

EM Credit > Investment Grade



Gruma SAB de CV (GRUMAB)

Updated: Oct 29, 2015

Trade Idea:

- ▶ Maintain Buy GRUMAB 4 7/8 12/01/2024

Investment Rationale:

- ▶ Gruma is one of the world's largest corn flour, wheat flour and tortilla producers with leading industry positions in its Mexican home market as well as in the US. Gruma's strong competitive position is supported by a high degree of brand recognition and vertical integration, industry-leading production technologies and its extensive distribution network.
- ▶ Gruma reported strong 3Q15 results with revenues and EBITDA increasing 21% and 25% yoy, respectively, driven by healthy growth of the US business and favorable cost impact from softer MXN and feedstock prices. These provided for an industry leading 15.4% EBITDA margin and further underpin Gruma's consistent margin improvement trend. Gross leverage decreased further to around 1.3x, or 1.1x net of MXN 2,470mn in cash & equivalents.
- ▶ We expect Gruma to realize further deleveraging and margin improvement potential going forward resulting from a better sales mix, ongoing SKU rationalization and cost savings from softer feedstock prices and a weaker MXN vs. an increasing proportion of USD revenues (ca. 65% in 3Q15). In line with our internal rating forecast, S&P has upgraded Gruma to BBB- (stable) earlier this year, rendering Gruma's rating profile full IG. This can be expected to be technically supportive for spreads going forward due to increased demand from crossover investors, especially out of the US.
- ▶ Downside risks – Volatility in feedstock prices, further increase of food taxes in Mexico, resumption of dividend payments, general deterioration of risk sentiment towards Emerging Markets resulting in higher risk premia for Mexican credits

Recommendation(s):

View	Trade Horizon	Ticker	CPN	Maturity	Ratings		CCY	Issue Size	Yield	Spread (OAS)				Cash Price	ISIN
					S&P	Moody's				Entry	Target	Loss	Current		
Outperform	9 mo	GRUMAB	4.875	12/01/2024	BBB- (sta.)	NR	USD	400	4.06	205	175	235	202	106	USP4948KAD74

Levels as of 10/29/2015