Research Update:

Grupo Bimbo S.A.B. de C.V. Upgraded To 'BBB+' From 'BBB' On Improved Credit Profile, Outlook Stable

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Rating Action Overview

- We revised our assessment of Grupo Bimbo S.A.B. de C.V.'s (Bimbo) business risk profile to a stronger category following several years where the company successfully increased its scale of operations through sustained organic growth and acquisitions while maintaining its leading market position, expanding its geographic footprint, and improving its profitability.
- We also revised Bimbo's financial risk profile to a stronger category because of the company's better financial performance in recent years and its record of a prudent policy toward the use of debt. These factors have improved credit metrics, with adjusted leverage reaching 2.0x in 2022, while liquidity remains strong.
- As a result, on March 29, 2023, S&P Global Ratings raised its global scale issuer credit ratings on Bimbo to 'BBB+' from 'BBB' and the national scale ratings to 'mxAAA' from 'mxAA+'. At the same time, we raised our global and national scale issue-level ratings on the company's various senior unsecured notes to 'BBB+' and 'mxAAA', respectively, from 'BBB' and 'mxAA+'. We also raised Bimbo's perpetual subordinated bond rating to 'BBB-' from 'BB+'.
- The stable outlook reflects our view that Bimbo will remain committed to its prudent financial policy toward the use of debt, particularly for capital expenditures (capex), mergers and acquisitions (M&A), and shareholder returns, so that its adjusted leverage remains within 2.0x-2.5x at all times. We also expect sustained growth, with EBITDA margins at 13%-14% for the next two years.

Rating Action Rationale

Our business risk profile revision on Bimbo follows a long record of predictable and solid operating performance through economic cycles. Over the last decade or so, Bimbo has successfully grown its scale of operations through different economic cycles. Its revenues reached MXN398.7 billion in 2022 (+4.8x versus 2008 level), and it also significantly expanded its geographic footprint (52% of total sales came from the U.S. and Canada in 2022; 29% from Mexico; 9% from Europe, Africa, and Asia; and 10% from Central and South America). The company also increased its product offerings, with more than 10,000 products across various categories. Its well-recognized brands rank first or second in most of the markets where it operates, giving it pricing power.

Bimbo is the world's largest bakery company, with a 4% market share in the $561 billion highly fragmented and competitive baking industry. We also consider Bimbo's focus on staple and high-consumption products in the resilient bakery industry, and we expect that it will continue to further gain market share in the different regions, categories, and channels in which it operates by capitalizing on its ongoing investments, product innovation capabilities, strong and well recognized brands, and pricing power. All these strengths should allow Bimbo to capture additional organic revenue growth opportunities. As a result, we expect the company's revenue base to grow about 6% annually in 2023 and 2024.

Bimbo's persistent adoption of strategic initiatives to strengthen profitability has increasingly boosted EBITDA margins. Bimbo has successfully expanded its EBITDA margin by more than 300 basis points (bps) from about 10% a decade ago. In our view, Bimbo's extensive and efficient production and distribution networks, advanced analytics, pricing capabilities, and strict cost controls have been key for such margin improvement. Although we still expect sticky inflation on key input costs at least through 2023, we believe that Bimbo's EBITDA margin still has room to gradually expand toward 14%, including a 30-basis point (bps) growth year-over-year, in the next two years. In our view, margin growth will be driven by its pricing capabilities--although moderating versus 2022 to ensure steady volume growth--cost efficiencies, and productivity gains from past and ongoing investments. We also expect EBITDA margins to benefit from a slight normalization of commodity prices toward the end of 2023, the effect from export activities from Mexico to other markets, and Bimbo's transformation strategy, including its route-to-market strategy and data analytics that should continue to improve its point-of-sale capabilities.

Moreover, the company has turned around its operations in Argentina and Brazil, allowing for greater and more stable profit margins in Latin America. Although Bimbo's EBITDA margin is below those of other global consumer product peers we rate, which generally have margins closer to 20%, we believe that in the context of the bakery industry and considering that its fresh products are sold through its direct-store-delivery system, Bimbo's EBITDA margin of 13%-14% compares relatively well to similar peers.

Our revised financial risk profile assessment on Bimbo reflects its record of more prudent financial policies and its stronger operating performance that have improved credit metrics. In recent years, Bimbo has gradually strengthened its adjusted debt to EBITDA ratio, which was 2.0x in 2022, thanks to its strong operating performance and track record of more prudent financial policies, particularly toward the use of debt. While we think that Bimbo will remain active in terms of investments (capex and bolt-on acquisitions) and shareholder reward, the company's large size should allow it to continue delivering strong operating cash flow (OCF; after tax and interest payments) of about MXN31.5 billion in 2023 and MXN37.9 billion in 2024. In our view, this provides Bimbo with significant discretion and financial flexibility in terms of its capital allocation strategy, without affecting its credit profile.

After record-high capex of $1.4 billion in 2022, we expect Bimbo to keep reinvesting significantly in the business, with capex likely at $1.7 billion-$1.9 billion in 2023 and $1.3 billion-$1.6 billion in 2024. This capex will be mostly for internal expansion and cost efficiency projects--such as increased production capacity--but also for maintenance. We forecast capex levels and dividends of about MXN3.5 billion in 2023 to result in negative free operating cash flow (FOCF) and discretionary cash flow (DCF). We also anticipate Bimbo to incur additional debt near MXN21.3 billion in 2023 for refinancing and capex activities. As a result, we estimate its adjusted leverage to remain close to 2.0x-2.2x in the next two years. This ratio considers Bimbo's recent announcement that it will refinance its subordinated perpetual bond instrument with senior unsecured financing.

In our view, Bimbo's management is committed to maintaining prudent financial policies, which provide ample financial flexibility to withstand external shocks. We think that Bimbo's strong balance sheet--including its adjusted leverage of 2.0x, cash balance of MXN12.3 billion at year-end 2022, and recently upsized and extended fully available and committed revolving credit facility--provide ample financial flexibility for the company to withstand still volatile and uncertain market conditions, as well as higher investments without damaging its credit profile. In our view, Bimbo's management has shown strong commitment to reduce its leverage. We now expect the company to operate with lower adjusted leverage than in the past, increasing its financial policy predictability. While our updated base case only incorporates small bolt-on and leverage-neutral acquisitions, we believe Bimbo has significant headroom for higher investments without approaching our 3.0x adjusted leverage ratio downside threshold.

Outlook

The stable outlook reflects our view that Bimbo will remain committed to its prudent financial policy toward the use of debt, particularly for capex, M&A, and shareholder returns, so that its adjusted leverage remains within 2.0x-2.5x at all times. We also expect sustained growth, with EBITDA margins at 13%-14% for the next two years, despite sticky inflationary pressures.

Downside scenario

We could lower the ratings if Bimbo's adjusted leverage rises above 3.0x consistently. We believe this could occur if:

- Its financial policy turns more aggressive either through debt-financed acquisitions, capex, dividends, or share buybacks; or
- Profitability plunges, potentially due to increases in raw material prices, freight and/or labor costs, foreign exchange-rate volatility, or if a severe recession in core markets undermines volumes sold.

Upside scenario

Although very unlikely over the next two years, we could raise the ratings if Bimbo demonstrates more conservative financial policies such that it sustains S&P Global Ratings-adjusted leverage well below 2.0x, while it posts stronger FOCF to debt of above 25% and DCF to debt of 15%. For this to occur, Bimbo would need to:

- Increase and keep its EBITDA margin above 15%; and
- Lower its capex, M&A, and shareholders rewards.

Company Description

Bimbo is a Mexico-based bakery company founded in 1945. It posted MXN398.7 billion in revenue and MXN53.5 billion in adjusted EBITDA in 2022. The company is a leader in the global bakery segment and a key player in the snacks industry, operating in 34 countries throughout the Americas, Europe, the Middle East, Africa, and Asia. It produces, distributes, and sells packaged sliced bread, buns and rolls, cookies, snack cakes, muffins, bagels, prepackaged foods, tortillas, salted snacks, pastries, and other food products under more than 100 brands. Bimbo is controlled by Mexican investors, who own about 81% of its shares. The remaining 19% is traded on the Mexican Stock Exchange and in the over-the-counter market in the U.S. The company's headquarters are in Mexico City.

Our Base-Case Scenario

Assumptions

- Global real GDP to expand about 3.1% in 2023, 1.3% in Mexico, 0.7% in the U.S., 0.8% in Canada, 0.3% in the eurozone, and 0.9% in Latin America; and 3.4%, 1.7%, 1.2%, 1.5%, 1.0%, and 1.9%, respectively, in 2024.
- An average exchange rate of MXN18.9 per $1 in 2023 and MXN19.8 per $1 in 2024, although we don't discount the possibility of additional volatility in the foreign exchange market.
- Revenue to grow close to 6% in Mexican peso terms in 2023 and 6.5% in 2024, reflecting steady volume growth and pricing adjustments.
- Adjusted EBITDA margin of 13.7% in 2023, up from 13.4% in 2022, but still below 14.1% posted in 2021. We also forecast a roughly 30 bps margin expansion in 2024.
- Effective tax payment of 30%-35% of pre-tax income in both 2023 and 2024.
- Average working capital requirement of about MXN4.3 billion in both 2023 and 2024.
- Capex of MXN32.1 billion in 2023 (equivalent to $1.7 billion) and MXN27.2 billion in 2024 (equivalent to $1.4 billion). Capex will be mostly for expansion and cost efficiency projects and maintenance.
- No large acquisitions in 2023 and 2024, but some selective and accretive bolt-on acquisitions.
- Dividend payments of about MXN3.5 billion in 2023 and MXN4.2 billion in 2024.
- Proactive liability management well ahead of debt maturities.
- Increase in debt of about MXN21.3 billion in 2023, including the refinancing of the $500 million subordinated perpetual hybrid instrument.

Key metrics:

- Adjusted debt to EBITDA of about 2.1x in 2023 and 2024; and
- Negative DCF to debt in 2023 and about 3.5% in 2024.

Liquidity

We continue to assess Bimbo's liquidity as strong due to its high cash balance, significant amount of undrawn committed credit lines, solid OCF expectations, and lack of large debt maturities in the next 12 months. We forecast its liquidity sources to exceed its uses by more than 1.5x for the upcoming 12 months and to remain above 1.0x over the subsequent 12-month period. This ratio should remain above 1.0x even if EBITDA declines by 30% in the next 12 months. Our assessment also incorporates the company's high standing in local and global credit markets, as seen in its access to these markets. Bimbo also maintains solid relationships with banks illustrated by its recent committed revolving credit facility renegotiation. In our opinion, the company is also able to absorb high-impact, low-probability events with limited need for refinancing.

Principal liquidity sources:

- Cash and cash equivalents of about MXN12.3 billion as of Dec. 31, 2022;
- $1.93 billion (equivalent to MXN36.5 billion) of undrawn committed credit facility available for the next 12 months; and
- Funds from operations of about MXN32.0 billion for the next 12 months.

Principal liquidity uses:

- Short-term debt maturities of MXN6.4 billion as of Dec. 31, 2022;
- Working capital outflows of about MXN4.2 billion for the next 12 months (including a peak in intra-year working capital);
- Capex of about MXN32.1 billion for the next 12 months;
- Acquisition of Vel Pitar for MXN3.5 billion; and
- Dividend distributions of about MXN3.5 billion for the next 12 months.

Covenants

Bimbo is subject to a minimum EBITDA interest coverage financial maintenance covenant of 3.25x under its credit facilities. As of Dec. 31, 2022, the company complied with this covenant, and we expect it to continue to do so in the next 12-24 months with more than 50% headroom.

Environmental, Social, And Governance

ESG credit indicators: E-2, S-2, G-2

ESG factors are an overall neutral consideration in our credit analysis of Bimbo. To meet changes in consumer tastes and preferences, Bimbo operates seven innovation centers across its key regions to improve its products' nutritional profiles and increase its plant-based products, which in our view enhances its competitive position in its key markets without affecting its credit quality.

In addition, we don't expect environmental factors to affect Bimbo's credit quality, even if their relevance is increasing. Bimbo's management has undertaken several strategic initiatives to reduce the environmental impact of its operations, such as carbon dioxide emissions and waste reduction, among others. As a way to demonstrate its commitment, in 2021 the company signed its first sustainable-linked financing with a $1.75 billion committed revolving credit facility that it recently renewed and extended, with pricing tied to its energy and water reduction targets.

Issue Ratings - Subordination Risk Analysis

Capital structure

At the end of 2022, Bimbo's financial debt mainly consisted of MXN59.2 billion in five global senior unsecured notes due between 2024 and 2051, MXN17.3 billion in two local senior unsecured notes due 2026 and 2027, and the equivalent of MXN7.5 billion in bank loans. Our adjusted debt calculation also includes, among other items, $250 million that represents the net of 50% of the company's hybrid security.

Analytical conclusions

In line with our upgrade of Bimbo, we raised our issue-level ratings on the company' several senior unsecured notes to 'BBB+' and 'mxAAA', from 'BBB' and 'mxAA+', respectively. This reflects that we don't see any material risk of subordination in Bimbo's capital structure, given that only a small portion of bank debt is borrowed at the operating subsidiaries' level. All the senior unsecured notes are issued at Grupo Bimbo, with the exception of the 2051 senior notes that were issued at Bimbo Bakeries USA Inc.'s level. However, like all the notes, they are irrevocably and unconditionally guaranteed by Grupo Bimbo and its main subsidiaries, which generate around 80% of consolidated EBITDA, eliminating any potential structural disadvantage.

We also raised Bimbo's hybrid capital securities to 'BBB-' from 'BB+'. We subtract one notch for subordination because our long-term issuer credit rating on Bimbo is investment grade (higher than 'BB+'). Then, we deduct an additional notch for payment flexibility to reflect that the deferral of interest is optional.

Ratings Score Snapshot

Issuer credit rating	**BBB+/Stable/--**
National scale	**mxAAA/Stable/--**
Business risk:	Strong
Country risk	Low
Industry risk	Low
Competitive position	Strong
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb+
Modifiers:	

Issuer credit rating	**BBB+/Stable/--**
National scale	**mxAAA/Stable/--**
Diversification/Portfolio effect	Neutral
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Satisfactory
Comparable rating analysis	Neutral
Stand-alone credit profile:	bbb+

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded

	To	From
Grupo Bimbo S.A.B. de C.V.		
Issuer Credit Rating	BBB+/Stable/--	BBB/Stable/--

Upgraded

	To	From
CaVal (Mexico) National Scale	mxAAA/Stable/--	mxAA+/Stable/--
Grupo Bimbo S.A.B. de C.V.		
Senior Unsecured	BBB+	BBB
Senior Unsecured	mxAAA	mxAA+
Subordinated	BBB-	BB+
Bimbo Bakeries USA Inc.		
Senior Unsecured	BBB+	BBB

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.