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Research Update:

Controladora Mabe S.A. de C.V. 'BBB' Ratings Affirmed; Outlook Remains Stable

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Rating Action Overview

- Mexico-based home appliance company Controladora Mabe S.A. de C.V. (Mabe) continues to deliver a solid operating and financial performance, with $4.4 billion in revenues, $471.4 million in adjusted EBITDA, and adjusted leverage of 1.1x in the 12 months ended June 30, 2022.
- Although we expect increasing macroeconomic headwinds in Mabe's key markets that could continue to lower demand in the next 12-18 months, Mabe's credit metrics and prudent financial policy provide significant headroom for the rating level.
- The company's new scheduled debt amortizations, following its recent tender offer on 90.87% of its 2028 senior notes, indicate its commitment to further reduce its gross debt and strengthen its balance sheet, in our view, but provide less liquidity cushion.
- On Oct. 25, 2022, S&P Global Ratings affirmed its 'BBB' long-term issuer and issue-level credit ratings on Mabe.
- The stable outlook reflects our expectation that Mabe will deliver steady revenue growth in the next 12 months, while its adjusted EBITDA margin will remain above 10% and its net leverage below 1.0x, considering its scheduled loan amortizations.

Rating Action Rationale

We expect Mabe to deliver robust top-line growth despite increasing macroeconomic downside risks. Mabe posted about 16% year-to-date revenue growth in the first half of 2022, reflecting a double-digit price increase across all its end-markets to contain inflationary pressures on key input costs and to offset lower volumes as retailers normalize their high inventory levels. While we expect this trend to continue until the end of 2022, we now forecast Mabe's revenues to be near $4.4 billion in 2022, or 7% above the 2021 level. In our view, at this stage and considering 2021 record high units sold, this indicates a soft landing in units sold versus pre-pandemic and 2020 levels. For 2023, we expect economic activity in Mabe's key markets to slow, with an increasing risk of recession that could undermine consumer confidence and demand as well as units sold. However, our base-case scenario considers moderate price increases for next year because we think Mabe will aim to increase its market share. We also forecast volume growth of 0%-2%. We note that in Mexico and other Latin America (LatAm) markets, the bulk of units sold relate to product repositioning, while in North America units sold include both product repositioning and new products that might suffer more if consumption trends contract. Considering these factors, we expect Mabe's revenues to grow near 2.5% to $4.5 billion by the end of 2023.

We anticipate a slight reduction in adjusted EBITDA margin in 2022-2023, but it should still stay above 10%. Global supply chain disruptions and foreign exchange rate volatility are keeping Mabe's input costs high for most of its raw materials--including steel, nickel, copper, natural gas, plastics, packaging and glass, among others, as well as transportation and logistics costs. To mitigate the impact on its profit margins, we expect Mabe to remain active on its pricing capabilities, if necessary, favored by its strong brand awareness, innovative products, and cost-plus contract structure. We also expect it to continue its hedging strategies on raw materials and currencies, to 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. However, considering the current business conditions, we expect the adjusted EBITDA margin to fall slightly to 10.0%-10.5% for 2022-2023, versus 11.0% in 2021.

We forecast the company to have solid operating cash flow (OCF) and active investment plans in the next few years. We still think that Mabe will generate solid OCF (adjusted for interest payments), near $175 million in 2022 and $415 million in 2023. This reflects our expectation for adjusted EBITDA of $455 million in 2022 and $470 million in 2023, interest expenses near $35 million in 2022 and $30 million in 2023, and taxes of $55 million in 2022 and $70 million in 2023. We also expect working capital outflows around $165 million in 2022 and working capital inflows near $50 million in 2023. The high working capital movements for 2022-2023 mostly reflect Mabe's inventory level normalization, as the company reduces its production to adjust to its clients' demand cycle. Additionally, for 2022-2024, we expect Mabe to invest close to $200 million per year in capital expenditures (capex), mainly to support investments in new manufacturing lines and plant automation projects, product efficiencies, and logistic network improvement. This incorporates a multiyear investment program of about $230 million that Mabe is launching following the 10-year contract it recently signed with General Electric America to produce side-by-side and bottom freezers.

Mabe remains committed to reducing its gross debt and further strengthening its credit metrics, in our view. Mabe recently tendered 90.87% ($336 million) of its 2028 senior notes. It funded the transaction through a mix of a $240 million amortizing club deal loan, $80 million bilateral loans with a three-year bullet tenor, and $16 million of cash from its balance sheet. The new club deal loan has been structured with $20 million quarterly amortizations starting in fourth quarter 2022, which in our view indicates the company's willingness to reduce its gross debt and further strengthen its balance sheet and credit metrics. On the other hand, the new debt's scheduled amortizations led us to revise downward our liquidity assessment to adequate from strong because we now expect Mabe's cash sources to be below 1.5x but above 1.2x its uses on a rolling 12-month basis.

Mabe has ample financial flexibility to withstand a downturn in demand and higher investments. We expect Mabe's adjusted leverage to be near 1.0x at year-end 2022 and between 0.5x and 1.0x in 2023, and for its free operating cash flow (FOCF) to debt to be above 50% in 2023 and onward, which in our view provides significant cushion for the company to withstand a potential prolonged downturn in demand without affecting its credit profile. We also expect the company to fund its higher investments in the next two to three years with cash flow from operations, 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, despite our expected tougher macroeconomic conditions including an increasing risk of a recession in Mabe's key markets that could further lower demand, coupled with persistent 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 further support its deleveraging strategy 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 80% 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 leverage 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 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%.

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 the 12 months ended June 30, 2022, Mabe reported $4.4 billion in revenues and an adjusted EBITDA margin of 10.7%. The company is 51.6% owned by Mexican shareholders and 48.4% by the Haier Group.

Our Base-Case Scenario

Assumptions

- Real GDP to expand 1.6% in the U.S., 3.1% in Canada, 2.1% in Mexico, 2.8% in Latin America, and 3.1% in the Eurozone in 2022; and 0.2%, 1.1%, 0.8%, 0.9%, and 0.3%, respectively, in 2023, with increasing recession risks in Mabe's key markets.
- U.S. inflation of 8.3%, Canada 6.7%, Mexico 7.8%, Latam 14.9%, and Eurozone's average of 8.2% in 2022, and 3.7%, 4.2%, 6.1%, 13.7% and 5.2%, respectively, in 2023.
- Revenue growing about 7.0% in 2022 and 2.5% in 2023. For 2022, this considers significant price increases and the ongoing consolidation of Alladio in Argentina, which will more than offset a reduction in units sold. For 2023, we expect moderate price increases and 0%-2% growth in units sold as distributors replenish their inventories, although consumers' purchasing power and confidence could be hampered by weaker economic conditions and ultimately could undermine consumption trends.
- Adjusted EBITDA margin of 10.0%-10.5% in 2022 and 2023, from 11% in 2021, due to persistent inflationary pressures on raw materials, transportation, and logistics costs.
- Adjusted OCF near $175 million in 2022 and $415 million in 2023.
- Capex close to $200 million annually in 2022 and 2023, mainly to support investments in new manufacturing lines, automation projects, product efficiencies and logistic network improvement.
- No acquisitions in 2022 and 2023, although the company has the financial capacity to pursue selective bolt-on acquisitions without affecting its financial risk profile.
- Dividend payments of about $30 million in 2022 and $35 million in 2023.
- Debt repayment of about $110 million in 2022 and $80 million in 2023.

Key metrics

- Adjusted leverage close to 1.0x in 2022 and within 0.5x and 1.0x in 2023;
- FFO to debt above 80% in both 2022 and 2023; and
- Slightly negative FOCF to debt in 2022 and well above 60% in 2023.

Liquidity

We revised downward our liquidity assessment on Mabe to adequate because following the partial 2028 senior notes tender offer and new club deal loan amortizations, we now expect its cash sources to exceed uses by more than 1.2x, but to stay below 1.5x in the next 12 months, and that 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 an overall prudent financial risk management.

Principal liquidity sources:

- Cash of $144 million as of June 30, 2022; and
- FFO of about $326 million for the next 12 months.

Principal liquidity uses:

- Debt maturities of $88 million as of June 30, 2022;
- Working capital needs of about $60 million for the next 12 months, including intra-year requirements;
- Capex of about $200 million for the next 12 months; and
- Dividend payments of near $30 million for the next 12 months.

Covenants

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.

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

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 June 30, 2022, and considering the recent tender offer on Mabe's 2028 senior notes, the company's capital structure mainly consists of a $240 million amortizing club deal loan due 2025, $80 million of bilateral loans due 2025, $175 million private placements due 2026, and the outstanding $34 million senior notes due 2028.

Analytical conclusions

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

Ratings Score Snapshot

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+
Modifiers:	
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)

ESG credit indicators: E-2, S-2, G-2

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: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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 List

Ratings Affirmed	
Controladora Mabe S.A. de C.V.	
Issuer Credit Rating	BBB/Stable/--
Controladora Mabe S.A. de C.V.	
Senior Unsecured	BBB

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.