FitchRatings

Fitch Upgrades Controladora Mabe's IDRs to 'BBB-'; Outlook Stable

Fitch Ratings - Chicago - 21 September 2018: Fitch Ratings has upgraded Controladora Mabe, S.A. de C.V.'s (Mabe) Foreign- and Local-Currency Issuer Default Ratings (IDRs) to 'BBB-' from 'BB+'. The Rating Outlook is Stable.

The rating upgrade reflects our expectations that Mabe's credit profile will strengthen, given robust cash flow generation due to awarded incremental orders for its export business. The majority of these product lines should start to be delivered between 2018-2019. A broader product portfolio and sourcing synergies from Mabe's relationship with Haier are also drivers supporting the ratings upgrade and complement the company's solid market position throughout the Americas, resulting from the strong brand recognition of the Mabe and General Electric brands. Further considered in the ratings upgrade is the preliminary trade agreement signed between the U.S. and Mexico, which reduces the uncertainty about the final outcome of negotiations and establishes a framework for future long-term investment decisions. Increased certainty regarding trade between the U.S. and Mexico, which combined account for 65% of Mabe's consolidated revenues, is positive for macroeconomic stability in Mexico resulting in continued growing domestic demand as well as of exports into the U.S.

RATING ACTIONS

ENTITY	RATING		PRIOR
Controladora Mabe S.A. de C.V. (Mabe)	LT IDR BBB- Upgrade		BB+
	LC LT IDR BBB- Upgrade		BB+
senior unsecured	LT BBB- Upgrade		BB+

KEY RATING DRIVERS

Strong Market Position: Mabe holds a strong business position in most of Latin America. The company has seven 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 GE brand and also holds exclusive rights to distribute Qingdao Haier Co., Ltd. products in Latin America and Canada.

Appliance-Focused Shareholder: Qingdao Haier owns GE appliances business since 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 a broader product line for Mabe that includes split-system air conditioners.

More Certain Trade Policy: Mabe is an important manufacturer and exporter with major exposure to the NAFTA region. The company manufactures a significant quantity of GE-branded products through its joint venture with Haier. The preliminary trade agreement signed between the U.S. and Mexico, has reduced the uncertainty about the final outcome of negotiations, establishing a framework for future long-term investment decisions. Importantly, the agreement has focused on sectors outside appliances and provides a 16-year lifespan. Increased certainty regarding trade between both countries, which combined account for 65% of Mabe's consolidated revenues, is positive for Mexico's macroeconomic stability and should support growing domestic demand as well as demand for Mabe's exports into the U.S.

South America Weakness: 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 weak 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 about 40% of its revenue, have lessened these effects on Mabe's financial performance.

Credit Metrics Expected to Strengthen: Fitch projects gross debt/EBITDA leverage at 2.9x in 2018, or about 3.2x adjusting for the factoring of accounts receivable. These compare with 3.3x and 3.7x as of year-end 2017. The factoring adjustment allows Fitch to compare issuers that may use different sources of funding. Fitch estimates Mabe's adjusted net leverage will strengthen to 2.5x in 2019 compared with 3.1x registered in 2017. Expected deleveraging should be driven by volumes from new contracts and from an expanded portfolio, improved cash generation due to the absence of extraordinary charges incurred in 2017, and efficiencies resulting from consolidated manufacturing in fewer sites of larger scale.

Recovering Cash Flow Generation: Mabe's FFO margin increased to 5.8% in 2017, compared with 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 consolidation of manufacturing capacity into larger production sites in Mexico and Colombia. In addition, weak conditions in Latin America, including declining appliance demand in several South American markets, particularly Argentina and Colombia, pressured performance. Product repricing to reflect higher input costs, incremental exports to North America, and realignment of production capacity in Argentina should allow Mabe's FFO margin to trend to above 6% in 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 Electronics and Samsung Electronics Co., Ltd. (AA–/ 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 factors. 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.

Mabe has a more volatile cash flow profile when compared to a subset of Mexican corporates such as Grupo Bimbo, S.A.B. de C. (BBB/Stable) and Sigma Alimentos, S.A. de C. (BBB/Stable), which are focused on more stable consumer staples. Mabe's products are more discretionary in nature. However, over the long term, their demand is stable and expected to grow due to the favorable demographics and growth profiles of Mabe's key markets. Fitch expects Bimbo and Sigma to maintain net leverage below 3x similar to Mabe. Their higher ratings also reflect their larger scale and broader geographic diversification.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer
--Revenues grow by mid-single-digits in 2018 and 2019;
--Operating EBITDA margins trend toward 9% 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
- An upgrade is unlikely in the medium term considering Mabe's existing business and financial profile.

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

-Deterioration in profitability and cash flow generation from lower demand, and/or competitive or input cost pressures.
-Expectations of net adjusted leverage above 3x or gross adjusted leverage above 3.5x.
- A weakening in the Mabe's relationship with Haier.
-Large debt-financed acquisitions

The net leverage sensitivities for a downgrade take into account the lower business risk associated with the company's improving competitive advantage through its affiliation with Haier and lower risks related to NAFTA and U.S.-Mexico trade relations. They also reflect Fitch's expectations relative to peers.

LIQUIDITY AND DEBT STRUCTURE

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 USD134 million in cash and good access to bank credit should allow the company to refinance USD481 million of 2019 notes. Mabe refinanced USD300 million of syndicated bank debt during the last 18 months 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 financial debt was USD861 million as of June 30, 2018, consisting of USD481 million and USD175 million of notes due 2019 and 2026, respectively, and bank debt.

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
Gilberto Gonzalez
Associate Director
+1 312 606 2310
Fitch, Inc.
70 West Madison Street

Chicago 60602

Secondary Rating Analyst
Velia Valdes
Associate Director
+52 81 8399 9100
Fitch Mexico S.A. de C.V.
Prol. Alfonso Reyes No. 2612, Edificio Connexity, Piso 8, Col. Del Paseo Residencial,
Monterrey 64920

Committee Chairperson
Daniel Kastholm
Managing Director
+1 312 368 2070

MEDIA CONTACTS

Elizabeth Fogerty
New York
+1 212 908 0526
elizabeth.fogerty@fitchratings.com

Applicable Criteria

Corporate Rating Criteria (pub. 23 Mar 2018) (/site/re/10023785)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (/site/dodd-frank-disclosure/10045650)
Solicitation Status
Endorsement Policy (/site/regulatory)

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS (HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM (https://www.fitchratings.com/site/home). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY (https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

COPYRIGHT

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular

jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.
For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001
Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory (https://www.fitchratings.com/site/regulatory)), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group’s websites. Learn more (https://www.thefitchgroup.com/site/policies).

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.