

Fitch: Bimbo's Credit Quality Pressured by Canada Bread Acquisition

Written by Australian Business

MONTERREY, Mexico--([BUSINESS WIRE](#))--Fitch Ratings believes that the agreement reached by Grupo Bimbo (Bimbo) to acquire the common shares of Canada Bread Company Limited (Canada Bread) is moderately negative to credit quality and its 'BBB' ratings as increased financial leverage in the short term is partially mitigated by greater geographic and brand diversification which reduces business risk. Fitch expects Bimbo's pro forma total debt to EBITDA to increase to slightly above 3.0 times (x), which is high for the rating category, before trending to its long term target of 2.0x. Negative rating actions of Bimbo can be triggered if leverage remains above 3.0x for a sustained period of time. The estimated value of the acquisition is CAD1,830 million and will be funded with USD1.65 billion of available committed credit facilities maturing in March 2019. The acquisition is subject to regulatory approvals and is expected to close during the second quarter of 2014.

Positively mitigating increase leverage, the acquisition of Canada Bread improves the company business risk profile by strengthening its position as a global player in the bakery industry, as well as incorporating strong brands to its product portfolio and accessing key large retailers and leading food services accounts. The acquisition will also bring Bimbo geographic diversification of revenues and EBITDA generation from Canada, a country rated 'AAA' by Fitch, and good levels of profitability. Going forward, consolidated EBITDA generation will be mostly generated by Mexico, United States and Canada. On a pro forma basis, Canadian operations will represent around 10% and 14% of Bimbo's consolidated revenues and EBITDA, respectively.

Canada Bread is a leading manufacturer and marketer of bakery products in Canada, frozen bread in North America and specialty bakery good in the United Kingdom. The company operates 25 bakeries and reaches over 41,000 points of sales. The company's generates estimated annual sales of CAD1,439 million and EBITDA of CAD185 million. Canada Bread is owned by Maple Leaf Foods, Inc. and its common shares are listed on the Toronto Stock Exchange.

Bimbo's ratings reflect its important size and scale within the global bakery industry and, its strong brand recognition and positioning in the markets where it operates, and its extensive distribution network that provides a key competitive advantage. The ratings also consider the company's stable operations with historically low volatility in revenues and margins, diversified revenue base and positive free cash flow generation.

Fitch currently rates Bimbo as follows:

--Issuer Default Rating (IDR) at 'BBB';

--Local currency IDR at 'BBB';

--Senior unsecured notes for US\$800 million due 2020 at 'BBB'

--Senior unsecured notes for US\$800 million due 2022 at 'BBB'

--National scale long-term rating at 'AA+(mex)';

--Local Certificados Bursátiles Issuances BIMBO 09, BIMBO 09U, BIMBO 09-2 and BIMBO 12 at 'AA+(mex)';

The Rating Outlook is Stable.

Additional information is available at 'www.fitchratings.com'.

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