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Ratings

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Research Update:

Controladora Mabe S.A. de C.V. Upgraded To 'BBB' On Stronger Credit Metrics And Financial Discipline; Outlook Stable

October 29, 2021

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Rating Action Overview

- A stronger cycle than we expected in the home appliance industry across Mexican distributor Controladora Mabe S.A.B. de C.V.'s key markets has boosted revenue and margins, and its credit metrics have strengthened to unprecedented levels with debt to EBITDA reaching 1x.
- Even as the industry cycle normalizes, we think that Mabe will keep its credit metrics well within the thresholds for its stronger financial risk profile.
- Mabe's record of financial discipline and debt management has improved its leverage metrics and its liquidity headroom, and we expect further commitment to credit protection measures that sustain its revised financial risk profile.
- On Oct. 29, 2021, S&P Global Ratings raised its long-term issuer credit rating on Mabe and the issue-level rating on the company's senior unsecured debt to 'BBB' from 'BBB-'.
- The stable outlook reflects our expectation that Mabe will deliver sustained organic growth on the back of a strong performance of the appliance industry in key markets. We also expect the company will continue to successfully manage global supply chain disruptions and ensure full availability of raw materials and components, as well as healthy levels of final product inventories, which would push EBITDA margins above 10%.

Rating Action Rationale

Mabe has exceeded our previous performance expectations due to strong consumer demand. The boost to Mabe's top-line growth and margins, coming from a stronger-than-expected cycle in the home appliance industry globally, has been the key driver of the company's record-high financial performance in the last 12 months. Credit metrics have strengthened to unprecedented levels, and Mabe now has ample financial flexibility that would cushion an unexpected downturn in demand, or even a temporary increase in growth investments that require additional debt, which we see unlikely at this time.

On a forward-looking basis, we expect Mabe's debt to EBITDA to be comfortably below 2x and funds from operations (FFO) to debt to stay above 60%, even in our base-case scenario where we consider that the company's growth will return to normal.

For the last 12 months ended Sept. 30, 2021, the company posted a 30% top-line expansion with revenues exceeding $4.0 billion, compared with $3.1 billion for the same period last year. Mabe also posted a record adjusted EBITDA of $466 million, which represents an EBITDA margin of 11.5%. In terms of leverage, the company's adjusted debt to EBITDA reached 0.9x and FFO to debt increased to 86.4%.

We view Mabe's financial discipline as a key credit factor for the current rating. Mabe has a track record of financial discipline and debt management that has helped improve leverage and its liquidity headroom. While the company has not publicly provided an update on its financial policy or leverage tolerance, within the context of a very flexible balance sheet, the current rating level captures our expectations of further commitment to credit protection measures that sustain its revised financial risk profile. In addition, we don't expect a shift in Mabe's prudent investment appetite that would accelerate the depletion of cash reserves or that could compromise its financial flexibility.

Ample liquidity headroom supports Mabe's credit profile. Mabe has an extended debt maturity profile, which significantly mitigates its exposure to short-term risks. As of Sept. 30, 2021, Mabe's short-term debt maturities were only $44 million, and the more significant refinancing needs relate to a $175 million maturity that isn't until 2026. Also, the company's generally effective cash management provides ample liquidity headroom.

Outlook

The stable outlook reflects our expectation that Mabe will deliver sustained organic growth in the low to mid-single digits, in the context of a strong performance of the home appliance industry in key markets. We also consider that the company will continue to successfully manage global supply chain disruptions and ensure full availability of raw materials and components, as well as healthy final product inventories, which would push EBITDA margins above 10%. We also expect management to maintain its prudent financial policy toward capex, dividends, leverage, and liquidity in the next 12-24 months. In particular, we expect Mabe to keep its adjusted leverage in the 1.0x-1.5x range.

The ratings on Mabe are now at the same level as our long-term foreign currency rating on Mexico (BBB/Negative/A-2). However, the outlook divergence reflects our view that we could rate Mabe above our long-term foreign currency rating on Mexico. Mabe benefits from a diversified geographic footprint, with a significant share of its business in higher rated countries like the U.S. and Canada. This is further underpinned by the company's strong liquidity, with sizable dollar-denominated cash reserves and no material debt maturities in the next few years, which would help absorb the shocks from a hypothetical stress scenario in Mexico.

Downside scenario

We could lower the ratings on Mabe in the next 12 months if the company deviates from its leverage and cash flow targets, with FFO to debt consistently below 60% or debt to EBITDA approaching 2x. In such a scenario, we would expect a shift from the company's record of financial discipline or the adoption of a more aggressive growth strategy that requires a substantial increase in debt.

Upside scenario

Although unlikely in the next year, an upgrade would follow a major business transformation that drastically expands Mabe's scale and further strengthens its competitive position relative to other global players in the home appliance industry, improving the company's business risk profile. In addition, Mabe would have to maintain its existing financial risk profile, with FFO to net debt consistently above 60% and net debt to EBITDA below 1.5x.

Company Description

Mabe is a Mexican manufacturer and distributor of home appliances, including refrigerators, kitchen ranges, dryers, washing machines, built-in ovens and hoods, water coolers, dishwashers, microwave ovens, and related parts and components. The company is 51.6% owned by Mexican shareholders and 48.4% by the Haier Group.

Our Base-Case Scenario

- Our baseline GDP forecast for Latin America in 2021 is 6.5%. Specifically, in Mexico, we expect private consumption to recover through 2021, which should support Mabe's volume sales in that market, despite increased macroeconomic volatility.
- Resilient domestic spending continues to support volume sales in North America. We anticipate real GDP growth in the U.S. of 5.7% this year and 4.1% in 2022.
- Revenues to increase in 2021 reflect increasing demand in North America, Mexico, and Latin America related to the increase in domestic spending, which is somewhat supported by the company's solid market position. We expect double-digit growth in 2021 and growth of 1%-3% in the following years.
- Adjusted EBITDA of approximately $440 million in the subsequent two years.
- Capex between $150 million and $180 million for the next couple of years, mainly to continue growth projects and to support automating plants and product efficiencies.
- Reported debt close to $648 million in 2021 and $610 million in 2022, considering debt repayments of $38 million on the corresponding amortizing debt for both years.
- No new significant debt issuance in the next two years.
- Free operating cash flow (FOCF) close to $155 million and $134 million in the next two years, respectively.

Based on these assumptions, we arrive at the following credit metrics:

- Adjusted EBITDA margin between 10.5% and 11.5% for the next two years;
- Adjusted debt to EBITDA at 1.0x for the rest of 2021 and in 2022;
- FFO to debt at 75% for the next couple of years; and
- FOCF to debt between 30% and 35% in the next two years.

Liquidity

We assess Mabe's liquidity as strong. We expect that its sources will exceed its uses by more than 1.5x during the next 12 months, and that this ratio will remain above 1.0x for the subsequent 12 months. In our view, the company should be able to withstand substantially adverse market circumstances over the next 24 months while still having sufficient liquidity to meet its obligations. Moreover, we consider that Mabe's liquidity is supported by its solid credit standing in the domestic and international capital markets.

Principal Liquidity Sources:

- Cash and cash equivalents of $267 million as of Sept. 30, 2021; and
- FFO of about $297 million for the next 12 months.

Principal Liquidity Uses:

- Short-term debt maturities of $44 million;
- Working capital needs of about $12 million over the next 12 months, including intra-year requirements;
- Capex of about $170 million for the next 12 months; and
- Dividend payments of about $27 million for the next 12 months.

Covenants

Mabe's credit agreements include a financial covenant requiring an EBITDA net interest coverage of 2.5x and net debt to EBITDA of 3.5x. In our view, the covenant headroom is ample and could withstand a drop in EBITDA of more than 30%.

Issue Ratings - Subordination Risk Analysis

We think it's unlikely that any lenders would be significantly disadvantaged relative to others, given Mabe's low leverage and modest financial risk profile, with a net leverage ratio below 2.0x.

Capital structure

As of Sept. 30, 2021, Mabe's capital structure mainly consisted of $370 million rated senior unsecured notes due 2028, a private placement for $175 million due 2026, and $50 million outstanding of an amortizing club deal due 2024 and other bank debt for $33 million.

Analytical conclusions

Based on the existing debt structure, we rate Mabe's 2028 senior unsecured notes 'BBB', at the same level as the issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/--

Business risk: Satisfactory

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

Financial risk: Modest

- Cash flow/leverage: Modest

Anchor: bbb+

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Negative (-1 notch)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded

	To	From
Controladora Mabe, S.A. de C.V.		
Issuer Credit Rating	BBB/Stable/--	BBB-/Stable/--
Controladora Mabe, S.A. de C.V.		
Senior Unsecured	BBB	BBB-