

May 26th, 2021 | 8 pages

Hortifrut

We reiterate our Buy recommendation with a new TP of ChP1,540/sh.

- We reiterate our Buy rating** – Following the end of the harvesting season of blueberries in Chile and Peru (~80% of sales volume related to that business segment), and ahead of the 1Q21 results release, we are updating our estimates for Hortifrut and introducing a new TP of ChP1,540/sh (+7% up vs. the previous ChP1,440). Our EBITDA estimates are up by 21% and 17% for the period 2021-2022 to US\$190 million (+8% y/y) and US\$195 million (+3% y/y), respectively, mainly due to: (1) an upward revision of blueberry sales volumes (+3% and 1% for the years aforementioned) as result of an earlier than anticipated entry into production stage of some fields in China and Mexico, and a larger contribution from orchards under management in Chile and Peru; and, (2) higher than previously expected average income per Kg for blueberries (+4% and +3% for 2021 and 2022, respectively) due to better prices obtained during the 1Q21, a farm management in Peru which is expected to allow the company to carry out an early harvest for second consecutive season, and increased revenues from the commercialization of proprietary varieties of blueberries (genetics). For more details about our estimates changes, see figure 3. On a consolidated basis, we forecast commercialized volumes for ~123 million Kg in 2021 (~73.6 million kg of blueberries, 14.4 million of other berries and 35 million Kg of frozen fruit and vegetables through Vitafoods). At our revised forecasts, the stock is trading at a 2021e P/E and EV/EBITDA of 12.2x and 7.0x, respectively, with implicit discounts vs. its closest global peers of 50% (similar to what we observed in last February). In our view, the fall observed in the stock price since mid-April offers a very good entry point for investors seeking exposure to export-oriented companies with mid-to-low regulatory risk amid the current prevailing political uncertainty in Chile. All-in, we reiterate our Buy recommendation on Hortifrut shares (67% upside + 4% dividend yield).
- 1Q21 Earnings Preview** – We expect revenues to reach US\$227 million (+29% y/y) as result of: (i) an increased contribution from other berries, with higher sales volumes, mainly of raspberries and cherries. Raspberries would have allowed the company to get better average realized prices for the whole segment. The higher dispatches of cherries reached lower prices given the impact of the “fake news” that circulated on social media in China about the presence of Covid in a batch of imported fruit just at the peak of the season; (ii) the consolidation of Vitafoods (~US\$26 million in revenues with sales volumes for about 9 million Kg); and; (iii) higher blueberries revenues from China, Mexico and Chile as result of increased volumes, offset by lower sales from Peru since the early harvest implemented in the 3Q20. EBITDA would have reached US\$34 million (+36% y/y) due to the higher revenues associated to blueberries in China and Mexico, in addition to the commercialization of frozen products and raspberries. Regarding blueberries, we estimate sales volumes for 19.1 million kg (+3% y/y) and a 2% y/y decrease on the average income per Kg to US\$8.3. We believe that the results to be released the day of tomorrow may surprise us to the upside as the company has been successful on obtaining increased revenues from genetics and management of fields hence average income per Kg for blueberries could exceed our estimate. For more details on our expectations for the 1Q21 results, please see figure 2.

Recommendation	Buy
Target Price (CLP)	\$1,540
Current Price (CLP)	\$921.75
Market Cap (US\$ billion)	0.73
Expected Total Return (ETR)	71%

Stock Price Performance



Source: Bloomberg, Banchile Equity Research.

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

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May 26th, 2021 | 8 pages

1Q21 Earnings Preview

We expect revenues to reach US\$227 million (+29% y/y) as result of an increased contribution from other berries (mainly of raspberries and cherries), the consolidation of Vitafoods (~US\$26 million in revenues with sales volumes for about 9 million Kg), and higher blueberries revenues from China, Mexico and Chile as result of increased volumes. EBITDA would have reached US\$34 million (+36% y/y) due to the higher contribution from the commercialization of blueberries in China and Mexico, along with the sales of frozen products and raspberries.

Regarding blueberries, we estimate sales volumes for 19.1 million kg (+3% y/y) due to the early entry in operation stage of fields in China, Mexico, higher exports from Chile on the increased hectares under management, partially offset by lower sales from Peru as result of an early harvest. About prices, we forecast a 2% y/y decrease on the average income per Kg to US\$8.3.

Net Income for controlling shareholders would reach US\$7.9 millones (+4.7x on a yearly basis).

Figure 2. Earnings Preview – Summary Table

Income Statement (data in US\$ million)	1Q21E	1Q20A	Y/Y % Var	4Q20A	Q/Q % Var
Total Revenues from operating activities	227.4	176.6	29%	298.3	-24%
Blueberries	158.8	156.7	1%	235.2	-33%
Other Berries	42.9	16.8	155%	30.8	40%
Value-added products	25.7	4.9	426%	11.3	127%
Cost of Sales	- 194.7	- 151.5	29%	- 222.4	-12%
SG&A	- 14.0	- 12.2	14%	- 16.0	-12%
Other expenses by function ex Impairments in the value of Assets	- 0.5	- 2.5	-78%	- 1.0	-45%
Impairment in the Value of Assets	-	-	n.a.	- 12.3	-100%
EBIT = Operating Income	18.1	12.2	49%	25.6	-29%
Adjusted EBIT (1)	18.1	12.2	49%	38.0	-52%
D&A	15.9	12.9	23%	20.8	-24%
EBITDA	34.0	25.1	36%	46.4	-27%
Adjusted EBITDA (1)	34.0	25.1	36%	58.8	-42%
Non Operating Income	- 5.6	- 4.2	35%	- 6.8	-18%
Pre-tax Profit	12.5	8.1	56%	18.8	-33%
Taxes	- 3.4	- 3.2	5%	- 1.2	188%
Profit after taxes and minority interest	9.1	4.8	89%	17.6	-48%
Minority Interest	1.3	3.5	-63%	1.9	-32%
Net Profit for controlling shareholders	7.9	1.4	470%	15.7	-50%

(1) It excludes impairments in the value of assets

Sales Volumes and Prices	1Q21E	1Q20A	Y/Y % Var	4Q20A	Q/Q % Var
Blueberries Volume (ton)	19,101	18,486	3%	28,735	-34%
Blueberries Avg. Income (US\$/Kg)	8.31	8.48	-2%	8.19	2%
Blueberries Avg. Price (US\$/Kg)	7.78	8.09	-4%	7.66	2%
Other Berries Volume (ton)	5,283	2,457	115%	4,034	31%
Other Berries Avg. Income (US\$/Kg)	8.12	6.85	19%	7.62	7%
Value-Added Products Volume (ton)	9,000	1,603	461%	4,729	90%
Value-Added Products Avg. Income (US\$/Kg)	2.86	3.05	-6%	2.40	19%

Margins %	1Q21E	1Q20A	Y/Y % Var	4Q20A	Q/Q % Var
Gross Profit Margin	14.4%	14.2%	+15bps	25.4%	-1,108bps
EBITDA Margin	15.0%	14.2%	+76bps	15.6%	-61bps
EBITDA (USD/Kg)	1.4	1.2	16.5%	1.4	-1.6%
Adjusted EBITDA Margin	15.0%	14.2%	+76bps	19.7%	-475bps
Adjusted EBITDA (USD/Kg)	1.4	1.2	16.5%	1.8	-22.3%
EBIT Margin	8.0%	6.9%	+106bps	8.6%	-62bps
Adjusted EBIT Margin	8.0%	6.9%	+106bps	12.7%	-476bps
Tax Rate	26.9%	39.9%	-1,293bps	6.2%	+2,069bps
Net Income Margin	3.5%	0.8%	+268bps	5.3%	-181bps

Source: Banchile Research; (1) It excludes impairments in the value of assets

May 26th, 2021 | 8 pages

Estimates Changes

Our EBITDA estimates are up by 21% and 17% for the period 2021-2022 to US\$190 million (+8% y/y) and US\$195 million (+3% y/y), respectively, mainly due to: (1) an upward revision of blueberry sales volumes (+3% and 1% for the years aforementioned) as result of an earlier than anticipated entry into production stage of fields in China and Mexico, and a larger contribution from orchards under management in Chile and Peru; and, (2) higher than previously expected average income per Kg for blueberries (+4% and +3% for 2021 and 2022, respectively) due to better prices obtained during the 1Q21, a farm management in Peru which is expected to allow the company to carry out an early harvest for second consecutive season, and increased revenues from the commercialization of proprietary varieties of blueberries (genetics).

Figure 3. Estimates Changes for the period 2021-2022

	2021E			2022E		
	New	Old	% Var	New	Old	% Var
Income Statement (data in US\$ million)						
Total Revenues from operating activities	867.8	823.3	5%	960.9	921.8	4%
Revenues from common operating activities	867.8	823.3	5%	960.9	921.8	4%
Blueberries	662.1	617.8	7%	740.8	708.0	5%
Other Berries	105.8	105.6	0%	120.1	113.8	6%
Value-added products	100.0	100.0	0%	100.0	100.0	0%
Cost of Sales	- 681.5	- 658.8	3%	- 764.8	- 743.0	3%
Gross Profit	186.3	164.6	13%	196.1	178.9	10%
EBIT = Operating Income	124.4	102.5	21%	129.7	111.0	17%
Adjusted EBIT (1)	124.4	102.5	21%	129.7	111.0	17%
D&A	65.6	63.0	4%	65.7	63.1	4%
EBITDA	190.0	165.5	15%	195.4	174.2	12%
Adjusted EBITDA (1)	190.0	165.5	15%	195.4	174.2	12%
Non Operating Income	- 21.9	- 22.3	-2%	- 21.7	- 22.1	-2%
Pre-tax Profit	102.5	80.2	28%	108.0	88.9	22%
Taxes	- 29.4	- 23.1	27%	- 31.2	- 25.6	22%
Profit after taxes and minority interest	73.1	57.1	28%	76.9	63.3	22%
Minority Interest	11.5	9.1	27%	11.6	10.5	11%
Net Profit for controlling shareholders	61.6	48.0	28%	65.2	52.8	24%

(1) It excludes impairments in the value of assets

Sales Volumes and Prices	88,051	85,558	3%	99,219	97,576	2%
Blueberries Volume (ton)	73,635	71,450	3%	83,383	82,400	1%
Blueberries Avg. Income (US\$/Kg)	9.0	8.6	4%	8.9	8.6	3%
Blueberries Avg. Price (US\$/Kg)	7.6	7.3	4%	7.4	7.2	4%
Other Berries Volume (ton)	14,416	14,108	2%	15,836	15,175	4%
Other Berries Avg. Income (US\$/Kg)	7.3	7.5	-2%	7.6	7.5	1%
Value-Added Products Volume (ton)	35,000	35,000	0%	35,000	35,000	0%
Value-Added Products Avg. Income (US\$/Kg)	2.9	2.9	0%	2.9	2.9	0%

Margins %						
Gross Profit Margin	21.5%	20.0%	+148bps	20.4%	19.4%	+100bps
EBITDA Margin	21.9%	20.1%	+178bps	20.3%	18.9%	+144bps
EBITDA (USD/Kg)	2.2	1.9	11.5%	2.0	1.8	10.3%
Adjusted EBITDA Margin	21.9%	20.1%	+178bps	20.3%	18.9%	+144bps
Adjusted EBITDA (USD/Kg)	2.2	1.9	12%	2.0	1.8	10%
EBIT Margin	14.3%	12.4%	+189bps	13.5%	12.0%	+146bps
Adjusted EBIT Margin	14.3%	12.4%	+189bps	13.5%	12.0%	+146bps
Tax Rate	28.7%	28.8%	-9bps	28.8%	28.8%	+1bps
Net Income Margin	7.1%	5.8%	+127bps	6.8%	5.7%	+107bps

Source: Banchile Research; (1) It excludes impairments in the value of assets

May 26th, 2021 | 8 pages

Valuation

We have revised up our target price for HF to ChP1,540 (+7% vs. the previous ChP1,440) as result of improved EBITDA estimates. This was partially offset by a higher WACC (+30bps driven by an increase of our weighted average CDS).

Implied Valuation Ratios vs. its own history

At our Dec-21 TP of ChP1,540/share, Hortifrut's stock trades at 20.3x 2021e P/E and 9.7x 2021e EV/EBITDA (27% and 32% below its nine-year average, respectively). As result of an increased exposure to the farm business, we continue to believe that HF should trade at valuation ratios below its historical averages.

Figure 4. Valuation Summary Table

Hortifrut Equity Value by Dec-2021		
	USD million	ChP million
Consolidated Operations ex China	1,760	1,251,018
HF Stake in China JV (51% owned by HF)	106	75,041
Investment accounted for using the equity method	11	7,730
Minority Interest in HF Spain Southern (excluding 50% Olmos Peru)	11	7,865
50% stake in EE.UU. California	1	732
Minority interest in Vitafoods (50% stake)	(57)	(40,803)
Minority Interest in Olmos Peru (50% owned by Atlantic Blue)	(72)	(51,017)
Total Assets Adjusted by Ownership	1,759	1,250,566
Consolidated Net Financial Debt	(476)	(338,063)
Leases (last available)	(71)	(50,736)
Minority Interest Financial Debt (HF Spain, Olmos Peru, HF China, Vitafoods)	39	27,676
Value of equity	1,251	889,444
Outstanding shares (million)		577
Target Price (USD)		2.17
Target Price (ChP)		1,540
Current Stock Price (ChP)		922
Upside		67.1%
NTM DPS (ChP)		39.0
Div Yield		4.2%
ETR		71.3%

Source: Banchile Research

Implied Valuation Ratios vs. its closest peers

At our December 2021 TP of ChP1,540, Hortifrut would trade at a 33% discount in terms of Fwd EV/EBITDA of its closest peers (Calavo Growers and Costa Group).

Although we believe that HF deserves a discount vs. those comparable players given its lower 2021-2022 EBITDA CAGR (~6% vs. ~20% for Calavo Growers and Costa Group), the current 52% discount seems excessive compared what we consider fair (-33%).

May 26th, 2021 | 8 pages

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 5. Peers Comparison table

	Country	Price (L.Crncy)	Mkt Cap. (USD Mn)	EV (USD million)	P/E			P/BV			NFD / EBITDA (LTM)	ROE 12m Fwd	Div. Yield
					2020	2021E	2022E	2020	2021E	2022E			
Costa Group Holdings Ltd	AUSTRALIA	4.44	1,379	1,758	36.7x	22.1x	20.7x	3.1x	2.9x	2.7x	2.5x	12.9	2.7
Calavo Growers Inc	UNITED STATES	71.26	1,261	1,320	39.1x	34.3x	24.4x		4.9x	4.8x	1.0x	17.4	1.7
Mission Produce Inc	UNITED STATES	20.32	1,434	1,519	31.0x	21.3x	19.6x	3.0x	2.5x	2.3x		12.7	-
Sample Average					35.6x	25.9x	21.6x	3.0x	3.4x	3.3x	1.7x	14.4	1.5
Hortifrut SA	CHILE	922	730	1,289	15.6x	12.2x	11.5x	1.3x	1.1x	1.1x	2.8x	9.5	3.6

	Country	Price (L.Crncy)	Mkt Cap. (USD Mn)	EV (USD million)	Price/Sales			EV / EBITDA			EBITDA Margin		
					2020	2021E	2022E	2020	2021E	2022E	2020	2021E	2022E
Costa Group Holdings Ltd	AUSTRALIA	4.44	1,379	1,758	1.6x	1.4x	1.3x	14.1x	10.4x	9.7x	14.3%	17.2%	17.3%
Calavo Growers Inc	UNITED STATES	71.26	1,261	1,320	1.2x	1.2x	1.1x	21.6x	18.9x	14.6x	5.4%	6.3%	7.3%
Mission Produce Inc	UNITED STATES	20.32	1,434	1,519	1.7x	1.6x	1.5x	17.8x	14.7x	13.2x	9.9%	11.9%	11.8%
Sample Average					1.5x	1.4x	1.3x	17.9x	14.7x	12.5x	9.8%	11.8%	12.1%
Hortifrut SA	CHILE	922	730	1,289	1.1x	0.8x	0.8x	8.0x	7.0x	6.7x	25.6%	21.9%	20.3%

Source: Bloomberg, Banchile Research

May 26th, 2021 | 8 pages

Financials

Figure 6. Financial Summary

Income Statement (USD th)	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Sales revenue	388,250	528,157	576,045	683,366	867,832	960,884	1,028,941
Cost of sales	-324,718	-414,184	-475,881	-516,928	-681,532	-764,821	-823,928
Gross profit	63,532	113,973	100,164	166,438	186,300	196,064	205,013
Gross margin (%)	16.4	21.6	17.4	24.4	21.5	20.4	19.9
EBITDA	56,305	106,627	97,802	161,409	189,952	195,392	200,680
Depreciation & amortization	23,794	30,234	54,761	61,968	65,568	65,673	66,195
EBIT = Operating Income	32,511	76,393	43,041	99,441	124,384	129,719	134,485
Adjusted EBITDA	59,520	75,458	99,549	175,133	189,952	195,392	200,680
Net financial expenses	-3,965	-15,806	-24,281	-21,670	-22,491	-22,290	-22,207
Results from affiliates	9,468	-3,483	-5,625	-114	613	613	613
Pre-tax profit	32,395	119,932	11,623	76,457	102,506	108,042	112,890
Tax	-4,690	-27,416	-920	-12,139	-29,413	-31,169	-32,589
Minority Interest	1,142	8,633	7,147	10,294	11,475	11,645	12,709
Net Income to controlling sh.	26,563	83,883	3,556	54,024	61,619	65,228	67,592
Balance Sheet (USD th)	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Cash & cash equivalents	27,838	48,901	42,002	101,637	85,620	130,479	190,776
Accounts receivables	46,092	82,202	97,066	99,165	152,788	169,170	181,152
Inventories	44,556	86,490	70,581	76,008	117,109	129,666	138,850
Property, plant & equipment	245,060	693,363	803,363	916,972	911,362	890,647	861,910
Goodwill	26,769	179,770	179,770	179,770	179,770	179,770	179,770
Other assets	182,373	156,594	156,562	144,548	177,174	187,567	195,333
Total assets	572,688	1,247,320	1,349,344	1,518,100	1,623,823	1,687,299	1,747,791
Accounts payable	49,724	88,319	78,798	108,769	167,585	185,554	198,697
Short-term debt	151,531	172,629	186,959	119,634	293	293	293
Long-term debt	83,966	331,443	303,957	441,608	560,949	560,949	560,949
Other liabilities	43,892	135,504	121,514	120,628	121,752	122,096	122,347
Total liabilities	329,113	727,895	691,228	790,639	850,579	868,892	882,286
Shareholder's equity	206,817	466,682	594,723	628,135	662,443	695,961	730,349
Minority Interest	36,758	52,743	63,393	99,326	110,801	122,446	135,156
Total equity	243,575	519,425	658,116	727,461	773,244	818,407	865,505
Growth rates (YoY % Change)	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Sales revenue	-9.0	36.0	9.1	18.6	27.0	10.7	7.1
Gross profit	-9.0	27.6	14.9	8.6	31.8	12.2	7.7
EBITDA	21.2	89.4	-8.3	65.0	17.7	2.9	2.7
Adjusted EBITDA	-8.7	26.8	31.9	75.9	8.5	2.9	2.7
EBIT = Operating income	35.1	135.0	-43.7	131.0	25.1	4.3	3.7
Net profit	54.4	215.8	-95.8	1419.2	14.1	5.9	3.6
Efficiency Ratios (%)	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Gross Profit Margin	16.4	21.6	17.4	24.4	21.5	20.4	19.9
EBITDA Margin	14.5	20.2	17.0	23.6	21.9	20.3	19.5
Adjusted EBITDA Margin	15.3	14.3	17.3	25.6	21.9	20.3	19.5
EBIT Margin	8.4	14.5	7.5	14.6	14.3	13.5	13.1
Net Profit Margin	6.8	15.9	0.6	7.9	7.1	6.8	6.6
Profitability and Debt Ratios	2017A	2018A	2019A	2020A	2021E	2022E	2023E
ROAE (%)	13.5	24.9	0.7	8.8	9.5	9.6	9.5
ROAA (%)	5.0	10.2	0.8	4.5	4.7	4.6	4.7
Net Financial debt / Equity (x)	0.9	0.9	0.7	0.6	0.6	0.5	0.4
NFD / EBITDA (x)	3.7	4.3	4.6	2.8	2.5	2.2	1.8
EBITDA / Net Financial Expenses (x)	14.2	6.7	4.0	7.4	8.4	8.8	9.0

Source: Banchile Research

May 26th, 2021 | 8 pages

Financials

Figure 7. Financial Summary

Cash Flow (USD th)	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Net income	27,705	92,516	10,703	64,318	73,093	76,873	80,301
Depreciation & amortization	23,794	30,234	54,761	61,968	65,568	65,673	66,195
Working capital	-4,486	-38,130	-26,688	24,204	-66,797	-20,407	-14,926
Other	-14,926	-38,091	-6,267	14,691	-613	-613	-613
Operating cashflow	32,087	46,529	32,509	165,181	71,252	121,527	130,958
Capex	-58,309	-81,357	-181,977	-131,170	-59,958	-44,958	-37,458
Other	5,260	-115,504	39,026	31,157	0	0	0
Investing cashflow	-53,049	-196,861	-142,951	-100,013	-59,958	-44,958	-37,458
Dividends paid	-13,693	-13,696	-10,926	-17,597	-27,311	-31,709	-33,203
Other	27,971	185,338	111,960	13,824	0	0	0
Financing cashflow	14,278	171,642	101,034	-3,773	-27,311	-31,709	-33,203
Other	-723	-247	2,509	-1,760	0	0	0
Net change in cash	-7,407	21,063	-6,899	59,635	-16,017	44,859	60,297

Information by Segment	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Volume (tons)	46,060	54,952	72,000	83,632	123,051	134,219	141,148
Blueberries	30,996	40,902	56,427	61,232	73,635	83,383	89,510
Other berries and value-added products	15,064	14,051	15,573	22,400	49,416	50,836	51,639

Average Income (USD / kg)

Blueberries	9.0	8.7	7.7	8.0	7.6	7.4	7.4
Other berries and value-added products	4.9	5.0	4.6	4.7	4.2	4.3	4.4

Operating Income (USD th)

Blueberries	33,896	47,549	41,186	101,818	111,891	116,078	119,767
Other berries and value-added products	1,830	14	3,602	11,347	12,494	13,641	14,719
Adjustments to Biological Assets	- 3,215	31,169	- 1,747	- 13,724	-	-	-

Blueberries Volumes by Country (%) - excluding associates

Peru	28%	59%	65%	66%	59%	57%	54%
Chile and Others	62%	35%	29%	24%	25%	23%	20%
China	0%	0%	1%	3%	5%	8%	11%
Spain	8%	4%	3%	3%	3%	3%	2%
Mexico	2%	1%	2%	3%	8%	10%	13%

Blueberries Season	S17/18	S18/19	S19/20	S20/21	S21/22	S22/23	S23/24
Volume	32,792	46,683	53,202	64,502	79,410	87,649	93,141
Average Income (USD/kg)	9.3	8.7	7.7	7.8	7.5	7.4	7.3

Data per share (USD)	2017A	2018A	2019A	2020A	2021E	2022E	2023E
EPS	0.061	0.175	0.006	0.094	0.107	0.113	0.117
Payout Ratio (%) over Net Distributable Income	50	35	50	50	50	50	50
DPS	0.031	0.028	0.021	0.030	0.047	0.055	0.058
Free Cash Flow	-0.048	-0.286	-0.191	0.113	0.020	0.133	0.162

Valuation Ratios	2017A	2018A	2019A	2020A	2021E	2022E	2023E
P / E (x)	54.9	19.1	264.2	15.6	12.2	11.5	11.2
P / BV (x)	7.0	3.4	1.6	1.3	1.1	1.1	1.0
Div. Yield (%)	0.9	0.9	1.3	2.1	3.6	4.2	4.4
EV / Adj. EBITDA (x)	28.6	28.0	14.6	8.0	7.0	6.7	6.3
EV / Adj. EBITDA by ownership (x)	24.8	31.1	15.5	8.6	8.2	7.9	7.6
FCF yield (%)	(1.4)	(9.4)	(11.8)	7.7	1.5	10.2	12.3

Source: Banchile Research

May 26th, 2021 | 8 pages

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