

Emerging market bonds

Mexico housing - Out of favor II

- Since our 1 March *Mexico housing - Out of favor* report, its has been mostly downside for **Corporación Geo** (CorGeo), **Homex**, and **Urbi**.
- Rating actions have all been adverse, and bond prices have dropped between ten and thirty points depending on the tenor and the issuer.
- Current valuations may look tempting, but the sector remains out of our favor as we believe that visibility over the medium term is likely to be very low. We cannot rule out a rebound in prices due to short-term trading. If so, we suggest investors take any possible up-tick as an opportunity to reduce exposure to the sector.
- With the exception of the Homex 7.5% of 2015, bonds issued by the credits mentioned in this report are not SEC registered.

Mostly downside

Since our 1 March *Mexico housing - Out of favor* report, it has been mostly downside for **Corporación Geo** (CorGeo), **Homex**, and **Urbi**. Rating actions have all been adverse, and bond prices have dropped between ten and thirty points depending on the tenor and the issuer.

On 20 March, Moody's revised the outlook for its Ba3 rating for CorGeo and Homex to Negative from Stable. The rating action was prompted by the agency's view that credit metrics will remain under pressure in 2013.

Also on 20 March, Moody's punished Urbi with an arguably stronger blow by delivering a two-notch downgrade, from Ba3 to B2. In addition, Moody's placed the new rating on review for possible further downgrades. We note that this was the third multi-notch downgrade suffered by Urbi since the beginning of the month. On 1 March, Fitch downgraded Urbi from B to CCC with Negative outlook. On 4 March, S&P downgraded Urbi from B to CCC, and kept the new rating on review for possible further downgrades.

Valuations may look tempting, but we believe sector visibility is still low

Current valuations may look tempting in this environment of low yields. The risk of default in the short term may also be overpriced, especially in the cases of CorGeo and Homex. Urbi appears the weakest of the three Mexican homebuilders, but rating agency

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Credit ratings - CorGeo

	Moody's	S&P	Fitch
Outlook	NEG	STABLE	WATCH NEG
Senior Unsecured	Ba3	BB-	BB-
Subordinated	N/A	N/A	N/A
Preferred	N/A	N/A	N/A

Source: Bloomberg as of 21 March 2013

Credit ratings - Homex

	Moody's	S&P	Fitch
Outlook	NEG	NR	WATCH NEG
Senior Unsecured	Ba3	NR	BB-
Subordinated	N/A	NR	N/A
Preferred	N/A	NR	N/A

Source: Bloomberg as of 21 March 2013

Credit ratings - Urbi

	Moody's	S&P	Fitch
Outlook	WATCH NEG	WATCH NEG	NEG
Senior Unsecured	B2	CCC	CCC
Subordinated	N/A	N/A	N/A
Preferred	N/A	N/A	N/A

Source: Bloomberg as of 21 March 2013

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Moody's stated that it has enough liquidity to honor its short-term financial obligations.

However, the sector remains out of our favor as we believe that visibility over the medium term is very low, and we do not believe that this situation will improve any time soon. The Peña Nieto administration has announced a new housing policy, but details as to how the policy will be implemented. In our view, this missing link adds to uncertainty, risk, and maybe some mis-pricing.

We cannot rule out a rebound in prices due to short-term trading. If so, we suggest investors take any possible up-tick as an opportunity to reduce exposure to the sector.

With the exception of the Homex 7.5% of 2015, bonds issued by the credits mentioned in this report are not SEC registered.

Financial data - CorGeo

LTM as of:	12/2009	12/2010	12/2011	12/2012
Revenues (\$MM)	1,312	1,519	1,616	1,450
EBITDA (\$MM)	239	281	357	326
EBITDA margin (%)	18.2	18.5	22.1	22.5
EBITDA/Interest (x)	2.3	2.3	4.8	3.6
Debt/EBITDA (x)	2.6	2.7	2.7	3.4
Debt/Capital (%)	48.4	45.0	57.3	55.7

Source: Company reports as of 28 February 2013

Financial data - Homex

LTM as of:	12/2009	12/2010	12/2011	12/2012
Revenues (\$MM)	1,447	1,562	1,756	2,168
EBITDA (\$MM)	339	329	380	399
EBITDA margin (%)	23.4	21.1	21.6	18.4
EBITDA/Interest (x)	11.3	10.6	11.9	9.1
Debt/EBITDA (x)	2.3	3.3	2.9	4.0
Debt/Capital (%)	43.7	51.9	52.6	58.2

Source: Company reports as of 28 February 2013

Financial data - Urbi

LTM as of:	12/2009	12/2010	12/2011	12//2012
Revenues (USDmn)	972	1,186	1,312	994
EBITDA (USDmn)	225	255	350	279
EBITDA margin (%)	23.1	21.5	26.7	28.1
EBITDA/Interest (x)	2.8	2.7	3.8	2.5
Debt/EBITDA (x)	2.7	3.7	2.9	5.0
Debt/Capital (%)	31.6	43.1	47.5	52.0

Source: Company reports as of 28 February 2013

Appendix

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Corporacion Geo 1, 2, Desarroladora Homex 1, 2, URB DESARROLLOS URBANOS 1, 3;

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Appendix

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