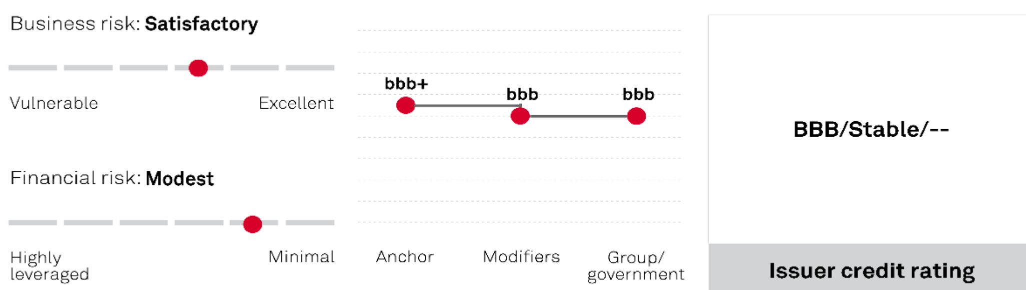
Controladora Mabe S.A. de C.V.

February 27, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Long-standing presence in the home appliance market, with leading positions in certain markets in Latin America and North America.	Weak consumer confidence and purchasing power could dent demand.
Efficient operations and pricing flexibility that help protect margins.	Manufacturing exposure to supply chain disruptions.
Haier's significant ownership stake and partnership provides key synergies that strengthen its business platform.	Intense competition from large international players in a mature industry.
Successful record of developing new and innovative products.	Highly seasonal working capital needs that require prudent cash management.

We expect tepid consumer demand and moderating price increases amid weak economic conditions to lead to low growth for the next 12-18 months. In 2022, Mabe posted record-high revenues of $4.4 billion, a 7.8% increase over 2021. This was mostly driven by strong pricing initiatives to partially contain the impact on profit margins from inflationary pressures on key input costs. Sales volumes dropped close to 8% in 2022 as retailers normalized high inventory levels after record-high purchases in 2021. For 2023, our base-case scenario considers weak economic conditions and sticky inflation that could continue to bend purchasing power and consumption trends. Still, we expect Mabe to maintain fairly flat revenue growth in 2023, considering moderating price increases and total units sold near 12,000, similar to 2022 levels. In Mexico and other Latin America (LatAm) markets, the bulk of units sold relate to product repositioning where retailers ended 2022 with low inventory, while in North America units sold include both product repositioning and new products that could suffer more if consumption trends contract. In the U.S., we believe that Mabe remains well positioned strategically to supply demand from General Electric (GE) given its lower production costs. As economic conditions gradually improve in 2024, we think sales growth could rebound to 6%-7%, stemming from a more balanced mix of pricing and volumes.

Mabe's adjusted EBITDA margins should trend toward 10% over the next two years due to sticky inflation and slowing price increases. We think Mabe's adjusted EBITDA margin should trend toward 10% in the next two years. This is because input costs for most of its raw materials--including steel, nickel, copper, natural gas, plastics, packaging, and glass--as well as transportation and logistics costs remain high, although gradually easing. In addition, Mabe faces higher labor costs in Mexico due to a 23% increase in the minimum wage in 2022. In our view, Mabe will continue its active pricing strategy, if necessary, favored by its strong brand awareness, innovative products, and cost-plus contract structure. We also expect the company to keep using hedging mechanisms on raw materials and currencies. Finally, we believe that Mabe will continue to successfully manage global supply chain disruptions and ensure full availability of raw materials and components, thanks to the relationships it has with suppliers in several countries.

Steady operating performance and solid cash flows, coupled with an extended debt maturity profile, help protect Mabe's credit quality. The company ended 2022 with a cash balance of $178 million and we expect it to deliver a steady operating performance despite still challenging economic conditions. We expect about $330 million and $350 million in operating cash flows (after interest payments) in 2023 and 2024, respectively, sufficient to fund its capital expenditure (capex) plan of $260 million for 2023 and $190 million for 2024, and $80 million yearly debt schedule amortizations in both years. Mabe's bank financings that it used to fund part of its recent tender on 90.87% ($336 million) of its 2028 senior notes have been structured with a $240 million club deal loan that includes $20 million quarterly amortizations starting in fourth quarter 2022, and with two bilateral loans for a total of $80 million with bullet maturities in October 2025.

Mabe maintains ample financial flexibility to withstand a downturn in demand and/or higher investments, in our view. We expect Mabe to maintain adjusted leverage near 0.9x by year-end 2023 and between 0.5x and 1.0x in 2024, and for its free operating cash flow (FOCF) to debt to be around 19.5% in 2023 and above 50% afterward, which in our view provides significant cushion for the company to withstand a potential prolonged downturn in demand without damaging its credit profile. We also expect the company to fund its higher investments in the next two to three years with cash flow from its operations and cash on hand, meaning that we don't expect a shift in Mabe's prudent investment appetite that would accelerate the depletion of cash reserves or that could compromise its financial flexibility.

Outlook

The stable outlook reflects our view that Mabe will maintain its solid credit metrics in the next 12-24 months, although we expect tougher macroeconomic conditions, including increasing risk of a recession in Mabe's key markets that could further lower demand, coupled with sticky inflationary pressures on raw material prices and transportation and logistical costs. Mabe's quarterly scheduled debt amortizations--along with our expectation of its prudent financial policy toward investments, dividends, and liquidity--will support deleveraging in the next two years. As a result, we expect the company to keep its adjusted leverage around or below 1.0x and funds from operations (FFO) to debt above 60% in the next two years.

Downside scenario

We could lower the ratings on Mabe in the next two years if the company consistently deviates from its leverage and cash flow targets, with adjusted debt to EBITDA approaching 2x or FFO-to-debt ratio below 45%. This could happen if one or more of the following occur:

- The company adopts a more aggressive financial policy toward capex, mergers and acquisitions, or shareholder rewards that would require a substantial increase in debt and/or use of cash;
- Mabe suffers significant operational setbacks due to a deeper and longer-than-expected macroeconomic downside scenario that would significantly lower demand and units sold, or if persistent inflation pressures its EBITDA margin; and/or
- Mabe's liquidity position weakens such as its cash sources against uses falls below 1.2x.

Upside scenario

Although unlikely in the next two years, we could raise the ratings on Mabe if:

- We see a major business transformation that drastically expands Mabe's scale and customer base diversification and further strengthens its competitive position relative to other global players in the home appliance industry; and
- The company maintains supportive financial policies, including adjusted leverage well below 2.0x and FFO to debt above 45%.

Our Base-Case Scenario

Assumptions

- Our GDP forecasts for the U.S., Canada, Mexico, LatAm, and the eurozone in 2023 are -0.1%, 0%, 0.8%, 0.7%, and 0%, respectively. For 2024, we expect GDPs of 1.4%, 1.1%, 2.0%, 2.2%, and 1.4%, respectively.
- Average inflation in 2023 for the U.S. of 4.3%, Canada 3.0%, Mexico 5.8%, LatAm 8.0%, and the eurozone 5.7%. For 2024, we expect average CPI of 2.7%, 1.2%, 3.7%, 7.4% and 2.5%, respectively.
- Flat revenues in 2023 and increasing by 6%-7% in 2024. Our forecast for 2023 considers relatively flat volumes and moderating price increases, reflecting current market conditions. For 2024, we expect volume growth to rebound to 4%-5% and average price to increase about 2% to offset inflation.
- Adjusted EBITDA margin near 9.5%-10.0% in both 2023 and 2024, versus 10.5% in 2022, mostly due to higher labor costs in Mexico and sticky inflation on raw materials (mostly steel), energy prices, and transportation costs.
- Adjusted operating cash flow near $330 million in 2023 and $350 million in 2024.
- Capex close to $260 million in 2023 and $190 million in 2024, mainly to support new manufacturing lines and automating plant projects, product efficiencies, and logistic network improvement.
- No acquisitions in 2023 and 2024, although the company has the financial capacity to pursue selective bolt-on acquisitions without affecting our financial risk profile assessment.
- Dividend payment of about $34 million in 2023 and 2024.
- Yearly debt repayment near $80 million in 2023 and 2024.

Key metrics

Controladora Mabe S.A. de C.V.--Key Metrics*

Mil. $	2021a	2022a	2023e	2024f	2025f

Revenue	4,119.5	4,440.0	4,442.0	4,740.0	4934.2
Revenue growth (%)	25.6	7.8	0.0	6.7	4.1
EBITDA	451.4	464.7	436.7	468.4	492.8
EBITDA margin (%)	11.0	10.5	9.8	9.9	10.0
Funds from operations (FFO)	299.7	321.7	347.9	375.9	398.1
Operating cash flow (OCF)	430.6	248.0	334.5	350.0	405.0
Capital expenditure	170.1	154.0	260.0	190.0	245.0
Free operating cash flow (FOCF)	260.5	94.0	74.5	160.0	160.0
Dividends	24.0	30.0	34.0	34.0	35.0
Debt	411.8	420.7	383.0	261.2	140.2
Debt to EBITDA (x)	0.9	0.9	0.9	0.6	0.3
FFO to debt (%)	72.8	76.5	90.8	143.9	>150.0
FOCF to debt (%)	63.3	22.3	19.5	60.9	>100.0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. 2022a figures are still unaudited.

Company Description

Mabe is a Mexican manufacturer and distributor of home appliances, including refrigerators, kitchen ranges, dryers, washing machines, built-in ovens and hoods, water coolers, dishwashers, microwave ovens, and related parts and components. In 2022, Mabe reported $4.4 billion in revenues and an adjusted EBITDA margin of 10.5%. The company is 51.6% owned by Mexican shareholders and 48.4% by the Haier Group.

Financial Risk

Debt maturities

As of Dec. 31, 2022, Mabe has the following debt maturities:

- $81 million due 2023;
- $80 million due 2024;
- $140 million due 2025;
- $175 million due 2026; and
- $34 million due 2028.

Controladora Mabe, S.A. de C.V.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	$	$	$	$	$	$
Revenues	2,958	3,080	3,290	3,280	4,119	4,440
EBITDA	255	261	317	381	451	465
Funds from operations (FFO)	158	144	232	286	300	322
Interest expense	77	77	51	47	42	43
Cash interest paid	72	83	68	54	48	49
Operating cash flow (OCF)	225	263	307	372	431	248
Capital expenditure	157	152	174	156	170	154
Free operating cash flow (FOCF)	68	111	133	216	261	94
Discretionary cash flow (DCF)	58	111	113	192	237	64
Cash and short-term investments	140	216	247	313	282	178
Gross available cash	140	216	247	313	282	178
Debt	745	656	585	473	412	421
Common equity	496	529	617	713	984	1,066
Adjusted ratios						
EBITDA margin (%)	8.6	8.5	9.6	11.6	11.0	10.5
Return on capital (%)	10.8	11.6	14.8	21.1	22.6	18.4
EBITDA interest coverage (x)	3.3	3.4	6.2	8.2	10.7	10.9
FFO cash interest coverage (x)	3.2	2.7	4.4	6.3	7.2	7.6
Debt/EBITDA (x)	2.9	2.5	1.8	1.2	0.9	0.9
FFO/debt (%)	21.2	21.9	39.6	60.4	72.8	76.5
OCF/debt (%)	30.2	40.1	52.6	78.7	104.6	58.9
FOCF/debt (%)	9.2	17.0	22.8	45.7	63.3	22.3
DCF/debt (%)	7.8	17.0	19.4	40.6	57.4	15.2

Reconciliation Of Controladora Mabe, S.A. de C.V. Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	508	1,066	4,440	464	264	41	465	285	30	154
Cash taxes paid	-	-	-	-	-	-	(94)	-	-	-
Cash interest paid	-	-	-	-	-	-	(49)	-	-	-
Lease liabilities	56	-	-	-	-	-	-	-	-	-

Reconciliation Of Controladora Mabe, S.A. de C.V. Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Incremental lease liabilities	13	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	22	-	-	1	1	2	-	-	-	-
Accessible cash and liquid investments	(178)	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	1	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(37)	-	-
Total adjustments	(87)	-	-	1	2	2	(143)	(37)	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	421	1,066	4,440	465	266	43	322	248	30	154

Liquidity

We assess Mabe's liquidity as adequate. Since the partial 2028 senior notes tender offer, partially funded with a new club deal and bilateral loans, we expect its cash sources to exceed uses by more than 1.2x, but to stay below 1.5x in the next 12 months. We also expect this ratio will remain above 1.0x even if EBITDA falls by 15%. Our liquidity analysis also incorporates our view that the company has the capacity to withstand high-impact, low-probability events and that Mabe has sound relationships with banks, good standing in the international debt markets, and overall prudent financial risk management.

Principal liquidity sources

- Cash of $178 million as of Dec. 31, 2022; and
- FFO of about $347 million for the next 12 months.

Principal liquidity uses

- Debt maturities of $81 million as of Dec. 31, 2022;
- Working capital needs of about $8.6 million for the next 12 months;
- Capex of about $260 million for the next 12 months; and
- Dividend payments of near $34 million for the next 12 months.

Covenant Analysis

Requirements

Under its credit agreements, Mabe is subject to the following financial maintenance covenants:

- Net debt to EBITDA below 3.5x; and
- EBITDA net interest coverage above 2.5x.

Compliance expectations

We expect Mabe to maintain significant covenant headroom of over 75% for the next two years.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of Mabe. Still, given the nature of its products, the company is exposed to environmental risks because it could contribute to hazardous and nonhazardous solid waste generation and energy use. Refrigerators, for instance, can release harmful chemicals when disposed, so there is growing importance around solid waste management and materials recovery. In addition, energy-using durables such as kitchen appliances are one of the fastest-growing sources of residential energy use. Thus, Mabe constantly allocates efforts to add sustainable features to its products in order to reduce environmental impact. Specifically, the company launched a series of initiatives to reduce its carbon footprint. At this point, we don't see material environmental risks for Mabe that could compromise its operations or jeopardize its financial position.

We believe that Mabe is also somewhat exposed to social factors, specifically in terms of safety management, where defective products could affect its brand reputation and profitability. In 2018, Mabe faced a significant product recall that affected its key credit metrics for most of the year. However, a timely response to this issue allowed Mabe to control reputational risks and contain the negative implications for its financial risk profile. Finally, we assess Mabe's management and governance as fair, reflecting management's expertise in the industry and prudent strategy toward sustained growth.

Issue Ratings--Subordination Risk Analysis

We think it's unlikely that any lenders would be significantly disadvantaged relative to others, given Mabe's low leverage and because the bulk of its debt is senior unsecured and at the holding company level.

Capital structure

As of Dec. 31, 2022, Mabe's capital structure mainly consisted of $34 million outstanding rated senior unsecured notes due 2028, a private placement for $175 million due 2026, $220 million outstanding of an amortizing club deal loan due 2025, and bilateral loans for $80 million.

Analytical conclusions

Based on the existing debt structure, we rate Mabe's 2028 senior unsecured notes 'BBB', the same level as the issuer credit rating.

Rating Component Scores

Foreign currency issuer credit rating	**BBB/Stable/--**
Local currency issuer credit rating	**BBB/Stable/--**
Business risk	**Satisfactory**
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	**Modest**
Cash flow/leverage	Modest
Anchor	**bbb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bbb**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of February 27, 2023)*

Controladora Mabe S.A. de C.V.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB
Issuer Credit Ratings History	
29-Oct-2021	BBB/Stable/--
27-Mar-2018	BBB-/Stable/--
18-Sep-2015	BB+/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.