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Bondholders of Famsa suffering

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NEW YORK – The combination of sluggish economic growth and tax increases in Mexico is punishing bondholders of department store Grupo Famsa.

The company, which sells items from motorcycles to laptop computers, saddled investors with record bond losses last month as profit fell for a third straight quarter and same-store sales sank. Its $250 million of notes due 2020 dropped 4.9 percent in October, the most among cyclical-consumer corporate bonds in emerging markets, data compiled by Bloomberg show.

With Latin America's second-biggest economy struggling to rebound from its weakest growth since 2009 and a jump in the nation's sales tax rates making purchases more expensive, Famsa is having a hard time luring consumers to its stores. The company, which finances 80 percent of purchases made by customers that are typically low-income borrowers, is also being buffeted by a surge in defaults.

Consumers "are adjusting their spending patterns and being more cautious with how they deploy their disposable income," Rafael Elias, a Latin America fixed-income strategist at Credit Agricole, said by phone from New York. "Growth has been a little lower than anticipated in Mexico. It's affecting most of the retailers."

Paloma Arellano, a Famsa investor relations official, didn't return a phone call seeking comment on the company's bond losses.

"The first nine months of the year have represented a very challenging task for the company given the market condition that has predominated in Mexico during the period," Luis Gerardo Villarreal Rosales, the company's chief operating officer, said during an Oct. 24 earnings call.

Monterrey-based Famsa said Oct. 23 that profit fell 30 percent in the third quarter to 95.3 million pesos ($7.1 million) from a year earlier while same-store sales have now slumped 3.5 percent in 2014. Its lending unit saw its non- performing loan ratio jump to 16.2 percent from 14.8 percent a year earlier.

The central bank forecasts Mexico's economy will grow as much as 2.7 percent this year after a 1.4 percent expansion in 2013. Policymakers cut their estimate from an initial growth projection of as much as 4.2 percent, which they made last year. President Enrique Pena Nieto boosted the nation's sales tax to 16 percent in January as part of an overhaul aimed at reducing the nation's dependence on oil revenue.

Standard & Poor's lowered its outlook on Famsa's B rating to negative in August, citing the impact of weaker growth and the deterioration at the company's banking arm, Banco Ahorro Famsa. The ranking is five levels below investment grade.

While the ratings company anticipated a drop in sales from weaker consumption, the surge in non-performing loans was more than expected, according to Sandra Tinoco, a Mexico-City based analyst at S&P.

"The recovery hasn't been as huge or as important as was expected," she said by phone from Mexico City. "Consumers were more cautious and reduced their consumption. The group depends significantly on the bank regarding credit."

Famsa's bonds fell to a record low 95.06 cents on the dollar Oct. 31, with yields rising in October to 8.38 percent, according to data compiled by Bloomberg.

"The bonds are trading downwards, and there has to be some catalyst to reverse that," Michael Roche, a strategist at Seaport Group, said from New York. "Within the context of deteriorating consumer metrics, we'd need to see signs pointing to a recovery in consumer activity and confidence."

quotes

●● **The recovery (in Mexico) hasn't been as huge ... as was expected**••

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