FITCH AFFIRMS MABE'S IDRS AT 'BB +'; OUTLOOK REVISED TO POSITIVE

Fitch Ratings-Chicago-29 January 2016: Fitch Ratings has affirmed Controladora Mabe, S.A. de C.V.'s (Mabe) ratings at 'BB+'. The Rating Outlook has been revised to Positive from Stable. A full list of ratings follows the end of this release.

The revision of the Outlook to Positive reflects Fitch's expectations of further strengthening of Mabe's credit profile given recent debt repayment and stronger cash flow generation. It also reflects the potential for Mabe to increase business opportunities under a new shareholder structure. Successful integration with the new owner coupled with expanding positive free cash flow (FCF) generation and total leverage around 2.5x throughout the economic cycle would likely lead to an upgrade. Conversely, lower than expected profitability, negative FCF generation and gross leverage in the range of 3x would likely result in the Outlook being revised to Stable.

KEY RATING DRIVERS

Strong Market Position

Mabe holds a strong business position in most of its Latin American markets. The company has nine manufacturing facilities, in Mexico, Ecuador, Colombia and Argentina, which allow it to serve different markets under competitive conditions. Mabe continues to focus on offering a wide product portfolio under a multibrand strategy that targets all socioeconomic levels, in conjunction with the long-term manufacturing and export agreements with General Electric Co. (GE).

A Potential New Shareholder

In December of 2015, GE announced it had terminated its agreement to sell its appliances business to AB Electrolux (Electrolux). On a subsequent announcement earlier this month, GE announced it had reached an agreement to sell its appliance business to Qingdao Haier Co., Ltd. (Haier), a large home appliance provider based in China. The agreement includes GE's 48.4% stake in Mabe and is expected to face less opposition by U.S. regulatory authorities than the previous transaction with Electrolux mainly due to Haier's limited participation in the U.S. market.

The company's ratings have been supported by Mabe's long-term relationship with GE and the agreements the companies have established. Mabe has stated that all of its agreements with GE will be kept once the transaction between GE and Haier closes. It has also stated that this joint venture with Haier could increase its export opportunities to the U.S. by reactivating projects which had stalled during the previous regulatory review process. Fitch believes a potential transaction would be neutral to credit quality in the near term.

In Fitch's view, a new partner with a longer-term focus on growing its appliance business globally could result in higher revenues for Mabe considering its manufacturing capacity, low-cost skilled labor force and already established connectivity to GE's U.S. product distribution network benefiting from Mexico's trade agreements with the U.S. and logistics infrastructure which results in lower freight costs and faster delivery times.

Higher Cash Flow Generation

Fitch believes risks in Mabe's operating environment will balance out during 2016 and the company should continue to post moderately improving results amid a volatile environment. Positive housing dynamics in the U.S. --where the company generates about a third of its revenue--, pricing initiatives in Mexico and Latin America, and a favorable cost environment resulting from lower metals and plastics prices should continue to offset low demand for appliances in South America and weakening foreign currencies in Latin America.

Mabe's cash flow profitability measured as funds from operations (FFO) margin has been low since 2010 partly due to multiple restructuring and reorganization expenses related to the company's operations in Brazil as well as the relocation of manufacturing capacity from Canada to Saltillo, Mexico. In addition, weak conditions in Latin America, including the company's operations in Venezuela and Argentina, pressured financial performance. Absent large restructuring charges, Mabe's FFO margin should trend to levels above 5% in 2016 and beyond from around 4% in 2015 and 3% in 2014, supporting leverage and liquidity metric strengthening.

KEY ASSUMPTIONS

--Revenues decline low single digits in 2016 reflecting USD strength and resume low-single-digit growth from 2017 onwards. Exports to the U.S. and growing volumes in Mexico and pricing initiatives across Latin America partially offset relatively weak expected demand in South America.

--EBITDA margins remain above 10% over the next few years.

--Debt/EBITDA improves slowly over the medium term mostly due to higher EBITDA generation.

--The company does not undertake meaningful shareholder distributions; FCF remains positive over the intermediate term.

--All agreements with GE are kept once the transaction for GE's appliance business between GE and Haier closes.

RATING SENSITIVITIES

Future developments that may, individually or collectively, lead to a positive rating action include:

--Successful closing of the GE appliances transaction and subsequent integration of Mabe with Haier, coupled with a firm management commitment to maintain total debt-to-EBITDA at or below 2.5x in the mid to long term, positive FCF cash flow generation, stable profitability and solid liquidity.

Future developments that may, individually or collectively, lead to a negative rating action include:

--Large debt-financed acquisitions, deterioration in profitability and cash flow generation, competitive and/or input cost pressures resulting in the expectation of gross leverage levels consistently above 3.5x.

LIQUIDITY

Mabe's liquidity is considered adequate. During the fourth-quarter of 2015 (4Q15), the company refinanced USD270 million of syndicated bank debt with a USD300 million new syndicated bank loan. The company used existing cash of USD95 million as of 3Q15 as well as the incremental borrowing of the new bank loan to repay its USD69 million 2015 notes. The company faces no material debt amortizations until 2018 and 2019 when USD92 million and USD573 million--including USD481 million of 2019 notes are due, respectively.

Total debt as of 2015 was USD781 million composed of USD481 million of notes due 2019 and bank debt. Mabe's EBITDA for 2015 was USD264 million resulting in total leverage of 3x.

FULL LIST OF RATING ACTIONS

Fitch has affirmed Mabe's ratings as follows:

--Foreign currency long-term Issuer Default Rating (IDR) at 'BB+';
--Local currency long-term IDR at 'BB+';
--7.875% senior unsecured notes due 2019 at 'BB+'.

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Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362