S&P Global Ratings

RatingsDirect®

Research Update:

Controladora Mabe Ratings Raised To 'BBB-' From 'BB+' On Debt Reduction And Financial Discipline; Outlook Stable

Primary Credit Analyst:
Luis Manuel Martinez, Mexico City (52) 55-5081-4462; luis.martinez@spglobal.com

Secondary Contact:
Laura Martinez, Mexico City (52) 55-5081-4425; laura.martinez@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Issue Ratings--Subordination Risk Analysis

Related Criteria

Ratings List

THIS WAS PREPARED EXCLUSIVELY FOR USER FERNANDA VASCONCELOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Research Update:

Controladora Mabe Ratings Raised To 'BBB-' From 'BB+' On Debt Reduction And Financial Discipline; Outlook Stable

Overview

- In 2017, Mabe successfully executed its deleveraging plan, and the company continues to build a record of financial discipline to ensure sustained debt reductions within the next 12-24 months.
- We're raising our corporate credit and issue-level ratings on Mabe to 'BBB-' from 'BB+'.
- The stable outlook reflects our expectations that Mabe will remain committed to deleveraging its capital structure by maintaining a debt-to-EBITDA ratio below 3.0x, and by improving its free operating cash flow (FOCF)-to-debt ratio towards 15%. It also incorporates our view that the company has ample access to external sources of funding to address its 2019 debt maturities.

Rating Action

On March 27, 2018, S&P Global Ratings raised its corporate credit and issue-level ratings on Controladora Mabe S.A. de C.V. (Mabe) to 'BBB-' from 'BB+'. The outlook is stable.

Rationale

After more than two years in which our ratings on Mabe had a positive outlook, the company adopted a more disciplined financial strategy that not only strengthened its debt-to-EBITDA ratio, but also prompted a path for sustained leverage reduction. In 2017, Mabe was able to lower its net leverage through debt repayments, improved management of short-term factoring facilities, and an increase in its cash balance. Mabe brought its debt-to-EBITDA ratio down to 2.9x for the twelve months ended Dec. 31, 2017. This was an important milestone for Mabe, especially when considering that over the last two years we had indicated that if this leverage ratio declined below 3.0x, the company would reach investment-grade.

At this time, our assessment of Mabe's financial risk profile is still significant, because other key credit metrics, such as funds from operations (FFO) to debt and FOCF to debt are still below the thresholds for a stronger financial risk profile. Therefore, we upgraded Mabe not only because of the

THIS WAS PREPARED EXCLUSIVELY FOR USER FERNANDA VASCONCELOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

company's successful execution of its deleveraging plan in 2017, but more importantly because of our expectation that its financial discipline will further reduce debt within the next 12-24 months. In particular, the improving trajectory of Mabe's profitability and financial performance following the product recall in North America during 2017 supports the one-notch uplift that our comparable rating analysis captures.

Our assessment of Mabe's business risk profile hasn't changed from our previous review. However, changes in the U.S trade policy have raised concerns that a potentially less favorable trade framework may curtail Mabe's growth prospects. For example, in January of this year, the Trump administration announced new Tariff-Rate Quotas (TRQs) on imported large residential washers, including those from Mexico. The North American Free Trade Agreement (NAFTA) renegotiation is also still underway, with no clarity on the possible outcome. However, these downside risks on Mabe's business risk profile are somewhat contained and captured in our rating action. In the case of the new TRQs, we believe that the announcement doesn't have negative implications for our ratings on Mabe because the company does not export to the U.S. any washing equipment that meets the specifications now subject to the TRQs. Mabe also has the ability to absorb incremental costs without affecting its medium-term profitability, supported by highly efficient operations and pricing flexibility. Moreover, the company has a long history in the manufacturing and selling of finished home appliances under the GE brand in the U.S.

Our base-case scenario for 2018 and 2019 includes the following assumptions:

- Our baseline GDP forecast for Latin America in 2018 is 2.2%. Specifically in Mexico, private consumption has remained solid, growing 2.5% during the first couple of months in 2018, which should support Mabe's volume sales in that market.
- Resilient domestic spending continues to support volume sales in North America. We anticipate real GDP growth in the U.S. of 2.8% this year, and in the 2.0%-2.5% range through the end of the decade. Although personal income growth remains sluggish, U.S. household purchasing power got a lift from continued full-time hiring, and the recent tax reform could further enhance it.
- Mid-single digit revenue growth, reflecting a still positive performance in Mexico and the U.S. supported by the company's solid market position.
- Adjusted EBITDA of approximately $300 million.
- Capital expenditures (capex) in the $140-$150 million area in 2018 and around $125 million in 2019, mainly to support capacity expansions.
- Reported debt levels of around $780 million in 2018 and $680 million in 2019, considering debt repayments.
- New debt issuance of $350 million in 2018, as part of Mabe's liability management.
- FOCF generation close to $65 million and $120 million in the next two years, respectively.

THIS WAS PREPARED EXCLUSIVELY FOR USER FERNANDA VASCONCELOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

- Annual dividend payments of $20 million.

Based on these assumptions, we arrive at the following credit measures for 2018 and 2019:

- EBITDA margins between 9.5% and 10.0%;
- Debt to EBITDA of 2.5x and 2.3x, respectively; and
- FOCF to debt of 11% and 18%, respectively.

Liquidity

We assess Mabe's liquidity as adequate because we expect sources to exceed uses by more than 1.2x during the next 12 months, and think this ratio will remain above 1.0x even if EBITDA falls by 15%. Our liquidity analysis also incorporates our view that the company has the capacity to withstand high-impact low-probability events, its sound relationship with banks, its good standing in the international debt markets, and its overall prudent financial risk management.

Principal liquidity sources:

- Cash of $140 million as of Dec. 31, 2017; and
- FFO of about $254 million for the next 12 months.

Principal liquidity uses:

- Debt maturities of $14 million as of Dec. 31, 2017;
- Working capital needs of about $35.2 million for the next 12 months, including intra-year requirements;
- Capex of about $147 million for the next 12 months, although management could pull back on certain investments if needed; and
- Dividend payments of $20 million.

Mabe's credit agreements include financial covenants requiring EBITDA net interest coverage of 2.5x and net debt to EBITDA of a maximum of 3.5x. We believe the cushion for these covenants is ample and could withstand a drop in EBITDA of more than 25%.

Outlook

The stable outlook on Mabe reflects our expectations that over the next twelve months, the company will remain committed to deleveraging its capital structure. It will not only maintain a debt-to-EBITDA ratio below 3.0x, but will also improve its cash flow metrics so that its FOCF-to-debt ratio trends towards 15%, even when considering the seasonality of cash flow. We believe that this will be possible through a recovery of about 100 basis points in the EBITDA margin, as the company absorbs the costs associated with the 2017 product recall in North America. Although Mabe will make dividend payments

THIS WAS PREPARED EXCLUSIVELY FOR USER FERNANDA VASCONCELOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

this year for about $20 million, we expect the company to maintain its financial discipline and to make additional debt repayments as its cash flow permits. The stable outlook also considers that the company has ample access to external sources of funding to address its 2019 debt maturities before year-end 2018.

Downside scenario

We could lower the ratings on Mabe within twelve months if the company deviates from its current financial plan, resulting in higher-than-expected leverage, with a debt-to-EBITDA ratio consistently exceeding 3.0x. A FOCF-to-debt ratio consistently below 10% would be another downward trigger. This could result from either a more aggressive growth strategy that requires additional indebtedness or if cash flow does not meet our expectations due to higher-than-anticipated capital investments or dividend payments.

Upside scenario

Although unlikely in the near term, an upgrade would follow a major business transformation that drastically grows Mabe's scale and further strengthens its competitive position relative to other global players within the home appliance industry. In our view, Mabe's 'BBB-' rating already captures the transition of its financial risk profile assessment to intermediate. Therefore, a new upgrade related to an improvement in the company's financial risk profile would need to be triggered by a more conservative financial policy that brings the debt-to-EBITDA ratio below 2.0x and the FFO-to-Debt ratio above 45%.

Ratings Score Snapshot

Corporate credit rating: BBB-/Stable/--

Business risk: Satisfactory
- Country risk: Intermediate
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bb+

Modifiers
- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Financial policy: Neutral

THIS WAS PREPARED EXCLUSIVELY FOR USER FERNANDA VASCONCELOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

- Liquidity: Adequate
- Management and governance: Fair
- Comparable rating analysis: Positive (+1 notch)

Issue Ratings--Subordination Risk Analysis

Capital structure

Mabe's capital structure mainly consists of the $481 million rated senior unsecured notes due 2019 and bank loans.

Analytical conclusions

We rate Mabe's international senior unsecured notes at 'BBB-', the same level as the corporate credit rating, given that these are senior unsecured obligations that rank pari-passu with all other corporate and subsidiary debt.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Consumer Durables Industry, Dec. 12, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Controladora Mabe, S.A. de C.V.		
Corporate Credit Rating	BBB-/Stable/--	BB+/Positive/--

THIS WAS PREPARED EXCLUSIVELY FOR USER FERNANDA VASCONCELOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Senior Unsecured	BBB-	BB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

THIS WAS PREPARED EXCLUSIVELY FOR USER FERNANDA VASCONCELOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER FERNANDA VASCONCELOS.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.