



RATING ACTION COMMENTARY

Fitch Affirms Becele's Ratings at 'BBB+'; Outlook Stable

Fri 17 Mar, 2023 - 11:57 AM ET

Fitch Ratings - Monterrey - 17 Mar 2023: Fitch Ratings has affirmed Becele, S.A.B. de C.V.'s (Becele) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs), and senior unsecured rating at 'BBB+'. The Rating Outlook on the IDRs is Stable.

Becele's ratings reflect its strong business position as the world's leading tequila producer with vertically integrated operations across the production and distribution of tequila. The company's ratings are also supported by a complementary diversified portfolio of spirits and robust geographic diversification.

Fitch expects Becele's operating performance will remain positive despite inflationary pressures and global economic weakness and projects that the company's net leverage will be around 1.5x in the next 18 to 24 months.

KEY RATING DRIVERS

Strong Tequila Brand: Becele's ratings reflect the strong brand recognition of its Jose Cuervo tequila, which is positioned as the world's leading tequila in terms of sales volume. The company is the leading tequila producer, with over twice the sales volume of its closest competitor. Jose Cuervo and other family brands have important geographic diversification, with sales in more than 85 countries, and are the market leaders in volume terms in U.S. and Mexico, the world's most important tequila markets.

Approximately 85% of its net sales are generated in the U.S., Canada and Mexico. Becele has a relevant presence in the super and ultra-premium tequila categories with recognized brands such as 1800 and Maestro Dobel. Tequila represented around 69% of its total revenues in 2022.

Positive Revenue Growth: Fitch expects Becele to maintain a positive trend in revenues supported by organic growth across its regions. Fitch projects revenues to increase annually around 9% over 2023-2024 as a result of low to mid-single-digit volume growth and higher average sales prices. Stronger top line growth is expected from Mexico and Rest of the World (RoW) operations, while a more conservative growth is projected for U.S. and Canada. In 2022, Becele's revenue increased 16% driven mainly by higher volume growth in Mexico and RoW, and higher average selling price per case in U.S., Canada and Mexico.

Profitability Pressures Manageable: Profitability is anticipated to continue facing inflationary pressures on input costs while agave prices are projected to remain relatively stable. For 2023 and 2024, Fitch forecasts an EBITDA margin for Becele of around 21%. The company has been able to protect its profitability by implementing a premiumization strategy that results in better sales mix as well as maintaining cost reduction initiatives and internal efficiencies. In 2022, Becele's EBITDA margin, as calculated by Fitch, improved 140 bps to 20.7%.

Higher Net Leverage: Becele's negative trend on net leverage over the last four years is projected to stabilize and Fitch projects that it will remain around 1.5x over 2023-2024. Higher net working capital requirements related to its premiumization strategy increased the inventory balance above historical levels and reduced the company's available cash position in 2022. Becele's net leverage reached 1.4x in 2022 from 0.8x in 2021. Fitch contemplates that the company may temporarily increase its net leverage in the event of bolt on acquisitions, but has the flexibility to strengthen its capital structure over the short to medium term to remain at its current rating level.

Negative FCF: Fitch anticipates that Becele will maintain negative FCF generation in 2023. The combination of higher EBITDA and lower net working capital needs will partially offset the expected increment in capex to MXN5 billion and dividends of MXN1.8 billion in 2023.

Fitch forecasts that Becele's FCF will be negative MXN1.5 billion in 2023, and could turn neutral to slightly positive until 2024-2025. The company's capex plans will be mainly oriented to increase its tequila production capacity in Mexico, as well as to improve its distribution and warehousing facilities.

Becele's FCF, as calculated by Fitch, was negative MXN8.2 billion in 2022 due to net working capital requirements of MXN6.8 billion, capex of MXN3.8 billion and dividends of MXN1.5 million.

Gradual Growth in Other Spirits: Fitch incorporates Becele's strategy to improve its product portfolio by incorporating and developing new brands in premium categories. Its Bushmills whiskey is the third largest brand of Irish whiskey in terms of sales volume in the world. Also, its premium rum brand, Kraken, has been growing and approximately half of its sales volume is coming from countries outside the U.S., where it was originally launched.

Its portfolio includes other spirits including American whiskey, vodka, gin, mezcal and ready-to-drink (RTD) alcoholic and non-alcoholic drinks. These categories represented close to 31% of its total revenues in 2022. Becele's strengthened its brand portfolio of Irish whiskey with the acquisition of Proper No. Twelve in 2021.

DERIVATION SUMMARY

Becele's ratings reflect its solid business position as the world's largest tequila producer and the strong brand recognition of Jose Cuervo. Its operations are geographically diversified with a strong presence in U.S., Canada and Mexico, as well as complemented by a portfolio of spirits in the categories of whiskey, rum, vodka and mixers. Becele's ratings are comparable with other peers rated by Fitch as Diageo plc (A-/Stable), Pernod Ricard S.A. (BBB+/Stable) and Bacardi Limited (BBB-/Stable). The company's business profile is viewed as weaker than Diageo, Pernod Ricard and Bacardi given its lower size and scale, as well as a less diversified portfolio of spirits and globally known brands.

In addition, Becele's projected profitability (EBITDA margin 21%) is lower compared with Diageo (EBITDA margin 33%), Pernod Ricard (EBITDA margin 28%) and Bacardi. However, in terms of capital structure and financial flexibility, the company's leverage metrics are the strongest among its peers with a projected net leverage below 1.5x, compared with 2.6x of Diageo, 2.8x of Pernod Ricard and Bacardi at YE 2022.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within the Rating Case for the Issuer

--Revenue growth of 9% in 2023-2024;

--EBITDA margin around 21% in 2023-2024;

--Negative FCF in 2023 due to higher capex and dividends and turning neutral to positive in 2024-2025;

--Gross leverage close to 2.0x and net leverage close to 1.5x in 2023-2024.

RATING SENSITIVITIES

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

Positive rating actions are not foreseen for Bece in the medium term; however, the combination of the following could be positive for its credit quality:

--Larger scale;

--Greater product portfolio diversification;

--Maintaining or improving profitability and FCF margins.

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

--Sustained deterioration in operating performance, leading to lower sales and EBITDA margin below 15%;

--Sustained levels of negative FCF that deteriorate its financial profile;

--Gross leverage above 2.5x on sustained basis;

--Net leverage above 2.0x on sustained basis.

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

Adequate Liquidity: As of YE 2022 Becele had a cash position of MXN4.5 billion and a total debt of MXN17.6 billion. The company's short-term debt is not material and its liquidity position benefits from a comfortable maturity schedule. Its next significant debt maturities coming due are in 2025 for USD153 million and 2031 for USD800 million.

ISSUER PROFILE

Becele is the world's largest tequila producer in terms of volume and has a diversified portfolio of spirits that include rum, vodka, pre-mixed cocktails, and whiskey.

Becele owns many recognizable brands, including Bushmills, Three Olives, Hangar and Pendleton.

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 ◆
Becele, S.A.B. de C.V.	LT IDR BBB+ Rating Outlook Stable	BBB+ Rating Outlook Stable
	Affirmed	

LC LT IDR	BBB+ Rating Outlook Stable	BBB+ Rating Outlook Stable
Affirmed		

senior unsecured

LT	BBB+	Affirmed
----	------	----------

BBB+

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Rogelio Gonzalez Gonzalez

Director

Primary Rating Analyst

+52 81 4161 7034

rogelio.gonzalez@fitchratings.com

Fitch Mexico S.A. de C.V.

Prol. Alfonso Reyes No. 2612, Edificio Connexity, Piso 8, Col. Del Paseo Residencial,
Monterrey 64920

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

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[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

Bece, S.A.B. de C.V.

EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of

Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s [Regulatory Affairs](#) page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Corporate Finance Retail and Consumer Latin America Mexico
