

MOODY'S

INVESTORS SERVICE

Credit Opinion: **Servicios Corporativos Javier, S.A.P.I. de C.V.**

Global Credit Research - 08 Apr 2013

Monterrey, Mexico

Ratings

Category	Moody's Rating
Outlook	Negative
Senior Unsecured	B1

Contacts

Analyst	Phone
Griselda Bisono/New York City	1.212.553.1653
Philip Kibel/New York City	
Nick Levidy/New York City	

Key Indicators

Servicios Corporativos Javier, S.A.P.I. de C.V.

	[1]2012	2011	[2]2010	[2]2009	[2]2008
Total Revenues (Ps\$ mil.)	5,090	4,719	4,674	4,932	4,473
Recurring EBITDA (Ps\$ mil.)	722	896	873	1,022	1,108
Recurring EBITDA % Revenue	14.2%	19.0%	18.7%	20.7%	24.8%
Total Debt/Recurring EBITDA (X)	4.31x	3.74x	2.98x	2.33x	1.99x
Recurring EBITDA/Fixed Charges (X)	1.41x	1.82x	2.04x	2.99x	3.35x
Total Assets (Ps\$ mil.)	6,763	7,129	5,877	4,965	5,139
Secured Debt % Gross Assets	1.1%	1.5%	0.9%	2.2%	42.9%
Total Debt % Total Assets	46.0%	47.0%	44.3%	47.9%	42.9%

[1] For the last twelve month period ended December 31, 2012. [2] Restated for IFRS, which Javier adopted 1/1/11

Opinion

SUMMARY RATING RATIONALE

Moody's B1 senior unsecured debt rating reflects Servicios Corporativos Javier, S.A.P.I. de C.V.'s ("Javer") leading presence in Northeastern Mexico, particularly the state of Nuevo Leon, which is home to Mexico's third-largest metropolitan area, as well as the company's excellent liquidity position. The company specializes in the construction and commercialization of affordable entry level housing units as well as middle income and residential housing units. These positive factors are offset by weaker sales progress in certain Northern cities due to increasing drug-related violence in the region as well as limited subsidies in Javer's target markets. Other challenges include the need to invest capital in land, licenses, permits and infrastructure, which depending on the region can be costly, as well as the risk of finding homebuyers.

In March 2013, Moody's confirmed the senior unsecured debt rating of Servicios Corporativos Javier, S.A.P.I. de C.V. ("Javer"). Moody's concurrently assigned a B1 rating to Javer's proposed US\$50 million add-on to its existing senior unsecured notes due 2021. The rating outlook is negative. This concluded the review which began on December 3, 2012. The confirmation of the B1 rating reflects the fact that Javer, upon completion of the proposed ViveICA, S.A. de C.V. ("ViveICA") transaction, will be one of the largest players in the industry with a more diversified portfolio, stronger leverage and interest coverage metrics and neutral to positive free cash flow.

Credit Strengths

The key credit strengths for Javier are:

- Over 35 years of real estate experience, with a dominant position in the state of Nuevo Leon
- Javier's debt maturity schedule post its US\$ issuances has insignificant debt coming due until 2021, creating minimal liquidity risk
- Targets mainly low- and low to middle-income buyers, which are thriving demographic sectors
- As a result of the acquisition of VivelCA it will be one of largest players in the industry

Credit Challenges

The key credit challenges for Javier are:

- Concentration in Northern states of Nuevo Leon and, in particular, Tamaulipas, where drug-related violence has deterred home buying, which is somewhat mitigated with the acquisition of VivelCA
- Lack of subsidies in target markets has resulted in a shift to higher-income housing development
- Privately-owned developer, which deters transparency
- Heavy funding concentration with INFONAVIT take-out financing of low and middle-income housing, as timing of funding inflows could range from 3-6 months, which can create liquidity problems short-term
- Certain amount of speculative inventory as INFONAVIT allocates mortgages in certain regions and/or projects, however it is up to Javier to find buyers

Rating Outlook

The negative rating outlook reflects continued difficulty for Javier in meeting sales targets which has resulted in weaker than expected credit metrics, including Net Debt/EBITDA, Interest Coverage and EBITDA Margins. The fourth quarter of 2012 was challenging for the sector as a whole due to fewer subsidies allocated than what was projected as well as a new federal government that took office which slowed down the operations of the main housing agencies. In addition, demand for middle-income homes in the areas where Javier operates is still slow to recover and demand has not returned to pre-recession levels. Over 40% of Javier's revenues came from middle-income home sales in 2012. Competition is strong from regional players which has also factored into weak sales. Despite the VivelCA transaction, Javier continues to have a high concentration in the state of Nuevo Leon.

What Could Change the Rating - Up

Upward rating movement is unlikely in the intermediate term. A return to a stable rating outlook would be predicated upon the company maintaining EBITDA margins at or above 15%, while at least maintaining its current credit metrics. A smooth integration of the VivelCA portfolio would also be necessary for a stable rating outlook.

What Could Change the Rating - Down

A negative rating movement will occur should Javier encounter further challenges in reaching titling and sales targets which result in a weakening of credit metrics from current levels such that EBITDA margins fall below 15% and/or debt/EBITDA increases to or surpasses 4x, all on a sustained basis. Any challenges in the integration of the VivelCA acquisition would also cause negative rating pressure.

DETAILED RATING CONSIDERATIONS

Key factors influencing Javier's rating and outlook include:

Liquidity & Funding

Javier has an excellent liquidity position. A combination of cash flow from operations and one bank line are used primarily to fund construction. The company also has a US\$210 million unsecured bond due in 2021 that was refinanced in 2011 through the execution of an exchange offer in which an additional US\$30 million was issued under the same terms as the new notes. Currently, over 90% of the company's debt maturities are due in 2021, a

credit positive. Mortgage financing as of December 31, 2012 comes mainly from government entities and is broken down as approximately 96% Mexican Workers' Housing Fund (INFONAVIT) and 4% sofoles/banks, FOVISSSTE and co-financing products. Javier expects its mortgage financings from INFONAVIT to remain stable in the future. This includes all of the INFONAVIT products such as "apoyo INFONAVIT" and "Cofinanciamiento". Concentration with INFONAVIT is a concern because the company relies on it and other government entities to fund the take-out financing for newly built homes. This process can often take 3-6 months which could create short-term liquidity problems.

Leverage & Capital Structure

Javier's capital structure remains solid for its rating category. Javier's total debt as a percentage of gross assets as of December 31, 2012, was approximately 46.0%, while Debt/EBITDA (LTM) was 4.31x. After considering cash on hand, Net Debt/EBITDA (LTM) was 3.74x.

Market Positioning

Javier has a leading presence in Northeastern Mexico, particularly in Nuevo León with a 15% market share in loans granted by INFONAVIT in the state. Nuevo Leon is home to Mexico's third-largest metropolitan area, Monterrey (the state's capital), which is considered the business and banking center of northern Mexico and which is a large driver of job growth in the region. However, Javier's sales have been negatively affected over the past two years in certain regions of Nuevo Leon as well as the state of Tamaulipas, both states which share a border with the U.S., where drug-related violence and thus security concerns have resulted in a decline in job growth. This challenge will be mitigated by the acquisition of ViVeICA's low-income housing developments as Javier will have 46 developments in 11 states nationwide, 20 of them from ViVeICA, and further strengthen its presence in Central and Southern Mexico while diversifying out of Nuevo Leon, a market that has struggled over the past two years. As of December 31, 2012, the company's land reserves is sufficient to build approximately 117,804 units, or approximately seven years worth of construction. A considerable portion of this land bank is in troubled regions such as Tamaulipas and therefore is a concern. Positively, the company has made efforts to diversify into other states, including the State of Mexico, Queretaro and Jalisco, with the ViVeICA acquisition adding to this effort.

Sustainability of Cash Flow & Earnings

Javier's EBITDA margins declined to 14.2% at YE 2012 from 19.0% at YE 2011 due to lower subsidy availability in the regions where the company operates coupled with lack of demand. The low-income housing construction industry has also become increasingly competitive, particularly as most homebuilders shift to low-margin affordable housing construction, causing profit margin pressure for Javier. In 2012 32% of units were sold with a subsidy of which 76% was for vertical construction. Javier's sales mix for the year ended December 31, 2012 was approximately 44% affordable entry-level homes and 41% middle-income homes -- segments of the market where the greatest demand lies -- as well as 8% residential and 7% commercial lot sales. It is important to note that under Javier's operating model, its product mix pricing is lower than the standard market pricing, placing a majority of its sales in the low income to high-low income price range.

External Factors

Javier is a privately owned company, which in Moody's opinion deters the company's corporate governance and thus transparency. Moody's feels that management has implemented efficient controls and possesses good knowledge of the Mexican housing industry. The company does have audited annual financial statements and as of 1/1/11 reports under IFRS.

MOODY'S
INVESTORS SERVICE

© 2013 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE

MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually

at www.moody's.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for retail clients to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.