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Five companies hold one-third of Mexico's private foreign debt

According to the English-language daily The News, as of March 1997, five companies accounted for more than one-third of Mexico's US$37 billion private foreign debt. The five companies are Cementos Mexicanos (CEMEX), Telefonos de Mexico (TELMEX), business conglomerate Grupo Alfa, tourism-related developer Grupo Sidek, and steel manufacturer Altos Hornos de Mexico (AHMSA). Two of the companies TELMEX and Alfa incurred the debt by borrowing heavily to prepare for the opening of the long- distance telephone market to competition. Partly to pay for expenses related to the expansion of its infrastructure, TELMEX's outstanding debt has increased to US$2.4 billion as of March of this year.

Grupo Alfa also borrowed to expand operations through its partnership with US-based AT&T. Alestra, an Alfa-AT&T joint venture, is one of two companies competing heavily with TELMEX for long-distance business in Mexico. Meanwhile, CEMEX the world's third-largest cement producer has accumulated debts totaling US$5 billion, which is almost 6.5% of the company's total assets. A large portion of CEMEX's assets are located overseas. For its part, steel giant AHMSA raised its debt to US$1.6 billion as of the first quarter of the year because of heavy investment in the mining sector and in capital equipment.

Finally, Grupo Sidek which is involved in construction and development of tourist resorts is still feeling the impact of the peso devaluation. As of March, Sidek's outstanding foreign debt had surpassed US$2.1 billion.

Domestic automobile sales still lag behind 1994 levels

According to a report published by the Asociacion Mexicana de Distribuidores de Automobiles (AMDA), domestic sales of automobiles have remained depressed during the past three years despite a recovery in the Mexican economy. In April, AMDA reported that, during the first quarter, domestic sales of motor vehicles improved from a year ago (see SourceMex, 04/23/97). However, the newest AMDA report contains data that puts the April statistics in better perspective.

According to AMDA, sales of automobiles have averaged about 30,000 in recent months, which is about 40% below the levels recorded in the months prior to the peso devaluation in late 1994 and the ensuing economic crisis. AMDA said the crisis has been especially hard on production of commercial trucks. In recent months, sales of these vehicles remained about 65% below the levels recorded before the devaluation of the peso. Mexico's recession has had a varied impact on automobile producers, who have managed to remain afloat by increasing exports (see SourceMex, 05/08/96 and 08/28/96). Ford de Mexico recently reported a lack of annual profits since 1994, while Volkswagen and Nissan have lost an important share of their market.

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Still, in early June, Ford de Mexico said the lack of profits has not discouraged the company from proceeding with its plan to invest US$3 billion per year over the next several years. Meanwhile, the only company that has performed relatively well recently has been General Motors de Mexico. In May, the company announced plans to double annual production at its plant in Silao, Guanajuato state, by the year 2000. Company executives said the decision is based partly on the company's success in selling the low-priced Chevy Corza model in the domestic market last year.

US-based Anheuser-Busch & Wal-Mart expand presence in Mexico

During May and June, the US brewing company Anheuser- Busch and the US discount chain Wal-Mart completed transactions to increase their share in joint ventures with Mexican partners. Anheuser-Busch finalized plans to expand its share in Mexican beverage company Grupo Modelo to 37%, from a previous 17.7%. The company had initiated the transaction in December 1996, but was unable to complete the deal because of a dispute with Modelo over the price of the shares to be acquired. Under the final deal reached by the two companies, Anheuser-Busch agreed to pay US$605 million for its stock increase. Anheuser-Busch obtained an additional seven seats on the Modelo board of directors, raising its total representation on the board to 10 seats.

Anheuser-Busch executives said the company plans to exercise its right to acquire another 13.2% share in Modelo by the end of the year. This would increase Anheuser-Busch's stake to 50.2%, effectively giving the US company majority control over its Mexican counterpart. "Mexico is a key market in our overall approach to globalizing our company," said Chairman August Busch III.

Separately, Arkansas-based retailer Wal-Mart announced plans in early June to increase its share of Mexican partner Cifra to 50%, effectively giving the US firm majority control over the joint venture. The Wal-Mart/Cifra partnership, which was created in 1991, includes 145 retail units and restaurants. Cifra also operates 228 retail units and restaurants, which would now be part-owned by Wal-Mart. Wal-Mart's expansion in the Mexican market is a sharp contrast to recent moves by other US retailers, which have scaled back their presence in Mexico. Earlier this year, for example, Kmart Corp. sold its Mexican stores for US$90 million, while Sears, Roebuck & Co. disposed of a 60% stake in its money-losing Sears de Mexico operation (see SourceMex, 04/30/97).

Other companies have also recently withdrawn from the Mexican market. Earlier this year, US television network NBC dissolved its three-year alliance with Television Azteca. Under the NBC-Azteca deal signed in 1994, the US company had agreed to provide management and programming expertise to the Mexican network in exchange for US$7 million and a chance to expand its identity abroad. However, Azteca broke the contract this year by refusing to honor an option allowing NBC to buy 1% of Azteca shares. In fact, the original agreement allowed NBC to acquire as much as 10% of Azteca. For its part, Azteca had filed a lawsuit alleging that NBC should not be allowed to buy any shares because the company had not provided services that were part of the deal. (Sources: Excelsior, 05/21/97; EL Economista, 05/23/97; The News, 05/23/97, 05/28/97; El Financiero International, 06/02/97; Reuter, Associated Press, 04/30/97, 06/03/97)

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