

FITCH AFFIRMS MABE'S IDRS AT 'BBB-'; OUTLOOK STABLE

Fitch Ratings-Chicago-23 October 2019: Fitch Ratings has affirmed Controladora Mabe S.A. de C.V.'s (Mabe) Foreign and Local Currency Long-Term Issuer Default Ratings (IDRs) at 'BBB-'. Mabe's unsecured debt was also affirmed at 'BBB-'. The Rating Outlook is Stable.

Mabe's ratings reflect its low cost structure, geographic diversification and strong business position throughout most of the Americas. A broad product portfolio and sourcing synergies from Mabe's relationship with Qingdao Haier Co., Ltd are also drivers supporting the ratings and complement the company's solid market position throughout the Americas, resulting from the strong brand recognition of the Mabe and General Electric Company brands. Mabe's ratings are tempered by a highly competitive environment, exposure to commodity price and foreign exchange volatility.

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 multi-brand strategy that targets all socioeconomic levels. It also has long-term contracts to manufacture and export appliances under the GE brand and also holds exclusive rights to distribute Haier and GE products in Latin America and Canada.

Appliance-Focused Shareholder: Haier is a large international appliance manufacturer aiming to increase its global presence. It has owned GE appliances business, including a 48% stake in Mabe since 2016. Mabe and Haier have expanded their product portfolios and implemented synergies, since Haier acquired its stake in Mabe. The relationship has resulted in new manufacturing contracts and a broader product line for Mabe that includes split-system air conditioners and front-load washers.

More Certain Trade Framework: Mabe is an important manufacturer and exporter with major exposure to North America. 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., Canada and Mexico has reduced the trade uncertainty that resulted from protracted renegotiations of the North American Free Trade Agreement. Importantly, the agreement focuses on sectors outside appliances and provides a 16-year lifespan. Increased certainty on trade between the countries, which account for 70% of Mabe's consolidated revenues, improves visibility of Mabe's exports into the U.S.

Credit Metrics Expected to Strengthen: Fitch projects gross debt/EBITDA at 2.6x in 2019, or about 2.9x adjusting for the factoring of nonrecourse accounts receivable. These compare with 3.2x and 3.5x, respectively, in 2018 and with 3.3x and 3.7x as of YE 2017. The factoring adjustment allows Fitch to compare issuers that may use different sources of funding as immediate replacement funding is required if the receivables financing shuts down or eligible receivables decline in quality and the facility ceases to fund ongoing receivables.

Fitch estimates Mabe's adjusted net debt/EBITDA ratio will strengthen to 2.3x in 2020, compared with 2.6x in 2018 and 3.1x in 2017. Expected deleveraging should be driven by higher EBITDA generation due to higher volume from new contracts and from an expanded portfolio. Improved cash generation as well as efficiencies resulting from consolidated manufacturing in fewer sites of larger scale will also be positive. Lower capex due to completed investments in 2017 and 2018,

which were aimed to serve awarded contracts in the U.S. will support FCF in 2020 and possibly 2021.

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 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 has higher leverage 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 with a subset of Mexican corporates such as Grupo Bimbo, S.A.B. de C.V. (BBB/Stable) and Sigma Alimentos, S.A. de C.V. (BBB/Stable), which are focused on more stable consumer staples. Mabe's products are more discretionary in nature. However, over the long term, 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 3.0x, 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 Include

- Revenues grow by mid-single digits in 2019 and low single digits in the years after;
- 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 near term, considering Mabe's existing business and financial profile.
- A track record of maintaining a stronger capital structure with net debt /EBITDA at or below 1.5x would be positive combined with larger operating scale.

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 3.0x or gross adjusted leverage above 3.5x;
- A weakening in Mabe's relationship with Haier;
- Large debt-financed acquisitions.

LIQUIDITY

Sound Liquidity: Mabe's liquidity is sound. Fitch's base case suggests Mabe could generate about USD180 million of cash flow from operations, which, together with USD95 million in cash and

USD96 million available under a bank credit facility as of second-quarter 2019 should allow the company to cover USD131 million of notes due 2019. Mabe refinanced approximately USD370 million of syndicated bank debt during the last two years with a combination of 10-year private notes and local currency and USD 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 USD786 million as of June 30, 2019, compared with USD861 million a year ago. Mabe's debt consists mainly of USD370 million of notes due 2028, USD175 million of private notes due 2026 and bank debt.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

FULL LIST OF RATING ACTIONS

Fitch has affirmed Mabe's ratings as follows:

- Foreign Currency Long-Term Issuer Default Rating (IDR) at 'BBB-';
- Local Currency Long-Term IDR at 'BBB-';
- 7.875% senior unsecured notes due 2019 at 'BBB-'.
- 5.600% senior unsecured notes due 2028 at 'BBB-'.

The Rating Outlook is Stable.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Corporate Rating Criteria (pub. 19 Feb 2019)

<https://www.fitchratings.com/site/re/10062582>

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