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Summary:

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

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Summary:

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

Corporate Credit Rating	BB+/Stable/--

Profile Assessments

BUSINESS RISK	SATISFACTORY

FINANCIAL RISK	SIGNIFICANT

Rationale

Business Risk: Satisfactory

- Important presence in the home appliance market in Latin America, Canada and the U.S. through its joint venture with General Electric Co. (GE; AA+/Stable/A-1+)
- Well-known portfolio of brands
- Product and geographic diversification
- Relatively low but improving profitability
- Vulnerability to global economic downturns as part of a cyclical industry
- Intense competition from large international companies

Financial Risk: Significant

- Healthy capital structure
- Adequate liquidity
- Moderate financial policy
- Negative free operating cash flow generation
- Relatively high debt leverage

Outlook: Stable

The stable outlook on Mexico-based home appliances producer, Controladora Mabe, S.A. de C.V. (Mabe) reflects our expectation that Mabe's financial performance will continue to gradually improve during the next 12-18 months, supported by low single-digit revenue growth, the company's efforts to reduce debt, and the improvement in profitability following the deconsolidation of its operations in Brazil.

Downside scenario

We could lower the rating if the company's operating results deteriorate, as a consequence of weaker global economic conditions or higher competition that result in less demand for the company's products, or if raw material prices increase significantly and negatively affect the company's profitability, leading to a deterioration in its liquidity and/or higher leverage, with adjusted debt to EBITDA greater than 4.0x.

Upside scenario

We could raise the rating if Mabe's profitability and credit metrics continue to improve, with an EBITDA margin of about 10% and consistent positive free operating cash flow generation, and if leverage decreases, leading to a total debt to EBITDA below 3.0x on a sustained basis.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics

Assumptions

- Sales decline of about 24% in 2013, with a pro forma EBITDA margin improving to about 10%, reflecting the deconsolidation of the Brazilian operation beginning March 2013, which was not an EBITDA contributor.
- Low single-digit revenue growth in the following years, maintaining a relatively stable EBITDA margin.
- Gradual debt reduction, reaching a total debt-to-EBITDA ratio (adjusted by operating leases and postretirement benefit obligations) of close to 3.0x by year-end 2013.
- Capital expenditures (capex) of MXN1.3 billion-MXN1.5 billion in the following two years, primarily for investments in the Saltillo plant and maintenance capex.
- Negative free operating cash flow (FOCF) in 2013 of about $490 million mainly due to significant working capital requirements this year related to the exit of Brazil.

Key Metrics

	2012A	2013E	2014E
EBITDA margin	7.0%	10.2%	10.2%
Debt/EBITDA	3.5x	3.1x	2.9x
EBITDA/Interest	2.2x	3.3x	3.6x
FFO/Debt	11.8%	17.4%	20.8%

Our primary financial adjustments include operating lease obligations and postretirement benefit obligations. As of Dec. 31, 2012, debt increased by MXN2.1 billion and EBITDA by $145 million.

A--actual. E--estimate

Business Risk: Satisfactory

We assess Mabe's business risk profile as "satisfactory." The company has a strong market position in most of the countries where it operates, with a broad portfolio of brands, customizing its products to meet local demand preferences.

In March 2013, Mabe reduced its participation in Brazilian operations, becoming a minority stakeholder. Although this subsidiary represented about 22% of Mabe's revenues, it was not an EBITDA contributor. Following this deconsolidation, Mabe's EBITDA margins should begin to improve, estimated at close to 10% on a proforma basis by year-end 2013, and remaining stable in 2014.

Through the joint venture with GE, Mabe manufactures and sells finished home appliances to GE for sale in the U.S.. This joint venture also provides certain benefits to Mabe related to access to GE's supplier base, purchase and licensing of certain GE trademarks, designs and production procedures. We expect this relationship to continue in the foreseeable future.

Financial Risk: Significant

We view Mabe's financial risk profile as "significant." We expect Mabe's financial performance to gradually improve following the deconsolidation of Mabe Brazil, a more stable raw material price environment and the company's focus on reducing debt. By year-end 2013, we anticipate leverage will be at 3.1x, EBITDA interest coverage of 3.3x, and funds from operations (FFO) to debt at 17.4%. These metrics should continue to improve to 2.9x, 3.6x, and 21%, respectively, by 2014.

We also anticipate negative FOCF of about MXN490 million in 2013 given higher working capital requirements this year mainly related to accounts payable and other accrued liabilities linked to the exit from Brazil. We believe cash flow generation will turn positive in 2014 reflecting the stabilization of working capital, which we expect the company will use to continue deleveraging.

Mabe's debt is dollar-denominated, which is partially hedged as about 30% of its revenues are generated in this currency.

Liquidity: Adequate

We consider Mabe's liquidity as "adequate" under our criteria. We estimate sources will consistently exceed uses by 1.2x in the next 12-18 months. Mabe has available credit facilities to refinance its short-term debt. We also believe the company has certain flexibility to reduce its capex if needed.

The company has sufficient covenant headroom should EBITDA decline by 30%, without the company breaching coverage tests. Mabe's credit agreement includes a financial covenant requiring EBITDA net interest coverage of 2.5x and net debt to EBITDA of maximum 3.5x.

Mabe has good relationships with its banks, in our assessment, as evidenced by credit line availability to refinance its short-term debt. Also the company has a good standing in the global credit markets as it successfully exchanged its 2015 notes in 2012. The company has never tapped local capital markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash of MXN782 million as of June 30, 2013 • Expected FFO of MXN2 billion for the next 12 months • MXN3.3 billion in firm commitments with banks to refinance short-term debt and other corporate purposes.	• Short-term debt of MXN2.1 billion as of June 30, 2013 • Working capital needs of MXN1 billion for the next 12 months • Capex of MXN1.5 billion

Related Criteria And Research

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Key Credit Factors: Business And Financial Risks In The Branded Consumer Products Industry, Sept. 10, 2008
- Corporate Criteria: Analytical Methodology, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.