

Homebuilders on the brink

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Reuters

Analysis

MONTERREY, Mexico - Struggling with slowing home sales and a lack of liquidity, Mexico's top three homebuilders may have to seek bankruptcy protection if they fail to reach an agreement with creditors in the short term.

Home sales at Geo, Urbi and Homex plummeted in the first quarter, exacerbating the companies' long-running cash shortfalls and, in some cases, leading them

to miss payments on debt and derivatives.

Analysts are skeptical that restructuring efforts will work, arguing that at least in the cases of Geo and Urbi, the companies will likely have to rely on protection under Mexico's version of U.S. Chapter 11, known as Concurso Mercantil.

"The homebuilders have a very heavy debt load ... about 20 (percent) to 30 percent of their total debt, mostly bank debt, is due in the next 18 months," said Marco Medina, an analyst at Ve por Mas. "They need a quick fix. They have limited time."

An Urbi spokesman said the company is not planning to file for bankruptcy, and was instead working to recalibrate its debt. Nonetheless, Urbi failed to pay 3.9 million pesos (\$320,800) in interest due last month, a development that ratings agency Moody's said could herald the beginning of the company's inability to meet all outstanding payments.

Urbi already faces lawsuits seeking over \$100 million in damages in the United States and Mexico over debt and bank derivative payments.

Urbi, Mexico's third-largest

homebuilder, closed out 2012 with a total debt burden of 20.1 billion pesos (\$1.64 billion) and only 116 million pesos in cash — a figure analysts suggest will prevent the company from paying bills coming due.

Geo, too, is in trouble, having failed last month to meet interest payments on its local debt, potentially triggering a broader default on the 400 million pesos in principal it owes.

Homex is in a better situation after selling its stake in prison-building projects for 4 billion pesos.