Research Update:

Grupo Famsa Downgraded To 'CCC-' On Global And To 'mxCCC-' On National Scale On Still High Refinancing Needs

December 13, 2019

Rating Action Overview

- Mexico-based retail company Grupo Famsa S.A.B. de C.V. (GFamsa) announced on Dec. 11, 2019, that it concluded its exchange offer, reaching a validly tendered amount of 57.80% (or US$80.9 million) of its outstanding US$140 million senior unsecured notes due June 1, 2020. Given that the offer settlement doesn't address in full the company's refinancing needs, we consider that liquidity risks have increased because of still high debt maturities coming due in the next six months.
- On Dec. 13, 2019, S&P Global Ratings lowered its global and national scale issuer credit ratings on GFamsa to 'CCC-' from 'CCC+' and to 'mxCCC-' from 'mxCCC+', respectively. At the same time, we lowered our issue-level rating on the company's senior unsecured notes due 2020, to 'CCC-' from 'CCC+'.
- Our outlook remains negative, reflecting the company's heightened liquidity risks related to its debt maturity profile, including the remaining US$59.1 million of its senior unsecured notes due June 1, 2020.

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Rating Action Rationale

On Dec. 11, 2019, GFamsa announced the results of its exchange offer, under which the company validly tendered 57.80% (or US$80.9 million) of its outstanding US$140 million senior unsecured notes, while the remaining US$59.1 million is due June 1, 2020. In our view, the exchange settlement for US$80.9 million doesn't address in full the company's refinancing needs, and we consider that liquidity risks have increased given still high debt maturities coming due in the next six months. On a pro forma basis, GFamsa's short-term debt maturities are about MXN2.9 billion, which include local notes, bank debt, and the outstanding balance of US$59.1 million of senior unsecured notes due 2020.

Outlook

Our outlook remains negative, reflecting the company's heightened liquidity risks related to its debt maturity profile, including the remaining US$59.1 million of its senior unsecured notes due June 1, 2020. We would downgrade GFamsa in the next six months if it misses next debt service payments, including the principal amount of the remaining US$59.1 million of its senior unsecured notes due June 1, 2020.

Upside scenario

We could upgrade GFamsa in the next six months if it refinances its outstanding US$59.1 million of senior unsecured notes due June 1, 2020, or secures liquidity sources to meet debt service payments when due. Under such scenarios, we could consider that the company would have reduced its short-term liquidity risks.

Issue Ratings - Recovery Analysis

Key analytical factors

- We lowered our global scale issue-level rating on GFamsa's senior unsecured notes to 'CCC-' from 'CCC+', in line with the company's issuer credit rating. The recovery remains at '3', indicating a meaningful recovery prospect (50%-90%; rounded estimate of 50%) in the event of a payment default.
- In an event of default, the senior unsecured notes would rank pari passu with all existing unsecured debt instruments in the company's current capital structure, except for factoring lines that have a priority claims and other first lien debt. On a pro forma basis, the new US$80.9 million senior secured notes due 2024 will have a higher priority ranking and security package, over unsecured debt obligations; however, we don't expect recovery prospects to decrease below 30% for the unsecured debt obligations.
- Our simulated default scenario assumes a payment default in 2020, stemming from the company's inability to refinance its notes ahead of their maturity date.
- We value GFamsa on a going concern basis, given our belief that the company would continue to have a viable business model in an event of default.

Simulated default assumptions

- Simulated year of default: 2020
- EBITDA at emergence: about MXN1.2 billion
- Implied enterprise value multiple: 5.0x
- Jurisdiction: Mexico

Simplified waterfall

- Gross enterprise value at default: about MXN6.0 billion
- Administrative costs: about MXN300 million
- Net enterprise value at default: about MXN5.7 billion
- Priority claims and first lien debt: about MXN260 million
- Collateral value available to secured creditors: MXN5.4 billion
- Secured debt obligations: about MXN1.6 billion*
- Residual value available to unsecured creditors: about MXN3.8 billion
- Unsecured debt obligations: MXN6.8 billion*
- Recovery expectations: 50%-90% (rounded estimate 50%)

*All debt obligations include six months of prepetition interest.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Retail And Restaurants Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded

	To	From
Grupo Famsa S.A.B. de C.V.		
Issuer Credit Rating	CCC-/Negative/--	CCC+/Negative/--
CaVal (Mexico) National Scale	mxCCC-/Negative/--	mxCCC+/Negative/--
Grupo Famsa S.A.B. de C.V.		
Senior Unsecured	CCC-	CCC+
Recovery Rating	3(50%)	3(65%)

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 S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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