



# Bimbo bonds rebounding

## Falling wheat prices boost company's outlook

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Bloomberg News

MEXICO CITY – Bond traders are regaining confidence that Grupo Bimbo can deliver on its pledge to cut debt from a three-year high as the world's largest breadmaker gets a reprieve from wheat prices.

Yields on Bimbo's dollar bonds due in 2022 decreased 0.24 percentage point in the past month and touched an all-time low of 3.37 percent yesterday as the price of wheat, the company's biggest expense, fell 8 percent from a record. The drop exceeds the 0.14 percentage point decline in investment-grade Mexico company debt and reverses a selloff that pushed Bimbo's borrowing cost to a one-month high of 3.72 percent on Sept. 14.

The worst U.S. drought in 56 years, which caused wheat prices to jump by almost 50 percent in a five-week span, had threatened to derail Bimbo's plan to lower debt to two times earnings from 3.02 times last year. As commodity prices ease, the Mexico City-based company is now winning back bond investors with its plan to reduce investment by almost 20 percent this year and halt acquisitions as it tries to end its longest streak of profit declines in almost a decade.

"The worst part of rising grain costs is over," Araceli Espinosa, a fixed-income strategist at Scotiabank Mexico, said in a telephone

interview from Mexico City. "The market is now reflecting the new outlook with lower pressure from commodities."

Mónica Bretón, a spokeswoman for Bimbo, declined to comment on the bond's performance.

In the second quarter, Bimbo lowered its total debt to 2.73 times earnings before interest, depreciation and amortization, according to data compiled by Bloomberg.

It reduced its annual investment budget to \$550 million from about \$700 million, Chief Financial Officer Guillermo Quiroz said on July 26. Bimbo is also refraining from takeovers after buying Sara Lee Corp's bakery units in North America, Spain and Portugal for \$850 million including debt in October 2011.

While its full-year profit will fall for a third straight year, according to analysts' estimates compiled by Bloomberg, Bimbo's net income is projected to jump to a record 7.17 billion pesos in 2013. That would break its longest earnings slump since a four-year decline ended 2003, the data show.

The price of wheat, Bimbo's biggest raw-material expense, will average \$770 a bushel in 2013, according to the median of 11 analysts' estimates compiled by Bloomberg. That's about 11 percent less than the price of wheat futures Tuesday.

"Now we're feeling more comfortable after wheat prices have

stabilized," Laura Martínez, an analyst at Standard & Poor's, said in a telephone interview. "With a scenario of stable commodity prices, Bimbo won't have a problem reaching its deleverage goals."

S&P raised Bimbo's outlook to stable from negative on June 19, citing the company's commitment to improving debt ratios. It rates Bimbo BBB, the second-lowest investment grade.

Guillermo Rodríguez, who helps manage \$5.5 billion of debt at Corp. Actinver SAB, says he isn't counting on further gains in Bimbo's notes. The company's debt already yields 38 basis points, or 0.38 percentage point, less than Latin American notes rated BBB, according to Credit Suisse.

"Bimbo's bonds are already kind of expensive" Rodríguez said in a telephone interview from Mexico City. "I don't think they can outperform similar-quality issuers. They aren't carrying much value to make them attractive enough."

U.S. farmers boosted their seeding programs for the next season after the drought caused a shortage over the summer. Planting of grains in the U.S. will increase next year, Informa Economics, the Memphis, Tenn.-based researcher, said in a report on Oct. 19. The U.S. winter-wheat crop, which farmers are now planting, will reach 42.538 million acres, up 2.9 percent from last year, Informa said.