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

Fitch Ratings-Chicago-27 January 2017: Fitch Ratings has affirmed Controladora Mabe, S.A. de C.V.'s (Mabe) 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 of further strengthening of Mabe's credit profile given stronger cash flow generation. It also reflects the potential for Mabe to increase business opportunities under a new shareholder structure, further advancing its cash flow generation. A strengthening of the company's total adjusted debt to EBITDA ratio to levels close to 2.5 times (x) through the economic cycles will support an upgrade. Conversely, volatility in the company's profitability, free cash flow (FCF) generation and expectations of total adjusted leverage solidly above 3.0x will likely result in the Outlook being revised to Stable.

KEY RATING DRIVERS

Strong Market Position

Mabe holds a strong business position in most of its Latin American markets. The company has eight manufacturing facilities in Mexico, Ecuador, Colombia and Argentina, which allow 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.

New Shareholder

Qingdao Haier Co., Ltd. (Haier) acquired GE's appliance business in June 2016. The transaction included GE's 48.4% stake in Mabe. All terms and conditions that Mabe had with GE were maintained. A new partner focused on growing its appliance business globally could be positive considering Mabe's manufacturing capacity, low-cost skilled-labor force and pre-established connectivity to Haier's U.S. product distribution network.

Trade Policy Uncertainty

Uncertainty regarding the future of the North American Free Trade Agreement (NAFTA) has increased with the election of President Trump. Mabe is an important manufacturer and exporter with significant exposure to the NAFTA region. The company manufactures a relevant quantity of GE branded products through its joint venture with Haier, a large international appliance manufacturer. Barriers to the import of appliances into the U.S. would likely hurt Mabe's ability to deleverage and could result in the Outlook being revised to Stable.

Stable Results Amid Volatility

Mabe's operating environment remains challenging due to sluggish demand for appliances in South America and weakening foreign currencies throughout Latin America. Nevertheless, positive housing dynamics in the U.S., where the company generates over a third of its revenue, and available consumer credit in key markets, such as Mexico have offset most of these effects on Mabe's financial performance.

Moderate Improvement in Credit Metrics

Fitch projects gross leverage at 2.8x in 2017 or about 3.1x adjusting for the factoring of account receivables. This adjustment allows Fitch to compare issuers that may use different sources of funding. In its projection, Fitch considers Mabe's improved cash-generation due to the absence of restructuring and non-recurring charges as well as to efficiencies resulting from consolidated manufacturing in fewer sites of larger scale. Deleveraging beyond that projected by Fitch, in conjunction with robust cash flow generation and strong liquidity, would be viewed positively for the ratings.

Recovering Cash Flow Generation

Mabe's funds from operations (FFO) margin has been low over the last four years partly due to multiple restructuring and reorganization expenses related to the company's operations in Brazil, as well as the consolidation of manufacturing capacity into larger production sites in Mexico and Colombia. In addition, weak conditions in Latin America, including the company's operations in Argentina, pressured financial performance. Positively, Mabe has significantly reduced working capital since 2013, and its EBITDA margins have expanded to historical levels around 10%. Absent restructuring charges, Mabe's FFO margin should trend to levels above 6%, from about 3% in 2014 and about 5% in 2015.

KEY ASSUMPTIONS
--Revenues grow low-single digits in 2017 and accelerate in 2018 and 2019.
--EBITDA margins remain around 10% over the next few years.
--Debt/EBITDA improves slowly over the medium term mostly due to higher EBITDA generation.
--The company does not undertake meaningful shareholder distributions; FCF remains neutral through 2018 and turns positive thereafter.

RATING SENSITIVITIES
Future developments that may, individually or collectively, lead to a positive rating action include:

--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.

Future developments that may, individually or collectively, lead to a negative rating action include:

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
Mabe's liquidity is considered adequate. During the fourth-quarter of 2016, the company refinanced USD175 million of its USD300 million syndicated bank loan, with a 10-year private notes issuance. It faces no material debt amortizations until 2019 when USD520 million are due -- including USD481 million of 2019 notes. The company maintains good access to bank lending and capital markets as shown by bank debt refinancing during 2013, 2015 and the private notes issuance in 2016. Total debt as of Sept. 30, 2016 was USD821 million, composed of USD481 million of notes due 2019 and bank debt. Its cash balance was USD58 million.

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
Criteria for Rating Non-Financial Corporates (pub. 27 Sep 2016)
https://www.fitchratings.com/site/re/885629