

**Rating Action: Moody's upgraded Mabe's ratings to Baa2; stable outlook**

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10 May 2022

New York, May 10, 2022 -- Moody's Investors Service (Moody's) upgraded today Controladora Mabe, S.A. de C.V.'s (Mabe) senior unsecured and issuer ratings to Baa2 from Baa3. The ratings outlook is stable.

Upgrades:

..Issuer: Controladora Mabe, S.A. de C.V.

... Issuer Rating, Upgraded to Baa2 from Baa3

...Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

Outlook Actions:

..Issuer: Controladora Mabe, S.A. de C.V.

...Outlook, Remains Stable

**RATINGS RATIONALE**

Mabe's Baa2 ratings reflect its strong credit profile with low leverage and strong interest coverage. The ratings also incorporate 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 Company Appliances in the US. However, the rating is constrained by Mabe's exposure to commodity prices and foreign-exchange rate volatility, the highly competitive environment in its territories of operation, and the cyclicity of white-line products.

Mabe's largest markets are the United States of America (Aaa stable), Mexico (Baa1 negative), and Canada (Aaa stable) which together account for 72% of consolidated sales in the 1Q22. The company will benefit from the expected economic growth in its main territories of operation. Accordingly, Moody's estimates that in 2022 the US economy will grow by 3.7%, Canada's GDP will rise 4.0%, and Mexico's GDP will increase by a modest 1.1%.

Mabe's credit metrics have remained strong over the last 18 months. Mabe's debt/EBITDA, as adjusted by Moody's, declined to 1.5x as of December 31, 2021, down from 2.1x as of December 31, 2020. Moody's estimates Mabe's leverage will remain below 1.5x during 2022-24. Similarly, Mabe's EBIT/Interest expense, as adjusted by Moody's, closed 2021 at 6.7x. Moody's expects Mabe to maintain strong interest coverage around 6.5-7.5x in 2023-24.

Mabe has a strong liquidity profile. Mabe reported cash on hand of \$137 million as of March 31, 2022 that can cover 4.4x its short-term debt. In addition, Mabe has around \$440 million in advised credit facilities to support its working capital requirements. Mabe has consistently generated positive free cash flow (defined as cash from operations minus dividends minus capex) in 2017-2021. Moody's estimates that the company will continue to post positive free cash flow in 2022-24 with capital expenditures averaging \$220 million per year and dividends of around \$30-\$35 million per year over the same period of time. Mabe has a comfortable long-term debt maturity profile with no major maturities until 2026 when \$175 million from a private placement are due and in 2028 when its \$370 million senior notes are due.

Mabe's stable outlook reflects Moody's expectation that the company will continue to have a strong credit profile with low leverage and strong interest coverage over the next 12-18 months

**FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS**

Moody's does not foresee an upgrade in the medium term. Longer term, to be considered for an upgrade, the

company will need to materially increase its size, increase its geographical diversification, and improve profitability with an EBIT margin close to 13%. Also, Mabe will need to maintain strong interest coverage with adj. EBIT/Interest expense around 7.5x and leverage (adj. debt/EBITDA) approaching 1.0x or below. To be considered for an upgrade, the company should also keep its long-term contract to produce GE products for the US market while posting robust liquidity and cash generation with free cash flow materially higher than its historical levels.

The ratings could be downgraded if Mabe's adj. debt/EBITDA remains above 1.75x for a prolonged period of time or if Mabe's adj. EBIT/Interest expense drops below 6.0x. A deterioration on Mabe's profitability, liquidity or credit metrics could trigger a downgrade. A change in Mabe's long-term contract to produce GE products that could jeopardize its relevance for GE's US market could also result in a downgrade.

The principal methodology used in these ratings was Consumer Durables published in September 2021 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1276767](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1276767). Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://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%). The company reported revenues of \$4,298 million over the twelve months ended March 31, 2021.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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