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Famsa dollar bonds rally

Profits jump as retailer closes stores in US

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MEXICO CITY - Mexican retailer Grupo Famsa is posting its biggest bond rally in nine months after its decision to exit money-losing businesses in the United States propelled a sixfold jump in second-quarter profit.

Famsa's dollar bonds due in 2015 have climbed 1.3 cents to 101.72 cents on the dollar in the past week as the company reported that profit climbed by 179 million pesos ($13.4 million) on July 26, three months after saying it was beginning an "orderly exit" from the western U.S., including 22 stores in California. Yields on the notes tumbled 51 basis points, compared with a decline of 17 basis points for U.S. retailers rated junk, according to Bank of America.

Famsa, as the company is known, is refocusing on Mexico to bolster earnings as the economy grows at almost twice the pace of its northern neighbor. The company is closing U.S. stores after its bid to profit from a growing market of Spanish speakers in the country failed as costs increased faster than sales, helping push bond prices to a record low. Famsa's bond yields may drop 75 basis points this year to 9.56 percent, which would be the lowest since May, according to Grupo Financiero Interacciones.

"You're getting rid of a bad investment and saving the cash for a better investment," Alejandro Hernández, who manages $1 billion at Interacciones, said in Mexico City. "Everyone is going to take another look at this paper after the results. We're going to see a good rally."

Famsa's bonds yield 895 basis points more than similar-maturity Mexican government debt, compared with 940 basis points a week ago, according to data compiled by Bloomberg. Famsa is rated B at Standard & Poor's, five levels below investment grade and six steps lower than the government. Net income increased sixfold in the period as furniture and computers led a 5.3 percent pickup in revenue and the company limited operating costs.

Famsa closed its first store in California in the second quarter and is seeking to shutter the rest in the region by the end of the year, Chief Operating Officer Luis Gerardo Villarreal Rosales said in a July 27 conference call. The remaining 23 Famsa stores in the western U.S. account for about 9 percent of the company's 536,000 square meters of floor sales space.

The retailer will continue to operate stores in Texas and Illinois. Famsa, which opened its doors in 1970 in Monterrey, Mexico, moved into the U.S. in 2001 with its first store in California. The stores sell appliances, furniture and clothes, and offer financing to customers the retailer said wouldn't qualify for bank credit. The company, which plans to open at least 12 stores in Mexico in the second half, said same-store sales in the country rose 7.4 percent amid increasing demand for durable goods. Deposits at banking unit Banco Ahorro Famsa grew 18.8 percent.

Latin America's second-biggest economy will grow 3.9 percent this year, compared with an expansion of 2 percent in the U.S., according to the International Monetary Fund.

"The real thorn in their side was the U.S., specifically the California operations," Raymond Zucaro, a money manager at SW Asset Management, said.