

FITCH AFFIRMS MABE'S IDRS AT 'BB+'; OUTLOOK POSITIVE

Fitch Ratings-Chicago-26 February 2018: Fitch Ratings has affirmed Controladora Mabe, S.A. de C.V.'s ratings at 'BB+'. The Rating Outlook is Positive. A full list of ratings follows at the end of this release.

The Positive Outlook reflects Fitch's expectations for further strengthening of Mabe's credit profile given stronger cash flow generation due to its awarded incremental export business. The majority of these product lines should start to be delivered between 2018-2019. A broader product portfolio and sourcing synergies are also positive drivers supporting the Positive Outlook and complement the company's solid market position throughout the Americas resulting from the strong brand recognition of the Mabe and GE brands.

Mabe's ratings are constrained by the ongoing NAFTA negotiations, that threaten the continuity of North American trade relations. Satisfactory resolution of on-going NAFTA talks along with continued strengthening of Mabe's cash flow profile could result in a rating upgrade. Conversely, an unfavorable outcome from negotiations that disrupts North America's intricate supply chains and increases trade barriers would lead to lower industry profitability and a slowdown of the Mexican economy. This would likely set Mabe's financial improvements back, and could cause Fitch to revise the Outlook to Stable.

KEY RATING DRIVERS

Strong Market Position: Controladora Mabe S.A. de C.V. holds a strong business position in most of Latin America. The company has seven manufacturing facilities in Mexico, Ecuador, Colombia and Argentina, which allows it to compete throughout Latin America. Mabe focuses on offering a wide product portfolio under a multibrand strategy that targets all socioeconomic levels. It also has long-term contracts to distribute, manufacture and export appliances under the General Electric Co. brand and also holds exclusive rights to distribute Haier products in Latin America.

Shareholder Focused on Appliances: Qingdao Haier Co., Ltd. acquired GE's appliance business in 2016. The transaction included GE's 48.4% stake in Mabe, and all terms and conditions Mabe had with GE were maintained. Haier is a large international appliance manufacturer aiming to increase its global presence. Since the acquisition, Mabe and Haier have worked to implement synergies as well as expand their product portfolios. This has resulted in new manufacturing contracts and in a broader product line for Mabe that includes split-system air conditioners.

Trade Policy Uncertainty: Mabe is an important manufacturer and exporter with significant exposure to the NAFTA region. The company manufactures a significant quantity of GE-branded products through its joint venture with Haier. Barriers to the import of appliances into the U.S. would hurt the industry, as most players have established manufacturing operations to export into the U.S. from Mexico. An unfavorable outcome to trade negotiations that significantly increases the barriers to trade would likely delay Mabe's ability to deleverage and result in the Outlook being revised to Stable.

Stable Results Amid Volatility: Mabe's operating environment remains challenging due to high input costs and increased competition in South America. Prices of steel and aluminum have risen sharply. Plastics prices have also climbed, which, combined with sluggish demand for appliances in South America and higher energy costs, has also contributed to weaker results. Positively, housing dynamics in the U.S., where the company generates over a third of its revenue, have lessened these effects on Mabe's financial performance.

Credit Metrics Expected to Strengthen: Fitch projects gross leverage at 2.7x in 2018 or about 3.0x adjusting for the factoring of account receivables. This adjustment allows Fitch to compare issuers that may use different sources of funding. In its analysis, Fitch takes into account increased volumes from new contracts, an expanded portfolio, Mabe's improved cash generation due to the absence of nonrecurring charges, and efficiencies resulting from consolidated manufacturing in fewer sites of larger scale.

Recovering Cash Flow Generation: Mabe's FFO margin increased to 5.3% in 2017, compared to 5.0% in 2016, 4.7% in 2015 and 2.9% in 2014. FFO margin had been low due partly to numerous restructuring and reorganization expenses, as well as the consolidation of manufacturing capacity into larger production sites in Mexico and Colombia. In addition, weak conditions in Latin America, including more competitive dynamics in several South American markets including Argentina, pressured financial performance. Product repricing to reflect higher input costs, incremental exports to North America, and realignment of production in Argentina should allow Mabe's FFO margin to trend to around 6% in 2018 and 2019.

DERIVATION SUMMARY

Mabe's major competitors in the region are Whirlpool Corp. (BBB/Stable) and Asian manufacturers, such as LG Electronics Inc. (BBB-/Stable), Daewoo, Samsung (A+/Stable) as well as local producers. Mabe's solid business position is supported by its low cost structure, proprietary brands, the strength of GE appliances/Haier's technical capability and brand recognition.

Mabe's relatively smaller scale and lower geographic diversification against higher-rated peers such as Whirlpool is partially mitigated by its portfolio's strong brand recognition. Sourcing and technical capabilities that result from being partly owned by Haier, a large appliance manufacturer, are also positive factor. Mabe's leverage is higher than both Whirlpool and LG Electronics and its profitability is comparable to Whirlpool's and higher than that of LG Electronics.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Revenues grow by mid-single digits in 2018 and 2019.
- EBITDA margins trend toward 10% over the next few years.
- Debt/EBITDA leverage declines over the medium term.
- The company does not undertake meaningful shareholder distributions; FCF remains neutral through 2018 and turns positive thereafter.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Increased sales volumes that result in robust cash flow generation, stable profitability and total adjusted debt/EBITDA close to 2.5x, in conjunction with strong liquidity.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Large debt-financed acquisitions, deterioration in profitability and cash flow generation from lower demand, and/or competitive or input cost pressures, resulting in the expectation of adjusted gross leverage levels consistently above 3.5x.

LIQUIDITY

Adequate Liquidity: Mabe's liquidity is adequate. Fitch's base case suggests Mabe could generate about USD180 million of cash flow from operations, which together with USD140 million in cash

and good access to bank credit should allow the company to refinance USD481 million in 2019 notes. Mabe has refinanced USD300 million of syndicated bank debt during the last year or so with a combination of 10-year private notes and local currency bank debt with five-year maturities.

Supporting Mabe's intrinsic liquidity is the continued demand for the company's products and strong name recognition of the GE and Mabe brands. Total debt was USD781 million as of Dec. 31, 2017, consisting of USD481 million and USD175 million of notes due 2019 and 2026, respectively, and bank debt.

FULL LIST OF RATING ACTIONS

Fitch has affirmed Mabe's ratings as follows:

- Foreign Currency Long-Term Issuer Default Rating (IDR) at 'BB+';
- Local Currency Long-Term IDR at 'BB+';
- 7.875% senior unsecured notes due 2019 at 'BB+'.

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Applicable Criteria

Corporate Rating Criteria (pub. 07 Aug 2017)

<https://www.fitchratings.com/site/re/901296>

Exposure Draft: Corporate Rating Criteria (pub. 14 Dec 2017)

<https://www.fitchratings.com/site/re/907387>

Exposure Draft: Sector Navigators (pub. 21 Dec 2017)

<https://www.fitchratings.com/site/re/914221>

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