

September 5, 2008

Recovery Ratings Assigned To Speculative-Grade Mexican Corporations' Debt

Primary Credit Analyst:

Jose Coballasi, Mexico City (52)55-5081-4414; jose_coballasi@standardandpoors.com

Secondary Credit Analysts:

Eduardo Uribe, Mexico City (52) 55-5081-4408; eduardo_uribe@standardandpoors.com

Marcela Duenas, Mexico City (52) 55-5081-4437; marcela_duenas@standardandpoors.com

Laura Feinland Katz, New York (1) 212-438-7893; laura_feinland_katz@standardandpoors.com

Table Of Contents

Recovery Ratings Assigned To 16 Issues

Improved Prospects For Creditors In Mexico, But Some Concerns Remain

More Limited Recovery Prospects On The Unsecured Debt Of 'BB' Rated
Companies

Recovery Ratings Assigned To Speculative-Grade Mexican Corporations' Debt

On Aug. 29, 2008, Standard & Poor's Ratings Services began assigning recovery ratings to the secured and unsecured loan and bond issues of speculative-grade rated Mexican corporations. Applying our recovery rating scale and issue rating criteria guidelines to the issues of 13 entities resulted in 14 affirmations of 16 issue-level ratings and the raising of two as of Sept. 5, 2008.

The launch of our recovery ratings on speculative-grade debt issues in Mexico represents a new stage in our efforts to keep abreast of that country's evolving debt markets. It follows the release of recovery ratings in the U.S., Europe, and other markets, reflecting our belief that postdefault principal recovery has become a key factor in the decisions of local and international investors and creditors. The initiative in Mexico is supported by our recent review of the country's insolvency regime, our analysis of past debt recoveries there, and fundamental issuer- and instrument-specific, scenario-based recovery analysis. (See Standard & Poor's "Debt Recovery For Creditors And The Law Of Insolvency In Mexico" and "Introducing Recovery Ratings in Mexico," both published Sept. 19, 2007, on RatingsDirect.)

Recovery ratings indicate the estimated recovery prospects for creditors in the event of a debt issuer's payment default and serve as inputs to our traditional issue-level ratings. Going forward, in determining the global scale issue ratings for speculative-grade Mexican issuers, we will consider both the issuer rating, which indicates our view of the entity's likelihood of default, and the issue-specific recovery rating (see table 1). We have not assigned recovery ratings under the Mexican (CaVal) national rating scale.

Table 1

Recovery Ratings, Ranges, And Issue Ratings--Mexican Speculative-Grade Issuers			
Recovery rating	Description of recovery	Recovery range (%)	Issue rating notches
2	Very high	90-100	+1
3	Substantial	70-90	0
3	Meaningful	50-70	0
4	Average	30-50	0
5	Modest	10-30	-1
6	Negligible	0-10	-2

Recovery Ratings Assigned To 16 Issues

Most of the recovery ratings assigned to Mexican bond issues reflect our expectations of postdefault recovery of 30% to 70%. Of the 16 issues analyzed, 13 were assigned recovery ratings of '3', of which 11 indicate expectation of meaningful (50% to 70%), and two indicate expectation of substantial (70% to 90%), recovery; and three were assigned recovery ratings of '4', indicating expectation of average (30% to 50%) recovery. Only two issue rating changes resulted from our analysis.

Specifically, we assigned recovery ratings to debt issues of Axtel S.A.B. de C.V., Cablemás S.A. de C.V., Corporación Durango S.A.B. de C.V., Desarrolladora Homex S.A.B. de C.V., Grupo KUO S.A.B. de C.V., Grupo Posadas S.A.B. de C.V., Industrias Unidas S.A. de C.V., Maxcom Telecomunicaciones S.A.B. de C.V., Oceanografía

S.A. de C.V., Urbi Desarrollos Urbanos S.A.B. de C.V., and Vitro S.A.B. de C.V. We also assigned recovery ratings and upgraded Corporación Interamericana de Entretenimiento S.A.B. de C.V. to 'BB-' from 'B+' and Xignux S.A. de C.V. to 'BB+' from 'BB'. Issue ratings for these two entities had been one notch below the corporate credit rating, where they had reflected our previous approach to structural subordination. (See table 2.)

Table 2

Issue And Recovery Rating Actions On Mexican Corporate Debt, Aug. 29 through Sept. 5, 2008					
Company	Issue	Long-term corporate credit rating	Issue rating	Recovery rating	
Axtel S.A.B. de C.V.	\$275 mil 7.625% nts due 2017	BB-	BB-	3	
	\$250 mil 11% nts due 2013	BB-	BB-	3	
Cablemás S.A. de C.V.	\$175 mil 9.375% nts due 2015	BB	BB	3	
Corporación Durango S.A.B. de C.V. (CODUSA)	\$520 mil 10.5% nts due 2017	CCC-	CCC-	4	
Corporación Interamericana de Entretenimiento S.A.B. de C.V. (CIE)*	\$200 mil 8.875% nts due 2015	BB-	BB-	4	
Desarrolladora Homex S.A.B. de C.V.	\$250 mil 7.5% nts due 2015	BB-	BB-	3	
Grupo KUO S.A.B. de C.V.	\$200 mil 9.75% sr nts due 2017	BB-	BB-	3	
Grupo Posadas S.A.B. de C.V.	US\$225 mil 8.75% nts due 2011	BB	BB	3	
Industrias Unidas S.A. de C.V. (IUSA)	\$200 mil 11.5% nts due 2016	B	B	4	
Maxcom Telecomunicaciones S.A.B. de C.V.	\$200 mil 11% sr nts due 2014	B	B	3	
Oceanografía S.A. de C.V.	US\$335 mil 11.25% nts due 2015	B+	B+	3	
Urbi Desarrollos Urbanos S.A.B. de C.V.	\$150 mil 8.5% nts due 2016	BB-	BB-	3	
Vitro S.A.B. de C.V.	\$225 mil 11.75% nts due 2013	B	B	3	
	\$300 mil 8.625% nts due 2012	B	B	3	
	\$700 mil 9.125% nts due 2017	B	B	3	
Xignux S.A. de C.V.¶	\$92.8 mil 9.5% nts due 2009	BB+	BB+	3	

*Corporate credit and issue-level ratings raised. ¶ Issue-level rating raised.

We published a recovery report on Aug. 29 for each issuer to whose debt we assigned a new recovery rating or ratings. These reports, which explain the rationale behind our assigned recovery ratings, can be found on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. They are also posted on www.standardandpoors.com.

Improved Prospects For Creditors In Mexico, But Some Concerns Remain

We review jurisdictions globally to determine the relative creditor friendliness of each country's insolvency regime, and rank them from 'A', most creditor friendly, to 'C', least creditor friendly. (See Standard & Poor's "Recovery: Update: Jurisdiction-Specific Adjustments To Recovery And Issue Ratings," published June 20, 2008, on RatingsDirect.) According to our review of the Mexican insolvency regime and historical recovery outcomes, we classified Mexico in Group B of the publicly ranked jurisdictions, meaning it has a less creditor-friendly legal regime than countries in Group A. Creditors in Mexico have less control over insolvency proceedings than other constituencies--employees, shareholders, and government actors. Extensions in the proceedings can exceed two years, and outcomes for both secured and unsecured creditors are somewhat unpredictable.

Nevertheless, Mexico is now one of the friendlier jurisdictions for creditors in Latin America. This is largely because of an improved, but as yet not well-tested, Business Reorganization Act ("Ley de Concursos Mercantiles") passed in 2000. The Act was part of a series of reforms in the wake of the country's mid-1990s economic crisis (the "Tequila Crisis"). It sought to modernize Mexico's highly procedural and formalistic legal system, long characterized by extensive delays, unpredictability, and, at times, judicial bias. The Business Reorganization Act addressed many of these weaknesses by introducing shortened timelines for insolvency proceedings, flexible procedures to encourage voluntary restructurings, and specialized insolvency administrators to mediate and oversee reorganizations and liquidations under the jurisdiction of federal courts.

Following the criteria for Group B jurisdictions, recovery ratings in Mexico are generally capped at '2' (see table 3). This means that issue ratings can be up to one notch higher than the corporate credit rating. Only in limited cases with strong collateral coverage would we expect recovery to be a solid 90% to 100%, absent our jurisdiction-related concerns.

Table 3

Recovery And Issue Rating Guidelines-- Group B Jurisdictions		
Recovery range (%)	Recovery rating cap	Issue rating notches
100	2	+1
90-100	2	+1
70-90	3	0

More Limited Recovery Prospects On The Unsecured Debt Of 'BB' Rated Companies

For issuers rated in the 'BB' category, Standard & Poor's generally caps its recovery ratings on unsecured debt at '3', indicating expectation of meaningful (50% to 70%) recovery, to reflect a limit on recovery prospects because of the potential for additional debt on parity with and prior to the rated unsecured obligations. Issuers rated 'BB' often have very limited, if any, secured debt, and the terms of their existing debt issues generally leave ample room for additional debt issuance. Although our methodology assumes that, prior to default, all committed debt is fully funded, we do not assume the addition of any new debt by that time. However, as a company's credit profile heads toward default, the capital structure will look very different. The recovery rating cap of '3' effectively limits our issue-level rating on such debt to the level of the corporate credit rating on the issuer.

Recovery Ratings Assigned To Speculative-Grade Mexican Corporations' Debt

(For more information on the methodology used to derive our recovery ratings, see Standard & Poor's "Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt," published Jan. 7, 2008, on RatingsDirect.)

Copyright © 2008 Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscriber's or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.9823 or by e-mail to: research_request@standardandpoors.com.