MOODY'S INVESTORS SERVICE

Credit Opinion: Cerveceria Nacional Dominicana, S. A.

Global Credit Research - 31 Oct 2011

Santo Domingo, Dominican Republic

Ratings

Category	**Moody's Rating**
Outlook	Stable
Corporate Family Rating	B1
Senior Unsecured	B1

Contacts

Analyst	**Phone**
Linda Montag/New York City	212.553.1336
Alonso Sanchez/Mexico	5255.1253.5706
Brian Oak/New York City	212.553.2946

Key Indicators

Cerveceria Nacional Dominicana, S. A.[1]

	6/30/2011(L)	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Global Sales (USD Billion)	**$0.5**	**$0.5**	**$0.5**	**$0.5**	**$0.5**
Profitability (EBITA Margin)	**19.5%**	**19.6%**	**20.5%**	**22.0%**	**26.0%**
Return on Average Assets (EBITA / Average Assets)	**11.9%**	**11.8%**	**11.5%**	**12.1%**	**14.2%**
FFO / Net Debt	**23.7%**	**21.3%**	**19.6%**	**23.7%**	**33.7%**
RCF / Net Debt	**21.6%**	**19.2%**	**17.7%**	**18.9%**	**22.9%**
FCF / Debt	**6.2%**	**8.5%**	**2.0%**	**2.4%**	**-9.8%**
EBIT / Interest Expense	**1.6x**	**1.7x**	**1.5x**	**1.5x**	**1.7x**
Debt / EBITDA	**2.7x**	**3.1x**	**3.2x**	**3.0x**	**2.9x**

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, Part 2 and Part 3". In addition, Moody's adjusts for one time items.

Note: For definitions of Moody's most common ratio terms please see the accompanying *User's Guide.*

Opinion

Rating Drivers

- Limited operating scale and diversification

- Country risk exposure given main geographic concentration in the Dominican Republic

- Leading position in its domestic beer market

- Solid profitability and sustained market share but increasing competitive pressures

Corporate Profile

Headquartered in Santo Domingo, Dominican Republic (D.R.), Cervecería Nacional Dominicana, S.A. (CND) is the leading brewer in Dominican Republic. Total domestic revenues account for approximately 90% of total sales, exports represent around 5% and its Caribbean operation accounts for the balance. The company's domestic sales include beer, malt and rum out of which beer sales represent around 86.5% of total domestic revenues. Its main beer brands include Presidente, Bohemia and their respective light versions. The company's beer exports are targeted mainly to the U.S., the Caribbean and various European countries.

CND is the main operating subsidiary of E. Leon Jimenes (ELJ), a family-controlled holding company. ELJ owns 83.5% of CND, while Heineken (not rated) holds 9% and other minority shareholders 7.5%. For the 12 months ended June 30, 2011 (LTM), the company generated net revenues of DOP17.8 billion (USD477 million).

SUMMARY RATING RATIONALE

CND's B1 ratings continue to reflect the company's position as the leading brewer in the Dominican Republic, its solid profitability and low leverage for a B rating category, and the defensive nature of its beer business. These credit strengths are partly offset by the company's modest operating scale compared to its international peers, its limited geographic and brand diversification as it generates most of its earnings domestically, the competitive challenges in the local beer market, and the company's pressured liquidity position as a result of significant maturities it has in 2012. The ratings also consider the Dominican Republic's country risk and the dollar exposure in the company's cost, and to a lesser extent, debt structures relative to a revenue base that is largely in local currency.

DETAILED RATING CONSIDERATIONS

LEADING MARKET SHARE AND ADECUATE PROFITABILITY DESPITE COMPETITION

CND is the leading brewer in the D.R., with an 85.8% volume share of the domestic market in 2010. The company's main competitor is AmBev (A3, stable), the largest brewer in Latin America. Since its entry to the Dominican market, AmBev has gradually increased its sales volume share to around 13%. This rapid growth was mainly helped by a low price strategy and good distribution channels given its control of the local Pepsi bottler. AmBev's main beer brand selling in D.R. is Brahma which is oriented to a low income market and competes with Bohemia, CND's low price brand.

Following AmBev's entry into the market, CND has been able to maintain its market share with adequate profitability. In the last couple of years, CND's market share has been relatively stable and margins have not suffered due to competitive pressures. Nevertheless, Moody's considers that CND still faces important competitive pressures, especially due to AmBev's deep pockets and the attractiveness of the D.R. beer market considering it is AmBev's third largest market in terms of per capita beer consumption.

SMALL RELATIVE SCALE COUPLED WITH LIMITED DIVERSIFICATION RAISES CREDIT RISK

CND's DOP17.8 million (around USD477 million) LTM revenues are relatively low as compared with rated global alcoholic beverage peers. The universe of rated peers consists of larger companies that tend to be more broadly diversified which help mitigate volatility, seasonality and customer concentration, thereby reducing credit risk. In addition to its small scale, CND also has limited geographic footprint and portfolio diversification. The company is highly concentrated in D.R. where it generates 90% of total sales. In terms of portfolio diversification, the bulk of domestic volumes come from the two key brands and their light versions: Presidente (as the "mainstream" brand) and Bohemia (the "value" brand). In 2010, together these brands accounted for about 99.2% of the company's total domestic beer sales volume and 93.2% of its entire domestic volume (also including malts, rums and other products).

HIGH GEOGRAPHIC CONCENTRATION IN DOMINICAN REPUBLIC CREATES COUNTRY RISK EXPOSURE

With 90% of revenues being generated in D.R., CND is exposed to high implied sovereign risk as Dominican Republic is rated B1, stable outlook. Moody's notes that like most Caribbean countries, the D.R.'s economic structure is dominated by a service sector that accounts for approximately 55% of GDP and the tourism industry which represents close to 10% of GDP. With 60% of tourism arrivals coming from North America, the D.R. remains heavily dependent on that region and is exposed to a slowdown in the U.S. economy. This risk is partially mitigated by an increasing percentage of visitors that are coming from other regions such as Brazil (Baa2, positive).

Positive factors supporting D.R.'s ratings include its track record of strong GDP growth. The Dominican economy has been dynamic during the last 15 years with average annual growth in excess of 5%. Despite adverse external shocks related to the global crisis, GDP grew 3.5% during 2009. In 2010, the country posted a 7.8% annual growth rate, supported by domestic demand and improved external conditions. Despite this year's growth deceleration due to tighter fiscal and monetary policies, Moody's expects that GDP will increase around 4% during 2011.

PROFITABILITY EXPECTED TO REMAIN UNDER PRESSURE

CND's solid profitability is driven by its leading local market position and cost structure benefits given the high penetration of returnable bottles and plastic crates in the domestic market. As of June 30, 2011 LTM adjusted EBITA margin was 19.5% which is strong for the rating category. However, over the past few years, CND's revenues remained flat while margins were pressured by changes in the tax regime for beer in D.R., that resulted in higher sales prices and lower sales volumes. At the same time, CND's pricing power was affected by 2009 economic slowdown and increasing competition from AmBev.

CND is currently working on the turnaround of its production facilities to substitute fuel for natural gas as energy source. We anticipate that this change, expected for the beginning of 2012, will result in lower costs, therefore improving gross profit. Margins should also reflect changes in its product portfolio and pricing strategies taken to address increased competition. Negative taxation effects that hurt volumes when they were imposed should not have an additional impact on the company's results. However, we remain cautious about upside potential beyond these initiatives due to our expectations of continued competitive pressures and economic slowdown. We note that margins could also be affected by foreign exchange or commodity price volatility, given that almost 50% of the company's costs of goods sold is based in U.S. dollars while revenues are largely denominated in pesos. Recently, the Dominican peso (DOP) has shown moderate but steady depreciation against the U.S. dollar and barley prices have been ramping up since the 2Q11.

POSITIVE FREE CASH FLOW GENERATION DESPITE ADVERSE ECONOMIC AND MARKET CONDITIONS

Amid the challenging economic and market environment of recent years, CND has managed to maintain positive free cash flow. Cash generation has been mainly supported by the company's decision to scale back capital expenditures and dividends. Generally, Moody's views these measures as part of a prudent strategy to preserve cash. However, we expect that the company will return, in the midterm, to a capex program in line with pre-crisis levels in order to maintain its competitive position. Since 2008, the company has reduced capex to below 100% of depreciation; as of June 2011, LTM capex / depreciation was 66% as compared with the 105% posted in 2007 and 90% in 2008.

LOWER LEVERAGE AFTER DEBT RESTRUCTURE

During 2011, the company improved its debt structure which resulted in stronger credit metrics. In the 2Q11, CND tendered 71% (around DOP3.8 billion) of its DOP5.4 billion Peso-Linked Notes due 2012 with the proceeds of a DOP1.9 billion bridge loan and DOP1.9 billion in cash from internal resources. This DOP1.9 billion reduction in debt during the 2Q11 resulted in an adjusted Debt / EBITDA ratio of 2.7x which positively compares with the 3.1x posted at the end of 2010. However, interest coverage, measured by adjusted EBITA / Interest expense, remains weak at 1.6x. Additionally, in July 2011, the company redeemed early the DOP2.0 billion of local corporate bonds with original maturity in 2013 and total amount of DOP4.1 billion through a local issuance of DOP1.1 billion and the company's cash on hand.

Moody's expect that the company will continue to improve its credit profile as its operating performance gradually strengthen and lower debt levels reduce its interest expense burden and leverage.

Liquidity

CND' liquidity is weak. The recent debt restructure imposes certain pressures on CND's current liquidity profile. Moody's estimates that the company will face DOP3.6 billion maturities in 2012 as follows: a DOP1.9 billion bridge loan maturity, the DOP1.6 billion outstanding balance of the global notes DOP linked notes, and DOP67.2 million maturity related to a syndicated loan. The company plans to refinance these maturities through a local issuance under a recently approved senior unsecured notes program of DOP6.8 billion (out of which DOP4.8 billion is available). However, if access to local bond market is constrained the company could use alternative sources of liquidity such as uncommitted lines of credit and/or disposal of non-essential fixed assets to timely fund these maturities. The company will face maturities of DOP2.0 billion in 2013.

As of June 30, 2011, cash on hand and marketable securities were DOP1.3 billion. However, Moody's estimates lower current cash levels after the company used around DOP564 million to partially fund the early redemption of local notes in July 2011. Alternative liquidity sources include around DOP653 million in assets held for sale, another DOP 1.4 billion in available uncommitted lines and DOP4.8 billion available under a local notes program.

CND has cushion under the financial covenants of its syndicated credit facility (maximum Debt/EBITDA of 5.0x and minimum EBITDA/Interest of 1.25x), but it is close to its minimum 2.5x EBITDA/Interest incurrence test under its global notes indentures, which restricts incremental debt to amounts permitted under carve-out provisions. Moody's also notes that the company has some exposure to currency depreciation. Currently, U.S. dollar denominated debt represents around 52.8% of total debt and around 90% of revenues are generated in the domestic market. Failure to improve the looming maturity schedule in the very near future could lead to downward rating pressure.

Structural Considerations

The senior unsecured dollar and peso-linked notes are rated at B1, the same level as the corporate family rating, given the preponderance of the senior unsecured debt class in the company's debt structure.

Rating Outlook

The stable rating outlook reflects Moody's expectation of positive operating performance trends over the near to medium-term, and the company's ability to successfully address competitive pressures. It also incorporates the expectation that CND will successfully complete its debt restructure plans, refinance its near term debt maturities, and maintain a prudent capital structure.

What Could Change the Rating - Down

The ratings could be downgraded if operating performance comes under material pressure, resulting in negative free cash flow and a weakening of credit metrics such that adjusted Debt/EBITDA rises above 3.5x and EBIT/Interest drops below 1.6x for a prolonged period. Negative rating pressure could also emerge because of delays in refinancing upcoming near and medium term debt maturities

What Could Change the Rating - Up

While unlikely in the near term, ratings could be upgraded if the company significantly improves its operating performance and credit metrics, e.g. EBITDA margin returning to historical levels of above 30% and Debt/EBITDA dropping below 2.5 x on a sustainable basis.

Rating Factors

Cerveceria Nacional Dominicana, S. A.

Alcoholic Beverage	**Current LTM 6/30/2011**		**Moody's 12-18 month Forward View**	
Factor 1: Scale & Diversification (22.5%) [1][2]	**Measure**	**Score**	**Measure**	**Score**
a) Global Sales (USD Billion)	$0.5	Caa	$0.5	B
b) Diversification by Market and Exposure to Riskier Markets	B	B	B	B
c) Product/Brand Diversification	B	B	B	B
Factor 2: Franchise Strength & Growth Potential (22.5%)				
a) Efficiency of Distribution Infrastructure	A	A	A	A
b) Quality of Brand Portfolio and Market Position	A	A	A	A
c) Innovation and Organic Revenue Growth	Baa	Baa	Baa	Baa
Factor 3: Profitability / Efficiency Flexibility (18.9%) [1][2]				
a) Efficiency / Potential for Cost Reduction	Ba	Ba	Ba	Ba
b) Profitability (EBITA Margin)	19.5%	A	24.9%	Aa
c) Return on Average Assets (EBITA / Average Assets)	11.9%	Ba	33.7%	Aaa
Factor 4: Financial Policy And Credit Metrics (36.1%)				

[1][2]				
a) Financial Policy	B	B	B	B
b) FFO / Net Debt	23.7%	Baa	37.3%	A
c) RCF / Net Debt	21.6%	Baa	34.8%	Aa
d) FCF / Debt	6.2%	Ba	20.5%	Aa
e) EBIT / Interest Expense	1.6x	B	0.2x	Caa
f) Debt / EBITDA	2.7x	Baa	2.3x	A
Rating:				
a) Indicated Rating from Grid	Ba2	Ba2	Ba1	Ba1
b) Actual Rating Assigned	B1	B1	B1	B1

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, Part 2 and Part 3". In addition, Moody's adjusts for one time items. [2] As of 6/30/2011(L); Source: Moody's Financial Metrics