**Mexichem, S.A.B. de C.V. (/gws/en/esp/issr/87116175)**

FitchRatings

# Fitch Affirms Mexichem's 'BBB-' IDRs, Upgrades National Scale Rating to 'AA(mex)'; Outlook Stable

Fitch Ratings-Monterrey-23 November 2010: Fitch Ratings has affirmed Mexichem, S.A.B. de C.V.'s (Mexichem) ratings as follows:

--Foreign currency Issuer Default Rating (IDR) at 'BBB-';
--Local currency IDR at 'BBB-';
--USD350 million senior notes due 2019 at 'BBB-'.

In addition, Fitch has upgraded the following ratings for Mexichem:

--Long-term national scale rating to 'AA(mex)' from 'AA-(mex)';
--MXN2,500 million Local Certificados Bursatiles due 2014 from 'AA-(mex)'.

The Rating Outlook is Stable.

The national scale ratings upgrade reflects Mexichem's solid operative and financial performance during the recent economic cycle, in which the company continued investing in growth while maintaining a stable financial profile. Fitch expects that the company's leverage will remain according to management's target of net debt-to-EBITDA below 2.0 times (x).

Mexichem's ratings are supported by the company's business profile as a leading vertically integrated chemical and petrochemical company in Mexico, with important market shares and presence in Latin America, which in turn translates into geographic revenue diversification. The ratings are also supported by Mexichem's competitive cost structure and solid financial profile, characterized by positive free cash flow generation in recent years. The ratings consider Mexichem's aggressive growth strategy through acquisitions, strong competition in all markets where it operates, as well as cyclical nature of the chemical and construction industries.

Mexichem's performance has remained strong reflecting its leading market position and pricing power, increased product and geographic diversification, as well as cost and working capital controls. As a result, the company has been able to maintain positive free cash flow generation, excluding acquisitions. During 2010, the company completed the acquisition of INEOS Fluor operations as well as Policyd and Plasticos Rex.

Mexichem operations are divided into three production chains: chlorine-vinyl, fluorine, and integrated solutions (basically polyvinyl chloride-PVC pipes and fittings), which mainly target the construction, agricultural and industrial sectors. The company benefits from its vertical integration which serves different segments along the value chain and allows it to focus its development toward value-added products. In addition, these factors create barriers of entry to other market participants. Management's strategy continues to focus on adding value to the main raw materials source of the company, salt dome and fluorspar. Future growth will be driven by the consolidation of current operations and acquisitions to complement the company's business portfolio.

Mexichem's revenues are closely linked to the U.S. dollar: 40% of consolidated sales are denominated and paid in U.S. currency, 40% is referenced to the dollar and paid in local currencies, and 20% is domestic. Mexichem has gained economies of scale and geographic scope, and to date exports its products to over 50 countries and has manufacturing facilities in 14 countries. In addition, Mexichem has developed in-house technology and has a low production cost given that its manufacturing facilities benefit from favorable labor and geographic conditions.

The company's credit protection measures remained strong and stable. For the latest 12 months (LTM) ended Sept. 30, 2010 Mexichem's EBITDA-to-interest expense coverage was 7.5x compared to 10.7x and 8.0x during 2009 and 2008, respectively; considering that the INEOS Fluor transaction was completed during the first quarter of 2010, total debt-to-EBITDA for the LTM September 2010 was 1.9x and net debt-to-EBITDA was 1.2x, in line with management target for the latter of 2.0x.

The company's liquidity is adequate and refinancing risk is low. For the LTM ended Sept. 30 2010, the company generated approximately USD225 million before acquisitions; total debt at the end of the third quarter was USD1,251 million, with cash and equivalents at the same date of approximately USD 450 million. Short term represents only 13% of total debt. Mexichem next important debt maturity is in 2012 when approximately USD400 million come due. Fitch expects the company to refinance the majority in advance.

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Applicable Criteria and Related Research:

--'Corporate Rating Methodology' dated Aug. 16, 2010;
--'Liquidity Considerations for Corporate Issues' dated June 12, 2007;
--'National Ratings - Methodology Update' dated Dec. 18, 2006.

**Applicable Criteria and Related Research:**
Liquidity Considerations for Corporate Issuers
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=328666&cft=0)
Corporate Rating Methodology
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=546646&cft=0)
National Ratings - Methodology Update
(http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=305544&cft=0)



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