

## RATING ACTION COMMENTARY

# Fitch Affirms Becele at 'BBB'; Outlook Stable

Wed 30 Oct, 2024 - 2:29 p.m. ET

Fitch Ratings - Monterrey - 30 Oct 2024: 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 notes 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 continue to face headwinds due to strong competition, global economic weakness and changing consumer behavior. However, we expect the company's profitability to recover due to more favorable agave prices. Also, net leverage will be around 2x-2.5x in the next 18-24 months.

## KEY RATING DRIVERS

**Strong Tequila Brand:** Becele's ratings reflect the strong brand recognition of its Jose Cuervo tequila, the world's leading tequila by sales volume. The company has twice the tequila sales volume of its closest competitor. Jose Cuervo and other family brands benefit from significant geographic diversification, with sales in more than 85 countries, and are market leaders by volume in the U.S. and Mexico, the world's most important tequila markets. Approximately 84% of the company's net revenue is generated in the U.S., Canada and Mexico. Becele also has a significant presence in the super- and ultra-premium tequila categories, with the tequila category representing nearly 72% of its total revenue.

**Stable Leverage:** Fitch expects Becele's EBITDA net leverage to remain around 2x-2.5x over the next 18-24 months. This projection includes modest debt reduction and a gradual recovery in EBITDA. In 2024, Becele managed to increase its cash flow generation due to

lower net working capital and capex requirements, which supported an increase in its readily available cash balance. Fitch believes that Becele has limited rating headroom for potential medium-sized acquisitions. For the last 12 months ending Sept. 30, 2024, Becele's net leverage, as calculated by Fitch, was 2.1x. This compares favorably with 3.0x for the same period in 2023.

**Challenged Revenue Growth:** Fitch projects revenue in Mexican pesos to remain flat in 2024, with annual growth of approximately 5% expected from 2025 to 2027. In our view, Becele will continue to face short-term headwinds in key markets such as the U.S., Canada and Mexico due to strong competition, weak economic trends and changing consumer preferences.

For 2025, a combination of low single-digit volume growth and higher average sales prices, driven by its premiumization strategy in the tequila category, is expected to support revenue growth. In 2024, the company's mid-single-digit decline in sales volumes has been primarily due to imbalances between shipments and depletions, as retailers adjust their inventories across different categories.

**Recovery in Profitability:** Becele has gradually improved its operating margins in 2024 despite weaker revenue trends. Fitch projects that Becele's EBITDA margin will increase to around 18%-19% from 2024 to 2027, up from 15% in 2023. This improvement is expected to be driven by lower agave prices, more favorable foreign currency effects, and better sales mix and pricing initiatives related to its premiumization strategy. In addition, advertising, marketing and promotional expenses are projected to remain between 21% and 23% of total revenue.

**Positive to Neutral FCF:** Becele's FCF generation is likely to be positive in 2024 due to lower net working capital requirements and reduced capex. For 2024, the company's FCF is projected to be around MXN2.5 billion, assuming capex of approximately MXN2.5 billion and dividends of MXN1.4 billion. Looking ahead to 2025-2027, FCF should remain neutral to positive, assuming moderate increases in net working capital requirements and stable capex and dividends payments.

**Gradual Growth in Other Spirits:** Fitch's analysis incorporates Becele's strategy to improve its product portfolio by incorporating and developing new brands in premium categories. Bushmills whiskey is the third-largest Irish whiskey brand globally in terms of sales volume. In addition, its premium rum brand, Kraken, has been growing steadily, with approximately half of its sales volume now coming from countries outside the U.S., where it was initially launched. Becele's portfolio also includes other spirits such as American whiskey, vodka, gin,

mezcal and ready-to-drink alcoholic and non-alcoholic drinks. These categories collectively represent nearly 28% of its total revenue.

## **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 the U.S., Canada and Mexico, and are complemented by a portfolio in the whiskey, rum, vodka and mixers categories. Becele's ratings are comparable with peers rated by Fitch, such as Diageo plc (A-/Stable) and Bacardi Limited (BBB-/Stable). The company's business profile is weaker than that of Diageo and Bacardi given its smaller size and scale, as well as its less diversified portfolio of spirits and globally known brands.

Becele's financial profile is also considered to be weaker in the medium term when compared to its peers. The company's projected EBITDA margin and FCF margin is projected to be around 18%-19% and 1%, respectively, which are lower than of Diageo at about 32% and 4%, respectively. Becele's projected net leverage of around 2x-2.5x is lower than Diageo at 3x.

## **KEY ASSUMPTIONS**

- Revenue remaining flat in 2024 and growing on average 5% in 2025-2027;
- EBITDA margins around 18% in 2024 and improving to 19% in 2025-2027;
- Capex around MXN2.5 billion in 2024 and MXN3 billion annually in 2025-2027;
- Annual dividends of around MXN1.5 billion in 2024-2027.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

- Larger scale and greater product diversification;
- Improving EBITDA margins consistently above 20%;
- Sustained positive FCF margin around 3.5%;
- EBITDA net leverage below 1.5x on sustained basis.

## **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- Sustained deterioration in operating performance, leading to lower sales and EBITDA margins below 15%;
- Sustained negative FCF that erodes its financial profile and liquidity position;
- EBITDA net leverage sustained above 2.5x.

## **LIQUIDITY AND DEBT STRUCTURE**

**Manageable Liquidity:** As of Sept. 30, 2024, Becele's liquidity position is adequate with MXN9.1 billion cash balance and MXN3.3 billion of short-term debt. The company's USD150 million senior notes are expected to be repaid at maturity in 2025 with existing revolving credit facilities, and its next significant debt amortizations are USD535 million in 2028 and USD800 million in 2031.

## **ISSUER PROFILE**

Becele is the world's largest tequila producer by volume and has a diversified spirits portfolio, including rum, vodka, pre-mixed cocktails and whiskey. Its recognizable brands include Jose Cuervo, 1800, Maestro Dobel, Bushmills, Three Olives, Hangar 1 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.

## **MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS**

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Bece, S.A.B. de C.V.	LT IDR    BBB Rating Outlook Stable Affirmed	BBB Rating Outlook Stable
	LC LT IDR    BBB Rating Outlook Stable Affirmed	BBB Rating Outlook Stable
senior unsecured	LT    BBB    Affirmed	BBB

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[Corporate Rating Criteria \(pub. 03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 21 Jun 2024\)](#)

**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)

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

EU Endorsed, UK Endorsed

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