MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns a first time (P)Baa3 issuer rating to Controladora Mabe; stable outlook

08 Oct 2018

New York, October 08, 2018 -- Moody's Investors Service (Moody's) assigned today a provisional (P)Baa3 issuer rating to Controladora Mabe, S.A. de C.V. (Mabe). The outlook is stable. This is the first time Moody's rates Mabe.

RATINGS RATIONALE

"The (P)Baa3 rating reflects Mabe's position as a leading manufacturer and distributor of major appliances, its geographic diversification with an extensive distribution network throughout America, and its broad product portfolio with luxury and mainstream brands. Mabe´s credit profile is also supported by its long-term agreement to produce and sell ranges, refrigerators and laundry products to General Electric Appliances in the US and its adequate credit metrics" said Alonso Sánchez, a Vice President at Moody's. "On the other hand, the rating is constrained by Mabe's exposure to commodity prices and foreign exchange rate volatility, event risk from its strategy to grow through acquisitions, the highly competitive environment in its territories of operation, and the cyclicality of white line products." added Sánchez.

The provisional (P)Baa3 issuer rating is subject to the successful refinancing over the next couple of months of Mabe´s $481 million notes due 2019.

Mabe's diversification throughout America mitigates the risk of potential downturns or negative economic or industry conditions in a particular region or country. Mabe's largest markets are the US (Aaa stable), Mexico (A3 stable), and Canada (Aaa stable) which together account for 73% of consolidated sales. We estimate that the US economy will grow 2.9% in 2018 and 2.3% in 2019 and that Mexico's GDP will increase by 2.3% in 2017 and 2.5% in 2018. According to Euromonitor, in Mexico Mabe ranked #1 in major appliances with a 23% market share and #3 in consumer appliances with a 20% market share in 2017. In the US the Haier Group, which sells GE appliances, holds a #2 position in major appliances with 2017 market share of 21%. Major appliances will continue to grow in 2017-2022 which will benefit the company's top line. According to Euromonitor, during that period major appliances will grow at a 2.3% CAGR in terms of value in the US, 3.2% CAGR in Mexico and 2% CAGR in Canada.

In 1987, the company entered into a joint-venture with General Electric (GE) to manufacture and sell domestically and for export GE gas range products as well as other products. Mabe manufactures 30-inch free standing gas ranges as well as low-end and mid-end 30-inch standing electrical ranges sold under the GE brand in the US. In 2017, Mabe exported 3,741 thousand units to the US and Canada, out of which 87% (3,245 thousand units) were exported to the US. We view this long term agreement as a credit positive because it allows the company to maintain stable revenue stream into the US market and a source of strong currency that partly mitigates foreign exchange risk.

Mabe has strong brand recognition and ample product portfolio. Mabe manufactures and distributes refrigerators, ranges, dryers and washing machines and distributes built-in ovens and hoods, water coolers, dryers, dishwashers, microwave ovens and related parts and components. Mabe sells its products under luxury and mainstream brands targeting several socioeconomic levels. In the US, the company's products are sold under various GE brand names whilst in Canada through the GE, Hotpoint, and Moffat brand names. In Mexico and Latin America the company sells its high-end white line products through GE Profile, Monogram, and ioMabe brand names, middle market white line products under the Mabe brand name, and middle and low-end products under local brand names such as IEM and Easy (Mexico), Durex (Ecuador), Centrales (Colombia), Patrick (Argentina), and Cetron and Atlas (Central America).

Mabe's pricing structure for sales to GE Appliances in the US, at a cost-plus price plus a pre-determined margin, allows it to maintain profitability relatively stable. Nevertheless, the company is still vulnerable to steel price and foreign exchange rate volatility. Steel is Mabe's most relevant raw material component accounting for around 22% of its costs, which exposes the company to its price levels and foreign exchange rates as steel prices are denominated in US Dollars. Accordingly, the Mexican Peso depreciation of around 33% from

December 2014 to December 2017 has been pressuring Mabe's cost structure. We estimate Mabe's EBITDA margin, including Moody's standard adjustments, will improve towards 9.5%-10% in 2019-2020 from 8% over the twelve months ended June 31, 2018 as a consequence of a normalization of its operations, absent a one-time expense related to a product recall in 2017, combined with a more stable foreign exchange environment. Under our base case scenario we estimate Mabe's adj. debt/EBITDA will decline to around 2.5x by year end 2020; down from 3.9x as of June 30, 2018 from higher EBITDA generation.

Mabe's reported cash on hand of $134 million as of June 30, 2018 provides a 1.2x coverage for its short-term debt. While the company does not have committed credit facilities it has around $290 million in advised credit facilities that uses to fund working capital requirements. Historically the company has posted positive free cash flow (defined as cash from operations minus dividends minus capex) averaging $45 million per year in 2013-2017. The company also generated positive free cash flow over the twelve months ended June 30, 2018. Mabe will continue to post positive free cash flow in 2018-2020 even considering dividend payments of around $20 million per year over this period. Mabe has a large debt amortization of $481 million due in 2019 related to its senior guaranteed notes due 2019. Other long-term debt amortization include $32 million due in 2020, $28 million due 2021, $24 million due 2022, and $175 million due 2026.

The stable outlook reflects our expectation that the company will improve its profitability while maintaining adequate liquidity and credit metrics for the rating category.

The ratings could be upgraded if the company improves its profitability while maintaining strong interest coverage with adj. EBIT/Interest expense above 5.0x and leverage (adj. debt/EBITDA) below 2.5x. To be considered for an upgrade, the company would also need to maintain robust liquidity and cash generation while preserving a prudent dividend policy.

The ratings could be downgraded if adj. debt/EBITDA remains above 3.0x for a prolonged period of time. A deterioration on Mabe's profitability, liquidity or credit metrics could trigger a downgrade. Failure to successfully address, in the next couple of months, its upcoming debt maturity in 2019 could also result into a downgrade.

The principal methodology used in this rating was Consumer Durables Industry published in April 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Controladora Mabe, S.A. de C.V. is a Mexican manufacturer and distributor of refrigerators, ranges, dryers and washing machines and distributor of built-in ovens and hoods, water coolers, dryers, dishwashers, microwave ovens and related parts and components. The company is currently 51.6% owned by Mexican shareholders (Berrondo and Saiz families) and by the Haier Group (48.4%). Over the twelve months ended June 30, 2018 the company reported revenues of $3,026 million.

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