FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Chicago - 16 Aug 2021: Fitch Ratings has upgraded Controladora Mabe, S.A. de C.V.'s (Mabe) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) to 'BBB' from 'BBB-'. The Rating Outlook is Stable.

The upgrade reflects Mabe's strengthening credit profile due to robust exports to the U.S. and Canada, higher profitability in its South America operations and organic launches of new product lines. EBITDA expansion, combined with FCF should allow Mabe's net debt/EBITDA to reach around 0.8x in 2021, compared with 1.8x in 2019 and 1.2x in 2020.

Positive FCF over the next two years should allow Mabe to continue to reduce debt by at least USD60 million per year. This reduction comes after gross debt repayment of USD67 million in 2019 and USD51 million in 2020. Mabe's total debt/EBITDA ratio is projected to trend down to approximately 1.5x over the rating horizon compared with 2.7x in 2019 and 2.1x in 2020.

KEY RATING DRIVERS

Strong Export Base: Mabe's appliance sales are forecast to approach 13 million units (MU), up from about 11.5 MU in 2019 and 2020, due to rising exports to the U.S. and Canada and increased market share in most Latin American markets. EBITDA is forecast at about USD390 million for 2021, an improvement from USD290 million in 2019 and USD347 million in 2020. Increased demand for all categories of Mabe's exports into the U.S. and higher profitability in South America, as well as organic expansion of new product lines support our EBITDA expectations. Increased exports to Canada and efficiencies resulting from a scale-up in Mabe's Colombian plant should also contribute to an improvement in EBITDA.

Demand Should Exceed Pre-Pandemic Levels: Most appliance demand is driven by replacement activity rather than new home construction. Increased appliance usage, as work-from-home models become more permanent, will shorten replacement cycles and will likely cause appliance demand to remain above pre-pandemic levels for the foreseeable future. Mabe increased its production capacity throughout its portfolio by approximately 15% during the last three years, and has increased exports to nearby markets. Increased capacity should allow the company to boost sales, as demand rose sharply throughout the pandemic and remains robust.

Leverage Expected to Trend Down: Mabe's net debt/EBITDA ratio is projected to decline to 0.8x in 2021 and remain around that level in 2022. The decline in projected leverage from 1.2x in 2020 is a result of EBITDA growth plus an average annual FCF of about USD80 million, which is expected to be used for debt reduction. Mabe paid down approximately USD70 million of debt in 2019, USD50 million in 2020 and close to USD50 million so far in 2021.

Strong Market Position: Mabe holds a strong business position in most of Latin America. The company has six appliance manufacturing facilities across Mexico, Ecuador, Colombia and Argentina. Mabe focuses on offering a wide product portfolio under a multi-brand strategy that targets all socioeconomic levels. The company also has long-term contracts to manufacture and export appliances under the GE brand, and holds exclusive rights to distribute Haier and GE products in Latin America and Canada.

Appliance-Focused Shareholder: Haier Smart Home Co., LTD. is a large international appliance manufacturer. It has owned the 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 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 a significant manufacturer and exporter with major exposure to North America. The company manufactures several GE-branded products through its joint venture with Haier. The U.S.-Canada-Mexico trade agreement has reduced uncertainty among the countries. The agreement improved the visibility of Mabe's exports in the U.S., which together with Canada, represent approximately 55% of Mabe's consolidated revenues. The agreement has a 16-year lifespan and does not entail substantial changes to the rules for the appliance industry when compared with the North American Free Trade Agreement.

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's appliances brand and 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 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 gross leverage is projected to be around 1.5x similar to LG Electronics' and lower than that of Whirlpool at 2x. Its profitability is comparable to Whirlpool's but 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, compared with expectations of below 1.0x for Mabe.

KEY ASSUMPTIONS

--Revenues grow by double digits in 2021 and by low-to-mid-single digits in 2022-2023;

--Operating EBITDA margins above 9% in 2021 and 2022;

--Debt/EBITDA leverage below 2.0x;

--The company does not undertake meaningful shareholder distributions;

--Positive FCF over the rating horizon.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--An upgrade is not expected to occur in the near term given Mabe's financial and business profile;

--A record of maintaining a stronger capital structure, with net debt/EBITDA at or below 0.5x and gross debt to EBITDA below 1.0x, combined with larger operating scale would be positive.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Deterioration in profitability and cash flow from lower demand or competitive or input cost pressures leading to meaningful EBITDA deterioration;

--Expectations of net leverage above 1.5x or gross leverage above 2.0x;

--A weakening in Mabe's relationship with Haier;

--Large, debt-financed acquisitions.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Sound Liquidity: Mabe's liquidity is sound. The company faces no significant debt maturities until 2026 when USD175 million in private notes is due. Mabe is expected to generate approximately USD300 million of normalized cash flow from operations over the intermediate term, which, combined with capex expectations of around USD150 million-USD200 million and dividends of around USD30 million, results in expectations of USD50 million-USD100 million in FCF. The company held USD241 million in cash and cash equivalents as of second-quarter 2021.

The company has good access to bank debt and capital markets, demonstrated by public and private notes issuances over the last two years as well as by frequent access to bank debt at attractive terms. Mabe's debt consists mainly of USD370 million of notes due 2028, USD175 million of private notes due 2026 and bank debt.

Fitch includes nonrecourse factoring of accounts receivable of approximately USD40 million in its debt calculations. 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.

ISSUER PROFILE

Mabe manufactures and sells home appliances in the Americas. The company's product line includes gas and electric ranges, refrigerators, clothes dryers and washing machines among other appliances and components.. The company has long-term contracts to manufacture and export appliances under the GE brand, and holds exclusive rights to distribute Haier and GE products in Latin America and Canada. Mabe's products are sold primarily under the following brand names: GE, GE Monogram, GE Café, GE Profile, Hotpoint, Mabe, io Mabe, Atlas, and various local brand names.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means 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 Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR

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Controladora Mabe S.A. de C.V. (Mabe)	LT IDR	BBB Rating Outlook Stable	Upgrade	BBB- Rating Outlook Positive
	LC LT IDR	BBB Rating Outlook Stable	Upgrade	BBB- Rating Outlook Positive
• senior unsecured	LT	BBB	Upgrade	BBB-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 21 Dec 2020) (including rating assumption sensitivity)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 30 Apr 2021)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Controladora Mabe S.A. de C.V. (Mabe)	EU Endorsed, UK Endorsed

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