

TELECOMMUNICATIONS

Sector Note

December 23, 2020

Laying the foundation for future growth

- In [2021](#) the telecommunications sector will continue to benefit from connectivity needs in the 'new normality', although the pace of net user additions could be moderated
- Migration to new technologies, such as 5G and GPON, will lay the foundation for future growth, while consolidation and economic concentration matters will continue to attract the focus
- We continue to favor Amx and Axtel, who are shaping up to benefit more clearly from greater data demand, in view of the eventual arrival of the internet of things

With positive mid-term outlook. The telecommunications sector has been one of the few who have benefited from the 'new normality'. Confinement and remote working exacerbated consumers' growing needs for connectivity and entertainment, reflected in attractive additions of revenue-generating units (RGUs), low disconnection rates, and significant growth in data traffic. While we believe that these changes in consumption habits will be permanent, and 2021 is shaping up to be of [economic recovery](#), we anticipate that this year net user additions could moderate slightly in the face of a high comparative base. Notwithstanding the above, migration of networks to new technologies such as 5G and fiber optics (like Gigabit Passive Optical Networks or GPON) will lay the foundation for sector's growth in the medium term.

The third wave of telecommunications growth is near. Internet of Things (IoT) or the connection of any device to the Internet, with the aim of sending and receiving data in real time, is expected to demand higher mobile transmission speeds and lower latency for simultaneous device linking (from wearables and applications for cars or homes, to smart cities, and industry solutions). In this regard, Deloitte in its report '*5G Ecosystem: The digital heaven of opportunities*' projects that connected intelligent devices in 2025 will reach 25.2 billion (vs 9.1 billion in 2018), as a result of greater use of this technology for home applications and especially, in the industrial segment. Meanwhile, according to the November 2020 *Ericsson Mobility Report*, mobile data traffic is estimated to more than quadruple by 2026, rising from 51 exabytes per month at the end of 2020 to 226EB at the end of 2026.

5G will be the key... The deployment of the fifth-generation mobile communication network (5G) will be the cornerstone for achieving this goal, since it increases the speed 10x (>1Gbps) vs. that of 4.5G or LTE (long term evolution), and at the same time decreases latency (<1ms). Although the deployment of this technology has already begun in several parts of the world, pilot tests have barely been launched in Latin America. América Móvil itself was the first to do so in the region, migrating some areas of Brazil and

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Consumer and Telecom

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AMX - BUY	
Current Price	\$14.18
PT 2021	\$18.00
Dividend 2021	\$0.40
Dividend Yield (%)	2.8%
Upside Potential	29.8%
Valuation metrics LTM	
FV/EBITDA	5.3x
P/E	30.7x

AXTEL - BUY	
Current Price	\$7.07
PT 2021	\$10.00
Dividend 2021	
Dividend Yield (%)	
Upside Potential	41.4%
Valuation metrics LTM	
FV/EBITDA	5.2x
P/E	34.9x

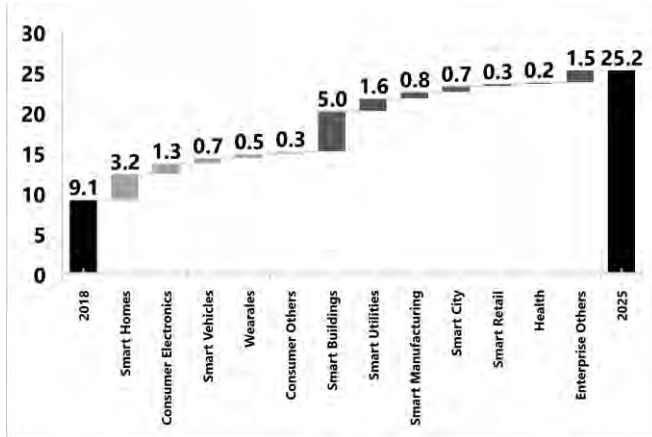
MEGA - HOLD	
Current Price	\$71.88
PT 2021	\$84.00
Dividend 2021	\$1.90
Dividend Yield (%)	2.6%
Upside Potential	19.5%
Valuation metrics LTM	
FV/EBITDA	6.3x
P/E	14.3x

TLEVISA - BUY	
Current Price	\$33.21
PT 2021	\$47.00
Dividend 2021	\$1.30
Dividend Yield (%)	3.9%
Upside Potential	45.4%
Valuation metrics LTM	
FV/EBITDA	6.0x
P/E	N.A.

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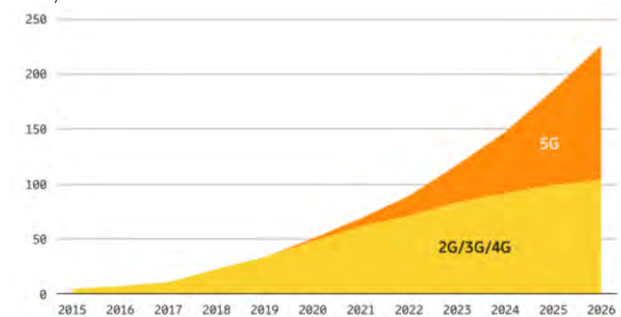
Colombia, in partnership with Ericsson. In that sense, we expect that by the end of 2021, at the latest, we will see the first 5G tests in Mexico, Chile, and Argentina, leveraged on the Dynamic Spectrum Sharing (DSS) technology, which only implies a software upgrade, leaving aside for the time being, the heavy investments in base stations construction to increase the node densification required by 5G for transmission delays. The following graphs show some indicators about the expected evolution of the telecommunications sector around the world:

Internet of Things (IoT) connections in the world
Billions of smart devices



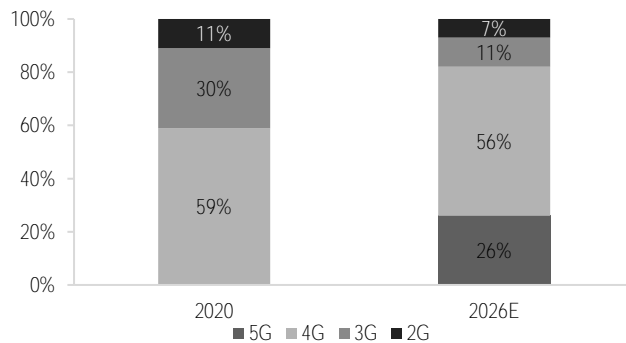
Source: Deloitte "5G Ecosystem: The digital heaven of opportunities" (Sep. 2019), Banorte

Global mobile data traffic
Exabytes



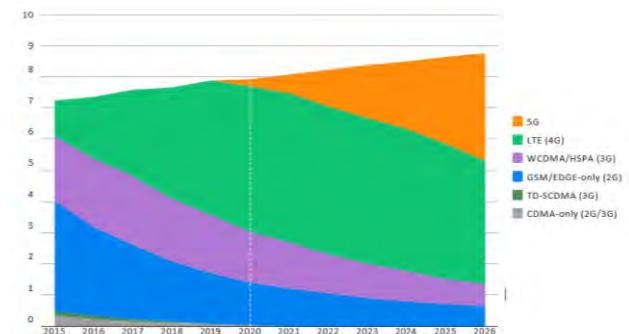
Source: Ericsson Mobility Report (Nov. 2020)

Latin American Penetration by Type of Technology
%



Source: Ericsson Mobility Report (nov. 2020)

Global mobile subscribers by technology type
Billions



...while waiting for major spectrum auctions... The pandemic delayed the auctions of radio frequency bands that have been identified as conducive to 5G deployment. However, 2021 is shaping up to finally resume these initiatives in countries like Mexico, where the [IFT will auction the 3.4-3.45GHz spectrum](#), or Brazil, which is preparing the largest rights auction to use radio frequency bands in its history for the end of 1H21, and potentially also take place in Colombia and Peru, while in February we will know the tender results in Chile. Consequently, we believe this will be one of the topics that will attract most attention from investors in 2021.

...although economic competition matters will also continue to attract the spotlight... In our view, market concentration issues will continue to be one

of the sector's focus in 2021. First, in Mexico we will have to wait to know the effect that the [new asymmetric measures imposed by the IFT](#) could have, as well as to know the result of [the new procedure that the regulator initiated against Televisa in the Pay TV segment](#). Meanwhile, economic competition in Brazil's telecommunications sector will also be a topic of discussion, since Anatel's authorization for [the acquisition of the OI Group's mobile business \(OIBR\) by the three-party partnership of América Móvil, Telefónica Brasil \(VIV\) and Telecom Italia \(TIM\)](#) is still pending.

The above will be very relevant, especially considering the strong market share held by the three operators and the acquisition target, recalling that recently [Amx desisted from its purchase of Telefónica El Salvador due to concentration issues](#). However, we still view good odds that the Brazilian regulator will give its approval to the transaction, which in our opinion could open the door to more joint acquisition offers in the region.

...and further sector consolidation in Latin America... Telefónica's exit from Latin America –except Brazil–, announced at the end of 2019, will most likely continue to open up opportunities for consolidation in the sector. Even more so, considering that the Spanish company has not yet concluded the sale of its businesses in Mexico, Argentina, Colombia, Peru, Chile and Ecuador, as well as in some Central American countries (including, of course, El Salvador, which, as we have already mentioned, was abandoned by Amx). In our view, taking into consideration market concentration, it is very likely that offers submitted individually by the main operators in each country will face significant objections from the regulator due to economic competition concerns. In that sense, we believe that it is more feasible that operators with presence in adjacent countries (but not necessarily in one of them) will submit bids.

Notwithstanding the above, we believe that if –as we hope– the Brazilian regulator gives its approval to the joint acquisition of OI's mobile business, this could open the door to the submission of offers for TEF business in consortiums among the main operators in each country, with the objective of not affecting the concentration in a relevant manner.

América Móvil, the best option in Latin America to invest in 5G. The undisputed leadership position that Amx holds in Latin America, not only in terms of mobile phone subscribers in the main economies of the region, but also in terms of infrastructure and financial capacity, in our believe, places the issuer in a privileged position to benefit from the third wave of growth in the industry that 5G, and eventually IoT, will bring.

AMX

Leaving the US but getting stronger in Latam

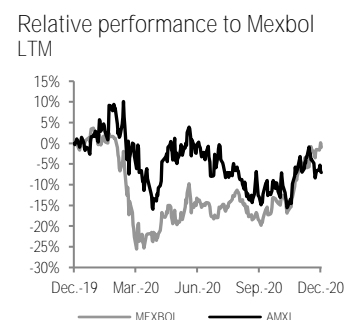
- We have added to our estimates the [sale of Tracfone](#) in the US and the [acquisition of 1/3 of OI's mobile business in Brazil](#), which would boost margins and decrease leverage
- We believe that in 2021 Amx will lay the foundation for future growth, testing 5G in Mexico, Chile and Argentina, and advancing its deployment in Brazil and Colombia
- We establish a PT2021 of MXN 18.00, which represents a FV/EBITDA 2021E of 5.7x, above the current multiple, but in line with the 3Y average of 6.0x. In view of the positive outlook we recommend BUY

Profitability and capital structure are strengthened. After the US Federal Trade Commission (FTC) authorized the sale of Amx's US subsidiary to Verizon, we have assumed this divestiture as of 2Q21 in our projection model. In addition, we added 10.8 million OI mobile subscribers to the Brazilian operations on the same date. This would be reflected in a 1.6% y/y decrease in mobile subscribers, and an 8.3% drop in revenues; but only 1.7% in EBITDA –due to Tracfone's deconsolidation, that as a mobile operator had consistently lower margins, which would more than offset the effect of the lower profitability of the acquired business in Brazil–. Thus, we anticipate an expansion of 230bps in EBITDA margin to 34.5%.

Likewise, we assume the proceeds from Tracfone's sale will be used for debt reduction, so we expect leverage to fall to 1.8x ND/EBITDA from 2.2x. Therefore, Amx would arrive with a strengthened balance sheet in view of the strong investments that 5G deployment could imply later on, and while the possibility of monetizing its more than 60,000 towers to lower the debt even further is still on the table.

We establish our PT2021 at MXN 18.00, which represents a FV/EBITDA 2021E of 5.7x, above the current multiple but in line with the 3-year average of 6.0x. In view of the positive outlook, we recommend BUY.

BUY	
Current Price	\$14.18
PT 2021	\$18.00
Dividend 2021	\$0.40
Dividend Yield (%)	2.8%
Upside Potential	29.8%
ADR Price	US\$14.19
PT2021 ADR	US\$18.20
Shares per ADR	20
Max – Min LTM (\$)	16.82 – 12.33
Market Cap (US\$m)	47,328.6
Shares Outstanding (m)	66,435.7
Float	49%
Daily Turnover US\$m	710.6
Valuation metrics LTM	
FV/EBITDA	5.3x
P/E	30.7x
MSCI ESG Rating*	B



Financial Statements

	2018	2019	2020E	2021E
Revenue	1,020,727	1,007,348	1,019,474	934,508
Operating Income	137,502	154,841	170,106	194,811
EBITDA	289,497	313,756	328,428	322,706
EBITDA Margin	28.4%	31.1%	32.2%	34.5%
Net Income	48,129	67,731	27,684	90,057
Net Margin	4.7%	6.7%	2.7%	9.6%
Total Assets	1,413,891	1,531,934	1,575,210	1,468,353
Cash	70,677	67,464	72,094	68,164
Total Liabilities	1,183,696	1,305,027	1,340,092	1,165,462
Debt	663,076	754,448	780,579	639,185
Common Equity	230,195	226,907	235,118	302,891

Source: Banorte

Valuation and Financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	5.5x	5.3x	5.2x	4.9x
P/E	19.5x	13.8x	34.0x	10.5x
P/BV	5.2x	5.3x	5.3x	3.9x
ROE	19.6%	29.6%	12.0%	33.5%
ROA	3.4%	4.4%	1.8%	6.1%
EBITDA/ interest	9.1x	8.3x	8.3x	9.2x
Net Debt/EBITDA	2.0x	2.2x	2.2x	1.8x
Debt/Equity	2.9x	3.3x	3.3x	2.1x

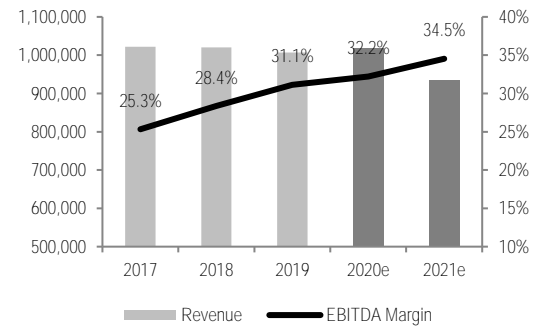
AMX– Financial Statements
MXN, million

Income Statement					
Year	2018	2019	2020e	2021e	CAGR
Net Revenue	1,020,727	1,007,348	1,019,474	934,508	-2.9%
Costs of goods sold	653,830	630,651	628,566	536,836	-6.4%
Gross profit	366,896	376,697	390,909	397,672	2.7%
General expenses	221,389	215,994	216,226	198,189	-3.6%
Operating Income	137,502	154,841	170,106	194,811	12.3%
Operating Margin	13.5%	15.4%	16.7%	20.8%	15.7%
Depreciation	151,995	158,915	158,321	127,895	-5.6%
EBITDA	289,497	313,756	328,428	322,706	3.7%
EBITDA Margin	28.4%	31.1%	32.2%	34.5%	
Interest Income (Expense) net	(40,317)	(33,476)	(126,762)	(37,590)	-2.3%
Interest expense	31,772	37,911	39,576	35,176	3.5%
Interest income	10,617	6,285	4,507	3,798	-29.0%
Other income (expense)	(14,624)	(7,075)	13,620	(5,193)	-29.2%
Foreign exchange gain (loss)	(4,538)	5,226	(105,313)	(1,019)	-39.2%
Unconsolidated subsidiaries	0	(18)	(282)	2	101.9%
Income before taxes	97,186	121,347	43,062	157,223	17.4%
Income taxes	46,903	51,034	10,904	62,889	10.3%
Discontinued operations					
Consolidated Net Income	50,282	70,313	32,158	94,334	23.3%
Non-controlling interest	2,153	2,583	4,474	4,277	25.7%
Net Income	48,129	67,731	27,684	90,057	23.2%
Net Margin	4.7%	6.7%	2.7%	9.6%	
EPS	0.729	1.026	0.417	1.356	23.0%

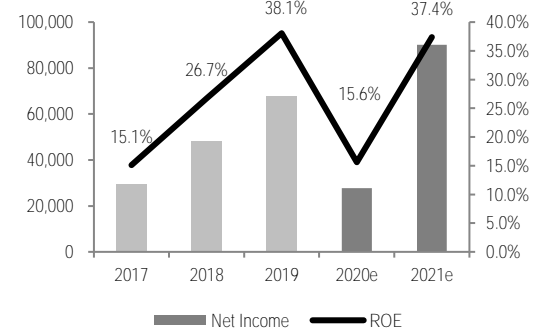
Balance Sheet					
Total Current Assets	351,913	330,844	357,101	351,563	0.0%
Cash & Short Term Investments	70,677	67,464	72,094	68,164	-1.2%
Long Term Assets	1,061,979	1,201,089	1,218,109	1,116,790	1.7%
Property, Plant & Equipment (Net)	629,088	639,343	640,668	539,791	-5.0%
Intangible Assets (Net)	115,864	125,169	136,311	136,311	5.6%
Total Assets	1,413,891	1,531,934	1,575,210	1,468,353	1.3%
Current Liabilities	473,415	525,400	512,418	474,819	0.1%
Short Term Debt	116,817	164,663	152,381	148,018	8.2%
Accounts Payable	256,953	260,703	238,535	210,226	-6.5%
Long Term Liabilities	710,281	779,627	827,674	690,643	-0.9%
Long Term Debt	546,260	589,784	628,198	491,167	-3.5%
Total Liabilities	1,183,696	1,305,027	1,340,092	1,165,462	-0.5%
Common Stock	230,195	226,907	235,118	302,891	9.6%
Non-controlling interest	49,877	48,997	57,662	61,938	7.5%
Total Equity	180,319	177,910	177,456	240,952	10.1%
Liabilities & Equity	1,413,891	1,531,934	1,575,210	1,468,353	1.3%
Net Debt	592,400	686,984	708,485	571,022	-1.2%

Cash Flow					
	2018	2019	2020e	2021e	
CF from Operating Activities	247,115	234,095	255,976	198,904	
CF from Investing Activities	(148,783)	(162,974)	(126,764)	10,306	
CF from Financing Activities	(101,357)	(71,227)	(114,158)	(197,137)	
FX difference in cash & equivalents	(801)	(1,807)	(8,486)	(16,004)	
Change in Cash Balance	(3,826)	(1,914)	6,568	(3,930)	

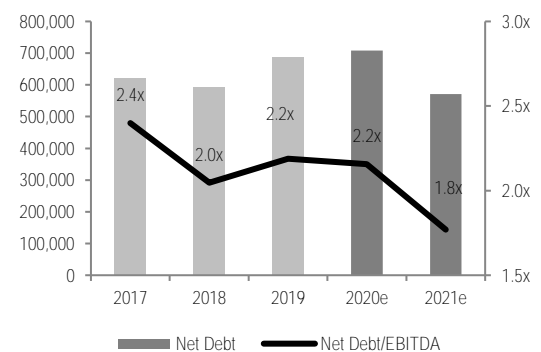
Revenue & EBITDA Margin
MXN, million



Net Income & ROE
MXN, million



Net Debt & Net Debt to EBITDA ratio
MXN, million



Source: Banorte, BMV.

2021 Estimates

We believe that in 2021 connectivity needs will continue to be very present, driving organic growth in mobile subscribers, broadband access, data traffic and the continued migration of customers from prepaid to postpaid services. Likewise, activities reopening should drive recovery in equipment sales, as well as in prepaid service. However, the main variables that will influence Amx's performance will be the inorganic ones. In this regard, we have incorporated to our projection model the sale of Tracfone in the US, and the acquisition of about 1/3 of OI's mobile business in Brazil, starting in 2Q21 in both cases. We believe that Tracfone's transaction will most likely be closed during 1Q21, thus we assume its divestiture as of the second half of 1H21. We estimate that this would mean a drop of 20.4 million mobile subscribers (~7% of the total) and ~13% of revenues, but only ~5% of EBITDA, due to the lower profitability of this business (~14% vs. ≥30% in the rest of the countries). On the other hand, the incorporation of 32% of OI's mobile business would add ~10.8 million mobile subscribers, 0.8% of sales, and 0.7% of EBITDA, recalling that OI's higher exposure to prepaid subscribers, with lower ARPU (R\$16.6 vs. R\$24.0 from Claro) would be slightly dilutive for the business in Brazil –although with attractive potential synergies –.

With this in mind, we expect mobile subscribers to fall 1.6% y/y to 276.7 million users. On the other hand, RGUs would increase 1.5% year-over-year to 86.3 million. Meanwhile, ARPU in pesos would remain practically stable (-0.1% y/y to MXN 195.12), as the peso's strengthening against other Latin American currencies would offset a 6.1% increase in comparable MOU. As a result, revenues from mobile services would decrease 11.7% y/y to MXN 753.8 billion. For its part, equipment sales would recover 12.8% y/y to MXN 180.7 billion, due to the reopening of points of sale and an easy comparison base. Thus, consolidated revenues would decrease 8.3% y/y to MXN 934.5 billion. At EBITDA level, we estimate that the sale of Tracfone will give a strong stimulus to profitability (+230bps y/y to 34.5%), with which consolidated EBITDA would only decrease 1.7% y/y to MXN 322.7 billion.

As for net income, it would more than triple y/y, reaching MXN 90.1 billion, driven by a 70.3% decrease in CFC –for FX losses 99% lower vs. 2020, as a result of a less adverse exchange rate environment– and which would more than compensate for tax rate normalization (40%e vs. 25.3%e in 2020). In the meantime, we believe capital investments should be normalized in order to continue the deployment of its 5G network in Europe, start it up in Brazil and Colombia, and carry out its first pilot tests in Mexico, Argentina, and Chile. Additionally, 4G and LTE deployment would follow in the remaining territories. With this, we estimate that CAPEX will increase by 40% y/y to MXN 154.9 billion (US \$7.0 billion). Finally, we assumed a US \$6.25 billion debt payment (with Tracfone's sale) which would lower leverage to 1.8x ND/EBITDA from 2.2x.

Valuation and PT2021 of MXN 18.00

To calculate the theoretical value of América Móvil's shares, we use a discounted cash flow (DCF) valuation model, based on the free cash flow to the firm (FCFF). In our model we assumed a weighted average cost of capital (WACC) of 8.6%, for which we estimated a 13.0% cost of capital (CAPM), a 3.6% cost of debt, and a 42.0% debt-to-capital ratio. For CAPM we use a risk-free rate of 6.75% ([closing 2021E of the 10-year M-bond](#) from our Fixed Income and FX analysis team), a beta of 1.0, and a market risk premium of 6.0%. In addition, for the terminal value we assumed a 6.0x FV/EBITDA multiple, equal to historical averages (3Y and 5Y), and equivalent to a discount of ~8% vs. 2021 telecom sector median of 6.5x –in line with the average discount that the issuer has held against the sector over the past 5Y–. With this in mind, we establish our PT2021 at MXN 18.00, which represents a FV/EBITDA 2021E multiple of 5.7x, being higher than the current valuation and in line with last year's average of 6.0x, although below sector's average. It offers an interesting potential return of 29.8% (including 2.8% dividend return), while the valuation at 4.9x FV/EBITDA 2021E looks attractive and the mid-term outlook is very positive, therefore, our recommendation is BUY

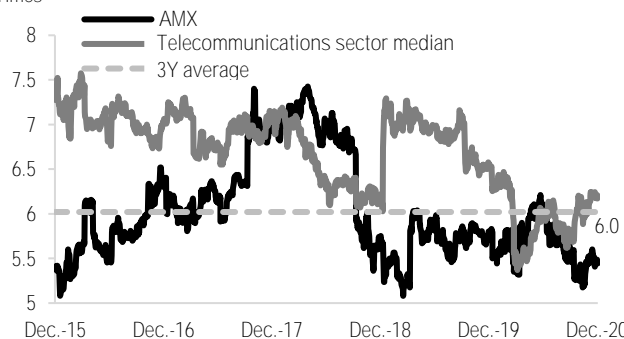
Discounted cash flow valuation (DCF)

MXN, million

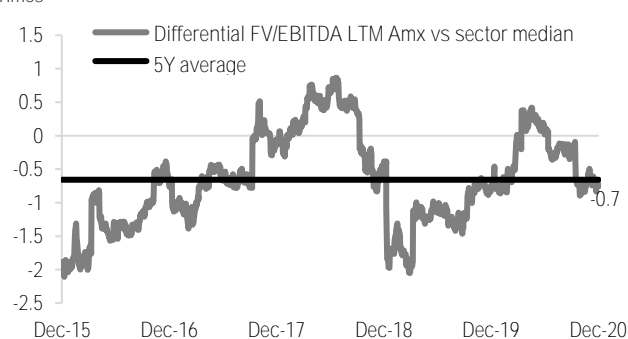
	2021e	2022e	2023e	2024e	2025e	2026e	Perp.
(+) EBITDA	322,706	332,857	347,836	363,488	379,845	396,938	
(-) Working Capital	(32,523)	(28,851)	(34,784)	(36,349)	(37,985)	(39,694)	
(-) Fixed Capital Investment	(154,935)	(162,892)	(167,778)	(172,812)	(177,996)	(183,336)	
(-) Taxes	(47,532)	(50,867)	(55,654)	(58,158)	(60,775)	(63,510)	
(=) Cash Flow	87,716	90,248	89,620	96,170	103,089	110,398	
(+) Perpetuity	0	0	0	0	0	0	2,381,631
(=) FCFF	87,716	90,248	89,620	96,170	103,089	110,398	2,381,631
Risk-free Rate	6.8%						(+)FCFs Present Value 381,122
Market Risk	6.0%						(+) Perpetuity Present Value 1,449,845
Beta	1.0						= Enterprise Value 1,830,968
CAPM	13.0%						(-) Net Debt (571,022)
Cost of Debt	3.6%						(-) Minority Interest (61,938)
Tax Rate	30.0%						(=) Equity Value 1,198,007
Net Cost of Debt	2.5%						Shares Outstanding 66,399
Debt/Capital	42%						
WACC	8.6%						
EBITDA Multiple	6.0x						
							Target Price \$ 18.04
							Current Price 14.18
							Upside Potential 27.2%

Source: Banorte

AMX - FV/EBITDA LTM and telecommunications sector median Times



AMX - FV/EBITDA LTM differential vs sector median Times



Source: Bloomberg, Banorte

AXTEL

Its sale should be completed soon

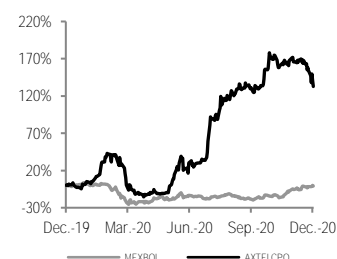
- We estimate that, in line with [Alfa's strategy](#), the sale of all Axtel could be completed in 1Q21, which should [trigger the intrinsic value](#) that we still see on the stock.
- Regarding the sum-of-the-parts value, implicitly the market is valuing Services at 1.5x FV/EBITDA 2021E or Infrastructure at 8.0x, so we see plenty space for rerating
- We establish a PT2021 of MXN 10.00, which implies a FV/EBITDA 2021E of 8.6x, above the current multiple in view of the positive outlook, and recognition of its real value. We recommend BUY

It's worth to wait. We believe that the completion of the whole company's sale could take place in 1Q21, which should help detonate Axtel's potential. The price at which the CPO is currently trading, with respect to the sum of the parts, implies a 1.5x FV/EBITDA 2021E valuation for *Alestra* (assuming an 11x multiple for Infrastructure, in line with the sector and previous transactions), or 8.0x for *Axtel Networks* if we consider a 5.2x valuation for *Alestra*, equal to that at which all of Axtel is currently trading, and below comparable companies. Either approach, in our view, reflects that the market is still not correctly recognizing the company's value, and evidences a wide space for a rerating in the issuer. Along the same lines, we maintain our conviction that the eventual sale of the company should be the catalyst to close this gap, considering the possibility that the buyer could even offer a premium for the acquisition (which on average is around 15%), even more so when considering the great attractiveness of the Infrastructure segment that [we have previously highlighted](#).

We updated our sum-of-the-parts valuation model, establishing our PT2021 at MXN 10.00 per CPO. This represents an 8.6x FV/EBITDA, higher than the current 5.2x multiple, given the positive outlook already mentioned and our expectation of recognition of the intrinsic value of Infrastructure and Services. We reiterate our BUY recommendation.

BUY	
Current Price	\$7.07
PT 2021	\$10.00
Dividend 2021	
Dividend Yield (%)	
Upside Potential	41.4%
Max – Min LTM (\$)	8.67 – 2.47
Market Cap (US\$m)	1,005.8
Shares Outstanding (m)	2,865.2
Float	22%
Daily Turnover US\$m	9.1
Valuation metrics LTM	
FV/EBITDA	5.2x
P/E	34.9x
MSCI ESG Rating*	N.A.

Relative performance to Mexbol LTM



Financial Statements

	2018	2019	2020E	2021E
Revenue	14,876	12,784	12,714	13,297
Operating Income	965	774	2,847	1,387
EBITDA	5,203	4,465	6,394	4,575
EBITDA Margin	35.0%	34.9%	50.3%	34.4%
Net Income	1,095	-14	915	1,550
Net Margin	7.4%	-0.1%	7.2%	11.7%
Total Assets	28,156	24,331	25,572	26,556
Cash	2,249	858	2,900	4,792
Total Liabilities	24,535	20,920	21,519	20,953
Debt	15,662	14,886	16,186	15,817
Common Equity	3,621	3,411	4,053	5,603

Source: Banorte

Valuation and Financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	6.5x	7.7x	5.2x	6.8x
P/E	18.7x	N.A.	21.9x	12.9x
P/BV	5.6x	5.9x	4.9x	3.6x
ROE	35.8%	-0.4%	24.5%	32.1%
ROA	3.9%	-0.1%	3.6%	5.8%
EBITDA/ interest	2.8x	3.3x	4.5x	3.3x
Net Debt/EBITDA	2.6x	3.1x	2.1x	2.4x
Debt/Equity	4.3x	4.4x	4.0x	2.8x

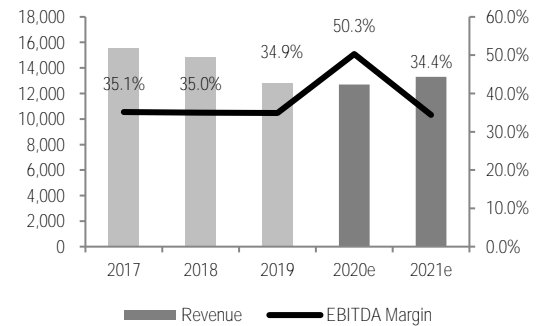
AXTEL – Financial Statements

MXN, million

Income Statement					
Year	2018	2019	2020e	2021e	CAGR
Net Revenue	14,876	12,784	12,714	13,297	-3.7%
Costs of goods sold	7,174	6,104	6,243	5,817	-6.7%
Gross profit	7,702	6,679	6,471	7,479	-1.0%
General expenses	6,944	5,842	5,620	6,075	-4.4%
Operating Income	965	774	2,847	1,387	12.8%
Operating Margin	6.5%	6.1%	22.4%	10.4%	17.1%
Depreciation	4,162	3,579	3,392	3,154	-8.8%
EBITDA	5,203	4,465	6,394	4,575	-4.2%
EBITDA Margin	35.0%	34.9%	50.3%	34.4%	
Interest Income (Expense) net	(1,665)	(1,127)	(2,231)	(1,264)	-8.8%
Interest expense	1,869	1,370	1,422	1,374	-9.7%
Interest income	41	55	42	59	12.9%
Other income (expense)	(24)	(102)	7	(129)	74.2%
Foreign exchange gain (loss)	187	290	(859)	179	-1.3%
Unconsolidated subsidiaries					
Income before taxes	(699)	(353)	616	123	-156%
Income taxes	118	(15)	(298)	(1,426)	-329%
Discontinued operations	1,912	324			
Consolidated Net Income	1,095	(662)	915	1,550	12.3%
Non-controlling interest					
Net Income	1,095	(14)	915	1,550	12.3%
Net Margin	7.4%	-0.1%	7.2%	11.7%	
EPS	0.378	(0.005)	0.323	0.547	13.1%
Balance Sheet					
Total Current Assets	6,944	6,035	8,307	10,623	15.2%
Cash & Short Term Investments	2,249	858	2,900	4,792	28.7%
Long Term Assets	21,212	18,296	17,266	15,933	-9.1%
Property, Plant & Equipment (Net)	16,106	12,964	11,366	10,034	-14.6%
Intangible Assets (Net)	986	633	905	905	-2.8%
Total Assets	28,156	24,331	25,572	26,556	-1.9%
Current Liabilities	8,778	5,178	6,687	6,425	-9.9%
Short Term Debt	505	635	2,262	2,196	63.2%
Accounts Payable	7,297	3,701	3,262	3,023	-25.5%
Long Term Liabilities	15,757	15,742	14,832	14,528	-2.7%
Long Term Debt	15,157	14,251	13,924	13,621	-3.5%
Total Liabilities	24,535	20,920	21,519	20,953	-5.1%
Common Stock	3,621	3,411	4,053	5,603	15.7%
Non-controlling interest	0				
Total Equity	3,621	3,411	4,053	5,603	15.7%
Liabilities & Equity	28,156	24,331	25,572	26,556	-1.9%
Net Debt	13,413	14,028	13,286	11,025	-6.3%
Cash Flow					
CF from Operating Activities	5,411	2,957	3,423	2,416	
CF from Investing Activities	2,376	(528)	927	(1,762)	
CF from Financing Activities	(6,812)	(3,821)	(2,278)	(1,374)	
FX difference in cash & equivalents	16	1	(29)	2,612	
Change in Cash Balance	991	(1,391)	2,043	1,892	

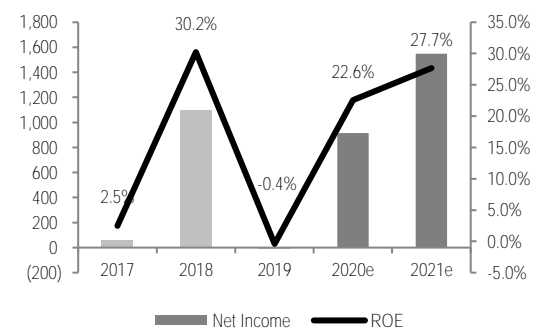
Revenue & EBITDA Margin

MXN, million



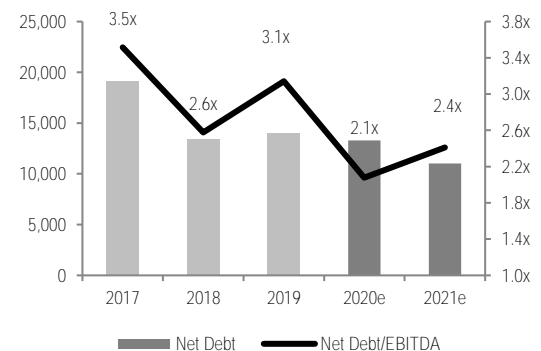
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA ratio

MXN, million



Source: Banorte, BMV.

2021 Estimates

According to our projection model, in 2021, Axtel's revenues could grow 4.6% y/y to reach MXN 13.3 billion. This would be the result of an increase of the same magnitude in Infrastructure net revenue to MXN 2.7 billion, due to connectivity needs growth and the first steps of 5G in Mexico, which would be reflected in a solid performance in spectrum and dark fiber rents –more than offsetting the adverse FX effect on its dollarized revenues due to the peso's appreciation. Meanwhile, we expect economic reopening and the "new normality" to encourage a 4.5% recovery in Alestra's sales, explained by the demand for value-added services in the corporate sector (reflected in a 4.5% y/y growth in sales, as a result of a 7.0% y/y drop in voice services, offset by 4.0% growth in data, 8% in network management services, and 10.0% in information technology revenue). We also anticipate a recovery in government (+4.4%e y/y), with IT (+5.0%), networks (+7.0%e), and data (+3.0%) being the main drivers (voice: -10.%e).

At EBITDA level, we estimate a year-over-year decline of 28.5% to MXN 4.6 billion, which is explained exclusively by the complicated comparison base left by the extraordinary MXN 2.1 billion profit the company received in 2020 from the transaction with *Equinix* and the 3.5GHz spectrum cession to América Móvil. Thus, EBITDA margin would contract 15.9pp to 34.4%. Notwithstanding the above, it is worth noting that on an adjusted basis, EBITDA would grow 7.0% with an 80bps expansion in profitability. By business segment, we expect improved operating leverage in Services –due to sales recovery– to be reflected in an 8.8% y/y EBITDA growth (EBITDA margin +0.8pp), while Infrastructure EBITDA would grow 5.6% y/y (profitability +20bps), driven by strict cost control and better fixed cost absorption.

In terms of net income, we project a MXN 1.5 billion profit (+69.5% y/y), mainly explained by a 43.3% decrease in CFC –from lower interest payment upon lower leverage, and above all, from FX gains that would compare very favorably to 2020 reported losses–.

Finally, we estimate that Axtel could make capital investments of MXN 1.8 billion in 2021 (+26.4% y/y), mainly focused on Axtel Networks' fiber optic growth in order to maintain its leadership position in telecommunications infrastructure, in view of the upcoming 5G deployment in Mexico.

Valuation and PT2021 of MXN 10.00

By updating our sum-of-the-parts valuation exercise, now incorporating 2021 estimates, we set our PT2021 at MXN 10.00. For its calculation, we assumed an 11.0x FV/EBITDA target multiple for Axtel Networks (Infrastructure), slightly below the 2021 global median of 12.7x, and similar to the most recent precedent transaction in the sector (*Zayo Group Holdings* sale to Digital Colony Partners and *EQT Infrastructure* in May 2019 at a 12.1x multiple). In Alestra (Services), we determined a 5.2x multiple, equal to the one at which all Axtel is currently trading, but below the 2021 telecom sector median of

6.7x, according to Bloomberg. Thus, the implied FV/EBITDA 2021E multiple for Axtel would be 8.6x, above the current 5.2x.

In our PT2021 Axtel would trade at 8.6x FV/EBITDA 2021E, above the current multiple at 5.2x, and last year's average at 6.5x, which is justified based on the positive outlook already mentioned, and our expectation of the recognition of the intrinsic value of Infrastructure and Services.

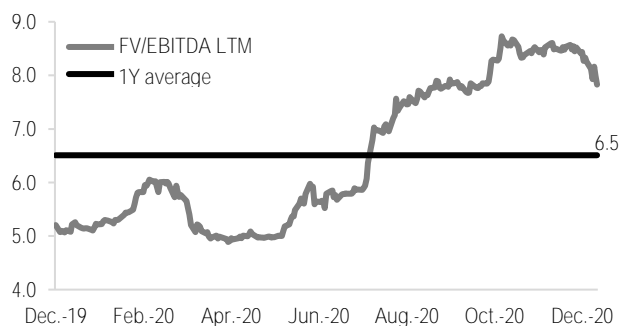
Sum-of-the-parts valuation (SOTP)

MXN, million

Segment	EBITDA 2021E	FV/EBITDA	Share	Firm Value	\$/Share
Infrastructure	2,558	11.0x	100%	28,138	\$ 9.93
Services	2,033	5.2x	100%	10,570	\$ 3.73
SOTP valuation	4,591	8.4x		38,708	\$ 13.66
			(-) Net Debt	(11,025)	-\$ 3.89
			(=) Equity value	27,683	
			CPOs Outstanding	2,834	
				0	
			PT2021	\$ 9.77	
			Current Price	\$ 7.07	
			Upside Potential	38.2%	

Source: Banorte

Axtel - FV/EBITDA LTM and 1Y average
Times



Source: Bloomberg, Banorte

MEGA

GPON would continue to put pressure on FCF

- **Connectivity needs would continue to drive growth in the Mass Market segment, but at a slower pace, while recovery in Corporate would slightly affect profitability**
- **Network migration to GPON technology will continue to put pressure on free cash flow generation, but will lay the foundation for future growth, even towards the attractive infrastructure segment**
- **We establish our PT2021 at MXN 84.00 per CPO, which represents a 6.8x FV/EBITDA 2021E, higher than the current multiple, but below cable operators median and historical averages**

Investments would continue to put pressure on free cash flow generation.

We expect demand in the Mass market segment to remain dynamic; although a high comparative base could lead to a modest slowdown in the pace of growth. Likewise, we believe [economic activity reopening](#) would be reflected in a recovery in business projects income, which together with digitalization needs, would drive Corporate segment growth. However, the latter could slightly pressure EBITDA margin (-10bps y/y to 48.3%), due to costs related to equipment for IT projects.

Meanwhile, migration of its fiber-to-the-home (FTTH) network to Gigabit Passive Optical technology (GPON) –which we project will be completed in 2H21– will still require significant investments. Consequently, we anticipate that the company's free cash flow generation will continue to come under pressure in 2021. Notwithstanding the above, we believe that Megacable is laying the foundations for its future growth. Now not only in the broadband access business, but also potentially opening the door to grow into the attractive telecommunications infrastructure segment. With GPON, its speed could reach up to 1Gbps, making feasible that it leases to mobile operators 1/3 of the cable filaments that it is installing for 5G deployment, leveraged in the metropolitan rings that it has been developing, which we believe could be very positive in the medium term.

HOLD	
Current Price	\$71.88
PT 2021	\$84.00
Dividend 2021	\$1.90
Dividend Yield (%)	2.6%
Upside Potential	19.5%
Max – Min LTM (\$)	78.96 – 54.80
Market Cap (US\$m)	3,096.7
Shares Outstanding (m)	858.9
Float	52%
Daily Turnover US\$m	75.6
Valuation metrics LTM	
FV/EBITDA	6.3x
P/E	14.3x
MSCI ESG Rating*	CCC

Relative performance to Mexbol LTM



Financial Statements

	2018	2019	2020E	2021E
Revenue	19,535	21,605	22,499	23,853
Operating Income	6,207	6,172	6,266	6,386
EBITDA	9,446	10,240	10,888	11,519
EBITDA Margin	48.4%	47.4%	48.4%	48.3%
Net Income	4,601	4,337	4,306	4,089
Net Margin	23.6%	20.1%	19.1%	17.1%
Total Assets	39,408	43,308	47,777	51,977
Cash	3,331	2,206	3,429	4,674
Total Liabilities	10,758	12,334	13,983	15,584
Debt	3,903	7,006	8,236	9,688
Common Equity	28,650	30,974	33,794	36,393

Source: Banorte

Valuation and Financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	6.7x	6.6x	6.2x	5.9x
P/E	13.4x	14.2x	14.3x	15.1x
P/BV	2.2x	2.1x	1.9x	1.8x
ROE	16.9%	14.5%	13.3%	11.7%
ROA	11.7%	10.0%	9.0%	7.9%
EBITDA/ interest	23.1x	15.0x	18.2x	13.8x
Net Debt/EBITDA	0.1x	0.5x	0.4x	0.4x
Debt/Equity	0.1x	0.2x	0.2x	0.3x

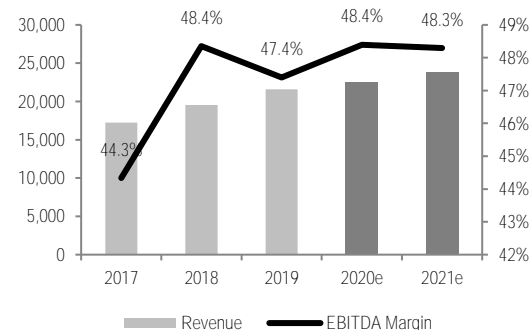
MEGA – Financial Statements

MXN, million

Income Statement					
Year	2018	2019	2020e	2021e	CAGR
Net Revenue	19,535	21,605	22,499	23,853	6.9%
Costs of goods sold	5,044	5,888	6,051	6,347	8.0%
Gross profit	14,491	15,717	16,448	17,506	6.5%
General expenses	8,332	9,592	10,265	11,209	10.4%
Operating Income	6,207	6,172	6,266	6,386	1.0%
Operating Margin	31.8%	28.6%	27.9%	26.8%	-5.5%
Depreciation	3,287	4,115	4,705	5,222	16.7%
EBITDA	9,446	10,240	10,888	11,519	6.8%
EBITDA Margin	48.4%	47.4%	48.4%	48.3%	
Interest Income (Expense) net	(85)	(413)	(411)	(667)	98.8%
Interest expense	409	684	599	832	26.7%
Interest income	342	311	142	178	-19.6%
Other income (expense)					
Foreign exchange gain (loss)	(18)	(39)	46	(13)	-10.7%
Unconsolidated subsidiaries					
Income before taxes	6,122	5,760	5,855	5,719	-2.2%
Income taxes	1,347	1,267	1,405	1,487	3.4%
Discontinued operations					
Consolidated Net Income	4,775	4,493	4,450	4,232	-3.9%
Non-controlling interest	174	156	144	143	-6.2%
Net Income	4,601	4,337	4,306	4,089	-3.9%
Net Margin	23.6%	20.1%	19.1%	17.1%	
EPS	5.347	5.046	5.014	4.760	-3.8%
Balance Sheet					
Total Current Assets	6,175	5,665	7,196	8,660	11.9%
Cash & Short Term Investments	3,331	2,206	3,429	4,674	12.0%
Long Term Assets	33,233	37,643	40,581	43,317	9.2%
Property, Plant & Equipment (Net)	26,890	30,623	31,660	34,342	8.5%
Intangible Assets (Net)	289	824	897	897	45.8%
Total Assets	39,408	43,308	47,777	51,977	9.7%
Current Liabilities	7,850	2,714	4,123	4,224	-18.7%
Short Term Debt	3,779	251	1,608	1,560	-25.5%
Accounts Payable	4,071	2,463	2,466	2,614	-13.7%
Long Term Liabilities	2,908	9,620	9,860	11,360	57.5%
Long Term Debt	125	6,755	6,628	8,128	302.4%
Total Liabilities	10,758	12,334	13,983	15,584	13.1%
Common Stock	28,650	30,974	33,794	36,393	8.3%
Non-controlling interest	959	1,331	1,435	1,578	18.1%
Total Equity	27,692	29,643	32,359	34,815	7.9%
Liabilities & Equity	39,408	43,308	47,777	51,977	9.7%
Net Debt	572	4,800	4,807	5,015	106.1%
Cash Flow					
CF from Operating Activities	8,807	6,643	11,024	9,672	
CF from Investing Activities	(6,808)	(8,892)	(9,744)	(7,917)	
CF from Financing Activities	(1,854)	1,122	(643)	(964)	
FX difference in cash & equivalents	18	2	582	454	
Change in Cash Balance	163	(1,124)	1,219	1,245	

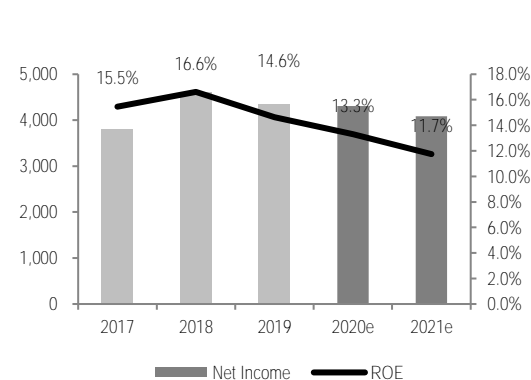
Revenue & EBITDA Margin

MXN, million



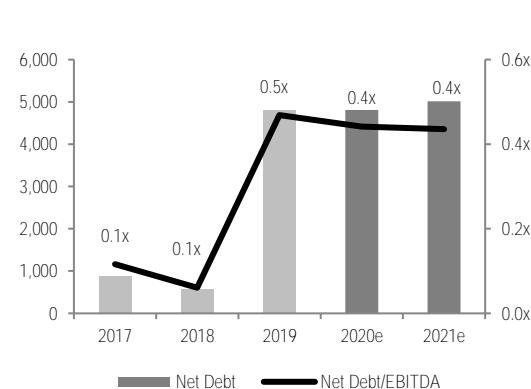
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA ratio

MXN, million



Source: Banorte, BMV.

2021 Estimates

We believe that Megacable's results would continue to benefit from connectivity needs in this 'new normality'. However, we estimate a slight slowdown in the rate of growth vis-à-vis 2020, as we face a high comparison base. With this in mind, in the Mass Market segment, we estimate the RGUs will end up at 9.494 million, equivalent to a 5.6% annual growth, after the net addition of 499,700 users. This performance would be explained by increases of 7.0% in Internet, 6.7% in Telephony, and 3.4% in Cable, reflecting greater connectivity demand for remote work and home entertainment. On the other hand, we project that unique subscribers will increase by 2.1% to 3.729 million.

Meanwhile, we expect service bundling and migration to more affordable packages to continue pressure Mass Market segment's ARPU -0.3%e y/y to MXN 173.6, although unique subscribers ARPU would increase by 4.2% to MXN 434.9. With this in mind, we expect the division's revenue to grow 5.6% y/y to MXN 19.3 billion (TV: +6.3%, Internet: +4.9%, Telephony: +5.2%). Likewise, hand in hand with economic reopening, we estimate a recovery in Hola and Metrocarrier's revenues –two of Mega's IT solutions companies–, which coupled with the continuous dynamism of IT services for companies (reflecting growing digitalization needs), would translate into an 8.1% y/y increase in Corporate. Therefore, total sales would grow 6.0% y/y to MXN 23.9 billion.

In terms of EBITDA, we anticipate a single-digit growth (+5.8%e) to MXN 11.5 billion. With this, the respective margin would contract 10bps to 48.3%, as Corporate segment's recovery would result in a less favorable revenue mix – due to IT service equipment costs–, which would offset 130bps gains in Cable profitability as a result of the peso's appreciation against the US dollar, and which would be beneficial for programming costs.

On a net level, we estimate that income will fall 5.1% y/y to MXN 4.1 billion, as a 62.3% increase in CFC (due to a 39% higher interest payment, related to the MXN 1.5 billion debt disposition to finance a portion of the investment for the migration to GPON), and a higher effective tax rate (26%e vs. 24.0%e in 2020) would offset operating growth. Finally, we estimate that –with all efforts focused on completing the migration of its network by 2021– the company's capital investments will increase 16.2% y/y to MXN 8.1 billion (US \$400 million), raising its ratio to revenues to almost 34% from 31%e in 2020. With this, we estimate that the free cash flow (FCF) generation would be pushed towards an EBITDA conversion rate of ~19%, below the 30% historical average.

Valuation and PT2021 of MXN 84.00

We determined the theoretical price for Megacable CPOs using a discounted cash flow (DCF) valuation model, based on free cash flow to the firm (FCFF). For the discount rate (WACC) we use the following variables: (1) as a risk-free rate, the estimated 2021E of the 10-year bond at 6.75% by our Fixed Income and FX analysis area; (2) a market risk premium of 6.0%; (3) a beta of 0.8; and (4) a 6.6% cost of debt. Based on the above and a debt-to-capital ratio of 10%, we obtained

a WACC of 10.8%. Additionally, to calculate the terminal value, we assumed a 7.0x FV/EBITDA multiple. This multiple is similar to the 3Y average and the median of cable operators in 2021, according to Bloomberg, both at 7.2x.

With that in mind, we establish a PT2021 of MXN 84.00, which would represent a 6.8x FV/EBITDA 2021E multiple, above the current 6.3x; but below the 3-year average and the global cable operators median, both of 7.2x. We believe that, despite the company's solid financial structure, the pressure on free cash flow generation during 2021 –given the significant investments–, for the time being, justifies such discount in the issuer. Our PT offers a potential return of 19.5% (including 2.6% dividend return), and our recommendation is HOLD.

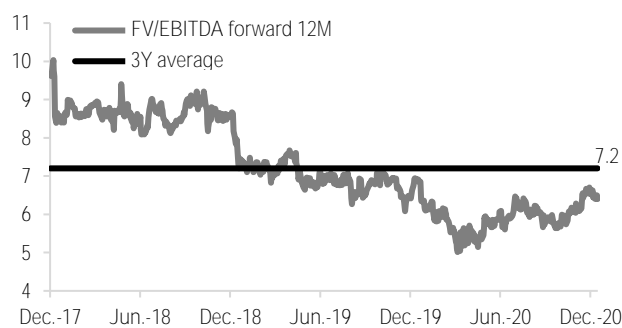
Discounted cash flow valuation (DCF)

MXN, million

	2021e	2022e	2023e	2024e	2025e	2026e	Perp.
(+) EBITDA	11,519	12,492	13,054	13,642	14,255	14,897	
(-) Working Capital	(125)	(173)	(196)	(205)	(214)	(223)	
(-) Fixed Capital Investment	(8,095)	(5,676)	(5,789)	(5,905)	(6,023)	(6,144)	
(-) Taxes	(1,144)	(1,299)	(1,566)	(1,637)	(1,711)	(1,788)	
(=) Cash Flow	2,155	5,344	5,502	5,895	6,308	6,742	
(+) Perpetuity	0	0	0	0	0	0	104,279
(-) FCFF	2,155	5,344	5,502	5,895	6,308	6,742	104,279
Risk-free Rate	6.8%				(+)FCFs Present Value		21,885
Market Risk	6.0%				(+) Perpetuity Present Value		56,482
Beta	0.8				= Enterprise Value		78,367
CAPM	11.5%				(-) Net Debt		(5,015)
					(-) Minority Interest		(1,578)
Cost of Debt	6.6%				(-) Equity Value		71,774
Tax Rate	30.0%				Shares Outstanding		859
Net Cost of Debt	4.6%						
Debt/Capital	10%						
					Target Price \$		83.56
WACC	10.8%				Current Price		71.88
EBITDA Multiple	7.0x				Upside Potential		16.3%

Source: Banorte

Mega - FV/EBITDA forward 12M and 3Y average
Times



Source: Bloomberg, Banorte

TLEVISA

Year of recovery, despite Cable's moderation

- **Economic reopening should be reflected in a recovery in Content and Other Businesses. However, Cable would moderate its growth rate after facing a high comparable base**
- **Tlevisa is shaping up to continue leveraging the broadband access demand; although we will have to wait to know if the regulator would impose some asymmetric measures due to economic competition**
- **We establish a PT2021 of MXN 47.00, which implies a FV/EBITDA 2021E of 6.3x, slightly above the current multiple and 1Y average with the recovery outlook. We recommend BUY**

BUY	
Current Price	\$33.21
PT 2021	\$47.00
Dividend 2021	\$1.30
Dividend Yield (%)	3.9%
Upside Potential	45.4%
ADR Price	US\$8.23
PT2021 ADR	US\$11.90
Shares per ADR	5
Max – Min LTM (\$)	47.14 – 22.70
Market Cap (US\$m)	4,791.5
Shares Outstanding (m)	2,820.0
Float	80%
Daily Turnover US\$m	100.2
Valuation metrics LTM	
FV/EBITDA	6.0x
P/E	N.A.
MSCI ESG Rating*	CCC

Single-digit growth. We believe 2021 would be a year of recovery for Grupo Televisa, notwithstanding the estimated slowdown for Cable segment. Activities reopening and a [more favorable macroeconomic environment](#) would support sales recovery in Content, with advertisers showing greater promotional dynamism –which would also motivate a better performance of Univision's royalties–. Likewise, the eventual deployment of COVID-19 vaccines should encourage a gradual recovery in Other businesses, as these activities resume. Meanwhile, Pay TV would continue to benefit from connectivity and entertainment needs in the 'new normality', even though we expect a slight slowdown in the pace of growth, related to a base effect. In terms of profitability, we believe that better margins in Cable, Content and Other Businesses would compensate for slight pressures at Sky. Thus, we expect EBITDA margin to expand 20bps to 38.9%, which would result in EBITDA growth of 5.2% year-over-year.

We updated our sum-of-the-parts valuation exercise, now taking into consideration our 2021 estimates. Accordingly, we establish our PT2021 at MXN 47.00 per CPO, which represents a 6.3x FV/EBITDA multiple, slightly above the current valuation and 1Y average (6.0x and 5.9x, respectively), justified by the recovery outlook. In addition, potential return is very attractive, which is why we recommend BUY.



Financial Statements

	2018	2019	2020E	2021E
Revenue	101,282	101,492	96,855	101,437
Operating Income	20,253	17,209	17,126	18,008
EBITDA	38,524	39,313	37,498	39,449
EBITDA Margin	38.0%	38.7%	38.7%	38.9%
Net Income	6,009	4,722	-821	4,614
Net Margin	5.9%	4.7%	-0.8%	4.5%
Total Assets	297,842	290,422	283,371	293,365
Cash	32,068	27,452	29,627	35,672
Total Liabilities	193,061	184,922	193,341	192,781
Debt	131,135	133,568	136,704	133,294
Common Equity	104,781	105,500	90,031	100,584

Source: Banorte

Valuation and Financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	5.5x	5.5x	5.8x	5.3x
P/E	16.0x	20.3x	-114.1x	20.3x
P/BV	1.1x	1.1x	1.3x	1.1x
ROE	5.9%	4.5%	-0.8%	4.8%
ROA	2.0%	1.6%	-0.3%	1.6%
EBITDA/ interest	4.0x	3.8x	3.6x	4.4x
Net Debt/EBITDA	2.6x	2.7x	2.9x	2.5x
Debt/Equity	1.3x	1.3x	1.5x	1.3x

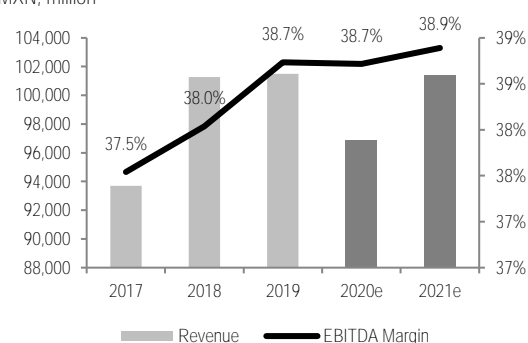
TLEVISA – Financial Statements

MXN, million

Income Statement					
Year	2018	2019	2020e	2021e	TCAC
Net Revenue	101,282	101,492	96,855	101,437	0.1%
Costs of goods sold	57,839	58,725	57,006	59,031	0.7%
Gross profit	43,443	42,767	39,850	42,406	-0.8%
General expenses	24,753	24,462	23,108	23,383	-1.9%
Operating Income	20,253	17,209	17,126	18,008	-3.8%
Operating Margin	20.0%	17.0%	17.7%	17.8%	-3.9%
Depreciation	19,834	21,009	20,756	20,426	1.0%
EBITDA	38,524	39,313	37,498	39,449	0.8%
EBITDA Margin	38.0%	38.7%	38.7%	38.9%	
Interest Income (Expense) net	(8,780)	(8,811)	(5,279)	(7,787)	-3.9%
Interest expense	9,707	10,402	10,468	9,029	-2.4%
Interest income	1,567	1,529	1,232	896	-17.0%
Other income (expense)	(860)	(873)	1,663	(1,087)	8.1%
Foreign exchange gain (loss)	220	935	2,294	1,433	86.7%
Unconsolidated subsidiaries	533	581	(5,251)	540	0.4%
Income before taxes	12,006	8,979	6,597	10,761	-3.6%
Income taxes	4,391	2,776	4,287	3,874	-4.1%
Discontinued operations					
Consolidated Net Income	7,615	6,203	2,310	6,887	-3.3%
Non-controlling interest	1,606	1,481	3,131	2,273	12.3%
Net Income	6,009	4,722	(821)	4,614	-8.4%
Net Margin	5.9%	4.7%	-0.8%	4.5%	
EPS	2.078	1.638	(0.291)	1.636	-7.7%
Balance Sheet					
Total Current Assets	72,139	68,027	74,504	84,048	5.2%
Cash & Short Term Investments	32,068	27,452	29,627	35,672	3.6%
Long Term Assets	225,703	222,395	208,867	209,316	-2.5%
Property, Plant & Equipment (Net)	87,343	83,329	82,820	82,269	-2.0%
Intangible Assets (Net)	28,950	29,215	28,736	28,736	-0.2%
Total Assets	297,842	290,422	283,371	293,365	-0.5%
Current Liabilities	48,953	42,368	50,833	53,594	3.1%
Short Term Debt	4,197	5,018	3,943	3,854	-2.8%
Accounts Payable	41,700	33,877	43,253	45,299	2.8%
Long Term Liabilities	144,108	142,554	142,507	139,187	-1.2%
Long Term Debt	126,938	128,550	132,760	129,440	0.7%
Total Liabilities	193,061	184,922	193,341	192,781	0.0%
Common Stock	104,781	105,500	90,031	100,584	-1.4%
Non-controlling interest	15,070	14,874	16,377	18,650	7.4%
Total Equity	89,711	90,626	73,654	81,934	-3.0%
Liabilities & Equity	297,842	290,422	283,371	293,365	-0.5%
Net Debt	99,067	106,116	107,076	97,622	-0.5%
Cash Flow					
	2018	2019	2020e	2021e	
CF from Operating Activities	33,714	27,906	36,131	25,911	
CF from Investing Activities	(23,898)	(17,472)	(15,920)	(18,980)	
CF from Financing Activities	(16,505)	(14,990)	(13,674)	(6,363)	
FX difference in cash & equivalents	22	(60)	(4,363)	5,476	
Change in Cash Balance	(6,667)	(4,616)	2,175	6,045	

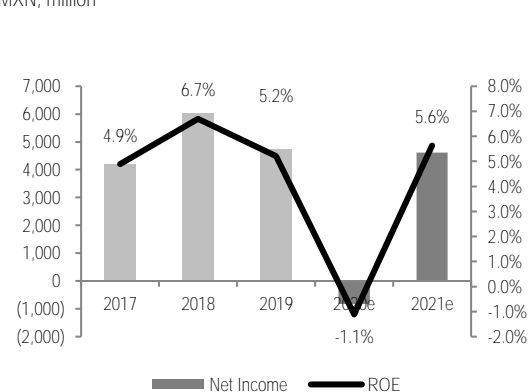
Revenue & EBITDA Margin

MXN, million



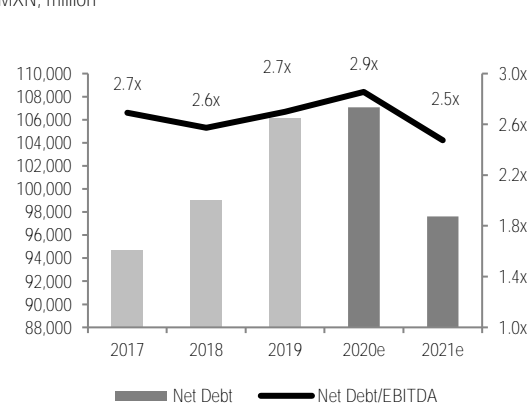
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA ratio

MXN, million



Source: Banorte, BMV.

2021 Estimates

According to our projection model, in light of a recovering macroeconomic environment in 2021, Televisa's consolidated revenues would grow 4.7% year-over-year to MXN 101.4 billion. This increase would be explained by: (1) a 2.8% increase in Content sales, as it is estimated that Advertising revenues will increase 4.1% y/y –hand in hand with greater promotional activity by advertisers due to activities reopening–; a 4.2% increase in channel sales, reflecting price increases in line with inflation, and a resilient demand due to greater entertainment needs; and stable Univision royalties in peso terms (+0.1%). With respect to the latter, it is worth noting that these would be impacted by the appreciation of the peso against the US dollar, as we expect them to reflect a 4.9% recovery in local currency. Meanwhile, we project Pay TV will continue to benefit from connectivity and entertainment needs, although reflecting a modest slowdown in the pace of growth when faced with a complicated comparison base. In that sense, we estimate that Sky will end the year with 8.293 million subscribers (+2.0%), equivalent to 162.6 thousand net connections, thanks to a solid performance in Blue Telecom, while in terms of the division's ARPU we expect a 0.4% year-over-year growth to MXN 220.00. Thus, Sky's sales would increase 2.8% y/y. At Cable, we projected a net addition of 743,200 RGUs (+5.3%e), decelerating from +10.4% in 2020 given the high comparison base this represented. Internally, we estimate growing connectivity needs at home for remote work will continue to drive Internet needs (+6.5%), and higher triple-play package penetration the telephony RGUs (+8.2%), while in Video we expect a 1.0% growth. Moreover, we think the shift of users towards more affordable packages would slightly pressure ARPU (-0.2% y/y to MXN 244.63). With this in mind, we project that the division's revenue will grow 4.7% y/y (vs. +8.8%e in 2020). Finally, in Other Businesses sales we expect a 23.1% y/y recovery, also attributed to activities resumption, mainly in events and shows, and in games and raffles, assuming that sports and entertainment events in the Azteca Stadium and activities in casinos resume in 2H21, with the pandemic already under control due to further progress in vaccine application.

In terms of EBITDA, we anticipate a mid-single-digit growth (+5.2% y/y) to MXN 39.4 billion. Therefore, EBITDA margin would expand by 20bps to 38.9%. This performance would be the result of strict expense control in Content –notwithstanding the increase in production expenses as activities are resumed–, the benefit of peso's appreciation over dollarized programming costs in Izzi and Sky, as well as the accounting change on OTT (Over-the-Top) platforms' revenue recognition, such as Netflix in Cable, now only as a profit, and the recovery in Other Businesses. The above would be partially offset by slight pressures at Sky, related to higher sports programming expenses.

On a net level, we estimate a MXN 4.6 billion income, which compares very favorably to the MXN 821 million loss we estimate for 2020. In this regard, it is worth noting that Televisa's impressive profit recovery would be explained – in addition to the operating growth already described –, primarily, by a favorable base effect related to the non-recurring charge the company made in 1Q20 on the fair value of its Univision investment. Finally, we estimate a CAPEX of MXN 19.9 billion, which is 4.0% higher than the previous year mainly for exchange rate conversion effect, since in dollar terms the growth would amount to 10.9% or US \$978 million, mostly for network maintenance in Cable.

Valuation and PT2021 of MXN 47.00

We updated our sum-of-the-parts valuation model, now incorporating our 2021 estimates. We then establish a PT2021 of MXN 47.00 per CPO. For its calculation, we assume a 5.0x FV/EBITDA target multiple for Content, in line with the median of media companies in 2021, according to Bloomberg. Likewise, for Sky we determined one of 4.0x, equal to the average of global satellite TV comparable companies. For Cable, we set a 7.0x multiple, very similar to the median of cable operators at 7.2x, while for Other Businesses we set a 3.0x target. Additionally, we deduct corporate expenses from the calculated value for the business segments. Consequently, the implied FV/EBITDA multiple is 5.9x, which is equal to the average at which the issuer has traded during the last year. Finally, to determine Univision's value, and the rest of its minority investments, we assumed a 0.6x P/BV multiple.

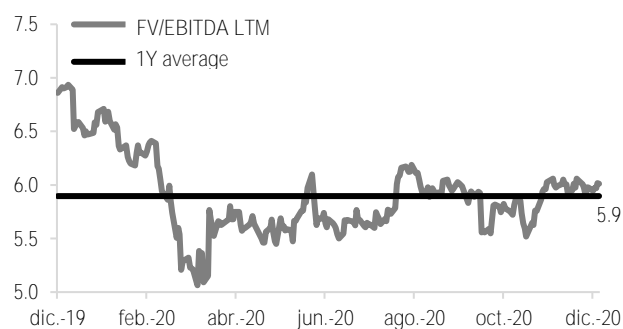
Our PT represents a 6.3x FV/EBITDA 2021E multiple, slightly above current valuation and last year's average, at 6.0x and 5.9x, respectively, as we believe the recovery outlook justifies a modest rerating in its valuation parameters. The potential return of 45.4% versus our PT (including 3.9% dividend return) is extremely attractive, for which our recommendation is BUY.

Sum-of-the-parts valuation (SOTP)

MXN, million					
Segment	EBITDA 2021E	FV/EBITDA	Firm Value	\$/share	
Content	11,605	5.0x	58,026	\$	20.58
SKY	9,365	4.0x	37,460	\$	9.96
Cable	19,947	7.0x	139,626	\$	49.51
Other Businesses	266	3.0x	798	\$	0.28
Corporate	(1,734)		(1,734)	-\$	0.61
SOTP value	39,449	5.9x	234,176	\$	79.72
		(-) Net Debt	(97,622)	-\$	34.62
		(-) Minority interest	(18,650)	-\$	6.61
		(=) Total	117,904	\$	41.81
		(+) Investments (including Univision)	15,460	\$	5.48
		(-) Equity Value	133,364		
		CPOs outstanding	2,820		
		PT2021	\$		47.29
		Current Price	\$		33.21
		Upside Potential			42.4%

Source: Banorte

Tlevisa - FV/EBITDA LTM and 1Y average Times



Source: Bloomberg, Banorte

Relative Valuation - Telecommunications

Emisora Stock	P/VI P/BV	P/U			FV/EBITDA			Rendimiento de
		LTM	P/E 2020E	2021E	LTM	2020E	2021E	Dividend Yield
VERIZON COMMUNICATIONS INC	3.8x	12.3x	12.3x	11.8x	8.2x	8.0x	7.7x	4.2%
AT&T INC	1.2x	12.3x	9.3x	9.1x	7.1x	7.3x	7.2x	7.2%
T-MOBILE US INC	2.5x	34.2x	46.0x	40.7x	11.8x	10.5x	9.5x	
DEUTSCHE TELEKOM AG-REG	2.0x	22.3x	13.7x	13.5x	6.9x	7.5x	7.0x	4.1%
VODAFONE GROUP PLC	0.6x	15.5x	18.4x	14.2x	5.0x	7.2x	6.9x	6.7%
TELEFONICA SA	1.5x		7.6x	6.8x	5.5x	5.4x	5.2x	12.4%
ORANGE	1.0x	9.7x	9.8x	9.1x	4.6x	5.1x	5.0x	6.2%
BCE INC	2.9x	17.2x	18.2x	16.3x	8.3x	8.3x	7.9x	6.1%
VIVENDI	1.8x	16.8x	22.4x	20.2x	15.7x	16.0x	14.3x	2.3%
BT GROUP PLC	1.1x	8.6x	6.9x	6.7x	4.4x	4.3x	4.2x	
TELENOR ASA	6.2x	18.5x	15.2x	13.2x	6.2x	6.1x	6.0x	6.0%
ROGERS COMMUNICATIONS INC-B	2.9x	17.2x	17.6x	15.0x	8.6x	8.5x	8.0x	3.4%
TELEFONICA BRASIL S.A.	1.1x	15.9x	15.5x	13.7x	4.5x	4.6x	4.4x	1.6%
KONINKLUKE KPN NV	4.3x	22.4x	21.1x	18.3x	6.9x	7.1x	7.0x	5.1%
TELECOM ITALIA SPA	0.4x	6.3x	8.3x	9.1x	5.6x	5.5x	5.5x	2.7%
PROXIMUS	1.8x	12.5x	10.0x	10.1x	4.7x	4.3x	4.3x	9.1%
TELE2 AB-B SHS	2.3x	20.4x	17.6x	16.7x	9.8x	10.0x	9.7x	5.1%
TIM SA	1.5x	17.9x	23.0x	17.7x	5.0x	5.0x	4.8x	
MILLICOM INTL CELLULAR S.A.	1.9x			67.8x	6.0x	4.1x	3.8x	
TELECOM ARGENTINA S.A.-B	1.2x	69.7x			6.5x	6.4x	7.3x	
TURKCELL ILETISIM HIZMET AS	1.7x	9.2x	8.6x	7.0x	3.4x	3.5x	3.1x	2.4%
NOS SGPS	1.6x	19.1x	13.8x	10.2x	5.2x	4.8x	4.6x	9.6%
OI SA	2.1x				7.1x	7.2x	6.2x	
AXTEL SAB DE CV - CPO	5.4x	34.9x	21.9x	12.9x	5.2x	5.2x	6.8x	
Telecommunication Average	2.2x	19.7x	16.1x	16.4x	6.7x	6.7x	6.5x	5.5%
Telecommunication Median	1.8x	17.2x	15.2x	13.3x	6.1x	6.3x	6.5x	5.1%
AMERICA MOVIL SAB DE C-SER L	5.5x	30.7x	34.0x	10.5x	5.3x	5.2x	4.9x	2.7%
Premium/Discount vs Median	16.5%	78.7%	123.6%	-21.6%	-13.4%	-17.2%	-25.0%	

Source: Banorte, Bloomberg

Relative Valuation – Telecommunications Infrastructure

Emisora Stock	P/BV	P/E			FV/EBITDA			Rendimiento de Dividendos Yield
		U12M LTM	2020E	2021E	U12M LTM	2020E	2021E	
COMMSCOPE HOLDING CO INC	10.0x		9.1x	6.7x	27.2x	11.0x	9.8x	
UBIQUITI INC		38.5x	32.5x	30.5x	30.5x	27.9x	26.3x	0.6%
VIASAT INC	0.9x	68.6x	36.0x	28.6x	8.9x	8.0x	7.1x	
MOTOROLA SOLUTIONS INC		25.2x	21.6x	19.1x	16.7x	16.1x	13.7x	1.7%
INFINERA CORP	5.9x					31.2x	17.7x	
ANTERIX INC	3.0x							
PAGERDUTY INC	9.9x							
TELESITES SAB DE CV	6.2x			90.3x	14.4x	14.4x	13.8x	
UNITI GROUP INC				38.2x	87.6x	9.1x	8.7x	5.4%
DYCOM INDUSTRIES INC	2.4x	36.8x	25.4x	20.8x	10.1x	9.0x	8.2x	
SARANA MENARA NUSANTARA PT	5.2x		18.8x	17.1x	12.1x	11.0x	10.2x	1.2%
TOWER BERSAMA INFRASTRUCTURE	5.9x	35.7x	34.3x	29.1x	14.4x	13.8x	12.7x	1.7%
INFRASTRUTTURE WIRELESS ITAL	2.1x	48.1x	53.6x	47.0x	25.2x	23.5x	19.5x	1.3%
CHANGSHU FENGFAN POWER EQU-A	2.0x							
CROWN CASTLE INTL CORP	6.9x	81.4x	82.1x	63.7x	27.3x	26.5x	25.1x	3.5%
KYOWA EXEO CORP	1.2x	18.9x	14.1x	13.1x	9.0x	7.7x	7.4x	2.9%
AMERICAN TOWER CORP	26.1x	49.8x	50.9x	39.3x	25.0x	25.1x	23.2x	2.2%
COMSYS HOLDINGS CORP	1.2x	15.0x	14.5x	13.4x	8.1x	8.0x	7.5x	2.8%
CELLNEX TELECOM SA	3.0x			259.7x	29.7x	24.6x	19.1x	
EUSKALTEL SA	1.6x	21.8x	22.2x	20.3x	9.5x	8.9x	8.7x	3.1%
Infrastructure Average		40.0x	31.9x	46.1x	22.2x	16.2x	14.0x	2.4%
Infrastructure Median		36.8x	25.4x	28.8x	15.5x	13.8x	12.7x	2.2%
AXTEL SAB DE CV - CPO	5.4x	34.9x	21.9x	12.9x	5.2x	5.2x	6.8x	
Premium/Discount vs Median	78.7%	-5.2%	-13.8%	-55.1%	-66.4%	-62.2%	-46.5%	

Source: Banorte, Bloomberg

Relative Valuation – Cable Operators

Stock	P/BV	P/E			FV/EBITDA			Dividend Yield
		LTM	2020E	2021E	LTM	2020E	2021E	
GRUPO TELEVISIVA SAB-SER CPO	1.3x			23.0x	5.9x	6.2x	5.8x	
CHARTER COMMUNICATIONS INC-A	4.8x	46.4x	45.6x	30.8x	12.7x	12.4x	11.5x	
ALTICE USA INC- A	26.6x	46.5x	66.0x	22.7x	10.6x	10.0x	9.7x	
COMCAST CORP-CLASS A	2.6x	20.4x	19.8x	17.3x	10.2x	10.7x	9.9x	1.8%
SHAW COMMUNICATIONS INC-B	1.9x	16.8x	17.0x	15.8x	7.1x	7.0x	6.8x	5.3%
LIBERTY GLOBAL PLC-A	1.1x			22.7x	4.3x	4.2x	3.9x	
CABLE ONE INC	9.3x	49.0x	48.2x	44.6x	22.3x	20.9x	19.1x	0.5%
KABEL DEUTSCHLAND HOLDING AG		23.3x			9.9x			2.9%
TELENET GROUP HOLDING NV		9.5x	10.7x	10.0x	6.9x	6.7x	6.7x	8.1%
WIDEPENWEST INC		19.5x	18.4x	13.6x	8.3x	7.3x	7.2x	
MNC SKY VISION TBK PT	2.5x				2.2x			
HATHWAY CABLE AND DATACOM	1.4x	51.2x			7.7x			
EMPRESAS CABLEVISION SA-CPO	5.6x	60.3x			6.1x			
DEN NETWORKS LTD	1.2x	43.0x			3.2x			
WASU MEDIA HOLDING CO LTD-A	1.2x	21.4x						6.9%
COGECO COMMUNICATIONS INC	2.1x	13.2x	12.3x	11.5x	6.9x	6.6x	6.4x	2.6%
DIGI COMMUNICATIONS NV	3.7x				4.1x			1.9%
COGECO INC	1.7x	9.6x	10.4x	9.8x	5.3x	5.0x	4.9x	2.7%
TV DIRECT PCL	1.1x	22.6x			1.9x			4.8%
TELE COLUMBUS AG	1.5x			67.1x	8.7x	8.7x	8.3x	
ASIAN PAY TELEVISION TRUST	0.2x	12.5x	10.8x	9.2x	9.6x	9.2x	9.6x	8.4%
Cable operators Average	3.9x	29.1x	25.9x	22.9x	7.7x	8.8x	8.4x	4.2%
Cable operators Median	1.8x	22.0x	17.7x	17.3x	7.0x	7.3x	7.2x	2.9%
MEGACABLE HOLDINGS-CPO	2.0x	14.3x	14.3x	15.1x	6.3x	6.2x	5.9x	2.4%
Premium/Discount vs Median	7.6%	-35.1%	-19.1%	-12.6%	-10.2%	-15.0%	-17.3%	

Source: Banorte, Bloomberg

Relative Valuation – Media Companies

Stock	P/BV	P/E			FV/EBITDA		Dividend Yield	nd i
		LTM	2020E	2021E	LTM	2020E		
MEDIASET SPA	0.9x	23.7x	23.9x	15.4x	5.3x	9.1x	7.8x	
NIPPON TELEVISION HOLDINGS	0.4x	25.8x	15.7x	11.5x	3.0x	2.6x	2.6x	
RTL GROUP	1.8x	13.4x	14.9x	11.4x	6.9x	7.8x	6.7x	
ITV PLC	4.5x	13.7x	11.2x	10.1x	10.8x	8.9x	8.1x	
NOS SGPS	1.6x	19.1x	13.8x	10.2x	5.2x	4.8x	4.6x	9.6%
DIGI COMMUNICATIONS NV	3.7x				4.1x			1.9%
NIPPON TELEVISION HOLDINGS	0.4x	25.8x	15.7x	11.5x	3.0x	2.6x	2.6x	
PRIME MEDIA GROUP LTD	1.2x	10.9x	19.5x		3.0x	4.5x	5.3x	
Media Companies Average	1.8x	18.9x	16.4x	11.7x	5.2x	5.7x	5.4x	5.8%
Media Companies Median	1.4x	19.1x	15.7x	11.5x	4.6x	4.8x	5.3x	5.8%
GRUPO TELEVISIA SAB-SER CPO	1.3x	N.A.	N.A.	20.3x	6.0x	5.8x	5.3x	
Premium/Discount vs Median	-2.2%	N.A.	N.A.	77.2%	28.2%	21.8%	-0.2%	

Source: Banorte, Bloomberg

Relative Valuation – Satellite TV companies

Stock	P/BV	P/E			FV/EBITDA		Dividend Yield
		LTM	2020E	2021E	LTM	2020E	
MNC SKY VISION TBK PT	2.5x				2.2x		
DISH TV INDIA LTD	0.6x			17.8x	1.3x	1.4x	1.3x
CYFROWY POLSAT SA	1.3x	16.4x	14.7x	12.4x	7.5x	7.4x	7.1x
SKY NETWORK TELEVISION LTD	0.7x		12.3x	17.8x		2.7x	3.3x
Satellite TV companies Average		16.4x	13.5x	16.0x	3.7x	3.8x	3.9x
Satellite TV companies Median		16.4x	13.5x	17.8x	2.2x	2.7x	3.3x
GRUPO TELEVISIA SAB-SER CPO	1.3x	N.A.	N.A.	20.3x	6.0x	5.8x	5.3x
Premium/Discount vs Median	29.5%	N.A.	N.A.	14.2%	170.5%	118.2%	62.4%

Source: Banorte, Bloomberg

Certification of Analysts.

We, Gabriel Casillas Olivera, 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, Valentin 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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Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

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Guide for investment recommendations.

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

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

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History of PT and ratings

Stock	Date	Rating	PT
Amx L	21/12/20	Buy	\$18.00
Axtel CPO	21/12/20	Buy	\$10.00
Mega CPO	21/12/20	Hold	\$84.00
Tlevisa CPO	21/12/20	Buy	\$47.00

MSCI ESG Rating Scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD			AVERAGE		LEADER	

*MSCI ESG Rating is an indicator that evaluates companies in Environment, Social and Governance (ESG) metrics

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