

## Fitch Affirms Bepensa's IDR at 'BBB'; Outlook Stable

Written by Australian Business

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MONTERREY, Mexico--( [BUSINESS WIRE](#) )--Fitch Ratings has affirmed the ratings of Bepensa S.A. de C.V. (Bepensa) as follow:

--Long-term foreign currency Issuer Default Ratings (IDR) at 'BBB';

--Long-term local currency IDR at 'BBB';

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

The Rating Outlook is Stable.

### KEY RATING DRIVERS

Bepensa's ratings reflect the solid business position of its main subsidiary Bepensa Bebidas, S.A. de C.V. (Bepensa Bebidas) which has a long and successful track record of profitably as a bottler operator of Coca-Cola's products in the territories of the Yucatan Peninsula and Dominican Republic. The ratings incorporate Bepensa's solid financial position with low leverage and manageable liquidity. Bepensa ratings also take into account the operations of its industrial and financial services businesses segments which contribute with 15% and 4%, respectively, of its consolidated revenues.

The ratings are constrained by the competitive pressures in the beverage industry, volatility in raw material costs, and the effect new taxes on beverages with sugar content could have on its results. Bepensa's credit quality is also limited by the credit risk associated with its financial services operation Financiera Bepensa S.A. de C.V. SOFOM, ENR. (Finbe; rated 'AA-(mex)' by Fitch). In Fitch's opinion, Finbe's risk profile is higher than the company's core business (beverages).

### Strong Business Position

Bepensa's ratings reflect the solid business of its beverage business. Bepensa Bebidas has strong market share position in the territories of the Yucatan Peninsula in Mexico (Campeche, Quintana Roo, Yucatan) and Dominican Republic supported by its well diversified portfolio of leading brands and extensive beverage distribution system. Also, the company's Mexican territory possesses favorable characteristics such as young population, warm weather and the highest soft drinks consumption per capita in Mexico. Fitch incorporates into the ratings that Bepensa will maintain its leading business position in the long term.

### Challenging Operating Environment

Bepensa's consolidated revenues and EBITDA are expected to be affected during 2014 by the new MXN1 per liter excise tax on beverages with sugar content and the weak economic environment in Mexico. During the first quarter of 2014, Bepensa's volume in Mexico had a decline in the low single digits range that was compensated by higher volumes in Dominican Republic. Despite some indications that volume is gradually recovering in the second half of 2014, Fitch's conservative estimation for year-end is that Bepensa's revenues will decrease between 1% to 2% and EBITDA margin will be around 15%.

### Leverage Decrease Expected

Bepensa's ratings reflect Fitch's expectation that total debt to EBITDA and net debt to EBITDA will be close to 1.5x and 1.4x in the next 18-24 months through higher EBITDA generation and debt reduction. For the latest 12 months (LTM) as of March 31, 2014, the company's total debt to EBITDA and net debt to EBITDA were 2.1x and 1.9x, respectively. The company's financial strategy contemplates to decrease the amount of total debt to around MXN3,200 million by year-end 2014 with internal cash flow generation.

Bepensa's total debt as of March 31, 2014, increased 73% to MXN4,064 million when compared to MXN2,347 million as of March 31, 2013. The increase in debt at Bepensa was mainly used to lend MXN1,300 million to GF Bepensa, S.A. de C.V. (the holding company

of Finbe) of which MXN750 million were used to capitalize Finbe in 2013 and MXN650 million for an intercompany loan to Bepensa's sister company, Bepensa Motriz. In addition, Finbe increased its debt by MXN442 million to finance the growth in its operations and Bepensa paid MXN800 million of dividends. As of March 31, 2014, approximately 49% of the company's total consolidated debt was allocated to Finbe, while 33% was in Bepensa at the holding level.

### Manageable Liquidity

Fitch considers Bepensa has flexibility to face its short-term debt amortizations by managing the working capital requirements of its financial services business and capex requirements. As of March 31, 2014, the company had cash balances of MXN463 million, annual funds from operations (FFO) generation of MXN999 million and short-term debt of MXN1,917 million. Despite Bepensa's limited free cash flow generation in the last five years associated to the working capital requirements of its financial business, the company plans to reduce by MXN944 million its short-term debt maturities during 2014. Bepensa's current debt amortizations for 2015, 2016 and 2017 are approximately MXN864 million, MXN642 million and MXN556 million, respectively.

### Financial Business Credit Risk

Bepensa's ratings are constrained by the strong parent-subsidary linkage between Bepensa and its fully owned financial subsidiary Finbe. Fitch considers that the credit portfolio growth demands high working capital which consequently results in negative free cash flow, increasing Bepensa's financial risk during an adverse economic environment in Mexico.

Fitch anticipates the equity injection at Finbe should support the medium term expansion of its loan portfolio. As of March 31, 2014, approximately 49% of the company's total consolidated debt was allocated to Finbe. Finbe's total loan portfolio was MXN3.3 billion, an increase of 83% when compared with the level of MXN1.8 billion at the end of the first quarter of 2013. Finbe's 99% of its loan portfolio is allocated with third parties.

### RATING SENSITIVITIES

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A positive rating action could be considered if the company maintains over time a lower leverage ratio, consistently generates positive free cash flow or deconsolidates/spinoff its financial service operations. Bepensa's ratings could be pressured by a combination of a sustained deterioration of its operative performance in its beverage business or high uncollectible accounts by Financiera Bepensa leading to a significant change in its credit metrics.

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

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (May 28, 2014).

--'National Scale Ratings Criteria' (Oct. 30, 2013).

Applicable Criteria and Related Research:

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage

[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)

Additional Disclosure

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