FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Grupo Bimbo's IDR to 'BBB+'; Outlook Stable

Fri 31 Mar, 2023 - 1:10 PM ET

Fitch Ratings - Mexico City - 31 Mar 2023: Fitch Ratings has upgraded Grupo Bimbo, S.A.B. de C.V.'s (Bimbo) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs), as well as its senior unsecured notes, to 'BBB+' from 'BBB'. Fitch has also affirmed Bimbo's National long-term rating at 'AAA(mex)'. The Rating Outlook on the IDRs and National long-term rating is Stable.

The upgrade reflects the improvement of Bimbo's operating results and leverage metrics. The ratings also incorporate the company's solid business position as a global leading producer of baked goods with a very strong brand portfolio, an extensive distribution network in key markets and diversified geographic operations. In the last two years, the company's financial position has strengthened due to strong operating performance in all regions, with debt reduction above Fitch expectations and maintaining operating margins throughout the cycle. Bimbo's capital structure is expected to remain strong, with gross and net leverage at around 2.1x and 1.8x by YE 2023.

KEY RATING DRIVERS

Strong Business Position: Grupo Bimbo is the largest baking company in the world, with operations in 34 countries throughout Mexico, the U.S., Canada, Latin America and Europe, Asia and Africa (EAA). The company has a complete and diversified product portfolio with top of mind brands, with leading market positions. Bimbo maintained its local market share leadership in key territories despite strong competition. The company's competitive advantages include a position as a low-cost producer with a wide distribution network diversified by channels, through more than 3.3 million points of sale and more than 55,000 routes among its main markets.

Geographic Diversification: Approximately 70% of total revenues and 55% of total EBITDA were generated from operations outside Mexico during 2022. Operations in the U.S., Canada and Europe provide access to hard currency revenue and EBITDA generation. This asseverates the company's clear commitment to maintain a conservative policy with modest deviations and low FX exposure, what helps the company to counterbalance its exposure between developed and emerging economies. During 2022, Bimbo successfully completed the acquisition of St Pierre in the U.S. and the UK. On March 7, 2023, the company announced the acquisition of the Romanian bakery Vel Pitar. These transactions will bring additional footprint and brand diversification to Bimbo's operations.

Sustained Revenue Growth: During 2022, Bimbo presented revenue growth of 17.7% mainly attributable to strong price/mix initiatives and better volume performance across every region, which was partially offset by FX rate. Excluding FX effect, consolidated revenues would have increased around 20.6% during 2022. Our base case projection estimates that Bimbo's consolidated revenues will grow at 6.5% in 2023, based on volume growth and successful implementation of pricing actions and the full year of operations of the 2022 acquisitions. Bimbo has demonstrated ability to meet the evolving consumers' needs through innovation in nutritional profiles, plant-based diets, and transparent sustainable brands.

Profitability Relatively Stable: Bimbo's profitability is expected to remain relatively stable despite the headwinds of a higher commodity costs environment and higher labor costs in the U.S. Profitability margins widening modestly, with an EBITDA margin forecasted by Fitch to be close to 12% in 2023-2024. The company focus remains to offset inflationary pressures, productivity, pricing, and revenue growth management strategies, while working hard to win share in its branded categories.

Leverage Improvement: Bimbo's total debt to EBITDA and total net debt to EBITDA are expected to be close to 2.1x and 1.8x, respectively, by YE 2023 and around 2x and 1.7x going forward, absent debt-funded acquisitions. Bimbo is expected to continue incorporating bolt-on acquisitions that should not materially change its leverage metrics. For the LTM ended Dec. 31, 2022, the company's Fitch calculated total debt to EBITDA was 1.9x and its total net debt to EBITDA was 1.6x.

Negative to Neutral FCF: Bimbo has presented a strong FCF generation over the years, however, for 2023, Fitch estimates the company to generate close to MXN29 billion of cash flow from operations (CFFO) to cover around MXN30 billion in planned capex and MXN3.5 billion in dividends, resulting in negative FCF for the year. Positive FCF should resume in 2024. For the LTM as of Dec. 31, 2022, Bimbo's negative FCF was MXN6 billion, after MXN29 billion in capex and MXN6.5 billion of dividends.

DERIVATION SUMMARY

Bimbo's ratings reflect its solid business position as a global leading producer of baked goods and a relevant player in snacks, with a portfolio of well-recognized brands and geographically diversified operations in Mexico, the U.S., Canada, Latin America, Europe and, to a lesser extent, Asia and Africa.

The company is comparable with other peers in the region, such as Flower Foods, Inc. (BBB/Stable) which has similar EBITDA margins (11%-12%) and gross leverage metrics in the low-2.0x area. Flowers is smaller in scale and has weaker geographic diversification than Bimbo. Others peers in the packaged food industry are Sigma Alimentos, S.A. de C.V. (BBB/Stable), Gruma, S.A.B. de C.V. (BBB+/Stable), and The Kraft Heinz Company (BB+/Positive).

Bimbo's credit profile is quite similar to that of Sigma Alimentos, but Bimbo is better positioned in terms of geographic diversification and points of sales with similar portfolios of products and brands. Bimbo's profitability levels are slightly better than those of Sigma, around 11%-12%, compared to Sigma around 8%-10%. In terms of net leverage metrics, Bimbo is also better, below 2.0x, and Sigma around 2.5x. Compared to Gruma, Bimbo also has a stronger market, brand and product portfolio position, Gruma's EBITDA margin around 13%-14% and net leverage below 2.0x. Bimbo is also larger and has greater scale than Gruma but has a weaker financial profile in terms of profitability margins.

Compared with Kraft Heinz, Bimbo's business profile is well positioned as it has global brands and geographic diversification, despite having smaller size, scale and profitability. This is partially offset by Bimbo's relatively stronger credit profile across the business cycle with lower leverage metrics.

KEY ASSUMPTIONS

Fitch's Key Assumptions within Our Rating Case for the Issuer:

--Revenue growth of about 6.5% in 2023 and an average of 5% for 2024-2025;

--EBITDA margin around 11.5% in average 2023-2025;

--Capex of around MXN30 billion in 2023 and around MXN26 billion for 2024-2025;

--Dividends of MXN3.5 billion in 2023 and around MXN4 billion in 2024;

--Negative FCF in 2023 on capex increase and FCF positive starting 2024 and going forward.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Fitch does not foresee any positive rating action for the company at this time.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Sustained deterioration in revenue growth and profitability margins due to changes in consumer preferences and market trends.

--Negative FCF margin over the business cycle.

--Total net debt/EBITDA above 2.5x on a sustained basis and debt/EBITDA above 3.0x.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity: As of Dec. 31, 2022, Bimbo's liquidity was ample with a cash balance of around MXN12.3 billion, with an available sustainability-linked committed revolving credit facility recently upsized from USD1.75 billion at YE 2022, to USD1.93 billion as of March 15, 2023 (around MXN38.6 billion and short-term debt of MXN6.4 billion. Fitch believes Bimbo has financial flexibility to refinance its debt maturities as they come due as a result of its ample access to credit loans and capital markets. The company's total debt outstanding as of December 2022, based on Fitch's criteria, was MXN88.8 billion, which compares favorably with the MXN97 billion in the previous year. The decrease was primarily due to the prepayment of debt using the proceeds from Ricolino and the FX rate effect.

ISSUER PROFILE

Bimbo is the largest baking company in the world and one of the largest consumer food companies in the Americas, with operations in Mexico, U.S., Canada, Latin America, Europe, Africa and Asia. The company produces, distributes and markets a wide variety of products, such as sliced bread, biscuits, rolls, cakes and pastries, cookies, crackers, salted snacks, tortillas and packaged foods, among others.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Grupo Bimbo, S.A.B. de C.V.	LT IDR	BBB+ Rating Outlook Stable Upgrade	BBB Rating Outlook Stable
	LC LT IDR	BBB+ Rating Outlook Stable Upgrade	BBB Rating Outlook Stable

	Natl LT	AAA(mex) Rating Outlook Stable Affirmed		AAA(mex) Rating Outlook Stable
senior unsecured	LT	BBB+	Upgrade	BBB
subordinated	LT	BBB-	Upgrade	BB+
senior unsecured	Natl LT	AAA(mex)	Affirmed	AAA(mex)
Bimbo Bakeries USA Inc				
senior unsecured	LT	BBB+	Upgrade	BBB

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Elena Enciso
Director
Primary Rating Analyst
+52 55 5955 1624
elena.enciso@fitchratings.com
Fitch Mexico S.A. de C.V.
Blvd. Manuel Avila Camacho No. 88, Edificio Picasso, Piso 10, Col. Lomas de Chapultepec, Mexico City 11950

Johnny da Silva
Director
Secondary Rating Analyst
+1 212 908 0367
johnny.dasilva@fitchratings.com

Alberto Moreno Arnaiz
Senior Director

Committee Chairperson
+52 81 4161 7033
alberto.moreno@fitchratings.com

MEDIA CONTACTS

Elizabeth Fogerty
New York
+1 212 908 0526
elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Corporate Hybrids Treatment and Notching Criteria (pub. 12 Nov 2020)

National Scale Rating Criteria (pub. 22 Dec 2020)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bimbo Bakeries USA Inc	EU Endorsed, UK Endorsed
Grupo Bimbo, S.A.B. de C.V.	EU Endorsed, UK Endorsed

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