

## Fitch Affirms Grupo Elektra's IDRs at 'BB-'; Outlook Stable

Written by Australian Business

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MONTERREY, Mexico--( [BUSINESS WIRE](#) )--Fitch Ratings has affirmed the following ratings of Grupo Elektra, S.A.B. de C.V. (Elektra):

--Foreign and Local Currency Issuer Default Rating (IDR) at 'BB-';

--Long-term National Scale rating at 'A(mex)';

--Short-term National Scale rating at 'F2(mex)';

--USD550 million senior notes due 2018 at 'BB-';

--MXN6 billion long-term Certificados Bursatiles issuances (ELEKTRA13 & ELEKTRA14) due 2016 at 'A(mex)';

--Short-term portion of Certificados Bursatiles program for up to MXN10 billion at 'F2(mex)'.

The Rating Outlook is Stable.

Elektra's ratings reflect its operation's geographical diversification; its market position both in the retail and finance business, the latter including Banco Azteca S.A. (BAZ; rated 'A+(mex)' and 'F1(mex)' by Fitch); as well as the linkage between both operations. The ratings also incorporate the cash flow generation coming from its payday lending subsidiary, Advance America (AEA) and take into account the company's extensive retail network in Mexico and Latin America, as well as decreases in revenues at the Mexican retail division that have been offset by additional cash flow generation by AEA.

Grupo Elektra's retail operations are linked to those of BAZ due to its business strategy of selling on credit (approximately 61% of sales). BAZ's National Scale rating is supported by its management expertise in consumer credit, asset quality, strong liquidity and the credit risk of its portfolio. Continued growth, strength and diversification at BAZ should continue to underpin Elektra's ratings. The ratings also consider the controlling ownership by the Salinas family.

### KEY RATING DRIVERS

#### Retail Sales Stabilizing

Revenue decline in the Mexican retail business during the last few quarters seems to be stabilizing. For the last 12 months (LTM) ended March 31, 2014, retail sales were MXN20.3 billion pesos, similar to the two previous quarters, but below historical levels. Despite drops in most categories' retail sales, increased revenues from money transfer fees and newly acquired Blockbuster Mexico has helped in stabilizing revenues. Fitch believes that the retail operation, by diversifying geographically across Latin America, somewhat mitigates revenue concentration (operations in Mexico, both retail and financial, generate about 75% of the Group's consolidated revenues).

Elektra's second-quarter 2012 acquisition of AEA, a payday lender provider with operations mainly in the United States, has also mitigated to some extent lower results from the retail business. Fitch views AEA's business risk profile to be higher than Elektra's, but this is balanced by BAZ's rating of 'A+(mex)', above Elektra's National Scale rating. Fitch estimates that, as of March 31, 2014, on an LTM basis, AEA generated approximately MXN1.5 billion of EBITDA.

#### BAZ Supports Elektra's Ratings

BAZ's ratings consider the bank's robust franchise in its main market, consumer loans, giving it a considerable competitive advantage, as well as its high and stable interest margins. Furthermore, they incorporate the bank's adequate ability to absorb losses, its solid funding structured through an ample, stable, diversified and low-cost base of core customer deposits. Its adequate capitalization ratios despite the strong growth of its loan

portfolio in recent years also support the ratings.

Nonetheless, Fitch considers that BAZ has shown deterioration in its asset quality metrics, particularly in non-performing loans, which have reached post-2009-crisis levels. Similarly, BAZ shows lower profitability levels as of year-end 2013 and March 31, 2014, due mainly to higher than expected impairment charges.

### Leverage Expected to Decline Gradually

The retail operation's gross leverage (excluding BAZ and other Latin American financial businesses) is expected to decline gradually as a consequence of improved results from both retail and AEA and expectation of stable debt levels. Fitch estimates that total adjusted debt-to-EBITDAR and net adjusted debt-to-EBITDAR (March 31, 2014 on an LTM basis) are about 4.3x and 4.0x, respectively, relatively unchanged from 4.3x and 3.8x a year before. Also for March 31, 2014 LTM, total debt-to-EBITDA was 3.1x, and incorporated into the ratings is that it will gradually reach below 2.5x.

As of March 2014, the retail business' total debt (excluding BAZ and other financial businesses) was MXN18.1 billion, down from MXN19.8 billion in the same period the previous year. Debt is composed of bank loans, local and international debt issuances and local structured issuances and is expected to remain at broadly the same level at year-end 2014. Furthermore, Fitch estimates off-balance-sheet debt related to operating leases at about MXN18.7 billion. In 2013, Elektra paid annual dividends of MXN522 million and also brought forward MXN546 million in dividends originally intended for 2014. In 2015, Fitch expects dividends of about MXN570 million.

### RATING SENSITIVITIES

Factors that may, individually or collectively, lead to positive rating actions include a sustained decrease in adjusted leverage and adjusted net leverage to levels of about 3.5x and 3.0x over time, respectively, due either to an increase in retail sales and EBITDA or through debt reduction. Other factors would be a strengthening of the bank's creditworthiness coupled with stabilization and recovery of the retail operations' revenue and cash flow dynamics.

Future developments that may, individually or collectively, lead to negative rating actions include the prospect of further deterioration in leverage from current levels, a breach of covenants, an accelerated increase in debt, without a corresponding increase in EBITDA at the retail division or at AEA, as well as a deterioration in Banco Azteca's creditworthiness.

Fitch currently rates these entities as follows:

Banco Azteca de Guatemala, S.A.

--National long-term rating 'BBB+(gtm)';

--National short-term rating 'F2(gtm)'.

Banco Azteca (Panama), S.A.

--National long-term rating 'BBB(pan)';

--National short-term rating 'F3(pan)'.

Punto Casa de Bolsa, S.A. de C.V.

--National long-term rating 'A-(mex)';

--National short-term rating 'F2(mex)'.

Intra Mexicana, a subsidiary of Grupo Elektra

--MXN2.5 billion Certificados Bursatiles Fiduciarios issuance (DINEXCB-12)  
'AA-(mex)vra'.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

Applicable Criteria and Related Research:

--Corporate Rating Methodology - Including Short-Term Ratings and Parent and  
Subsidiary Linkage, May 28, 2014;

--National Scale Ratings Criteria , Oct 20, 2013;

--'Evaluating Corporate Governance', Dec. 12, 2012.;

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[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=749393](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393)

## National Scale Ratings Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=720082](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082)

## Evaluating Corporate Governance

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=694649](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=694649)

## Additional Disclosure

## Solicitation Status

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