Ideal Full Analysis

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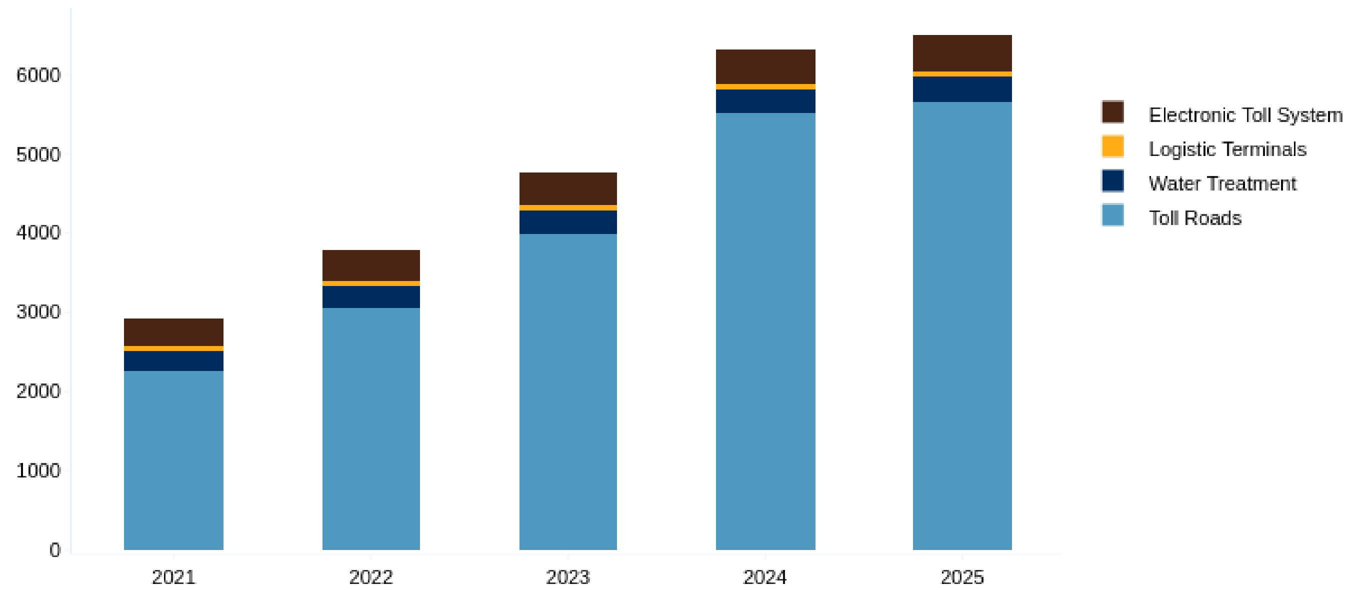
Credit Highlights

Overview

Key strengths	Key risks
Low leverage at the holding company level.	Exposure to emerging markets, which have higher country and regulatory risk than developed markets.
Diversified cash flow streams stemming from a wide asset portfolio.	Concentration of short-term financial liabilities at the holding level.
Assets have long-term operating contracts and generate stable cash flows.	

We expect Impulsora del Desarrollo y el Empleo en America Latina S.A.B. de C.V.'s (IDEAL's) portfolio to remain diversified in upcoming years. We expect IDEAL to continue expanding and consolidating its position in Mexico's transportation segment. This will be mainly thanks to the start of full operations of several toll roads in the next two to three years, among which are the Varas–Vallarta, Mitla–Tehuantepec, and Toluca–Atlacomulco projects. In our view, the company has sufficient cash and cash generation ability to keep expanding. Moreover, we don't expect IDEAL to increase the number of assets that are exposed to commodity prices, which could weaken our assessment of the stability of dividend distribution from the subsidiaries to the parent and could hinder IDEAL's business risk profile.

Historical and Projected Dividend Distributions



Source: S&P Global Ratings

We continue to view IDEAL's healthy credit metrics as a key strength, given the intrinsic volatility in dividends. In addition to a stable and diversified upstream of dividends, the company benefits from relatively low leverage, which we view as a credit strength considering the intrinsic volatility to which the company is exposed because it relies heavily on dividends. Most of IDEAL's consolidated debt is at the project level, meaning that the holding level mainly issues debt to meet working capital needs. While we consider the short-term debt concentration a negative factor, we expect IDEAL to continue funding expansion at the holding level, not at the asset level. Therefore, we forecast IDEAL to maintain debt to EBITDA at 1.0x-1.4x in the next two years.

IDEAL's portfolio of toll roads, which is the main cash flow generator, has posted a traffic volume growth in the first nine months of 2022 of 10%-15% compared with the same period in 2019, and we expect consistent growth will continue in the upcoming years as the pandemic-related effects slowly diminish. Traffic volume continues to rise after the start of recovery in 2021. This is thanks to the reopening of the economy in the country, the withdrawal of pandemic-related restrictions, benefiting the metropolitan area roads such as Autopista Urbana Sur, Toluca Bypass, and Toluca Atlacomulco, as well as long-distance roads such as Arco Norte and Pacífico Norte. As a result, we expect dividend distributions from IDEAL's toll roads to total about MXN4 billion for 2023 and close to MXN5 billion for 2024, which would represent almost 85% of total distributions. We base our dividend-distribution forecast on our expectations of traffic volume and tariff increase across the toll roads, which we expect to be close to 7% for 2023 and 6% for 2024, gradual deleveraging, reduction of point-in-time tax obligations, as well as the ramp-up of projects currently under construction or partly operating.

Outlook

The stable outlook on IDEAL reflects our expectations of stable and diversified distributions from its 22 subsidiaries, most of which operate in the transportation sector, the performance of which is strongly correlated with the country's GDP growth. In addition, we expect the company's credit ratios at the holding level to remain healthy, with debt to EBITDA at about 1.0x for the upcoming 12-18 months.

Downside scenario

We could lower the ratings on IDEAL if we take a negative rating action on Mexico. In addition, we could take a negative rating action if the company faces significant delays in the start of new projects or a weaker-than-expected performance increases the risk of lower upstream dividends to the holding level. In addition, if we expect leverage to increase above 1.5x, we could lower the ratings.

Upside scenario

We could upgrade IDEAL if we were to revise upward the company's stand-alone credit profile (SACP) and take a positive rating action on the sovereign. Higher SACP would result in an extension of the average debt maturity to more than two years, or if the greater share of the portfolio consists of projects with more stable cash flows, making distributions to the parent more reliable.

Our Base-Case Scenario

Assumptions

Our expectations for dividends coming from the operating toll roads incorporate the recent recovery in traffic, which rose 10%-15% above the 2019 level as of the third quarter of 2022. We expect traffic volumes in 2023 and afterwards to rise in line with our GDP growth expectations for Mexico: 0.8% for 2023, 2.0% for 2024, and 2.1% for 2025 and afterwards, according to "**Economic Outlook Latin America Q4 2022: A Period Of Below-Trend Growth Ahead**," published on Sept. 26, 2022.

- Tariff growth at the same pace as inflation, in line with the conditions set in most of the concession contracts. We expect average CPI in Mexico to be 6.1% for 2023, 4.1% for 2024, and 3.5% for 2025.
- For the water treatment plants, which are availability projects, we expect tariffs to increase in line with inflation, as stated in the concession contracts.
- Total debt of about MXN5 billion for the upcoming years, consisting of short-term uncommitted credit facilities. We believe the company will continue to finance investments at the project level.
- Capital expenditures (capex) of about MXN3 billion for the next three years. Capex includes mainly additional works for the Varas–Vallarta, Mitla–Tehuantepec, and Toluca–Atlacomulco .
- No upstream of dividends to IDEAL's shareholders.
- Debt to EBITDA at the holding level of about 1.0x for the next two years.

Key metrics

Impulsora del Desarrollo y el Empleo en America Latina S.A.B. de C.V.--Key Metrics*

Mil. $	2020a	2021a	2022e	2023f	2024f
EBITDA	7469	2937	3869	4853	6405
EBITDA margin (%)	61	80	83	86	89
Funds from operations (FFO)	5049	1807	2462	3150	4237
Capital expenditure	3359	1535	1000	1000	1000
Debt	5400	5292	5000	5000	5000
Debt to EBITDA (x)	0.7	1.8	1.3	1.0	0.8
FFO to debt (%)	93.5	34.1	49.2	63	84.7

EBITDA interest coverage (x)	27.7	7.9	10.4	13.1	17.3

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Company Description

IDEAL is a holding company with subsidiaries that have concessions and long-term agreements for designing, developing, and operating toll roads, water treatment plants, and logistic terminals. The company's portfolio is made up of the following projects:

- A concessioned highway network about 1,429.8 kilometers (km) long that services important economic areas in Mexico.
- Two water treatment plants with a capacity of 36.27 cubic meters per second.
- Logistics terminals, which have a flow of about 660,000 passengers per day, with access to the metro, bus, and taxi transportation, as well as the terminals' shopping areas. Revenue from terminals include parking fees, leases for commercial spaces, and other commercial activities.
- The largest electronic toll system in Mexico.

Business Risk

Our business risk profile assessment incorporates our expectation that dividends will remain stable. As of the end of September 2022, IDEAL benefited from having 22 subsidiaries in Mexico. In our opinion, the portfolio's diversity, the long-term nature of operating agreements, and the company's use of the project financing scheme help mitigate the potential interruption of dividend distribution to the holding level. IDEAL’s operations are moderately diversified across regions in Mexico, as it operates in 12 states and two economic sectors (water treatment and transportation). We also believe that IDEAL has no material exposure to a specific project, as none of the 22 subsidiaries represent more than 30% of dividend distributions, and because most of revenue comes from toll roads, while the main risk of cash-flow interruption is associated with traffic volumes.

After a year in which traffic volumes across Mexican toll roads have recovered to above pre-pandemic levels, we expect them to continue distributing sufficient dividends in the upcoming years to the holding level in order to keep debt to EBITDA at about 1.0x. Finally, we expect IDEAL to expand its portfolio, mainly in the transportation sector, with the entrance of operations of several toll roads that are currently partly operating or under construction.

Financial Risk

We forecast that IDEAL will continue to maintain comfortable leverage metrics, with dividend upstream of about MXN4.5 billion - MXN5.0 billion for 2023 and close to MXN6 billion for 2024, resulting in debt to EBITDA below 1.5x and funds from operations (FFO) to debt above 50% in the next 12-24 months. Our intermediate assessment of the company's financial risk profile reflects its capital-intensive nature. Our expectations for dividends are based on traffic volume and tariff increases for the toll roads, gradual deleveraging, reduction of point-in-time tax obligations at the project level, as well as the ramp-up of projects currently under construction or partly operating. In addition, IDEAL faces a tight debt maturity schedule, with a weighted average maturity of less than two years because of the short-term debt concentration at the holding level. Nevertheless, we don’t view the short-term maturities as a credit risk, given the expected upstream of dividends from the company’s subsidiaries.

Impulsora del Desarrollo y el Empleo en America Latina S.A.B. de C.V.--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-30-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	MXN	MXN	MXN	MXN	MXN	MXN
Revenues	15,693	13,982	13,959	15,816	13,657	20,970
EBITDA	7,558	7,984	9,141	9,426	8,055	11,531
Funds from operations (FFO)	(543)	325	1,289	3,119	(5,844)	4,860
Interest expense	7,358	3,176	3,121	4,608	12,711	4,674
Cash interest paid	7,080	6,210	5,877	4,269	12,039	3,322
Operating cash flow (OCF)	(730)	8,965	6,371	1,348	(4,273)	6,211
Capital expenditure	5,410	4,607	2,443	2,415	2,677	3,889
Free operating cash flow (FOCF)	(6,140)	4,358	3,928	(1,068)	(6,950)	2,322
Discretionary cash flow (DCF)	(6,272)	3,838	1,421	(2,236)	(13,597)	(3,490)
Cash and short-term investments	10,460	2,024	9,656	11,015	7,555	4,286
Gross available cash	10,460	2,024	9,656	11,015	7,555	4,286
Debt	61,850	76,709	76,546	52,905	34,289	41,125
Common equity	29,366	31,418	36,375	35,985	45,658	52,465
Adjusted ratios						
EBITDA margin (%)	48.2	57.1	65.5	59.6	59.0	55.0
Return on capital (%)	31.9	9.5	9.5	11.1	12.8	17.3
EBITDA interest coverage (x)	1.0	2.5	2.9	2.0	0.6	2.5
FFO cash interest coverage (x)	0.9	1.1	1.2	1.7	0.5	2.5
Debt/EBITDA (x)	8.2	9.6	8.4	5.6	4.3	3.6
FFO/debt (%)	(0.9)	0.4	1.7	5.9	(17.0)	11.8
OCF/debt (%)	(1.2)	11.7	8.3	2.5	(12.5)	15.1
FOCF/debt (%)	(9.9)	5.7	5.1	(2.0)	(20.3)	5.6
DCF/debt (%)	(10.1)	5.0	1.9	(4.2)	(39.7)	(8.5)

Reconciliation Of Impulsora del Desarrollo y el Empleo en America Latina S.A.B. de C.V. Reported Amounts With S&P Global Adjusted Amounts (Mil. MXN)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	45,348	38,638	20,970	11,531	10,019	4,674	11,531	9,141	5,797	3,889
Cash taxes paid	-	-	-	-	-	-	(3,349)	-	-	-
Cash interest paid	-	-	-	-	-	-	(3,322)	-	-	-

Reconciliation Of Impulsora del Desarrollo y el Empleo en America Latina S.A.B. de C.V. Reported Amounts With S&P Global Adjusted Amounts (Mil. MXN)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Lease liabilities	63	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(4,286)	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	4,991	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(2,930)	-	-
Noncontrolling/ minority interest	-	13,827	-	-	-	-	-	-	-	-
Total adjustments	(4,223)	13,827	-	-	4,991	-	(6,671)	(2,930)	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	41,125	52,465	20,970	11,531	15,010	4,674	4,860	6,211	5,797	3,889

Liquidity

We assess IDEAL's liquidity position as adequate, based on our expectation of the ratio of cash sources versus uses of more than 1.2x for the next 12 months, and that any debt maturity would be manageable. In our opinion, the company maintains good relationship with banks, based on its record of available credit lines from various financial institutions. In addition, IDEAL has tapped credit markets on several occasions in the last few years, which supports our opinion of a generally satisfactory standing in credit markets. The company has no financial covenants.

Principal liquidity sources

- Cash and cash equivalents of MXN6 billion at the end of the third quarter of 2022.
- Projected operating cash flows of MXN2.8 billion - MXN3.0 billion for the next 12 months.
- Intra-year working capital needs of MXN1 billion.

Principal liquidity uses

- Maintenance capex of about MXN1.5 billion for the next 12 months.
- Short-term debt maturities for credit lines of about MXN5 billion for the next 12 months.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Overall ESG factors have no material impact on our rating analysis of IDEAL. The mobility restrictions had a limited impact on the toll roads that IDEAL operates, with overall combined traffic decrease of 10%-15% in 2020 compared with 2019, while it increased 10%-15% in the third quarter of 2022 from pre-pandemic levels. We also believe that social factors, such as the interruption operations of several tolling stations by local farmers for several months, to be a one-off event.

Ratings Score Snapshot

Rating Component Scores

Foreign currency issuer credit rating	BBB/Stable/--
Local currency issuer credit rating	BBB/Stable/--
Business risk	Satisfactory
Country risk	Moderately high
Industry risk	Moderately high
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Adequate (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb
Group credit profile	bbb
Entity status within group	Core

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Methodology For Rating Project Developers, March 21, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of November 10, 2022)*

Impulsora del Desarrollo y el Empleo en America Latina S.A.B. de C.V.	
Issuer Credit Rating	BBB/Stable/--
Issuer Credit Ratings History	
06-Jul-2022	BBB/Stable/--
27-Mar-2020	BBB/Negative/--
28-Nov-2019	BBB/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.