

FCFE

Quarterly Report

Confirms resilience despite difficult environment

- **FCFE reported a positive quarter, with improvements in its results, despite a 6.5% y/y drop in demand impacted by the pandemic, which led to lower transmission revenues**
- **Despite a scenario of economic instability, the electricity sector managed to show resilient behavior. The REIT registered a 4.9% increase in its 2Q20 distribution vs. 2Q19**
- **We increased our PT2020 to \$26.50 after incorporating a lower estimated drop in energy demand, as well as lower interest rates into our valuation model. We reiterate BUY**

Positive results despite the current difficult circumstances. 2Q20 FIBRA E CFE results showed a defensive performance despite the closure of important industries for the sector. We consider that this quarter was the most affected by the confinement and we expect a better performance of the demand forward. According to the REIT, the average weekly transmission revenue fell 5.6% y/y, thus considering the approved increase in the regulated tariff of 1.0%, the average weekly variation in demand would be -6.5%, in line with our estimates. Thus, electricity transmission revenues fell 6.2% y/y. On the positive side, the amount of reimbursements made by the promoted trust registered an inter-annual reduction of 16.9%, mainly due to lower inter-company expenses (professional and corporate services expenses). Derived from the above, FCFE income reached \$813 million, which represents an increase of 3.9% y/y, in line with expectations. There was a strong reduction of 53.9% y/y in the management fee, which is the main expense, leading to year-on-year increases in EBITDA and FFO of 5.9% and 5.8%, to \$795 million and \$797 million. Thus, the respective margins expanded by 1.8pp and 1.7pp to 97.8% and 98.0%, respectively.

August 3, 2020

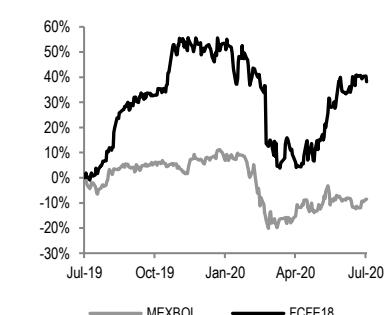
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BUY	
Current Price	\$25.29
PT 2020	\$26.50
Distribution payment	\$2.83
2020e	6.0%
Distribution payment(%)	10.8%
Upside Potential	28.98-17.53
Max - Min LTM (\$)	1,311.2
Market Cap (US\$m)	1,138
CBFEs Outstanding (m)	75%
Float	24.8
Daily Turnover (\$m)	8.5x
Valuation metrics LTM	
FV/EBITDA	8.5x
P/E	8.5x

Relative Performance to MEXBOL



Financial Statements

	2018	2019	2020E	2021E
Revenues	2,997	3,212	3,331	3,438
EBITDA	2,932	3,108	3,256	3,346
EBITDA Margin	97.8%	96.8%	97.8%	97.3%
FFO	2,940	3,122	3,265	3,353
FFO Margin	98.1%	97.2%	98.0%	97.5%
Total Assets	23,403	25,530	26,117	27,161
Cash	1,074	45	45	45
Total Liabilities	0	0	0	0
Debt	0	0	0	0
Common Equity	23,403	25,529	26,117	27,161

Source: Banorte

Valuation and financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	9.4x	9.2x	8.8x	8.6x
P/FFO	9.4x	9.2x	8.8x	8.6x
P/ML	1.0x	1.6x	1.3x	1.3x
ROE	12.6%	12.2%	12.5%	12.3%
ROA	12.6%	12.2%	12.5%	12.3%
Cap rate	10.6%	10.8%	11.4%	11.7%

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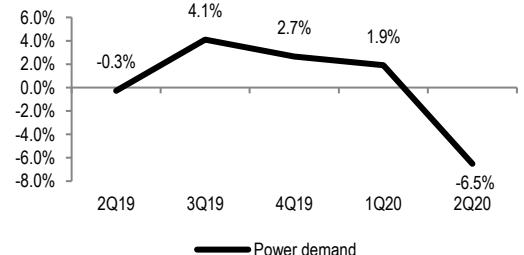
FCFE – Results 2Q20

MXN, million

Concept	2Q19	2Q20	Var%	2Q20e	Var% vs. Estim.
Revenue	783	813	3.9%	794	2.5%
EBITDA	751	795	5.9%	770	3.3%
FFO	753	797	5.8%	771	3.4%
Margins					
EBITDA Margin	96.0%	97.8%	1.8pp	97.0%	0.8pp
FFO Margin	96.3%	98.0%	1.7pp	97.1%	0.9pp
CBFE Distribution	0.67	0.70	4.9%	NA	NA

Power demand

Var. y/y

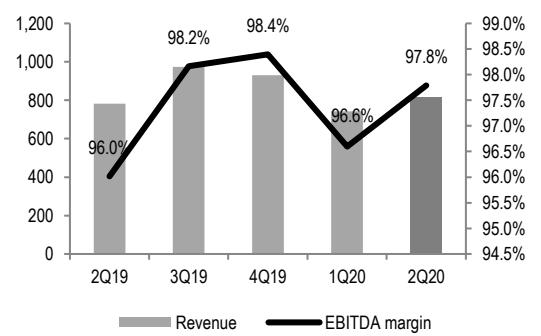

Income Statement

Year	2019	2020	2020	Variation	Variation
Quarter	2	1	2	% y/y	% q/q
Revenue*	783	742.6	813	3.9%	9.5%
Trust expenses	31	25.3	18	-42.3%	-28.8%
EBITDA	751	717.3	795	5.9%	10.9%
EBITDA Margin	96.0%	96.6%	97.8%	1.8pp	0.0pp
Interests earned	2	2	2	-12.6%	-2.7%
FFO	753	719.1	797	5.8%	10.9%
FFO Margin	96.3%	97%	98.0%	1.7pp	1.2pp
CBFE distribution	0.67	0.63	0.81	21.3%	27.4%
Balance Sheet					
Total Assets	22,534	24,809	23,980	6.4%	-3.3%
Cash & equivalents	43	43	46	8.1%	6.3%
Financial instruments	22,490	24,766	23,931	6.4%	-3.4%
Total Liabilities	0	0	0	0.0%	0.0%
Debt	0	0	0	0.0%	0.0%
Total Equity	22,534	24,809	23,980	6.4%	-3.3%

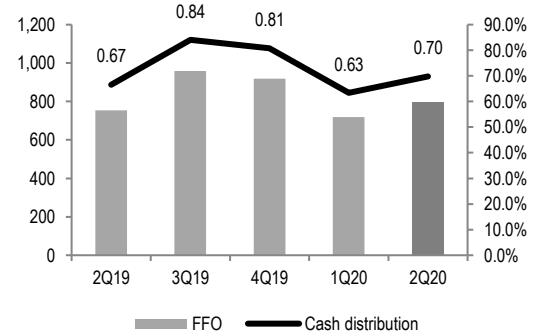
Source: Banorte. *Revenue comes from the tenancy of 6.78% of collection rights from the promoted trust.

FCFE - FFO / Cash Distribution

MXN, million / MXN, pesos


FCFE - FFO / Cash distribution

MXN, million / MXN, pesos



2020 Estimates

We believe that the most negative impact of the pandemic on the demand for electricity was already observed in 2Q20 due to the closure of several important sectors of the economy. We saw the resilience of demand, which showed a smaller drop compared to the expected contraction in economic activity for the quarter. Thus, we believe that a better performance in transmission volumes will be reflected in the next quarters, as the reopening of key industries for the sector continues.

Considering the above, for 2020 we estimate a lower annual drop in demand of 2.9% (vs. 6.2%e previously), which will be partially compensated by the increase in the regulated tariff of 1.0%, previously approved by the CRE for this year, which would lead to a 2.5% y/y decrease in revenues from collection rights (from the electricity transmission service). On the other hand, as a result of the savings achieved in 1H20 related to professional and corporate services in the reimbursements to CFE Transmission, we slightly adjusted our estimate for the use of the approved budget for the year to 86.7% (vs. 89.8% previously).

Thus, we expect FIBRA E CFE revenues to reach \$3.3 billion, an increase of 3.7% year-on-year (vs. -2.2% initially). It is important to remember that in 1Q19 FCFE, a part of the revenues were advanced in 4Q18 as a fiscal strategy to comply with the minimum distribution, so in a comparable basis the expected decrease would be 2.7% y/y (vs. -8.4% previously). It is worth mentioning that these variations would be pressured by a high comparative baseline in view of a strong demand observed in 2019. Meanwhile, due to a lower amount of maintenance expenses than in 2019, we estimate that EBITDA will increase by 4.7% (vs. -1.8%e before), to reach \$3.3 billion, with a margin of 97.8%, being 1.0pp higher than in 2019, which was affected by an extraordinary charge. Considering the revenue comparability mentioned above, EBITDA would register a drop of 2.0% y/y (vs. -8.2%e previous). Finally, we project that by 2020, the distribution per CBFE will be \$2.83, equivalent to a 12.2% yield, which is 5.7pp higher than the yield of Mexico's 10-year MBono estimated for the end of 2020 by our economic analysis area of 6.50%.

Valuation and PT2020 of \$26.50

Based on our estimates, and on a conservative basis, we project that the REIT's cash distributions will have a 2.1% Compounded Annual Growth Rate (CAGR) for the period 2020-2048 (the life of the FIBRA). Despite the challenging environment, we believe that going forward, distributions could be supported by a constant demand growth. In addition, we have yet to review the new pricing methodology, which could even result in a further increase, although we are not conservatively including this in our estimates.

Through the Discounted Dividend Method (DDM), where we discounted cash flows in two steps 2021-2026 and 2027-2048, we obtained our PT2020 of \$26.50, which represents an estimated P/FFO multiple of 9.2x, above the 8.5x 1-year average and the current multiple. We believe that a better benchmark could be with the sector, with a 2020e multiple of 9.5x, reflecting in our view,

a very attractive discount of the REIT and more when considering the REIT's defensive profile, as well as the higher cash distribution yield over the last twelve months of FCFE of 12.5%, which is much higher than the sample average of 7.1%.

In our assumptions we considered a cost of capital (CAPM) of 12.1% and 12.7%, respectively. The risk-free rate used for the first stage is 6.5% (closing of the 10-year MBono 2020e by our Fixed Income area) and for the second stage is 7.08% (which we obtained by adding the 5-year historical average of the differential between the 30-year MBono and the 10-year MBono at the first rate); Beta of 0.9 for both periods and a market risk premium of 6.5%, seeking to be more conservative in the face of a very complex global scenario.

FCFE- Dividend Discount Model

MXN, million

Concept	2020e	2021e	2022e	2023e	2024e	2025e	Last Cash Distribution
Cash Distributions	3,263	3,370	3,462	3,530	3,613	3,698	5,919

		YE20
Risk-free rate (RF)	6.50%	Present value 2021-2026
Equity Risk Premium (RM)	6.50%	Present value 2027-2048
Beta	0.9	
CAPM (2021-2026)	12.09%	(=) Total DDM value
		30,116
Risk-free rate+ Differential		CBFEs outstanding
30-year Mbono vs. 10-year MBono	7.08%	1,138
Equity Risk Premium (RM)	6.50%	Target Price \$
Beta	0.9	26.50
CAPM (2027-2048)	12.67%	Current Price
		25.29
		Potential Return
		4.8%

Source:Banorte estimates.

We reiterate BUY in view of a better performance in the REIT results and an attractive cash distribution

For 2020, we estimate the cash distribution to be \$2.83 per CBFE, which equates to an annual return of 12.2% (6.0% excluding the 1Q20 and 2Q20 distributions already paid). Taking into account the above and the potential appreciation of our PT 2020, the potential total return would be 10.8%. We maintain our positive longer-term outlook for the FCFE which will also be supported by lower interest rates in the market, so our recommendation is to BUY.

Relative Valuation

REITs	Price	Mkt Cap	Revenue	EBITDA	EBITDA	FV/EBITDA			P/FFO			P/BV	Ditribution Return	Implicit Cap Rate	Loan to Value (LTV)
			LTM	LTM	Margin LTM	LTM	2020e	2021e	LTM	2020e	2021e				
FUNO11	17.95	3,211	863	668	77%	13.3x	14.0x	12.6x	7.6x	38.0x	8.6x	0.4x	7.8%	8.1%	45.3%
FVIA16	29	1,551	35	16	46%		9.3x	8.3x				1.1x		4.6%	
FIBRAPL	43.58	1,653	188	134	71%	18.8x	16.0x	14.7x	18.7x	14.6x	13.5x	0.7x	5.6%	5.9%	28.8%
DANHOS13	21.40	1,368	241	181	75%	9.0x	10.9x	9.2x	8.2x	12.1x	10.1x	0.5x	6.8%	13.3%	8.7%
TERRA13	27.58	996	195	151	78%	13.5x	12.6x	12.0x	9.3x	8.7x	8.4x	0.7x	8.6%	8.3%	39.9%
VESTA*	33.24	900	148	120	81%	13.5x	13.1x	12.5x	17.0x	11.3x	10.7x	0.8x	6.3%	8.7%	36.7%
FIBRAMQ	25.63	880	180	150	85%	10.2x	9.2x	9.0x	6.9x	6.4x	6.1x	0.6x	7.3%	9.4%	41.6%
FMTY14	9.98	429	59	47	80%	11.7x	12.2x	11.1x	10.8x			0.8x	7.3%	9.0%	31.4%
FIHO12	4.35	159	195	57	30%	6.8x	5.8x	5.5x	4.9x	3.8x	3.5x		7.7%	17.8%	28.0%
FSHOP13	5.52	130	70	45	64%	9.9x	12.0x	10.3x				0.2x	9.1%	10.5%	40.4%
FINN13	5.00	123	64	21	33%	11.9x			9.2x			0.4x	4.9%	9.4%	30.7%
INFRAE18	18.50	0	0	0									8.7%		
Average		877	172	122	59.9%	10.8x	10.5x	9.6x	9.3x	11.9x	7.6x	0.6x	7.1%	10.0%	33.1%
Median		896	148	57	73.1%	11.7x	12.0x	10.3x	8.7x	10.0x	8.5x	0.6x	7.3%	9.2%	34.0%
FCFE18	25.29	1,277	224	152	68%	8.5x	8.8x	8.6x	8.5x	8.8x	8.6x	1.2x	12.5%	14.4%	0.0%

Source: Banorte, Bloomberg. (07/28/2020)

Certification of Analysts.

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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		Reference
BUY	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>	
HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>	
SELL	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>	

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History of PT and ratings

Stock	Date	Recommendation	PT
FCFE18	07/28/2020	BUY	\$26.50
FCFE18	04/21/2020	BUY	\$22.50

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