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Research Update:

Controladora Mabe 'BB+' Ratings Affirmed; Outlook Remains Positive

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Research Update:

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Overview

- Despite the sluggish economic conditions in several countries where Mabe operates, it continues improving its operating performance while maintaining stable leverage and cash flow metrics.
- We are affirming our 'BB+' corporate and issue-level ratings on Mabe. The outlook remains positive. We revised our recovery rating to '3' from '4'.
- The positive outlook reflects our expectation that Mabe will continue improving its operating and financial performance, reflecting its commitment to continue achieving operating efficiencies and cost reductions, while reducing its debt. This should allow the company to maintain EBITDA margins close to 11%, and debt to EBITDA below 3.0x by year-end 2016, despite the sluggish economic conditions in the region and foreign-exchange volatility.

Rating Action

On July 26, 2016, S&P Global Ratings affirmed its 'BB+' corporate and issue-level ratings on Mexico-based home appliance company, Controladora Mabe, S.A. de C.V. (Mabe). The outlook remains positive. We also revised our recovery rating to '3' from '4', indicating our expectation of a meaningful (50% to 70%) recovery, in the lower half of the range, for bondholders in a payment default scenario.

Rationale

The rating affirmation reflects Mabe's continued improvement of its operating performance, given its focus on operating efficiencies, cost reductions and better product mix, amid relatively stable raw material prices. Also, Mabe has been able to protect its key financial metrics despite the significant economic volatility and depreciation of currencies in the countries where it operates. We expect Mabe to continue strengthening its profitability while reducing its debt in the next few quarters, which should be reflected in a leverage ratio below 3.0x by year-end 2016.

In June 2016, Haier Group completed the acquisition of General Electric Co.'s (GE; AA+/Negative/A-1+) appliance business, including GE's 48.41% equity interest in Mabe. We don't expect significant changes in Mabe's day-to-day operations following this transaction. Also, our understanding is that Haier will maintain all the terms and conditions of the manufacturing and selling

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agreements that Mabe had with GE. We also believe that Mabe's relationship with Haier can bring potential benefits for the company, including growth opportunities in new product lines, and further operating efficiencies and economies of scale. We will continue to monitor other additional implications of the new ownership structure, including any changes in the company's business strategy or financial policy.

Mabe's business risk profile reflects the company's strong market position in most of the countries where it operates and its geographic diversification throughout the Americas with a broad portfolio of brands, which it customizes to meet local demand preferences. We're also incorporating the new relationship that the company will have with Haier and our expectation that Mabe will continue to manufacture and sell finished home appliances under the GE brand in the U.S. through Haier. Our assessment also incorporates our view of the intense competition from international and regional industry players, Mabe's vulnerability to global economic downturns as part of a cyclical industry, and its exposure to foreign currency and raw material cost fluctuations, which is mitigated by Mabe's natural hedge because it generates more than 40% of its revenues in dollars. We expect the company to continue posting adjusted EBITDA margins close to 11% in the next few years, above the consumer durables industry's average, reflecting its operating efficiencies, the closure of less profitable facilities, and the relatively stable raw material prices. Additional synergies and economies of scale from its relationship with Haier could also strengthen this metric.

Mabe's current key credit metrics are still in line with our significant financial risk profile assessment, with debt to EBITDA slightly above 3.0x and free operating cash flow (FOCF) to debt below 15% for the 12 months ended March 31, 2016. However, we believe that if the company continues posting a favorable profitability and cash flow generation while maintaining its focus on debt reduction, these ratios should continue to strengthen by year-end 2016, which could lead to a revision of the company's financial risk profile to intermediate.

Our base-case scenario includes the following assumptions:
- Overall, credit conditions for Latin America are likely to remain weak for 2016, given that Brazil is still mired in recession and commodity prices remain low, albeit they're improving. Our baseline regional GDP forecast for 2017 has recently improved to 2%, compared with our earlier projections of a 0.9% contraction for 2016. However, in Mexico, where Mabe generates about 25% of its revenues, private consumption has remained solid, growing 3.3% during the first quarter of 2016, which should support the company's revenue growth.
- In the U.S. we forecast a GDP growth of 2.0% in 2016 and 2.4% in 2017 thanks to a resilient domestic spending that continues to support employment gains, offsetting a drag on lower growth from net exports, energy-related capital spending, and the inventory cycle, which should also enhance Mabe's operations in this country.
- No revenue growth in 2016, reflecting the foreign-exchange volatility in Latin America, which has squeezed the company's dollar-denominated sales.

This is somewhat compensated by Mabe's still solid performance in Mexico and the U.S. thanks to the company's market position. We expect slightly positive revenue growth in the following years.
- Adjusted EBITDA of slightly above $300 million in the next two years, reflecting relatively stable commodity prices and operating efficiencies.
- Capital expenditures close to $100 million in the next two years, mainly reflecting the investments in new projects and maintenance.
- Reported debt levels close to $760 million in 2016 and $736 million in 2017, considering debt payments in line with amortizations in the next two years.
- FOCF generation close to $111 million in 2016 and $107 million in 2017.
- Dividend payments of $20 million - $25 million in the next two years, as the company will begin to pay them once its leverage ratio drops below 3.0x. However, in our view, these payments won't significantly affect discretionary cash flow (DCF).
- DCF of $80 million - $90 million in the next two years.

Based on these assumptions, we arrive at the following credit measures for 2016 and 2017:

- EBITDA margins of around 11.1%;
- Debt to EBITDA of 2.8x and 2.6x, respectively; and
- FOCF to debt of about 13% on average

Liquidity

We assess Mabe's liquidity as adequate because we expect sources will exceed uses by more than 1.2x during the next 12 months, and that this ratio will remain above 1.0x even if EBITDA falls by 15%. The company has a comfortable debt maturity profile following the debt refinancing through a $300 million syndicated loan during the last quarter of 2015. Our liquidity analysis also incorporates our view that the company has the capacity to withstand high-impact, low-probability events, its sound relationship with banks, good standing in the international debt markets, and an overall prudent financial risk management.

Principal Liquidity Sources:
- Cash of $42.3 million as of March 31, 2016 (excluding the cash held in Venezuela);
- FFO of about $224 million for the next 12 months; and
- Asset sales of $8 million.

Principal Liquidity Uses:
- Debt maturities of $30 million as of March 31, 2016;
- Working capital needs of about $55 million for the next 12 months, including intra-year requirements; and
- Maintenance capex of about $50 million for the next 12 months.

Mabe's credit agreements include financial covenants requiring EBITDA net interest coverage of 2.5x and net debt to EBITDA of maximum 3.5x. We believe the cushion for these covenants is ample and could withstand a drop in EBITDA of more than 25%.

Outlook

The positive outlook reflects our expectation that Mabe will continue improving its operating and financial performance in the next 6-12 months, reflecting its focus on achieving operating efficiencies cost reductions, and debt reduction. This should allow the company to maintain EBITDA margins close to 11% and debt to EBITDA below 3.0x by year-end 2016, despite the sluggish economic conditions in the region and local currencies' volatility. We also expect Mabe to maintain its moderate financial policy and adequate liquidity, although the company will spend more on capex and is evaluating paying dividends this year. If this improving trend continues, we could revise its financial risk profile to intermediate from significant, and therefore, an upgrade is possible.

Downside scenario

We could change the outlook to stable in the next 12 months if the company's operating and financial improving trend doesn't occur in line with our expectations, constraining its cash flow generation and maintaining its debt to EBITDA above 3.0x and FOCF to debt significantly below 15%. A potential negative rating action is possible if Mabe's operating results and profitability deteriorate, reflecting weaker-than-expected global economic conditions or higher competition that result in lower demand for the company's products, or if raw material prices increase significantly. A downgrade could also occur if company's liquidity, cash flow generation, or leverage deteriorates, reflected in an adjusted debt to EBITDA consistently greater than 4.0x and FOCF to debt below 10%, which could occur if Mabe's financial policy turns aggressive.

Ratings Score Snapshot

Corporate Credit Rating: BB+/Positive

Business Risk: Satisfactory
- Country Risk: Intermediate
- Industry Risk: Intermediate
- Competitive Position: Satisfactory

Financial Risk: Significant
- Cash Flow/Leverage: Significant

Anchor: bb+

Modifiers
- Diversification/Portfolio effect: Neutral

- Capital structure: Neutral
- Financial policy: Neutral
- Liquidity: Adequate
- Management and Governance: Fair
- Comparable rating analysis: Neutral

Recovery Analysis

Key Analytical Factors

The issue-level rating on Mabe's senior unsecured bonds due 2019 is 'BB+'. We're revising the recovery rating to '3' from '4' following the 2015 debt refinancing, indicating our expectation of a meaningful (50% to 70%) recovery, in the lower half of the range, for bondholders in a payment default scenario. The '3' recovery rating does not have an impact on Mabe's issue-level rating. For the company to default, EBITDA would need to decline by 66% from the 2015 results. This would cause a steep decline in the company's margins and cash flow generation, as a result of a significant lower profitability amid higher raw material prices and a weakening of the Mexican and other Latin American economies in which the company operates.

Our recovery analysis assumes that, in a hypothetical default scenario, the $481 million senior unsecured notes due 2019 would rank equally with all of Mabe's and its subsidiary guarantors' existing and future senior unsecured indebtedness.

We have valued the company on a going-concern basis, using a 4.3x multiple applied to our projected emergence-level EBITDA, and estimate a gross emergence value of about $411 million.

Simulated Default Assumptions

- Simulated year of default: 2021
- EBITDA at emergence: $95.6 million
- Implied EV multiple: 4.3x
- Estimated gross EV at emergence: about $411 million

Simplified Waterfall

- Net EV after 7% administrative costs: $382.4 million
- Priority claims: --
- Total Unsecured claims: $620.8 million
- Recovery expectation: 50%-70%

Note: All debt amounts include six months of prepetition interest, which correspond to the coupon that should be paid at default.

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- •Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- •Use Of CreditWatch And Outlooks – September 14, 2009
- Key Credit Factors For The Consumer Durables Industry - December 12, 2013
- Country Risk Assessment Methodology And Assumptions - November 19, 2013
- Corporate Methodology: Ratios And Adjustments - November 19, 2013
- Industry Risk - November 19, 2013
- Group Rating Methodology - November 19, 2013
- Corporate Methodology - November 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt - August 10, 2009
- 2008 Corporate Criteria: Rating Each Issue - April 15, 2008

Ratings List

Ratings Affirmed

Controladora Mabe	
Corporate Credit Rating	BB+/Positive

Ratings Affirmed; Recovery Rating Revision

	To	From
Senior Unsecured	BB+/Positive	BB+/Positive
Recovery Rating	3L	4H

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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