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Nueva Elektra tests market with complex remittance securitization – Deal Preview

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The complex structure of Nueva Elektra del Milenio's (NEM) USD 500m seven-year remittance securitization, and the issuer's control by Grupo Salinas, make it difficult to judge pricing expectations, according to two buyside analysts and a sellside analyst. The notes will be amortizing, thus reducing their average life to 4.5 years, the first buyside analyst and the sellside analyst added.

The Grupo Elektra subsidiary, which groups its retail operations and Mexican money transfer business, has been holding fixed-income investor calls since 6 January. Credit Suisse, BCP Securities, and Jefferies are managing the transaction, which is targeted for early- or mid-week.

The deal is to be done through the Mexico Remittances Funding Fiduciary Estate special purpose vehicle (SPV), and has been rated BBB- by Fitch, one notch above NEM's BB+ corporate rating. The issuance, which has also been rated BBB+ by Mexico-based HR Ratings, was subject to obtaining an investment grade rating by Fitch, according to an offering memorandum (OM).

However, the lack of a rating from any of the other two rating agencies comprising the so-called "big three" – Moody's and S&P – and the complex collateral structure are leading some investors to not consider the issuance as investment grade, the sellside analyst noted.

Due to its own methodology, Fitch's ratings usually end up being one notch above those of its peers.

The Grupo Elektra subsidiary, which is raising funds for general purposes, operates the group's Mexican money transfer business, which handles more than 40% of the international electronic money transfers into Mexico, according to the OM.

"It's going to be somewhat a price discovery, as there aren't good comps," the first buyside analyst, who participated in the calls, said. "It's an ABS [asset backed security] structure, so you need to see how to price it."

The receivables to be contributed and transferred by NEM to the SVP relate to Mexican MXN-denominated reimbursement rights arising under existing money transfer agreements with companies such as Western Union, American Rapid, BBVA, and Transnetwork, as well as other reimbursement-based contracts, according to the OM.

Initial leads have been hinting at a targeted pricing between 4% and 5%, the sellside analyst said. However, in order for the notes to compensate for their risk, and also based on the current yields offered by some Mexican BB-rated or split-rated issuers, they should price somewhere

PROPRIETARY
Latin America

Consumer: Retail
Mexico

Issuer

Grupo Elektra S.A. De C.V.

Book-Runner(S)

BCP Securities
Credit Suisse
Jefferies Group LLC

Issuer

LatAm Primary New Issuance

Other

Grupo Salinas

Other

Salinas Family (Grupo Elektra, TV Azteca) between 5.125% and 5.5%, this source added, also highlighting the lack of adequate comparables.

Depreciation risks in FX remittance flows

The proposed transaction is exposed to a two-day rolling devaluation risk, as remittance flows are paid in MXN by the designated remitters – Western Union and its peers — although the liabilities are in US dollars. This risk is mitigated by the fact that there is significant excess coverage in cash flows to support a significant depreciation of the Mexican peso, according to Fitch.

All the cash flows from the remitters are set to be deposited in a pass-through account in Mexican pesos in Mexico, from where they would be transferred to an overseas collection account in US dollars, which will then be used to cover required expenses, as well as to fund a reserve account and to serve the notes' payments, the OM shows. After that, any excess cash would flow to NEM.

Despite this collateral package and the existence of the SPV, this is not a pure ABS issuance covered exclusively with the flows from the remittances, the sellside analyst noted. As such, if those flows aren't enough to cover the service of the bonds, NEM's retail operations would also play a role, as in a regular unsecured transaction, and on last instance the entire Grupo Elektra is to act as unconditional guarantor of the notes, the analyst added.

In any case, the existing remittance flows could be enough to cover the bond payments in full, the analyst said.

Compared to other international unsecured bonds that Grupo Elektra had in the past, through this new collateralized structure the company is seeking to raise funds at a lower cost, the first buyside analyst said.

NEM has a limited funding mix, given that a majority of the financing is held at the parent level, and a majority of liabilities held on NEM's balance sheet are current liabilities related to affiliated companies, Fitch wrote. The proposed USD 500m issuance is expected to represent approximately 84.6% of NEM's total funding.

NEM's leverage is very low, a feature that could give support to the issuance, according to the sellside analyst.

Remittance cash flows under pressure due to COVID-19

Since 2012, NEM has expanded its relationships with more than 15 money transfer operators in the US market, including digital money transfer operators. This has resulted in a significant increase in NEM's market share during that period, according to the OM.

Despite an increase in unemployment rates and a sharp contraction of activity in the US, the remittance cash flows that will be transferred as part of the issuance have not yet been impacted by global events, including the coronavirus pandemic, according to Fitch.

Since the beginning of the pandemic, NEM ensured the continuity of the money transfer business by keeping its points of contact open, which were deemed essential in Mexico as they also provide banking, telecommunications and mobility products and services, the company said in the OM.

However, although the global economy has continued to recover, Fitch expects recovery in the US to slow sharply in 4Q20, with the unemployment rate remaining above 7% throughout 2021. The increase in the unemployment rate, coupled with less generous unemployment benefits than those offered between April and July 2020, could pressure remittance flows going forward, the rating agency noted.

Salinas Pliego ownership a negative

The reputation of the group's controlling shareholder Ricardo Salinas Pliego, affected by misconduct allegations, may limit fixed-income investors' interest in the offering, according to the second buyside analyst and the sellside analyst.

"Not a fan of that group and already involved in Total Play, so we're not involved [in this deal]," the second buyside analyst said. "This one is a more complex structure as well."

Salinas Pliego's Total Play Comunicaciones sold a USD 575m 7.5% 2025 bond last year, which traded today at 99.875, slightly below the par issuance price, to yield 7.527%, according to MarketAccess. TV Azteca's USD 400m 8.25% 2024 bond last traded today at 53.

Even a good collateral package wouldn't be enough of a good reason to lure investors who are wary of Salinas Pliego's companies, according to the sellside analyst.

"Salinas Pliego, not even 20 meters away," a Mexican PM investing in some of the country's international issuers said. "Since Iusacell, I don't touch anything smelling of him."

Elektra's solid business profile a positive

On the other hand, NEM's credit ratings are highly linked to those of parent Grupo Elektra, given the strategic role that the subsidiary plays consolidating the group's commercial business, Fitch wrote. The money transfer business accounted for 8.3% of Grupo Elektra's commercial business revenues and 3.3% of its total consolidated revenues for the nine-months through 30 September 2020, compared to 8.2% and 3%, respectively, for the same period in 2019.

Grupo Elektra's focus is on the middle- and low-income economic sectors of the population, which represent approximately 66% of the total population in Mexico and Latin America, according to the OM.

The group has a solid financial profile, compared to other retailers, according to Fitch. Elektra has a sound financial flexibility due to its high levels of cash and marketable securities, and its operating margins and liquidity are higher than those of Grupo Famsa and El Salvador-based Unicomer, the ratings agency said.

NEM's money transfer business leverages the strong Elektra brand name recognition among the groups it targets, and receivers of money transfers recognize Elektra as a trusted brand and reliable service provider, the group wrote in the OM.

The company has more than 25 years of experience in the international money transfer business. From 2011 to September 2020, NEM's market share in terms of number of transfers handled increased from approximately 15.7% to more than 40%, a growth rate that is higher than that of the overall industry, according to the OM.

by Ero Partsakoulaki and Pablo Dominguez

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