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Research Update:

Vinte Viviendas Integrales, S.A.B. de C.V. Assigned 'BB' Issuer Credit Rating; Outlook Stable

Primary Credit Analyst:
Alexandre P Michel, Mexico City + 52 55 5081 4520; alexandre.michel@spglobal.com

Secondary Contact:
Luis Manuel Martinez, Mexico City (52) 55-5081-4462; luis.martinez@spglobal.com

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Overview

- Mexico-based homebuilder, Vinte, is seeking to issue MXN800 million in senior unsecured green notes to refinance part of its existing debt that the company used to develop sustainable communities in Mexico.
- Vinte posts a solid operating and financial performance thanks to its flexible business model, focus on profitability, and prudent financial discipline towards the use of debt.
- We're assigning our 'BB' long-term issuer credit rating to Vinte.
- The stable outlook reflects our view on Vinte's favorable growth prospects in Mexico, while it maintains its business flexibility to protect profitability. We also expect the company to continue investing selectively in land reserves with a moderate use of debt, translating into a net debt-to-EBITDA ratio consistently below 2.0x.

Rating Action

On Aug. 7, 2018, S&P Global Ratings assigned its 'BB' issuer credit rating to Vinte Viviendas Integrales, S.A.B. de C.V. (Vinte). The outlook is stable.

Rationale

Our rating on Vinte reflects our view of its flexible business model that allows the company to mitigate impacts stemming from the industry cycles. The rating also reflects the company's solid growth trajectory, focus on profitability with above-average and stable margins compared with those of rated peers, and prudent financial policy towards the use of debt as seen in net debt to EBITDA close to 2.0x for the 12 months ended June 2018. A relatively small revenue base and limited geographic diversification are rating constraints.

With 25 years of experience in the Mexican housing industry, Vinte has proven its ability to adjust quickly its product offering to the evolving market conditions, particularly during a cooling economy, such as in 2017 during which GDP growth slowed, inflation and interest rates rose, and to changes in the government's housing policy. Vinte maintains a diversified product portfolio covering the residential, middle- and low-income segments, which respectively represented 31%, 56%, and 13% of total revenue in 2017. The company's home prices range from MXN350,000 to slightly more than MXN3.5

million, and Vinte operates in six states in Mexico. Vinte also maintains diversified financing solutions schemes for its homebuyers and has historically limited its exposure to government subsidies availability – which only represented 4.4% of its homes sold during the first half of 2018. In our view, Vinte's dynamic product offering would allow the company to take advantage of potential growth opportunities, amid our expectations that the housing subsidies could increase once the new government takes office in December 2018. Moreover, although the Mexican housing industry remains highly fragmented and competitive, we believe that the company is well positioned to maintain its solid market share in terms of units sold in each of the market where it operates.

Our rating also incorporates the company's above-average and stable profitability compared with those of industry peers in Mexico, with an EBITDA margin level that has been consistently above 20%. The latter is possible thanks to Vinte's differentiated product offering consisting of integrated and sustainable communities that generate greater value added for homebuyers over the long run, along with higher sales prices than the industry average. Additionally, the company maintains an efficient operation, strict cost controls, and 12-month contracts with suppliers of cement and concrete, allowing Vinte greater flexibility and predictability in its financial planning. The company also maintains a prudent land procurement strategy, with a land bank of about 5.9 years as of the end of 2017, with a focus on markets with favorable housing demand dynamics, such as in the states of Mexico, Queretaro, Hidalgo, Puebla, Quintana Roo, and Nuevo Leon for instance.

The rating constraint on Vinte is its relatively small size with MXN3.3 billion in revenue and 4,492 units sold for the 12 months ended June 2018 and its operations limited to Mexico with the central part of the country accounting for more than 50% of total sales. Therefore, if Vinte's key markets experience an economic downturn, its business would suffer, particularly given the industry cyclicality in terms of consumer preferences, disposable income, and mortgage availability, among others.

For the next 12 months, we believe the housing demand trends in Mexico will remain favorable, particularly in light of the country's housing deficit that's estimated at about 9 million units and based on the demographic trend. In our view, Vinte will maintain double-digit revenue growth amid easy access to financing from commercial banks and public mortgage lenders such as Infonavit (global scale: BBB+/Stable/A-2; national scale: mxAAA/Stable/mxA-1+) and Fovissste (national scale: mxAAA/Stable/mxA-1+). Moreover, we expect Vinte to preserve its current profitability with EBITDA margins above 20%. We also expect Vinte to maintain a prudent strategy towards its lands procurement and infrastructure works, and towards the use of debt.

Our base-case scenario assumes the following factors:

- Mexico's GDP growth of about 2.4% in 2018 and 2.5% in 2019 stemming from the service sector's and employment rate strength, and lower inflation;
- Average inflation rate to moderate to about 4.9% in 2018 and 3.5% in 2019;

- The government's subsidies for the housing industry of about MXN6.6 billion in 2018 and at least the same amount in 2019;
- Revenue growth of 12% in 2018 and 12.5% in 2019;
- Volume sales of about 4,444 homes by the end of 2018 and 4,715 in 2019, and a 11.9% and 6.0% increase in the average prices, respectively, mainly due to inflation and to the sales mix with higher units sold in the middle-income and residential segments;
- Operating cost structure to remain overall stable;
- Working capital requirements of MXN417 million in 2018 and MXN304 million in 2019 to support Vinte's internal expansion, mainly consisting of land purchase and infrastructure work;
- A dividend distribution of about 50% of prior-year net income in 2018 and 2019;
- Proposed issuance of up to MXN800 million, which the company will use to refinance existing debt; and
- Annual incremental debt of about MXN128.7 million in 2018, and MXN39.8 million in 2019 to support the company's organic growth strategy.

Based on these assumptions, we arrive at the following credit measures for 2018 and 2019:

- EBITDA margins of about 23%;
- Net debt to EBITDA slightly below 1.5x; and
- Discretionary cash flow (DCF) to adjusted debt of -10% and 2%.

Liquidity

We assess Vinte's liquidity as adequate. We expect liquidity sources to exceed uses by more than 1.2x in the next 12 months and that the company's sources over uses will remain positive even if our forecasted EBITDA declines by 30%. In our opinion, the company has solid a relationship with banks, as seen in the number of committed credit lines it has with various financial institutions. Moreover, we believe Vinte has sufficient flexibility to absorb high-impact, low-probability events without any refinancing needs. Our assessment is based on Vinte's solid cash balance, undrawn committed credit lines available, and manageable debt maturities in the next 12 months. In recent years, the company has tapped the local bond and equity market to fund its growth strategy and to perform pro-active liability management.

Principal Liquidity Sources:

- Cash and cash equivalent of MXN256.7 million at the end of June 2018;
- Undrawn committed credit lines available of about MXN890 million; and
- Funds from operations of about MXN563 million.

Principal Liquidity uses

- Debt maturities of MXN160 million in the next 12 months;
- Working capital requirement of about MXN360 million in the next 12 months;
- Capex of about MXN22.3 million in the next 12 months; and
- A dividend distribution of about MXN250 million in the next 12 months.

Covenants

Vinte is subject to various financial maintenance covenants, including a gross and net debt-to-EBITDA, and EBITDA interest coverage ratios, among others. At the end of June 2018, the company was in compliance with all of its covenants, and our base-case scenario assumes that Vinte will continue to maintain sufficient covenant headroom even if its EBITDA to decline 30%.

Outlook

The stable outlook reflects our view on Vinte's favorable growth prospects in Mexico, while it maintains its business flexibility to protect profitability. We also expect the company to continue investing in land reserves with a moderate use of debt, translating into a net debt-to-EBITDA ratio consistently below 2.0x.

Downside scenario

We could lower the rating in the next 12 months if Vinte's credit metrics deviate from our expectations, with net debt-to-EBITDA above 2.0x on a sustained basis. This scenario could occur if the company carries out a more aggressive-than-expected debt-financed strategy to support its growth strategy through greater land purchases than in our base case or to fund dividend payments.

Upside scenario

Despite our expectations that the company will maintain a prudent financial policy, with a moderate use of debt over the next 12 months, we view an upgrade unlikely within the next two years due to its relatively small revenue base and limited geographic diversification. However, a positive rating action could follow a significant improvement of these two factors, while Vinte's net debt-to-EBITDA remains consistently below 1.5x.

Ratings Score Snapshot

Corporate Credit Rating: BB/Stable/--
Business risk: Fair

- Country risk: Moderately High
- Industry risk: Moderately high
- Competitive position: Fair

Financial risk: Intermediate
- Cash flow/Leverage: Intermediate

Anchor: bb+

Modifiers
- Diversification/Portfolio effect: Neutral (No impact)
- Capital Structure: Neutral (No impact)
- Management and Governance: Fair (No impact)
- Liquidity: Adequate (No impact)
- Financial Policy: Neutral (No impact)
- Comparable Ratings Analysis: Negative (-1 notch)

Stand-Alone Credit Profile: bb

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry, Feb. 3, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

New Rating

Vinte Viviendas Integrales S.A.B. de C.V.	
Issuer Credit Rating	BB/Stable/--

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.