<b>24,065</b>	<b>32,511</b>	<b>76,393</b>	<b>43,041</b>	<b>102,286</b>	<b>102,487</b>	<b>111,016</b>	<b>111,992</b>
<b>Adjusted EBITDA</b>	<b>65,177</b>	<b>59,520</b>	<b>75,458</b>	<b>99,549</b>	<b>163,105</b>	<b>165,523</b>	<b>174,153</b>	<b>177,988</b>
Net financial expenses	-3,041	-3,965	-15,806	-24,281	-22,068	-22,938	-22,725	-22,340
Results from affiliates	4,940	9,468	-3,483	-5,625	-378	613	613	613
<b>Pre-tax profit</b>	<b>26,492</b>	<b>32,395</b>	<b>119,932</b>	<b>11,623</b>	<b>80,965</b>	<b>80,162</b>	<b>88,903</b>	<b>90,265</b>
Tax	-7,469	-4,690	-27,416	-920	-17,145	-23,077	-25,635	-26,007
Minority Interest	1,823	1,142	8,633	7,147	11,635	9,056	10,513	10,451
<b>Net Income to controlling sh.</b>	<b>17,200</b>	<b>26,563</b>	<b>83,883</b>	<b>3,556</b>	<b>52,185</b>	<b>48,030</b>	<b>52,756</b>	<b>53,806</b>
Balance Sheet (USD th)	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Cash & cash equivalents	35,245	27,838	48,901	42,002	115,493	107,073	143,941	194,535
Accounts receivables	42,578	46,092	82,202	97,066	85,682	113,296	126,848	136,431
Inventories	56,811	44,556	86,490	70,581	64,279	84,995	95,161	102,350
Property, plant & equipment	204,863	245,060	693,363	803,363	865,705	859,803	838,799	809,937
Goodwill	26,769	26,769	179,770	179,770	179,770	179,770	179,770	179,770
Other assets	165,579	182,373	156,594	156,562	174,377	187,605	194,409	199,400
<b>Total assets</b>	<b>531,845</b>	<b>572,688</b>	<b>1,247,320</b>	<b>1,349,344</b>	<b>1,485,306</b>	<b>1,532,542</b>	<b>1,578,929</b>	<b>1,622,423</b>
Accounts payable	60,009	49,724	88,319	78,798	50,838	67,223	75,264	80,949
Short-term debt	150,787	151,531	172,629	186,959	83,281	3,031	3,031	3,031
Long-term debt	57,630	83,966	331,443	303,957	474,372	554,622	554,622	554,622
Other liabilities	47,323	43,892	135,504	121,514	134,870	135,421	135,692	135,883
<b>Total liabilities</b>	<b>315,749</b>	<b>329,113</b>	<b>727,895</b>	<b>691,228</b>	<b>743,361</b>	<b>760,297</b>	<b>768,608</b>	<b>774,485</b>
Shareholder's equity	186,448	206,817	466,682	594,723	642,738	663,983	691,546	718,712
Minority Interest	29,648	36,758	52,743	63,393	99,206	108,262	118,775	129,226
<b>Total equity</b>	<b>216,096</b>	<b>243,575</b>	<b>519,425</b>	<b>658,116</b>	<b>741,945</b>	<b>772,245</b>	<b>810,320</b>	<b>847,938</b>
Growth rates (YoY % Change)	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
<b>Sales revenue</b>	<b>22.3</b>	<b>-9.0</b>	<b>36.0</b>	<b>9.1</b>	<b>8.1</b>	<b>32.2</b>	<b>12.0</b>	<b>7.6</b>
Gross profit	28.5	-9.0	27.6	14.9	2.6	34.9	12.8	8.6
EBITDA	15.9	21.2	89.4	-8.3	65.4	2.4	5.2	2.2
<b>Adjusted EBITDA</b>	<b>62.6</b>	<b>-8.7</b>	<b>26.8</b>	<b>31.9</b>	<b>63.8</b>	<b>1.5</b>	<b>5.2</b>	<b>2.2</b>
EBIT = Operating income	-16.0	35.1	135.0	-43.7	137.6	0.2	8.3	0.9
<b>Net profit</b>	<b>29.1</b>	<b>54.4</b>	<b>215.8</b>	<b>-95.8</b>	<b>1367.5</b>	<b>-8.0</b>	<b>9.8</b>	<b>2.0</b>
Efficiency Ratios (%)	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Gross Profit Margin	16.4	16.4	21.6	17.4	21.6	20.0	19.4	18.6
<b>EBITDA Margin</b>	<b>10.9</b>	<b>14.5</b>	<b>20.2</b>	<b>17.0</b>	<b>26.0</b>	<b>20.1</b>	<b>18.9</b>	<b>18.0</b>
Adjusted EBITDA Margin	15.3	15.3	14.3	17.3	26.2	20.1	18.9	18.0
EBIT Margin	5.6	8.4	14.5	7.5	16.4	12.4	12.0	11.3
Net Profit Margin	4.0	6.8	15.9	0.6	8.4	5.8	5.7	5.4
Profitability and Debt Ratios	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
<b>ROAE (%)</b>	<b>9.5</b>	<b>13.5</b>	<b>24.9</b>	<b>0.7</b>	<b>8.4</b>	<b>7.4</b>	<b>7.8</b>	<b>7.6</b>
<b>ROAA (%)</b>	<b>3.8</b>	<b>5.0</b>	<b>10.2</b>	<b>0.8</b>	<b>4.5</b>	<b>3.8</b>	<b>4.1</b>	<b>4.0</b>
<b>Net Financial debt / Equity (x)</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.4</b>
NFD / EBITDA (x)	3.7	3.7	4.3	4.6	2.7	2.7	2.4	2.0
EBITDA / Net Financial Expenses (x)	15.3	14.2	6.7	4.0	7.3	7.2	7.7	8.0

Source: Banchile Research

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## Financials

**Figure 3. Financial Summary**

Cash Flow (USD th)	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Net income	19,023	27,705	92,516	10,703	63,821	57,085	63,269	64,257
Depreciation & amortization	22,408	23,794	30,234	54,761	59,436	63,036	63,137	65,996
Working capital	-2,621	-4,486	-38,130	-26,688	11,174	-44,011	-21,598	-15,272
Other	10,793	-14,926	-38,091	-6,267	-14,453	-613	-613	-613
<b>Operating cashflow</b>	<b>49,603</b>	<b>32,087</b>	<b>46,529</b>	<b>32,509</b>	<b>119,978</b>	<b>75,498</b>	<b>104,195</b>	<b>114,368</b>
Capex	-39,734	-58,309	-81,357	-181,977	-120,182	-57,134	-42,134	-37,134
Other	-25,863	5,260	-115,504	39,026	34,798	0	0	0
<b>Investing cashflow</b>	<b>-65,597</b>	<b>-53,049</b>	<b>-196,861</b>	<b>-142,951</b>	<b>-85,384</b>	<b>-57,134</b>	<b>-42,134</b>	<b>-37,134</b>
Dividends paid	-10,451	-13,693	-13,696	-10,926	-17,597	-26,785	-25,194	-26,640
Other	37,254	27,971	185,338	111,960	56,791	0	0	0
<b>Financing cashflow</b>	<b>26,803</b>	<b>14,278</b>	<b>171,642</b>	<b>101,034</b>	<b>39,194</b>	<b>-26,785</b>	<b>-25,194</b>	<b>-26,640</b>
Other	-163	-723	-247	2,509	-297	0	0	0
<b>Net change in cash</b>	<b>10,646</b>	<b>-7,407</b>	<b>21,063</b>	<b>-6,899</b>	<b>73,491</b>	<b>-8,420</b>	<b>36,868</b>	<b>50,594</b>

Information by Segment	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
<b>Volume (tons)</b>	<b>51,491</b>	<b>46,060</b>	<b>54,952</b>	<b>72,000</b>	<b>76,182</b>	<b>123,301</b>	<b>134,523</b>	<b>139,960</b>
Blueberries	31,706	30,996	40,902	56,427	55,973	71,450	82,400	89,047
Other berries and value-added products	19,785	15,064	14,051	15,573	20,209	51,851	52,123	50,913

**Average Income (USD / kg)**

Blueberries (*)	9.6	9.0	8.7	7.7	8.2	7.3	7.2	7.1
Other berries and value-added products	5.5	4.9	5.0	4.6	5.2	4.2	4.3	4.3

**Operating Income (USD th)**

Blueberries	36,383	33,896	47,549	41,186	95,485	88,282	96,113	96,666
Other berries and value-added products	8,111	1,830	14	3,602	8,185	14,205	14,903	15,326
Adjustments to Biological Assets	- 18,704	- 3,215	31,169	- 1,747	- 1,384	-	-	-

**Blueberries Volumes by Country (%) - excluding associates**

Peru	0%	28%	59%	62%	63%	61%	57%	55%
Chile and Others	100%	62%	35%	32%	27%	23%	23%	20%
China	0%	0%	0%	1%	4%	4%	8%	10%
Spain	0%	8%	4%	4%	3%	3%	3%	2%
Mexico	0%	2%	1%	2%	3%	8%	10%	13%

Blueberries Season	S16/17	S17/18	S18/19	S19/20	S20/21	S21/22	S22/23	S23/24
Volume	31,394	32,792	46,683	53,202	65,863	79,400	87,511	93,159
Average Income (USD/kg)	8.9	9.3	8.7	7.7	7.5	7.2	7.1	7.0

Data per share (USD)	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
EPS	0.039	0.061	0.175	0.006	0.090	0.083	0.091	0.093
Payout Ratio (%) over Net Distributable Income	50	50	35	50	50	50	50	50
DPS	0.020	0.031	0.028	0.021	0.030	0.046	0.044	0.046
Free Cash Flow	-0.037	-0.048	-0.286	-0.191	0.060	0.032	0.107	0.134

Valuation Ratios	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
<b>P / E (x)</b>	<b>51.9</b>	<b>54.9</b>	<b>19.1</b>	<b>264.2</b>	<b>15.2</b>	<b>16.2</b>	<b>14.6</b>	<b>14.3</b>
P / BV (x)	4.8	7.0	3.4	1.6	1.2	1.2	1.1	1.1
Div. Yield (%)	1.0	0.9	0.9	1.3	2.2	3.4	3.3	3.5
<b>EV / Adj. EBITDA (x)</b>	<b>16.8</b>	<b>28.6</b>	<b>28.0</b>	<b>14.6</b>	<b>8.2</b>	<b>8.1</b>	<b>7.5</b>	<b>7.1</b>
<b>EV / Adj. EBITDA by ownership (x)</b>	<b>16.4</b>	<b>24.8</b>	<b>31.1</b>	<b>15.3</b>	<b>8.8</b>	<b>9.4</b>	<b>8.9</b>	<b>8.6</b>
FCF yield (%)	(1.8)	(1.4)	(9.4)	(11.8)	4.3	2.4	8.0	10.0

Source: Banchile Research

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## Investment Thesis

Hortifrut's shares are trading at a 2021e P/E and EV/EBITDA of 16.2x and 8.1x, respectively, which reflect large discounts compared both its own history and the current multiples of its peers.

Even though we believe HF should trade at valuation ratios below its historical averages, as result of an increased exposure to the farm business, and at lower multiples compared its peers due to a relative less attractive three-year EBITDA CAGR (21% vs. 28%), HF current valuations don't seem to internalize the expected growth that will come from: (i) new ventures (raspberries plantations in Mexico with increased revenues related to the commercialization of its genetics, frozen products to serve export markets from Chile, and rising royalties related to proprietary varieties of blueberries in Peru, and eventually in Colombia); (ii) productivity gains associated to more mature fields in China; and, (iii) better farm management in Peru.

We estimate that, at the current stock price, investors have already internalized an scenario with average realized prices for blueberries US\$0.4/Kg lower than our base case. This means ~US\$6.6/kg by the season 2023-2024, which is ~US\$1.1/kg below the 2019-2020 harvesting period. The former is a level what Chilean growers would consider as break-even. For Peruvian farmers, and in a context of rising labor costs, such a price would not be attractive enough to encourage investments in new plantations.

Due to the above mentioned, we don't see room for further downside risk in share price.

On the other hand, we believe that a very recent development will likely serve as a short-term catalyst for the stock. We refer to the yesterday's 5-0 vote of the U.S. International Trade Commission, whose members determined that fresh, chilled, or frozen blueberries are not being imported into the U.S. in such increased quantities as to be a substantial cause of serious injury, or the threat of serious injury, to the domestic industry. As a result of yesterday's vote, the investigation will end, and the Commission will not recommend a remedy to the U.S. President.

In addition, we expect that investors will welcome the upcoming release of the 4Q20 results as we estimate that EBITDA will grow 37% y/y due to higher blueberry prices and lower production costs, partially offset by a fall in volumes as result of an earlier harvest in Peru which boosted the EBITDA in the 3Q.

Our main concern has to with container freight rates that are up over 100% in the past three months. We estimate than an extended period of higher shipping costs would have a potential annualized adverse EBITDA impact of US\$18 million for the blueberries 2021-2022 season (12% of that segment).

**All-in, we are reinstating our coverage on the stock with a BUY recommendation, and a target price of ChP1,440 (51% ETR).**

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## Valuation

### Implied Valuation Ratios vs. its own history

At our Dec-21 target price of ChP1,440/share, Hortifrut's stock trades at 23.9x 2021e P/E and 10.3x 2021e EV/EBITDA (18% and 28% below its eight-year median, respectively). As result of an increased exposure to the farm business, we believe HF should trade at valuation ratios below its historical averages.

**Figure 4. Valuation Summary Table**

Hortifrut Equity Value by Dec-2021		
	USD thousand	ChP million
FX (CLP/USD) by Dec-21 =725		
Consolidated Operations ex China	1,570,552	1,138,650
Minority Interest in HF Spain Southern (excluding 50% Olmos Peru)	9,979	7,235
Minority Interest in Olmos Peru (50% owned by Atlantic Blue)	(42,237)	(30,622)
HF Stake in China JV (51% owned by HF)	105,327	76,362
50% stake in EE.UU. California	733	532
50% stake in Vitafoods	(60,387)	(43,780)
Investment accounted for using the equity method	9,851	7,142
<b>Total Assets Adjusted by Ownership</b>	<b>1,593,818</b>	<b>1,155,518</b>
Consolidated Net Financial Debt	(450,580)	(326,671)
Minority Interest Financial Debt (HF Spain, Olmos Peru, HF China, Vitafoods)	38,937	28,230
Leases (last available)	(27,659)	(20,053)
<b>Value of equity</b>	<b>1,154,517</b>	<b>837,025</b>
Outstanding shares (thousand)		577,324
<b>Target Price (USD)</b>		<b>2.00</b>
<b>Target Price (ChP)</b>		<b>1,440</b>
<b>Current Stock Price (ChP)</b>		<b>979</b>
<b>Upside</b>		<b>47.1%</b>
NTM DPS (ChP)		
Div Yield		3.4%
<b>ETR</b>		<b>50.5%</b>

Source: Bloomberg, Banchile Research

### Implied Valuation Ratios vs. its closest peers

At our December 2021 target price of ChP1,440, Hortifrut would trade at a 35% discount in terms of Fwd EV/EBITDAs of its closest peers (Calavo Growers and Costa Group).

We believe HF deserves some discount vs. those comparables due to the 2020-2022 EBITDA CAGR of ~21% its lower than the 28% observed for Calavo Growers and Costa Group.

## Valuation

### Methodology

Our December 2021 target price for Hortifrut (ChP1,440/share) is based on a ten-year DCF methodology, denominated in USD.

We have valued Hortifrut's assets on a consolidated basis excluding the operations in China due to the JV established there, in which HF has a 50% stake, will only be in charge of developing the agricultural business that, in our view, has its own risk profile or beta (HF's partner, Joy Wing Mau, will distribute the production of blueberries provided by the JV).

To estimate the NPV of our cash flows forecasts for HF (on a consolidated basis ex-China), we calculated its corresponding beta (as it is explained below), and discount rate. To calculate the NPV aforementioned, we subtracted the NPV of its minority interest in HF Spain Southern (50%), Olmos in Peru (50%), EE.UU. California (50%) and Vitafoods (50%). Then, we added the NPV of HF's 51% stake in the JV in China (using a more appropriate beta) and the book value of other companies recognized on its balance sheet through the equity method (mostly Naturipe). Finally, we considered our 2021e Net Financial Debt adjusted by ownership to derive Hortifrut's equity value and the target price for our base case scenario.

### Beta

We utilize an unlevered Beta for Hortifrut of 0.66x, which is based on the US farmers Beta reported by Damoraran's web page.

That beta is levered on a yearly basis according to our estimate of Financial Debt / Equity ratio for Hortifrut. As a result, we estimate a levered beta of 1.0x. However, due to the expected decrease on HF's leverage, the average levered beta for a 10-year horizon is ~0.9x.

### WACC

Based on an average risk free rate of ~2.4%, an equity risk premium of ~6.5% (US ERP + weighted average country risk), and a levered beta of ~1.0x, we estimate an average cost of equity of 8.9%.

With a ~4.5% cost of debt, and an average corporate tax rate of ~28%, we discounted the cash flows ex-China at an average WACC of 6.5% (10.2% for the JV in China with a beta of 1.2x).

### G at terminal value

For the terminal value, we use a terminal growth of 2.0% as our DCF is in nominal terms, and due to the absence of new projects (flat volumes) in the pipeline by 2030.

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## Bull & Bear Scenarios

### Bull & Bear Scenarios

With the aim of testing the sensitivity of our target price to changes in key variables and to observe alternative scenarios, we utilize more conservative assumptions for the average prices and yield/ha of the blueberries segment, as obtained in our base case.

For our bear scenario, we assume that average realized blueberry prices will fall to US\$6.7/Kg by 2023-2024 season, which is US\$1.0/Kg lower than the 2019-2020 season. This compares with US\$7.0/Kg considered in our base case. We also assume 5% lower yield per ha in Peru, China and Mexico, as the fields located in those countries have not matured yet.

With the aim of capturing new sources of growth as Hortifrut integrated model would offer new business opportunities such as the commercialization of proprietary genetics to third parties farmers, our bull scenario considers a higher Fwd EV / EBITDA target ratio, in-line with the long-term historical simple average for Calavo Growers and Costa Group (12.2x). For Hortifrut, we consider the ownership-adjusted EBITDA ex fair value movements in biological assets.

All-in, we derive bear and bull case target prices of ChP950 (3% downside) and ChP1,673 (+71% upside):

**Figure 5. Target Price Scenarios – Sensitivity Analysis**

Scenarios	Bear	Base	Bull
<b>TP Dec 21e (ChP/sh)</b>	<b>950</b>	<b>1,440</b>	<b>1,673</b>
Upside (Downside)	-3%	47%	71%
Comments	Lower Blueberry Prices & Yields per ha <sup>(1)</sup>	DCF	At EV/EBITDA of peers <sup>(2)</sup>

Source: Bloomberg, Banchile Research. (1) and (2) are explained in detail above in the description of bear and bull scenarios.

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## Peers Comparison

### Comparative Table

Due to their business profile, relative size and historical growth rate of revenues and EBITDA, we believe that Costa Group, Calavo Growers and Mission Produce are the Hortifrut's closest peers.

**Figure 6. Peers Comparison table**

	Country	Price (L.Crncy)	Mkt Cap. (USD Mn)	EV (USD million)	P/E			P/BV			NFD / EBITDA (LTM)
					2020E	2021E	2022E	2020E	2021E	2022E	
Costa Group Holdings Ltd	Australia	4.31	1,339	1,758	35.6x	24.8x	22.4x	3.0x	2.8x	2.7x	5.2x
Calavo Growers Inc	USA	77.8	1,364	1,453	42.3x	35.6x	25.2x				1.6x
Mission Produce Inc	USA	21.29	1,502	1,557	32.5x	23.1x	20.6x	3.2x	2.5x	2.2x	
<b>Sample Average</b>					<b>36.8x</b>	<b>27.8x</b>	<b>22.7x</b>	<b>3.1x</b>	<b>2.7x</b>	<b>2.5x</b>	<b>3.4x</b>
<b>Hortifrut SA</b>	<b>CHILE</b>	<b>979</b>	<b>778</b>	<b>1,353</b>	<b>15.2x</b>	<b>16.2x</b>	<b>14.6x</b>	<b>1.2x</b>	<b>1.2x</b>	<b>1.1x</b>	<b>3.3x</b>

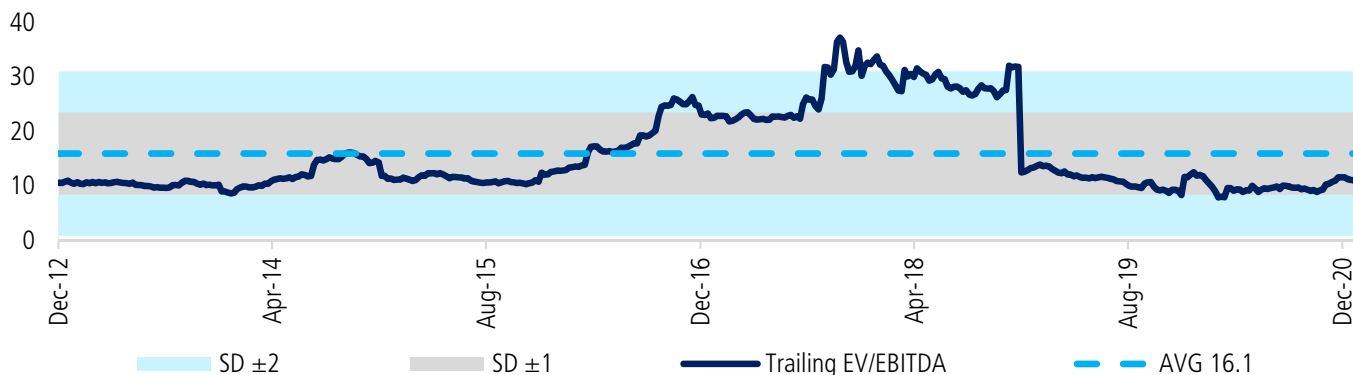
	ROE 12m Fwd	Price/Sales			EV / EBITDA			EBITDA Margin			Div. Yield
		2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	
Costa Group Holdings Ltd	11.3	1.5x	1.4x	1.3x	14.1x	11.3x	10.4x	14.3%	16.2%	16.9%	2.4
Calavo Growers Inc	-	5.1	1.3x	1.3x	1.2x	23.9x	20.3x	15.7x	5.4%	6.6%	7.7%
Mission Produce Inc	12.4	1.7x	1.6x	1.5x	18.3x	15.1x	13.6x	9.9%	11.3%	11.5%	0.1
<b>Sample Average</b>	<b>6.2</b>	<b>1.5x</b>	<b>1.5x</b>	<b>1.3x</b>	<b>18.8x</b>	<b>15.6x</b>	<b>13.2x</b>	<b>9.8%</b>	<b>11.4%</b>	<b>12.1%</b>	<b>1.2</b>
<b>Hortifrut SA</b>	<b>7.4</b>	<b>1.2x</b>	<b>0.9x</b>	<b>0.8x</b>	<b>8.2x</b>	<b>8.1x</b>	<b>7.5x</b>	<b>26.2%</b>	<b>20.1%</b>	<b>18.9%</b>	<b>3.4</b>

Source: Bloomberg, Banchile Research

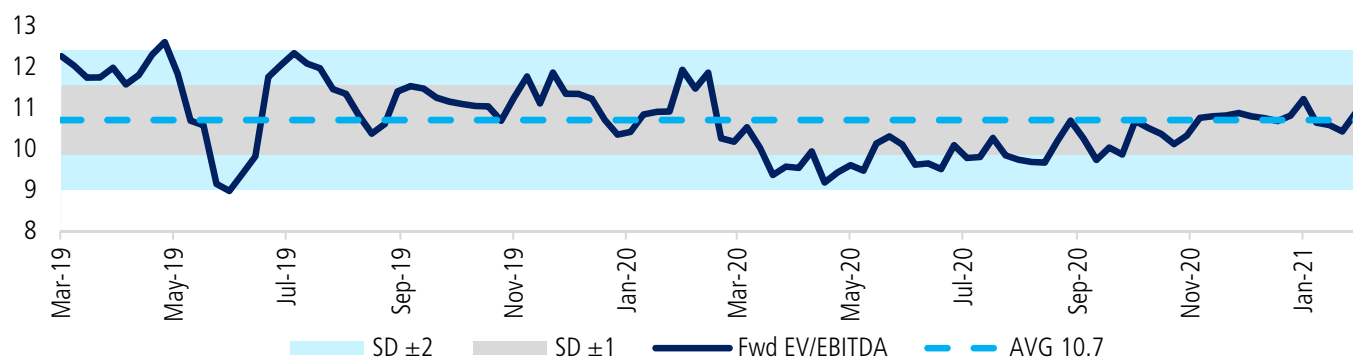


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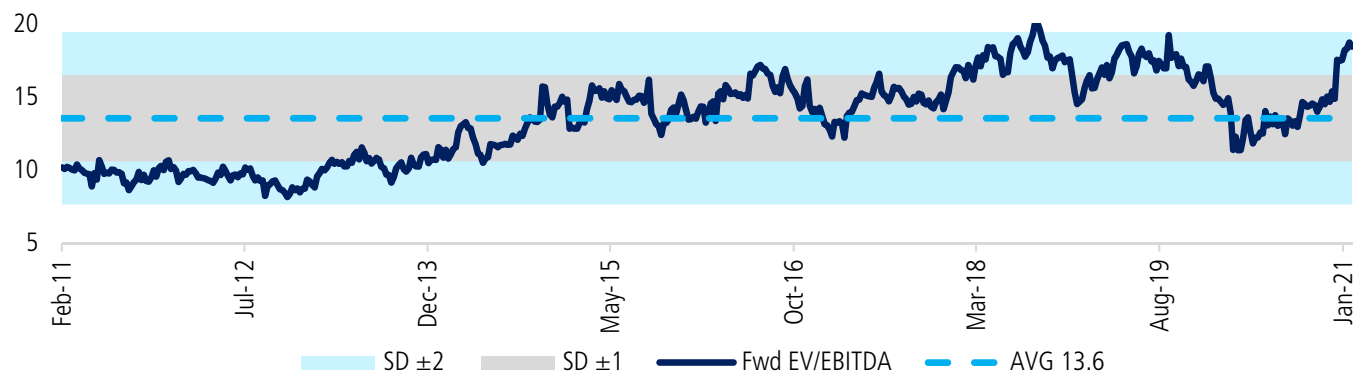
## Peers Comparison

**Figure 7. Hortifrut\* – Historical Trailing EV / EBITDA 10 yr**


Source: Bloomberg, Banchile Research

**Figure 8. Costa Group Forward EV / EBITDA**


Source: Bloomberg, Banchile Research.

**Figure 9. Calavo Growers Forward EV / EBITDA**


Source: Bloomberg, Banchile Research.

(\*) Hortifrut has not coverage of sell-side analysts. Therefore, there are not estimates available for calculating Fwd ratios. We present trailing data

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## Recent Developments

### Rising shipping costs would have a very low impact on operating margins of its own fields or third-party orchards:

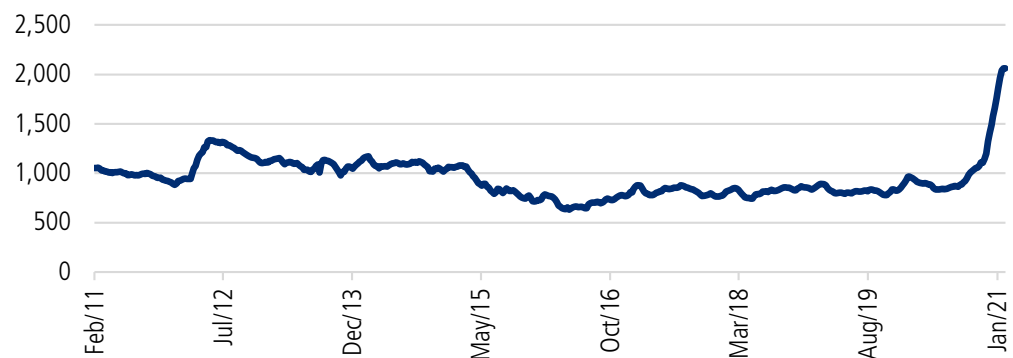
Blueberry is one of the most delicate fruit in its harvest and post-harvest because it is a climacteric fruit, that is, it is more susceptible to dehydration, rot and damage mechanic.

To increase the post shelf life, it is recommended that blueberries be transported in a refrigerated container with controlled atmosphere.

The blueberry has a life of approximately 55 days that represents the PSL (Practical Shelf Life), this is combined with the different transit times to different markets and types of technology in refrigerated containers. Transport from Latin America to the different markets is a period that may represents up to 85% of the life of the blueberry.

Container freight rates are up over 100% in the past three months.

**Figure 10. Container Freight Rates – Index Level since 2011**



Source: Bloomberg, Banchile Research

HF has indicated that, during the current season, the rise in shipping rates would have a very low impact on its operating margin, since the vast majority of negotiations with shipping companies are carried out prior to the start of the season.

If current high rates stay at current levels for the next harvesting season, we estimate a potential annualized adverse EBITDA impact of US\$18 million for the blueberries 2021-2022 season (12% of that segment). This considers HF's sales volume from own fields located in Chile and Peru.

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## Recent Developments

**The alleged detection of Covid-19 in cherries exported to China has severely impacted Chilean exports, yet with a very minor effect on HF's financials:**

News in social media, not confirmed by local authorities, came in just before the Chinese New Year holiday and amid the peak of shipments to that country, which represent ~90% of Chilean exports.

We estimate that cherries are equivalent to 10% of sales volume of other berries, excluding value added products (~2% of blueberries).

During the current season, HF would have reached shipments for about 1,500 tons of cherries to China (almost 90% corresponds to third parties fruit). Only one container (~18,000 kilograms), with fruit from its own fields would have not covered its costs.

The impact of this event on HF's financials is negligible.

**Unexpected summer rains occurred in Chile by the end of last January resulted in losses for HF equivalent to 1.4% of blueberry sales volume.**

For few days, this event stopped the harvesting from Maule region to Northern Araucania, at a time in which Chilean blueberry exports recorded over 80% progress. Losses reached ~30% of the unharvest fruit.

Thus, we estimate a gross loss of production for HF equivalent to ~1,000 tons, which represents 1.4% of blueberry sales volume that we expect the company will distribute through its platform during the current season. Out of this, about a quarter would correspond to fruit that is possible to commercialize as frozen products.

## Recent Developments

### **The day of yesterday, the U.S. International Trade Commission (USITC) will make a determination on whether blueberries are being imported into the US are cause of serious injury to the domestic industry producing:**

Very recently, the global blueberry industry faced for the first time an international demand, in the context of the World Trade Organization (WTO), for a safeguard on imports from the U.S., main blueberry market, arguing that they have caused damage serious to local producers.

According to the “Anuario 2019-2020, Mercado Internacional de Arándanos”, released by iQconsulting, North America was the main destination for Mexican, Peruvian and Chilean blueberries (98%, 56% and 52% of volumes, respectively).

On September 29, 2020, and following receipt of a request from the United States Trade Representative (“USTR”), the United States International Trade Commission (“USITC”) started to carry out an investigation in order to determine whether fresh, chilled, or frozen blueberries are being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article.

The day of yesterday, the USITC determined that fresh, chilled, or frozen blueberries are not being imported into the U.S. in such increased quantities as to be a substantial cause of serious injury, or the threat of serious injury, to the domestic industry. As a result of yesterday’s vote, the investigation will end, and the Commission will not recommend a remedy to the President..

A report called “An Economic Analysis of the Competitive Dynamics in the U.S. Fresh Blueberry Market”, elaborated by Mr. Thomas J. Prusa in December 2020, had concluded that the change in domestic competition is the single largest factor affecting domestic prices over the 2015-2020 period. Below, you may see some highlights we extracted from that report:

- I. U.S. fresh blueberry production and shipments are heavily concentrated in a 20-week period, running from late-April to early-September. *Over 90% of U.S. fresh blueberries are sold during the 20-week peak season;*
- II. The seasonal nature of domestic production means that domestically grown blueberries are essentially unavailable for about half the year for most U.S. consumers. This off-season window is when the vast majority of imports service the U.S. market. *Approximately 80% of imported fresh blueberries enter the U.S. in the off-peak weeks – in other words, the vast majority of imports enter when there is either very few or zero domestic blueberries available;*
- III. *Since 2015, 86% of the growth in imported fresh blueberries has occurred during the off-peak weeks.* Given the lack of temporal overlap when the two sources of supply are present in the U.S. market, *imported and domestic blueberries are better seen as complements than substitutes.*
- IV. *Acres planted and acres harvested have grown, both nationwide and also in nearly every major growing state in the U.S. over the period analyzed;*

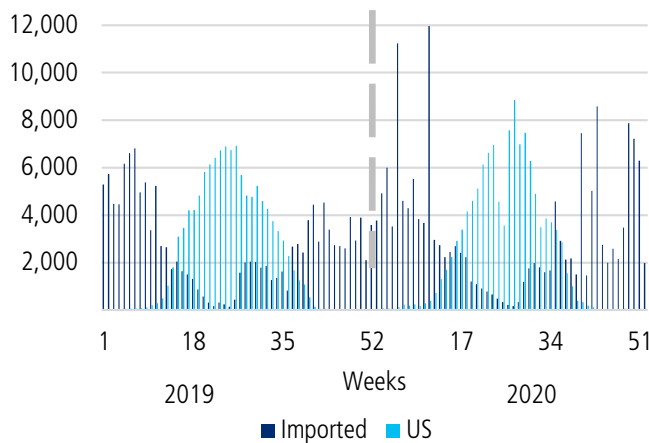
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## Recent Developments

- V. The single biggest development within the domestic blueberry industry has been the significant growth of fresh blueberries grown in three West Coast states, California, Oregon, and Washington. *During the peak season, the growth in fresh blueberry production in West Coast states exceeds the growth of imports;*
- VI. On the other hand, East Coast producers have faced significant weather-related challenges that have reduced their yields and production. For East Coast producers three of the four worst weather years over the last 40 years have occurred since 2015. *Lower yields and reduced blueberry production volume from the East Coast states are largely explained by weather challenges and cannot be attributed to imports;*
- VII. *Price movements over a calendar year are not consistent with a theory of imports being a substantial cause of serious injury. Over a calendar year, fresh blueberry prices are consistently at their lowest during the peak summer weeks, which is exactly the period when imports are at their lowest level. Conversely, domestic prices are higher during weeks when import volume is higher; and,*
- VIII. *While prices in the spring and fall "shoulders" have fallen over the period, these lower prices affect less than 10% of U.S. fresh blueberry shipments. The vast majority of U.S. fresh blueberry shipments are conducted at prices during the peak weeks when import volumes are low, import growth has been modest, and domestic competition at its fiercest.*

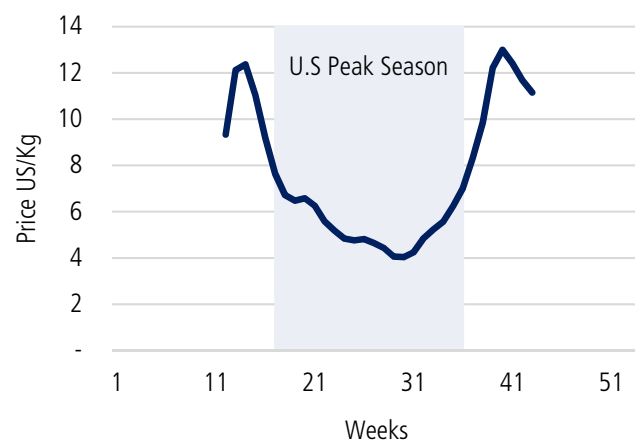
Thus, and based on the aforementioned findings, Mr. Prusa had concluded that domestic volumes have had a larger influence on domestic market prices than import volume.

**Figure 11. Blueberry US Supply 2019 & 2020**



Source: Agronometrics, Banchile Research based on Mr.Prusa's report

**Figure 12. Weekly US Blueberry Price over 2015-2020**



Source: Agronometrics, Banchile Research based on Mr.Prusa's report

Our talks with industry participants indicated that, during the Jan.12 hearings, the arguments presented in defense of Latam blueberry producers were solid, and there was optimism among them regarding what the USITC was going to decide.

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## 4Q20 Results Forecasts

In the 4Q20, we expect EBITDA will grow 37% y/y due to higher blueberry prices and lower production costs partially offset by a fall in volumes as result of earlier harvest. This latter had boosted 3Q EBITDA.

**Figure 13. 4Q20E Results – Summary Table**

Data in USD million	4Q19	4Q20E	%
Revenues	255,812	237,587	-7.1%
EBITDA	34,069	46,751	37.2%
Net Profit	1,758	17,105	873.0%
Blueberries Volume (ton)	27,760	23,476	-15.4%
Other Berries Volume (ton)	3,728	6,571	76.3%
Blueberries Avg. Price	7.2	8.1	13.3%
EBITDA (USD/Kg)	1.1	1.6	43.8%

Source: Banchile Research

We believe that these results to be released during the second half of March, along with the favorable decision made by the USITC, may act as a catalyst for the stock.

## Investment Considerations: Attractiveness

### **Blueberries are known as a “Superfruit”:**

Berries are called “Superfoods” due to they are high in antioxidants, fibre, vitamin C and flavonoids, among other several properties. Anthocyanins are a type of flavonoid, which stimulate the secretion of the enzyme Sirtuin 6 (SIRT 6), anti-cancer cells.

According to Agriculture and Agri-Food Canada “the appeal of blueberries to health-conscious consumers is tied to their extremely rich in antioxidants properties, low calorie intake, high in fibre and nutrient content, and that blueberries may contribute to heart health since they appear to act as an anti-inflammatory and may also reduce blood cholesterol levels”.

Regarding this latter, we highlight that blueberries from Chile have recently received heart check certification by the American Heart Association’s Heart-Check Food Certification Program. The iconic Heart-Check mark helps take the guesswork out when reading Nutrition Facts and label information, giving consumers peace of mind that what they are consuming meets the nutritional requirements of the American Heart Association.

Three in four consumers say they are more likely to purchase foods that feature the Heart-Check mark, regardless of age or kids in household.

Global demand is expected to expand amid the low per capita consumption, rising supply (making it more affordable), and strong secular trends such as rising awareness of the health benefits it carries, among others.

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## Investment Considerations: Attractiveness

**Blueberries is the fresh fruit with the fastest per capita consumption growth in the USA during the last five years, with worldwide exports growing over 100,000 tons in the 2018-2019 period.**

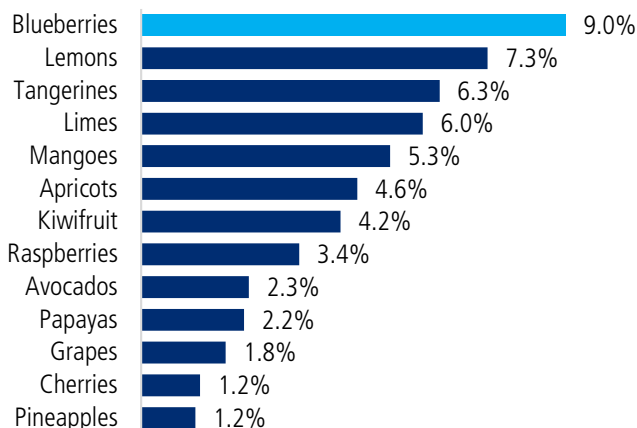
According to the USDA, fresh blueberries per capita consumption grew at a CAGR of 9.3% in the last decade in the USA (2010-2019 period). Thus, and in terms of growth, fresh blueberries ranks # 2 in that country, just behind raspberries (+12.5%), and surpassing tangerines (+7.9%) and avocados (+6.3%).

It is worth to mention that, in the last five years, fresh blueberries is the best-selling fruit in the U.S., with the highest growth rate (+9.0%), followed by lemons (+7.3%), and tangerines (+6.3%).

Based on International Trade Center statistics, fresh blueberries exports worldwide reached USD3.5 billion in 2019, totaling 672,000 tons (+17% y/y in terms of volume; +97,000 tons), well above the USD2.3bn and 452,000 tons observed in 2018, with a CAGR of +21% measured in volume (+110,000 tons/year, equivalent to a whole season of Chilean or Peruvian exports).

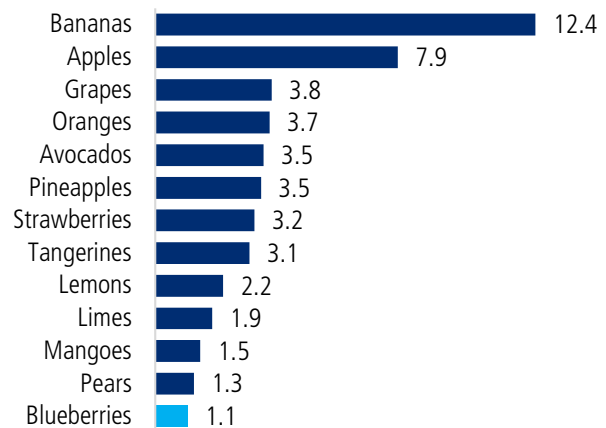
In 2019 (calendar year), the world's largest exporter was Chile (20.6% market share in volume), followed by Peru, Canada and Spain. These four players concentrated 60% of world exports in 2019.

**Figure 14. US Per Capita Consumption Growth (5 yr CAGR)**



Source: USDA, Banchile Research

**Figure 15. 2019 US Per Capita Consumption. (kg/yr)**



Source: USDA, Banchile Research

On the other hand, North America is the world's largest consuming market, concentrating 41% and 47% of the global imports measured in value and volume, respectively (the U.S. is 80-84% of that total). We highlight that North America has explained 37% of imports growth worldwide in the last two years.

Based on several sources, the global blueberry market, including fresh and processed products, is forecasted to grow at a CAGR of 6.7-7.4% by 2024 (in terms of value). Considering a total market size of ~900,000 tons, and assuming steady prices, this would imply an average annual growth in consumption of ~60,000-65,000 tons/year.



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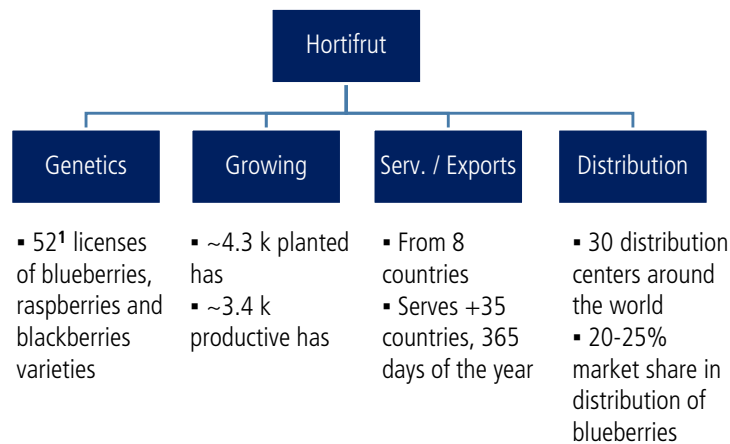
## Investment Considerations: Attractiveness

### Vertically integrated business model through the whole value chain from genetics to commercialization for the final customer:

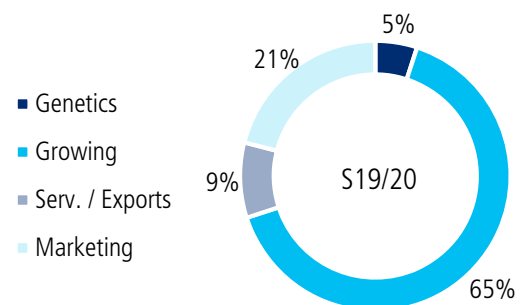
The vision and mission with which the company was founded is “to reach with every type of berry, everywhere in the world, 365 days a year”. To accomplish it, the company has leveraged its position by vertically integrating and forming strategic alliances through the whole value chain with first class partners. This has enabled the firm to operate as a provider of genetics, producer and distribution platform.

HF’s business model is based on: (i) establishing strategic alliances throughout the entire value chain (genetics, production and distribution); (ii) connecting the southern hemisphere with the northern hemisphere; (iii) developing trade platforms and own brands; (iv) business integration from genetics to the final customer; and, (v) supplying the best customers in the main global markets.

The deep integration through the value chain (genetics to customer) and a global network of strategic alliances, facilitates HF access to genetics, best agriculture practices in different geographies, early knowledge on market/consumer trends and allows it to identify business opportunities.

**Figure 16. Businesses**


Source: Hortifrut Corporate Presentation, Banchile Research

**Figure 17. EBITDA Breakdown per Business**


Source: Hortifrut Corporate Presentation, Banchile Research

(1) Varieties developed internally and licensed from third parties

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## Investment Considerations: Attractiveness

### HF continues to increase its agricultural presence in geographical markets that will allow it to strengthen its presence throughout the year in key consumer markets:

With the aim of maintaining a relevant position in the industry and diversifying its income sources in terms of producing basis, HF is adding new plantations in Mexico and China.

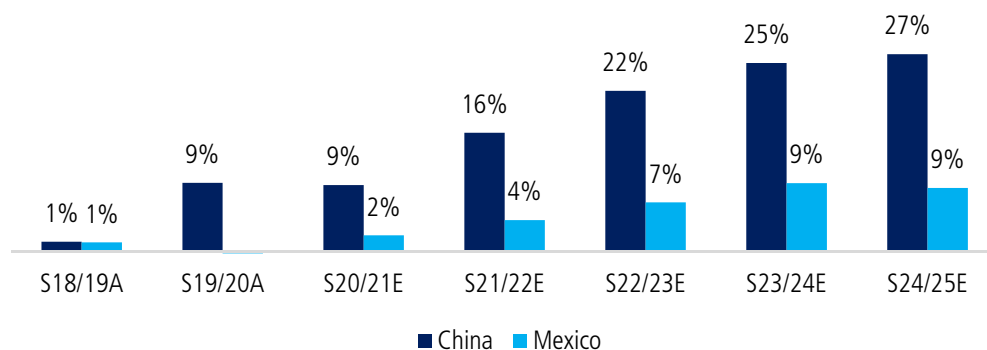
#### Mexico:

The rationale of this expansion has to do with that Mexico plays a very important role as provider to the U.S. with the great advantage over other exporting countries of putting fruit in trucks. Therefore, in addition to the intrinsic quality of growing the fruit of Mexico, its conservation, once harvested, is facilitated by the fact of having a transit of a few days to its final destination. The U.S. represented ~93% of total blueberries Mexican exports that reached USD341 million in 2019 (48,295 tons). Mexican blueberry exporters can ship the fruit to Europe within 20-22 days, to Asia in 15 days and they also do daily flights from Guadalajara Airport to multiple destinations worldwide.

By December 2018, HF managed 234 has in the states of Jalisco, Michoacan and Sinaloa, mostly planted with conventional blueberries (133 has) and raspberries (95 has). With the funds raised from the capital increase completed in 2019, HF has recently completed a total investment of about US\$67 million in Mexico. The company added ~490 hectares of blueberries in pots (~92% conventional and 8% organic), with a total Capex of US\$54 million (US\$110,000/ha), and 200 hectares of raspberries and 25 hectares of blackberries (US\$13 million; capex/ha=US\$58,000). While all the blueberries and blackberries hectares were planted during the 2019-2020 season, raspberries were planted in two stages between 2018 and 2020 season.

As result of the investments above mentioned, we estimate that, over a 4-year horizon, Mexico, will contribute 9% of the blueberries EBITDA. This considers the commercialization of third parties production.

**Figure 18. Contribution of China and Mexico to Blueberries EBITDA**



Source: Banchile Research

## Investment Considerations: Attractiveness

The “Panorama Agroalimentario 2020” reported that, by the end of 2019, Mexico was the sixth largest blueberries producer in the world. With ~5 thousand has planted with blueberries, of which ~4 thousand were harvested, blueberries production reached 49,000 tons in 2019 (+21.7% y/y; average yield of 11.3 tons/ha). Sixty percent of volumes came from Jalisco, followed by Michoacan (15%), Sinaloa (10%) and Baja California (7%). Harvest volumes were very stable throughout the year, with peaks in June and December. Export volumes were higher from March to May (~52% of total) due to the absence of Chilean and Peruvian blueberries in the U.S. market during that period. However, we highlight that 37% of total shipments occurred from November to February (at the peak of Chilean counter season).

Regarding raspberries, with the highest yield per hectare and totaling 128,848 tons of production in 2019, Mexico is the world’s second largest producer. In 2019, exports reached US\$914 million, with the US concentrating 97% of total value. Ninety percent of volumes were harvested in Jalisco and Michoacan. Exports concentrate from October to May.

### China:

The strategic alliance signed with Joy Wing Mau in 2017 for the joint development of farming and distribution of berries in China, aims to increase the 230 hectares of cultivated area with blueberries considered in the initial project to 500 hectares of conventional blueberries in pot (high density of plantation, 10,000 plants/ha), in stages, to finish the 2021-2022 season.

As of June 2020, there were 255 hectares planted. A total investment of US\$40 million will be required for planting 145 and 100 hectares in the 2020-2021 and 2021-2022 season, respectively. To double its planted area and for adding packing facilities, the total investment would reach US\$50 million (~US\$190,000/ha).

Over a 4-year horizon, we estimate that the local operations in China will represent ~27% of HF’s segment EBITDA.

According to a USDA report released last year, growing blueberry consumption in China is driving expanded domestic cultivation with production increasing from 14,000 tons in 2012 to 180,000 in 2018. Shandong, Guizhou and Liaoning provinces are the primary producing areas. Industry experts forecast domestic production could exceed one million tons by 2026, surpassing North America as the world’s top producer. Large fruit producers, including Driscoll’s, Costa, Hortifruit, and SA Berry Fruit have made considerable investments in China to cultivate blueberries and other berry fruits. Domestic producers have begun to invest in different varieties which offer improved aroma and a balance of sweet and tart flavors.

In 2019, China total imports reached 22,000 tons. Chile and Peru were the leading blueberry exporters to China (99% of total).

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## Investment Considerations: Attractiveness

### **Realizing business opportunities to gradually rebalance the contribution of each business segments:**

As a result of the merger with Rocio Group in Peru in 2018, which doubled Hortifrut's cultivated area (+1,400 ha of blueberries), the company significantly increased its exposure to the agricultural business to the detriment of the previous balance observed between that area and its other business units related to export/import activities and distribution/commercialization of its own and third parties production to final customers worldwide.

During the season 2019-2020, while the agricultural business contributed with 65% of consolidated EBITDA, exports services and marketing represented 30%, and genetics the remaining 5%.

We highlight that, in 2017, only a third of the kilos distributed by HF corresponded to production from its own cultivated fields. Following the merger with Rocio Group, that figure increased to ~70%.

In the last two years, and with the aim of increasing the relevance of business units different than agricultural, the company executed the following alliances:

(I) On September 2019, HF partnered with Proplantas, the main nursery in Colombia. The commercial alliance between HF (75%) and Proplantas (25%), which is controlled by the pioneering family in the production and commercialization of strawberries and blueberries in that country, was established to create an export platform from which the company will support local producers to plant HF varieties and market the fruit that they produce. This partnership, will allow HF to commercialize its varieties in Colombia to get revenues from royalties, and boost the exports of blueberries by approaching niche markets in the largest consumer regions with a differentiated offering.

Although blueberries started to be planted more than thirty years ago in Colombia, the industry is in early stages of development and most of its production is consumed internally. According to ProColombia, blueberries exports would have exceeded USD1 million for first time in 2020.

As result of stable weather conditions, Colombian growers are able to produce blueberries all year round, and they are a good in terms of sweetness, size and durability. Colombia has a good quality of land, water, air and logistics infrastructure – left by the country's flower industry-, in addition to territorial location since is closer to the main consumer countries of blueberries compared to Chile and Peru.

According to the Colombian Blueberries Growers' Association (Asocolblue), by 2019, Colombia had ~450-500 hectares planted with blueberries mostly in the Cundinamarca and Boyacá departments. By 2020, it was expected to reach ~1,000 has with a production of ~7,700 tons. This year, cultivated area would increase to ~2,000 has, and ~5,000 has in a seven to ten year horizon. Thus, Colombia is expected to become a relevant global competitor.

FreshPlaza website, and referring to information provided by Proplantas, noted that Colombian blueberries exports may exceed USD100 million in a four year timeframe (mainly to the USA, UK and the European Union). Assuming an average FOB price of USD5/kg, this would be equivalent to ~20,000 tons/yr.

## Investment Considerations: Attractiveness

In order to capture higher prices, Colombian growers may decide to serve the US market in a counter seasonal fashion, i.e. from August to April. This will translate into more competition for other producers in Latin America, such as Peru and Chile.

(II) On October 2019, Hortifrut announced the signing of a MoU with a Chilean company called Duncan Fox to combine the fruit and certain frozen export vegetables business developed by both companies, focused mainly on international markets. Duncan Fox was controlling shareholder of Alifrut, the country's largest processor and exporter of frozen fruits (berries, grapes and kiwi) and vegetables (green beans, broad beans, chickpeas, asparagus, corn grain and mix of vegetables). For its part, Hortifrut was a producer of frozen berries as well as products that are born from the different combination of these. After getting the approval from the antitrust authority ("Fiscalía Nacional Económica" – FNE), both parties completed the deal in July 2020. The 50/50 JV is called Vitafoods.

While Alifrut contributed with three processing plants and a line of blueberries whose total capacity reaches 25,000 ton/year, Hortifrut did it with two berries processing plants totaling a capacity of 10,000 ton/year. Thus, Vitafoods has a production capacity of 35,000 tons, reaching the leading position in Chile in its category.

The new entity is expected to record sales for about USD100 million/year, with an EBITDA Margin ranging 17-20% (US\$8-10 million of adjusted by ownership EBITDA contribution/year). HF consolidates Vitafoods since August last year. However, its impact on results will be observed this year. Currently, the five processing plants are operational at full capacity and are expected to run throughout the year. Previous the merger, the two plants contributed by HF used to be operational for only a few months during a calendar year.

(III) On February 2020, HF acquired a non-controlling stake of 11.8% in Portuguese berry grower group called Bfruit. The agreement is set to allow HF to continue strengthening its position in the European berry market through a combination of Bfruit's experience in raspberry production in Western Europe, Hortifrut's new varieties and the growing commercialization of the berry category across the continent. The Portuguese firm has logistics and packing facilities in Odemira and Guimarães. Bfruit's production will now be marketed by Euroberry, Hortifrut's commercial platform for Europe, which Hortifrut said would enhance the existing vertically integrated business and ensure year-round supply to its clients in Europe. For HF, this acquisition opens the possibility of having a supply of more than 1.500 tons of raspberries and 400 tons of blueberries from that country during 2020-2021 season, and it offers growth for its own genetics. HF is now able to meet European customers' needs throughout the year, not only blueberries, but also raspberries, adding blackberries to this portfolio in the short term. The production of raspberries in Portugal is very complementary to what HF has in Morocco. It is worth mentioning that, among the smaller export nations, Portugal has had considerable success with exports of fresh berries in a context in which blueberries and raspberries are the Top 1 and 4 fresh fruits imported by European countries in the 2009-2018 period.

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## Investment Considerations: Attractiveness

(IV) Through a new Chilean entity called Hortifrut Management, established in March, 2020, HF is managing third-party fields in Chile. Around 200 has of blueberries plantations are under HF's administration, equivalent to a production of ~1,300 tons/year which is commercialized through its platform. Through this business, HF captures not only export and distribution fees but also a percentage of the net profit obtained by the fields.

(V) In Peru, HF commercializes early varieties of blueberries plants to other growers which provides the company with royalty income (~5% FOB price). As of September 2020, there were 668 hectares from third parties planted with own blueberries varieties in Peru. During 2020-2021 season, in the first harvest, HF expects to add 1,300-1,500 tons from third parties fruit subject to royalty fee. In mature, i.e. four year timeframe, that figure is expected to reach 14,000 tons (1/4 of volume commercialized from Peru; 15% on consolidated basis). Assuming a ~US\$4.0-4.2/kg FOB price in Peru, the commercialization of blueberries in Peru has the potential to generate revenues for about US\$3 million/year.

Even though we welcome these developments, the rebalancing of HF business portfolio will be very gradual as the company is simultaneously increasing its agricultural footprint in key geographical markets such as China, to serve local market, and Mexico to export mainly to the USA.

In a horizon of three to four seasons, HF aims to achieve a balance of fruit distributed through its commercial platform, in terms of own and third parties production.

### **In a context of lower prices for blueberries, HF has been able to keep EBITDA margin per kilogram vs the 2018-2019 campaign:**

Although the average realized price of blueberries on HF's commercial platform is expected to decrease from the US\$8.7/kg observed during the 2018-2019 season to US\$7.4-7.5/kg in the current period 2020-2021, EBITDA per Kilogram would remain almost unchanged at US\$2.0. This is mainly explained by: (i) a higher productivity (yield/ha) of its fields in Peru, which is also a low cost producing base; (ii) a learning curve which has allowed HF to improve farm management in that country (Trujillo); and, (iii) an increase in the cultivated area in China, whose operation offers the highest EBITDA/kg within HF's portfolio.

### **Attractive growth in EBITDA for the period 2020-2022:**

We expect HF's consolidated EBITDA will grow at a CAGR of 21% for the period 2020-2022, mainly as result of increasing commercialized volumes of blueberries (+46%), but also from raspberries and frozen products.

In particular, the EBITDA expansion is attributed to: (i) higher average yield/ha of its blueberries producing bases as cultivated area matures (15Kg/ha vs. 13Kg/ha); (ii) lower production costs in Peru due to a better farm management amid higher productivity (18Kg/ha vs. 14Kg/ha); (iii) a larger planted area of blueberries in Mexico (~4.5x), and China (~2x); (iv) increased cultivated area of raspberries in Mexico; (v) consolidation of Vitafoods (frozen fruits and vegetables to serve export markets); and, (vi) sale of early varieties of blueberries plants to other growers in Peru (income from commercialization of genetics).

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## Investment Considerations: Attractiveness

**Declining trend in blueberries prices observed during the last three seasons may moderate.**

While in the season 2017-2018, HF's average realized price exceeded US\$9/kg, for the current season we expect it will fall to ~US\$7.4-7.5/kg.

We estimate that, at current stock value, investors have already internalized an scenario with avg. realized prices for blueberries US\$0.4/Kg lower than our base case.

This means ~US\$6.6/kg by the season 2023-2024 (~US\$1.1/kg lower than 2019-2020), which is near the level what Chilean growers would consider as break-even. Thus, they would face the dilemma of investing in varietal renewal or not. For Peruvian producers, such as price would not provide an attractive enough payback period in order to invest in growing that fruit, in a context of rising labor costs.

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## Investment Considerations: Risks

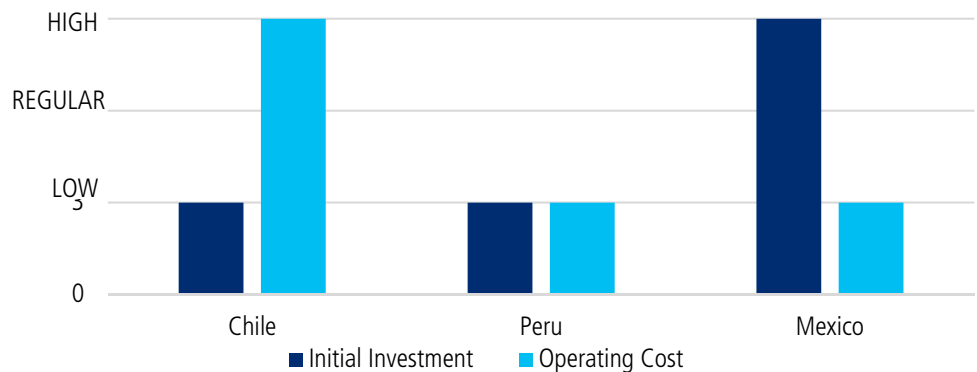
### Additional supply of blueberries from Latam growers.

In Latin America, additional supply will come mainly from Peru, Mexico and Colombia. In Peru, preliminary forecasts considered exports for 165,000-170,000 tons during the current season 2020-2021, well above the previous harvesting (120,000 tons). Latest figures indicate that shipments would range 155,000-160,000. By the 2021-2022 season, exports will continue to grow (200,000 tons).

Even though we have not info on forecasts for the Mexican blueberry industry, HF will increase its own production for about 10,000 tons by the season 2023-2024. Since the industry is very atomized, market participants expect that the growth in plantation will moderate in comparison to previous years.

Finally, and according to Proplantas, in the next four years, Colombia's export potential of this fruit could exceed 100 million dollars. In addition, a research of Asocolblue (Colombian Association of Blueberries), indicates that there could be more than 1,000 hectares planted within two years (+2x the current cultivated area). We estimate that the info provided by both Proplantas and Asocolblue, would indicate a potential production of ~20,000 tons in a four year timeframe.

**Figure 19. Blueberries in Latam (Initial Investment and Cost Structure in selected countries)**



Source: Jorge Varela Presentation (Chilean Blueberry Committee), Banchile Research

On the other hand, and apart from the increased offering of Peruvian blueberries, European markets will import additional volumes from Morocco, and newest suppliers, such as South Africa and Ukraine.

Regarding South Africa, while blueberry exports will increase to 17,000 tons during the 2020/2021 season (up from 12,300 tons in 2019-2020, and 8,000 tons in 2018-2019), shipments for the 2021-2022 season will go up to 25,000 tons.

Ukraine is expected to triple its current 3,000 hectares planted in the next five years.



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## Investment Considerations: Risks

### A vicious cycle: Varietal renewal in Chile is a must, however lower blueberry export prices may slow down the process.

As a counter-season supplier for the northern hemisphere, Chile has played a leading role in the development of blueberries' global consumption. However, the entry of new competitors, mainly Peru, has narrowed the window of high export prices that local producers and exporting companies used to take advantage of until only few years ago.

To remain competitive, Chilean growers must to replace old varieties in order to reach a higher productivity (yield/ha) and produce a fruit with better post shelf life.

According to iQonsulting, in the 2019-2020 season, Chilean growers exported over 100 blueberry varieties, with three of them concentrating 53% of the total offering (Legacy, Duke and Brigitta, which are public varieties). Chilean Blueberry Committee and its quality verification program that has been in place for 4 years, has recommended a list of varieties for export, due to its good post shelf life. This group of varieties accounted for 55% of total shipments the 2010-2020 season, up from the previous 50%, and it is expected will continue on the rise. Within that group, iQonsulting highlights Legacy and Duke as public varieties, and Draper, Emerald and Liberty as those are proprietary. Varieties recommended with restrictions have diminished their volumes, yet still represent 39% of total shipments. Finally, non-recommended varieties are less than 5% of volumes.

**Figure 20. Blueberry Varieties by Season**

Varieties	Exported Volume by Season (Tonnes)					Diff % 2019/20 vs.		Share	
	2015/16	2016/17	2017/18	2018/19	2019/20	2015/16	2018/19	2015/16	2019/20
Legacy	17,221	19,291	22,777	25,760	24,812	44%	-4%	19%	23%
Duke	13,947	17,466	16,191	18,667	19,114	37%	2%	15%	18%
Brigitta	14,719	18,266	14,036	15,953	13,756	-7%	-14%	16%	13%
Brigthwell	6,850	9,357	11,596	8,754	9,952	45%	14%	8%	9%
Oneil	7,276	8,065	7,854	7,273	4,182	-43%	-43%	8%	4%
Jewell	3,670	2,914	3,570	2,791	3,556	-3%	27%	4%	3%
Star	4,495	3,101	5,000	4,179	3,524	-22%	-16%	5%	3%
Ochockonee	2,520	3,634	4,866	3,721	3,070	22%	-17%	3%	3%
Draper	756	912	886	1,562	2,191	190%	40%	1%	2%
Tifblue	2,309	2,614	3,324	2,311	2,035	-12%	-12%	3%	2%
Others	17,658	18,114	20,098	20,138	23,280	32%	16%	19%	21%
<b>Total Season</b>	<b>91,420</b>	<b>103,733</b>	<b>110,198</b>	<b>111,109</b>	<b>109,471</b>	<b>20%</b>	<b>-1%</b>	<b>100%</b>	<b>100%</b>

Source: iQonsulting, Banchile Research.

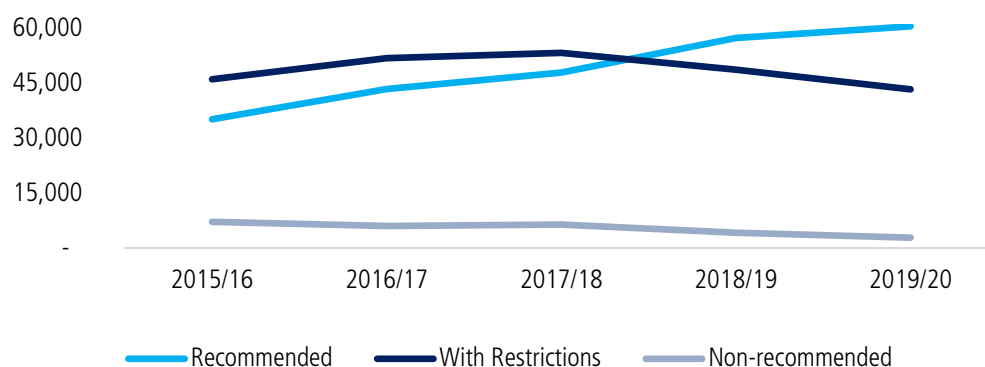
HF management has indicated that the company is relatively well positioned in this regard. Over 55% of Chilean blueberries commercialized by HF comes from third parties growers. The company acquires good quality fruit to serve export markets. Regarding HF's own fields, ~30-35% of volume is marketed as frozen products, which corresponds to fruit which is not expected to meet customer needs. Varietal replacement of its own fields is slow (5-10 ha/yr) as the company looks for alternative crops, such as cherries.

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## Investment Considerations: Risks

A recent development may help growers to accelerate the pace of varietal renewal. As part of the emergency plan for economic and employment recovery, a new law was enacted in September 2020, which provides tax incentives for varietal replacement. With this transitory measure, growers will be allowed for accounting full instant depreciation of certain proprietary varieties acquired until December 2022.

**Figure 21. Varieties of Blueberry - Historical Evolution by Season**



Source: iQonsulting, Banchile Research

In October 2019, a manager of a Chilean blueberry exporter indicated that “The panorama of lower prices is here to stay, so if it is possible to produce 15 tons / ha with new varieties, taking care of the quality of the fruit, blueberries continue to be a more interesting business than any other fruit in Chile, apart from cherries”. As a reminder, the yield / ha in Chile is about 9 tons and since the date of that interview, blueberries prices have remained under pressure. Varietal renewal is a must, however lower prices have had a negative impact on the cash flow of growers. This vicious cycle may discourage them and slow down the process.

### HF’s EBITDA is highly sensitive to blueberry price fluctuations

We estimate that a 10 cents/Kg downward revision in blueberry prices, equivalent to 1.3% of the expected average realized price for the next season, has a 4% impact on our EBITDA forecast for the blueberries segment and 3.5% at consolidated level. With such a move (-10 cents/kg), our target price would diminish by ChP110/sh (7.6% below our base case).

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## Investment Considerations: Risks

### Climate Risk:

Climate conditions may affect the quality and resulting volume of fruit that the company intends to produce and commercialize.

Although this is an external factor that Hortifrut is not able to control, the company's diversification into a wide geographical footprint throughout the world mitigates this risk.

Just as an example, bad weather conditions, with heavy rains and even hail, that affected some areas of the south-central zone of Chile a couple of weeks ago, caused problems for the fruits crops in process of harvesting.

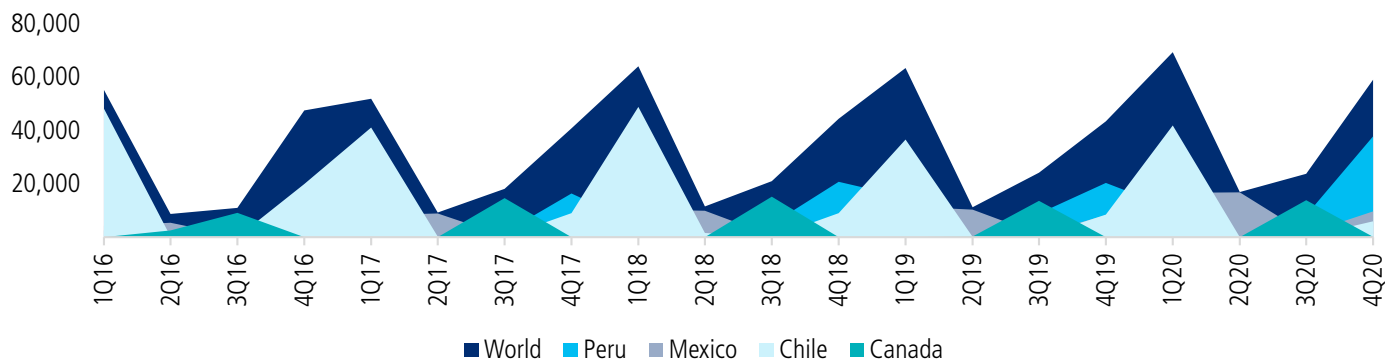
Considering that the Chilean Blueberry Committee reported that, as of January 18, the progress of the exports season reached 80%, and the information provided by the Federation of Fruit Exporters regarding the problems caused to the blueberries crops in process of harvesting equivalent to 32% of what was left to work in the orchards, we estimate that the loss for Hortifrut, in terms of commercialized volumes, would total ~1,000 tons, which translates in economic losses for US\$1-1.5 million. This is about 0.8-1.1% of our consolidated EBITDA forecast for the season 2020-2021.

### Plant Pest Risk:

Pest risks impacts the quality and yield of the plantings. The detection could limit or temporarily close access to certain markets and increase the costs associated to the shipments to the final destinations. HF mitigates this risk by actively monitoring and searching for pests before these are able to spread.

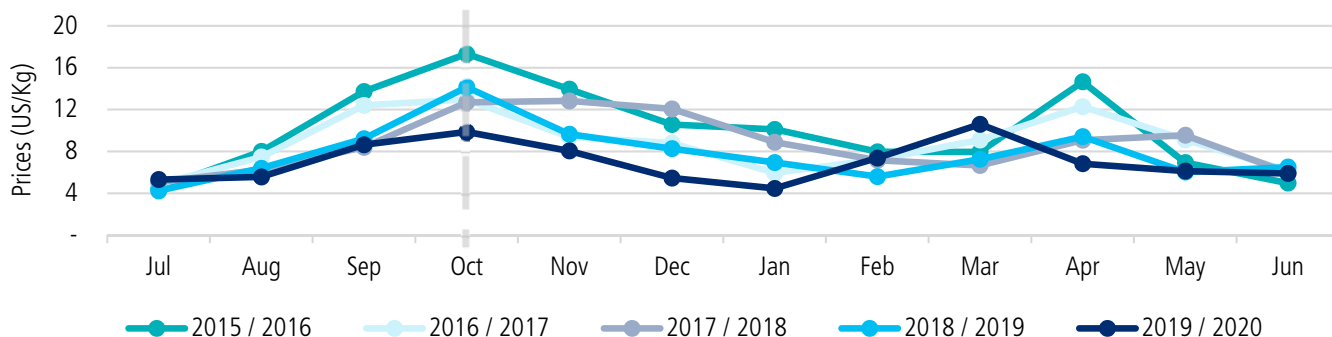
## Supporting Data (Industry Charts and Tables)

**Figure 22. U.S. Imports on a quarterly basis (last 5 years) - Tons**



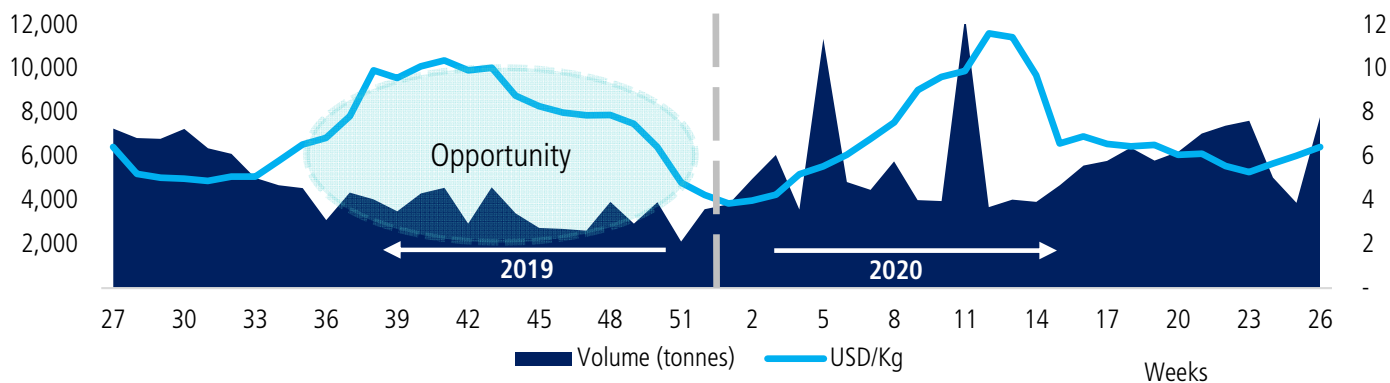
Source: Agronometrics, Banchile Research

**Figure 23. Export Prices to the U.S. by month for last 5 seasons - USD/Kg (CIF)**



Source: Agronometrics, Banchile Research.

**Figure 24. 2019 / 2020 Export Weekly Prices to the U.S. (All Countries) - USD/Kg (CIF)**



Source: Agronometrics, Banchile Research.

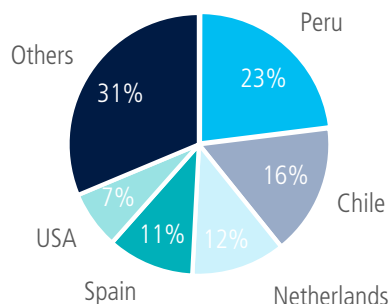
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## Supporting Data (Industry Charts and Tables)

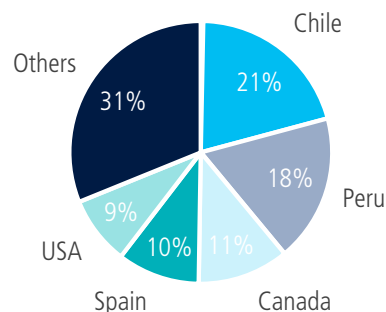
**Figure 25. World Blueberry Exports by Country (Tons) - Top 10 Exporters**

Exported Quantity	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>World</b>	<b>222,080</b>	<b>255,024</b>	<b>292,618</b>	<b>324,215</b>	<b>338,508</b>	<b>394,398</b>	<b>464,821</b>	<b>452,757</b>	<b>574,911</b>	<b>672,050</b>
Chile	54,975	73,787	69,118	81,480	83,828	108,026	140,577	109,329	141,303	138,372
Peru	6	7	48	1,513	2,902	10,210	27,240	43,039	72,583	122,449
Canada	55,057	55,828	88,434	90,218	94,183	106,888	100,808	82,789	105,258	75,932
Spain	7,388	10,983	12,711	14,725	23,250	28,934	36,505	46,579	58,772	68,479
USA	53,205	59,601	54,028	59,362	49,036	42,147	45,561	39,212	36,110	56,899
Netherlands	8,221	9,452	12,956	11,982	16,122	17,249	23,363	27,324	36,737	55,040
Mexico	635	1,040	2,415	2,808	4,399	4,881	8,380	13,930	19,206	28,703
Morocco	1,785	2,759	2,711	4,695	6,750	8,394	11,199	15,561	18,234	25,229
Poland	4,981	3,383	6,181	8,981	11,142	13,781	9,370	12,854	13,926	18,568
Argentina	14,954	15,608	15,050	12,249	16,307	14,780	16,936	15,627	14,869	12,484
Others	20,873	22,576	28,966	36,202	30,589	39,108	44,882	46,513	57,913	69,895

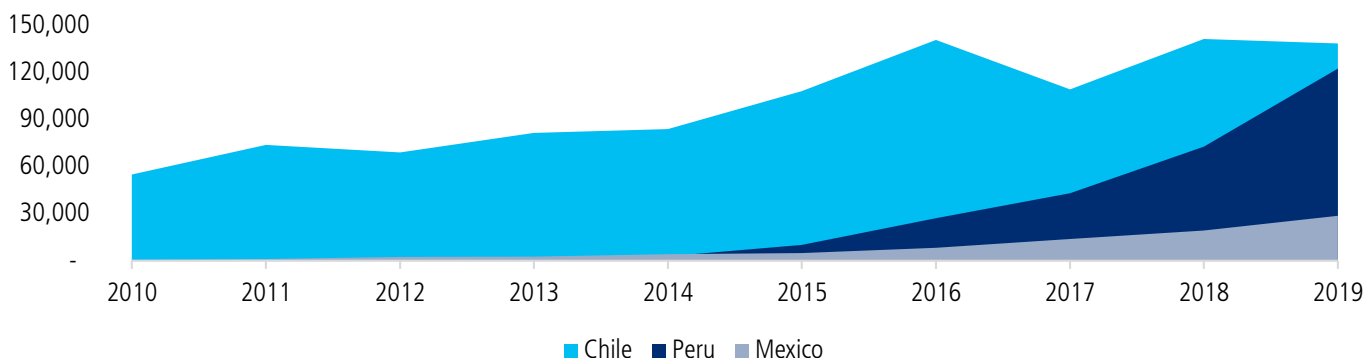
Source: ITC Trade Map, Banchile Research

**Figure 26. Main Exporting Countries USD**


Source: ITC Trade Map, Banchile Research

**Figure 27. Main Exporting Countries Volume**


Source: ITC Trade Map, Banchile Research

**Figure 28. Evolution of Fresh Blueberries Exports (Chile, Peru & Mexico; Tons)**


Source: ITC Trade Map, Banchile Research.

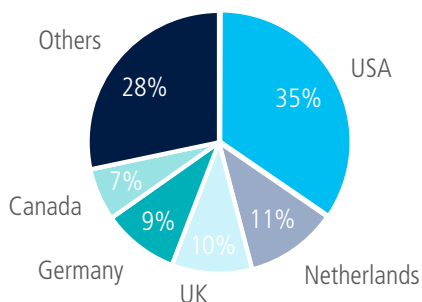
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## Supporting Data (Industry Charts and Tables)

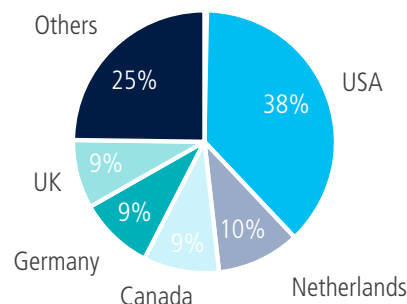
**Figure 29. World Blueberry Imports by Country (Tons) - Top 10 Importers**

Imported Quantity	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>World</b>	<b>215,203</b>	<b>244,625</b>	<b>286,642</b>	<b>323,699</b>	<b>335,514</b>	<b>367,971</b>	<b>437,848</b>	<b>454,501</b>	<b>560,530</b>	<b>667,916</b>
USA	110,866	124,888	156,692	164,777	164,728	187,103	211,741	194,074	252,127	252,332
Netherlands	8,864	11,300	13,002	14,805	21,135	22,118	26,958	34,935	41,764	68,612
Canada	45,470	50,810	45,942	54,319	46,353	37,709	44,903	41,122	42,763	62,665
Germany	6,509	7,517	9,551	12,236	14,673	18,955	22,533	32,103	42,555	61,700
United Kingdom	15,968	19,869	23,633	24,924	24,814	29,947	42,984	44,757	48,366	56,528
China	194	835	852	2,482	5,169	6,459	8,734	12,217	15,372	22,045
Spain	890	1,112	1,521	2,958	5,402	6,930	9,207	13,860	17,496	21,046
Hong Kong, China	1,736	2,232	2,729	3,061	4,238	3,917	7,230	8,359	13,090	15,417
France	1,670	2,907	3,732	3,016	3,442	5,119	7,178	9,104	10,108	12,888
Poland	1,138	1,664	1,311	1,801	1,343	2,460	4,453	5,876	8,455	11,988
Others	21,898	21,491	27,677	39,320	44,217	47,254	51,927	58,094	68,434	82,695

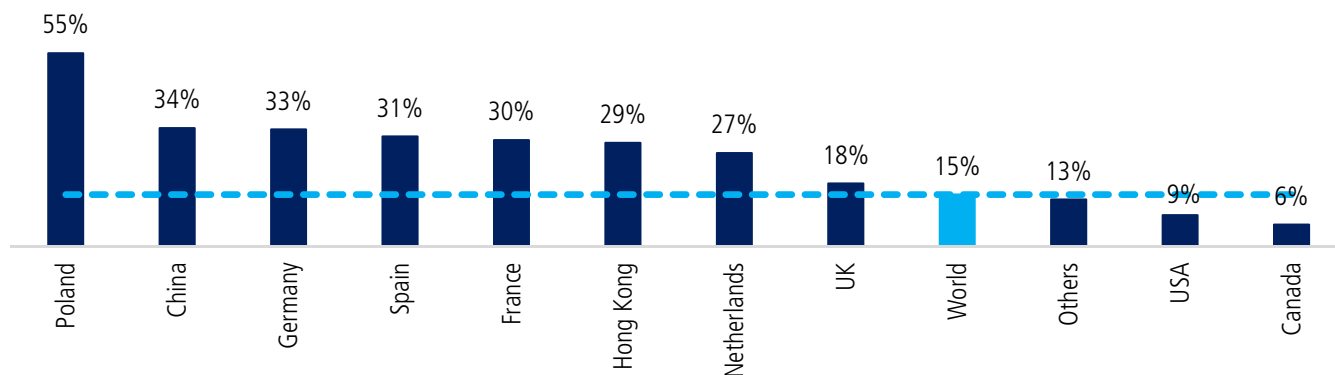
Source: ITC Trade Map, Banchile Research

**Figure 30. Main Importing Countries USD**


Source: ITC Trade Map, Banchile Research

**Figure 31. Main Importing Countries Volume**


Source: ITC Trade Map, Banchile Research

**Figure 31. Blueberry Imports Growth Evolution (CAGR: 2015 – 2019)**


Source: ITC Trade Map, Banchile Research. Note: Year 2014 as base

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