

Research Update:

Becle S.A.B. de C.V. Outlook Revised To Stable From Negative On Improved Credit Metrics; 'BBB-' Ratings Affirmed

November 13, 2024

Rating Action Overview

- Mexico-based tequila producer Becle S.A.B. de C.V. has performed better than expected in the past few quarters, with leverage metrics decreasing well below the downside thresholds, despite lower volumes.
- We estimate that Becle's net debt to EBITDA will remain at 2.0x-2.5x in the next 12-24 months, profitability and cash flow to remain resilient to lower consumption in certain markets, while agave costs and foreign exchange effects to bolster the company's top-line revenue and EBITDA.
- On Nov. 13, 2024, S&P Global Ratings revised its outlook on its rating on Becle to stable from negative. At the same time, we affirmed our 'BBB-' issuer credit and issue-level ratings on the company.
- The stable outlook reflects our view that the company's credit metrics will continue improving in the next 12-24 months, with net debt to EBITDA at 2.0x-2.5x and funds from operations (FFO) to debt near 30%.

Rating Action Rationale

We expect Becle to maintain relatively stable credit metrics in the next 12-24 months, well below the 3x net-debt-to-EBITDA downside threshold. The company's gradual EBITDA recovery and improved working capital management have strengthened cash flow, and led to a rapid recovery in credit metrics. We estimate Becle's EBITDA margin will be 20%-21% in the next 12-24 months, up from 16%-17% a year ago. As a result, its operating cash flow will be MXN6

Primary contact

Santiago Cajal
Mexico City
52-55-5081-4521
santiago.cajal
@spglobal.com

Secondary contact

Alexandre P Michel
Mexico City
52-55-5081-4520
alexandre.michel
@spglobal.com

billion - MXN7 billion after interest expenses, sufficient to cover capital expenditure (capex). We expect the company to use excess cash flow mostly for shareholder returns through dividend distributions or share buybacks. Therefore, Becle's net debt to EBITDA will remain at 2.0x-2.5x in 2024 and 2025, in line with its leverage target.

Despite favorable macroeconomic factors in the near term, uncertainty has risen given the upcoming change in the U.S. administration. Our revised base-case scenario assumes greater top-line growth for the next 12 months, fueled by the recent depreciation of the Mexican peso against the U.S. dollar, along with our expectation that the company's volumes have dipped in 2024. While our base-case assumes resiliency in Becle's key product categories, such as premium tequila, especially in the U.S., the new Trump administration has been vocal on potentially imposing tariffs on imported goods from Mexico. There's uncertainty over their timing and magnitude, and if they will be either general or sector/goods specific. However, under such a scenario, we expect Becle to pass through these additional costs, despite potential volume compression.

Becle's leading position in the tequila sector continues to underpin the 'BBB-' rating. In recent years, the company has strengthened its competitive position in the spirits and alcoholic beverage industry. It's the largest player in the global tequila market and continues to expand its tequila category through its various brands, specifically in the premium categories, which in recent years have posted greater resiliency to economic cycles.

The company has gradually widened its portfolio into other categories such as whiskey, spirits, and ready-to-drink beverages. We expect Becle to continue focusing on positioning its products within the tequila premium categories, while diversifying its portfolio into the most in-demand alcoholic beverages. Aside from its dominant position in the tequila sector, it's also the third-largest producer of Irish whiskey worldwide and the second largest in the U.S.

Concerns over the company's liquidity position have eased, and its liquidity sources vastly offset the \$153 million note maturity due May 13, 2025. The company's average maturity on its debt increased last year to about 5 years, after rolling over short-term debt maturities and decreasing liquidity pressures. Moreover, for the past few quarters, Becle's cash reserves have increased to MXN9.1 billion (about \$445 million) as of Sept. 30, 2024, well above estimated cash outflows for the next 12-18 months. The latter mostly consist of working capital requirements, capex, dividend distributions, and the maturity of the 2025 notes. We don't discard the possibility of the refinancing of the 2025 notes in the next few months. Nonetheless, given the company's cash reserves, repayment at maturity is also a viable option

Outlook

The stable outlook reflects our view that Becle's financial performance will continue to improve gradually, maintaining leverage metrics relatively stable, along with adequate liquidity position. We estimate Becle's net debt to EBITDA will be 2.0x-2.5x in the next 12-24 months, with a cushion of 20% of liquidity sources over uses.

Downside scenario

We could lower our ratings on Becle if its adjusted net debt to EBITDA rises above 3x in the next 12-24 months. This could occur if one or more of the following occurs:

- Becle's operating performance weakens due to tougher global economic conditions or tariffs on its exports to the U.S. that further squeeze consumption of its key products and across its geographic markets, or if we see a significant appreciation of the peso, and/or due to an unexpected rise in input costs (particularly agave prices);
- Becle implements an aggressive financial policy to fund unexpected working capital needs, capex, mergers and acquisitions, dividend payments, or share repurchases; and/or
- Its liquidity position is eroded by lower cash reserves or greater use of short-term debt.

In addition, although unlikely in the next 24 months, structural changes in the tequila industry stemming from long-term contraction in demand or if competition significantly intensifies--causing a consistent decline in Becle's volumes, profitability, and volatility in cash flow--could prompt us to lower our ratings.

Upside scenario

We could upgrade the company if it changes its financial policy by lowering the use of leverage, along with a stronger operating and financial performance. We could raise the ratings if:

- Becle's net debt to EBITDA remains below 2x; and
- Its discretionary cash flow to debt stays consistently above 15%.

Company Description

Founded in 1758 and headquartered in Mexico City, Becle has been led by 11 generations of the Beckmann family. Becle is the world's largest producer of tequila, with well-known brands such as Jose Cuervo, 1800, Centenario, and Maestro Dobel. It's also the largest and second-largest distributor of premium spirits and liquors in Mexico in terms of volumes and value, respectively. The company has more than 30 brands, and it produces, bottles, and sells spirits worldwide, with a presence in more than 85 countries. In the past few years, the company has been mainly growing through brand acquisitions, such as those of Three Olives, Hangar 1, Stranahan's, Bushmills, Proper No. Twelve, Boodles, and Pendleton. For the 12 months ended Sept. 30, 2024, Becle reported revenue of MXN44.3 billion and EBITDA margin of 19.7%.

Our Base-Case Scenario

Assumptions

- Mexico's GDP to grow 1.6% and U.S. GDP by 2.7% in 2024. For 2025, GDP to grow 1.5% and 1.8%, respectively.
- Consumer price index (CPI) to reach 4.8% in Mexico and 2.9% in the U.S. for 2024. In 2025, 3.9% and 2.0%, respectively.
- Average exchange rate of MXN18.2 per \$1 in 2024, and MXN19.5 per \$1 in 2025.
- Flat revenues in pesos, given a 6% contraction in volumes in 2024, although offset by pricing and the peso's depreciation. For 2025, volumes to grow at low-single digits, while pricing and the MXN/\$ exchange rate should generate revenue growth of close to 9%.

- EBITDA margin of 20%-21% in 2024 and 2025, given lower agave costs and the premiumization strategy, along with temporarily lower advertising and marketing expenses in 2024.
- Capex of about \$120 million in 2024 and \$170 million in 2025 for maintenance investments and the final construction phase of the new distillery.
- Dividend payments of MXN1.4 billion in both 2024 and 2025, in line with Becle's policy of distributing about 30% of net income.
- The share buyback activity will depend on cash flow and market conditions.
- No large acquisitions over the projected horizon.
- About MXN30 billion of gross debt, including leases, by the end of 2024 and MXN29 billion by the end of 2025.

Key metrics

Becle S.A.B. de C.V.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. MXN)	2020a	2021a	2022a	2023a	2024e	2025f
Revenue	35,036	39,419	45,729	44,355	44,739	48,934
Gross profit	18,960	22,091	26,041	23,554	25,458	28,090
EBITDA	7,546	7,883	9,777	7,390	9,210	10,238
Funds from operations (FFO)	6,101	4,756	6,069	3,411	6,473	7,289
Interest expense	545	699	850	1,175	1,360	1,355
Cash flow from operations (CFO)	4,120	4,613	(2,047)	(399)	7,100	5,897
Capital expenditure (capex)	3,636	5,250	3,924	3,212	2,178	3,339
Free operating cash flow (FOCF)	484	(637)	(5,971)	(3,611)	4,922	2,558
Dividends	544	1,546	1,510	1,764	1,420	1,421
Share repurchases (reported)	(115)	--	--	--	--	--
Discretionary cash flow (DCF)	56	(2,183)	(7,482)	(5,375)	3,502	1,138
Debt (reported)	9,956	18,598	17,604	23,897	27,457	25,580
Plus: Lease liabilities debt	2,461	2,628	3,034	3,150	3,178	3,475
Less: Accessible cash and liquid Investments	(7,646)	(12,791)	(4,521)	(6,367)	(8,909)	(6,893)
Debt	4,771	8,434	16,117	20,681	21,725	22,162
Adjusted ratios						
Debt/EBITDA (x)	0.6	1.1	1.6	2.8	2.4	2.2
FFO/debt (%)	127.9	56.4	37.7	16.5	29.8	32.9
EBITDA interest coverage (x)	13.9	11.3	11.5	6.3	6.8	7.6
CFO/debt (%)	86.4	54.7	(12.7)	(1.9)	32.7	26.6
FOCF/debt (%)	10.1	(7.6)	(37.1)	(17.5)	22.7	11.5
DCF/debt (%)	1.2	(25.9)	(46.4)	(26.0)	16.1	5.1
Annual revenue growth (%)	17.9	12.5	16.0	(3.0)	0.9	9.4
EBITDA margin (%)	21.5	20.0	21.4	16.7	20.6	20.9

Liquidity

We assess Becle's liquidity as adequate because we expect its sources to exceed its uses of liquidity by more than 1.2x in the next 12 months, and this ratio to remain above 1.0x even if EBITDA declines by 15%. This mainly reflects the company's recent refinancing of short-term debt and increased cash balance. Our liquidity analysis also incorporates qualitative factors, including our view that Becle maintains well-established and solid relationships with local and international banks through uncommitted and committed credit facilities.

Principal liquidity sources

- Cash and cash equivalents of MXN9.1 billion as of Sept. 30, 2024;
- Undrawn committed revolving facility of about MXN702 million (\$35 million); and
- FFO of about MXN6.6 billion for the next 12 months.

Principal liquidity uses

- Short-term debt maturities of MXN3.2 billion as of Sept. 30, 2024;
- Working capital outflows of about MXN3.8 billion for the next 12 months, including intra-year requirements;
- Maintenance and expansionary capex of about MXN3 billion for the next 12 months; and
- Dividend payments of about MXN1.4 billion for the next 12 months.

Covenants

As of Sept. 30, 2024, Becle had to comply with two financial maintenance covenants under its syndicated bank term loan and revolving credit facility:

- Net debt to EBITDA (excluding leases); and
- Minimum EBITDA interest coverage.

We expect Becle to maintain sufficient headroom under both covenants in the next two years.

Environmental, Social, And Governance

ESG factors have had no material influence on our credit rating analysis of Becle.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Sept. 30, 2024, Becle's capital structure consisted of:

- \$153 million of outstanding senior unsecured notes due May 13, 2025;
- \$800 million of senior unsecured notes due Oct. 14, 2031;
- \$385 million on a syndicated bank term loan due Nov. 27, 2028; and

- \$150 million revolving credit facility due Nov. 27, 2028.

Becle issued and borrowed all its debt instruments on a senior unsecured basis, and the 2025 senior notes benefit from guarantees from some of Becle's subsidiaries that generated a limited portion of its consolidated revenue in 2022. Therefore, the 2025 senior notes have first priority over the other debt instruments outstanding only with respect to cash flow from the subsidiaries that provided the guarantees. All the other outstanding debt instruments rank pari passu in right of order and payments vis-à-vis each other.

Analytical conclusions

We don't apply any notching to our issue-level rating because the priority obligations do not exceed our 50% threshold for notching due to subordination risk. As a result, we continue rating the senior unsecured notes due 2025 and 2031 at 'BBB-', the same as the issuer credit rating.

Rating Component Scores

Rating Component Scores

Rating Component Scores	
Component	
Foreign currency issuer credit rating	BBB-/STABLE/--
Local currency issuer credit rating	BBB-/STABLE/--
Business risk	4 - Fair
Country risk	3 - Intermediate Risk
Industry risk	2 - Low Risk
Competitive position	4 - Fair
Financial risk	3 - Intermediate
Cash flow/leverage	3 - Intermediate
Anchor	bb+
Diversification/portfolio effect	3 - Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Positive
Stand-alone credit profile	bbb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Becle S.A.B. de C.V. Downgraded To 'BBB-' From 'BBB' On Increased Leverage And Tighter Liquidity; Outlook Negative, Sept. 6, 2023
- Becle S.A.B. de C.V., Sept. 9, 2022

Ratings List

Ratings list

Ratings Affirmed; Outlook Action

	To	From
Becle S.A.B. de C.V.		
Issuer Credit Rating	BBB-/Stable/--	BBB-/Negative/--
Ratings Affirmed		
Becle S.A.B. de C.V.		
Senior Unsecured	BBB-	

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