

# Top Picks 2021

January 22, 2021

## Favoring recovery and valuation

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- Perspectives for [equity markets](#) in 2021 remain positive, backed by the expected [economic recovery](#), the prevailing high liquidity and the [low interest rate](#) environment
- In this context, those companies with [clear adaptability strategies to a post-pandemic 'new normal'](#), and with solid fundamentals to leverage opportunities, should be the beneficiaries
- Whilst the 'name of the game' will be "valuation", our top picks for this year include [AMX](#), [CEMEX](#), [FEMSA](#), [GMXT](#), and [NEMAK](#), all of which have not yet reflected the favorable outlook

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Having come to the end of a year of important and highly complex challenges, 2021 holds better prospects, supported by the expected recovery and the beginning of the path towards a new post-pandemic normality. We believe that appetite for risky assets will continue, also driven by the high liquidity prevailing in the markets, hand in hand with the unprecedented economic policy responses that will continue in the world, and with interest rates that should remain low for a long period of time, underpinning a very attractive risk cost. In any case, it will be necessary to be very selective, favoring cyclical companies, with operations abroad –recalling that external demand will continue to be the main driver of the recovery, boosted by the various stimulus measures, mainly in the US– with appealing valuations, financial strength while showing clear signs of post-pandemic adaptation and benefits. Thus, our top picks include: **AMX**, defensive with sustained growth, financial strength, and in our view, the best option in Latam in the face of 5G; **CEMEX**, with favorable prospects in demand for construction materials, in light of the expected higher infrastructure spending, and a strategy to streamline operations and portfolio optimization; **FEMSA**, the economic reopening should support a significant recovery in Proximity, Kof, and Fuel, along with a valuation that does not yet incorporate such outlook; **GMXT**, with a favorable environment to resume growth, higher profitability expectations, and a valuation that reflects a very interesting discount versus peers; and finally **NEMAK**, where the expected recovery upon the operations normalization, and a strategy of significant cost and expense savings, have not yet been reflected in the valuation.

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2021 estimates and valuation summary  
MXN, million

Document for distribution among public

	PT 2021	Revenue	Var y/y	EBITDA	Var y/y	Net Income	Var y/y	EBITDA Margin	Var y/y	FV/EBITDA		P/E	
										LTM	2021E	LTM	2021E
Amx L	18.00	934,508	-8.3%	322,706	-1.7%	90,057	225.3%	34.5%	2.3pp	5.4x	4.9x	30.4x	10.4x
Cemex CPO <sup>(1)</sup>	14.50	13,538	6.6%	2,601	8.0%	242	N.A.	19.2%	0.2pp	9.4x	8.3x	-5.5x	40.4x
Femsa UBD	190.00	527,013	8.1%	79,314	12.2%	17,097	>500%	15.0%	0.5pp	11.6x	9.3x	127.2x	30.4x
Gmxt *	36.30	50,463	7.0%	22,639	9.5%	7,517	22.0%	44.9%	1.0pp	7.8x	7.1x	20.1x	16.1x
Nemak A	9.50	75,376	12.3%	12,017	28.8%	2,701	N.A.	15.9%	1.1pp	6.2x	3.8x	N.A.	7.0x

Source: Banorte <sup>(1)</sup> Dollar figures except for PT2021 which is in Mexican pesos.

# AMX

## Top investment choice in Latam to invest in 5G

- **AMX has proven to be defensive to the environment. Greater presence in Latam (OI), and less in the US (Tracfone), would strengthen the financial structure, leading to better margins and lower leverage**
- **Investments in 5G network deployment, with pilot tests in Mexico, Chile, and Argentina, support sustained growth, being Amx, in our opinion, the best investment alternative in Latam to invest in 5G**
- **In the face of a more favorable environment, accompanied by a valuation that, from our point of view, looks attractive. We include Amx as one of the issuers that should be part of investment portfolios in 2021**

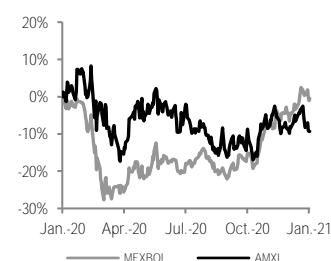
**Major expansion and sustained growth.** The connectivity needs created by the pandemic have been beneficial to Amx. This should continue going forward, driving both organic and inorganic growth. Amx's undisputed leadership position in Latin America, not only in terms of mobile subscribers in the region's major economies, but of course also in terms of infrastructure and financial capacity, in our view, places the issuer in privileged position to benefit from the third industry growth wave brought by 5G, and eventually, the *Internet of Things*. Having said that, although we consider that the Tracfone divestiture in the US will imply lower subscribers and revenues, it will also bring with it a relevant profitability expansion. Additionally, a portion of the resources would be used to pay down debt, thus strengthening its financial strength with a 2021e ND/EBITDA ratio of 1.8x from 2.2x. As such, Amx would arrive with a strengthened balance sheet ahead of the heavy investments that 5G deployment could entail later on, and while the possibility of monetizing its more than 60,000 towers to further lower debt is still on the table. In this regard, we consider Amx as one of our favorite issuers among our companies under coverage, given a very solid financial structure, good prospects going forward, and a valuation that, in our view, looks attractive.

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BUY	
Current Price	\$14.06
PT 2021	\$18.00
Dividend 2021	\$0.40
Dividend Yield (%)	2.8%
Upside Potential	30.9%
ADR Price	US\$14.22
PT2021 ADR	US\$18.20
Shares per ADR	20
Max – Min LTM (\$)	16.82 – 12.33
Market Cap (US\$m)	47,505.7
Shares Outstanding (m)	66,435.7
Float	49%
Daily Turnover US\$m	688.8
Valuation metrics LTM	
FV/EBITDA	5.4x
P/E	30.4x
MSCI ESG Rating*	B

Relative performance to MEXBOL LTM



### 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
Equity	230,195	226,907	235,118	302,891

### Multiples 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	10.4x
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 exp	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

# CEMEX

Materials, Infrastructure and  
Transportation

## Positive outlook with higher growth

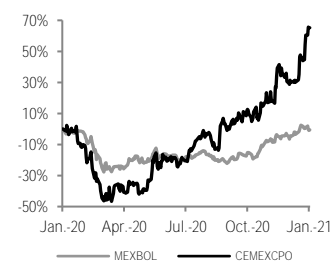
- **The economic recovery and favorable outlook for building materials demand point to a positive 2021 for [CEMEX](#), with higher expected product volumes and prices**
- **The *Operation Resilience* strategy, aimed at improving margins, optimizing the portfolio, recovering investment grade, and focusing on a more sustainable business, will favor solid growth**
- **The company's current valuation remains attractive at a 12.1% discount vs. the sector, which we believe do not reflect the expectation of higher FCF, and lower leverage**

**Positive outlook will boost results.** 2021 shapes up to be a positive year for the cement company due to the expected recovery, as well as increased stimulus – primarily in developed markets– to boost economies, which could occur in some sectors with intensive use of construction materials. This would benefit CEMEX's operations in Europe and the US, and particularly in the latter, where the expectation of increased infrastructure spending by the new president, Joe Biden, would reflect higher demand in the industry. In addition, the solid performance of CEMEX's bag cement sales in Mexico and emerging markets is expected to continue. In that sense, we estimate a good 3.8% y/y increase in volumes on average, coupled with a favorable pricing environment. This, along with [Operation Resilience](#) strategy, aimed at achieving greater operating efficiencies, as well as cost and expense control, would lead to an 8.0% y/y rise in EBITDA (19.2% margin), a 7% increase in FCF, and a decrease in leverage to 3.8x. We believe the current valuation still looks attractive, despite the recent rally in the stock (~35% L3m), which combined with a very favorable outlook on the environment, and a focus on future growth, makes CEMEX an interesting investment alternative.

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BUY	
Current Price	\$13.04
PT 2021	\$14.50
Dividend	
Upside Potential	11.2%
ADR Price	US\$6.67
PT2021 ADRS	US\$7.32
Shares per ADR	10
Max – Min LTM (\$)	13.19 – 3.98
Market Cap (US\$m)	9,785.61
Shares Outstanding (m)	14,708
Float	90%
Daily Turnover (\$m)	346.3
Valuation metrics LTM	
EV/EBITDA	9.4x
P/E	-5.5x
MSCI ESG Rating*	BBB

Relative performance to MEXBOL  
LTM



Financial Statements				
USD, dollars	2018	2019	2020E	2021E
Revenues	13,531	13,130	12,701	13,538
Operating Income	1,407	986	-609	1,245
EBITDA	2,687	2,378	2,408	2,601
EBITDA Margin	19.9%	18.1%	19.0%	19.2%
Net Income	528	143	-1,594	242
Net Margin	3.9%	1.1%	-12.6%	1.8%
Total Assets	29,181	29,362	26,779	26,845
Cash	309	788	1,112	714
Total Liabilities	18,128	18,539	18,014	17,787
Debt	11,140	11,213	11,016	10,618
Common Equity	11,053	10,823	8,765	9,058

Source: Banorte with data from MSE

Valuation and financial metrics				
	2018	2019	2020E	2021E
EV/EBITDA	8.5x	9.6x	9.0x	8.3x
P/E	18.9x	70.3x	-6.1x	40.4x
P/BV	1.1x	1.1x	1.3x	1.3x
ROE	5.6%	1.5%	-19.7%	3.2%
ROA	1.8%	0.5%	-5.6%	0.9%
EBITDA/ Interes exp.	3.7x	3.4x	3.2x	3.7x
Net Debt/EBITDA	3.9x	4.3x	4.1x	3.8x
Debt/Equity	1.0x	1.0x	1.1x	1.1x

# FEMSA

Consumer and Telecoms

## Attractive valuation and recovery on the horizon

- **2021 should be a year of greater economic dynamism which, coupled with a low comparative base, will boost Proximity, Kof and Fuel results (85% of consolidated EBITDA)**
- **The foregoing, along with profitability improvements in almost all of [FEMSA's](#) divisions, would translate into an EBITDA increase of 12.5% y/y, and an EBITDA margin expansion of 50bps**
- **Femsa trades at a ~25% discount vs the sum of the parts, while implicitly Femco's multiple is 20% below the historical average (14.0x), making it very attractive to hold a stake in the issuer**

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BUY	
Current Price	\$145.33
PT 2021	\$190.00
Dividend 2021	\$3.30
Dividend Yield (%)	2.3%
Upside Potential	33.0%
ADR Price	US\$74.03
PT2021 ADR	US\$96.00
Shares per ADR	10
Max – Min LTM (\$)	190.0 – 112.5
Market Cap (US\$m)	24,183.2
Shares Outstanding (m)	3,578.2
Float	60%
Daily Turnover US\$m	572.7
Valuation metrics LTM	
FV/EBITDA	11.6x
P/E	127.2x
MSCI ESG Rating*	A

**Solid growth, supported by activity reactivation and a base effect.** 2021 is expected to bring sustained growth for Femsa, in the wake of a year that eased the comparative base, hand in hand with the expectation of improved economic performance. With that in mind, the 8.1% y/y increase in Femsa's consolidated revenue is expected to be supported by the expected significant recovery in all divisions, although to a greater extent from Oxxo, Oxxo Gas, and Kof, which together account for ~85% of consolidated EBITDA. In particular, Proximity (37% of total sales), favored by higher SSS (+6.8% y/y), and the return of a faster pace of new unit openings, which will motivate the company to consolidate its presence in South America, for now with Ok Market's acquisition in Chile, and the new Oxxo's in Brazil. For its part, KOF (37% of total revenue), with higher volumes, and a positive FX rate environment in South America, while Fuel sustained by higher volumes and prices. The improved operating leverage in most divisions and better cost absorption will lead to a 12.5% y/y increase in EBITDA (+50bps). With the more than 25% discount at which the issuer trades vs. the sum of the parts, and Femco's 20% discount vs. the historical average, we believe that much of the outlook is not integrated into the valuation, and we do not rule out a rerating going forward, thus identified an interesting entry point into the issuer. Having said that, we believe Femsa should be part of 2021 investment portfolios.

Relative performance to MEXBOL LTM



### Financial Statements

	2018	2019	2020E	2021E
Revenue	483,513	506,910	487,389	527,013
Operating Income	42,184	47,165	40,275	45,624
EBITDA	61,927	75,483	70,661	79,314
EBITDA Margin	12.8%	14.9%	14.5%	15.0%
Net Income	24,084	19,936	2,027	17,097
Net Margin	5.0%	3.9%	0.4%	3.2%
Total Assets	576,381	637,541	710,972	718,203
Cash	62,047	65,562	115,931	119,394
Total Liabilities	240,839	311,790	393,549	388,058
Debt	131,300	187,257	260,305	259,424
Common Equity	335,542	325,751	317,422	330,146

Source: Banorte

### Valuation and Financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	11.1x	9.8x	10.8x	9.3x
P/E	22.5x	27.2x	267.3x	30.4x
P/BV	2.1x	2.2x	2.2x	2.1x
ROE	7.2%	6.0%	0.6%	5.3%
ROA	4.2%	3.1%	0.3%	2.4%
EBITDA/ interest	6.3x	5.3x	4.1x	4.3x
Net Debt/EBITDA	1.1x	1.6x	2.0x	1.8x
Debt/Equity	0.4x	0.6x	0.8x	0.8x

# GMXT

## Growth returns with attractive valuation

- **GMXT will resume its growth path, supported by the expected economic recovery along with a strategy aimed at achieving efficiencies, which should be reflected in a significant advance in results**
- **Favorable operating performance, solid financial structure, compelling dividend distribution, and very attractive valuation support our positive outlook for the company in 2021**
- **Company's shares are trading at a very interesting discount vs. peers (~28.4%), unjustified, in our view, given the outlook, offering an interesting investment opportunity**

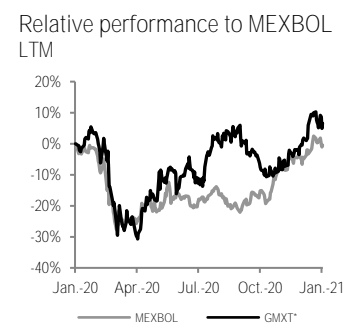
**Recovery will lead to further progress and profitability expansion.** Amid a year of economic recovery, with the T-MEC supporting greater commercial activity and nearshoring, GMXT's outlook looks very favorable, while greater dynamism in the segments it attends, along with its financial strength, will open an opportunity door to resume sustained growth. We expect all segments to show recovery in volumes, with the Automotive and Industrial segments being the main drivers for advance. That said, GMXT's solid positioning as Mexico's leading railroad company, coupled with an important investment plan aimed at achieving more efficient operations, will support higher profitability. In this sense, we expect revenues to grow 7.0% y/y, and EBITDA to climb 9.5% y/y. To the above, we should add the interesting dividend distribution (yield ~4.0%), which has been maintained despite the pandemic, given the solid cash generation, along with a solid financial structure that should continue in the coming years (ND/EBITDA 2021e 1.3x). One aspect to consider is that positive growth expectations and higher margins would translate into an attractive multiple reduction, according to our estimates: FV/EBITDA 2020e of 7.8x, 2021e 7.1x, and 2022e of 6.4x. The discount at which the issuer trades vs. peers, in our opinion, does not seem to integrate the solid fundamentals. Consequently, GMXT represents an appealing investment opportunity and we believe it should be an essential part of portfolios this year.

Materials, Infrastructure and Transportation

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BUY	
Current Price	\$29.46
PT2021	\$36.30
Dividend 2021	\$1.20
Dividend (%)	4.0%
Upside Potential	27.3%
Max – Min LTM (\$)	31.28-19.30
Market cap (US\$m)	6,174.5
Shares outstanding (m)	4,100.6
Float	30.0%
Daily turnover (\$m)	18.3
Valuation Metrics LTM*	
FV/EBITDA	7.8
P/E	20.1x
MSCI ESG Rating*	N.A.



Financial statements				
MXN, million	2018	2019	2020E	2021E
Revenue	45,431	47,633	47,184	50,463
Operating Income	12,397	13,635	13,689	15,763
EBITDA	19,484	21,117	20,681	22,639
EBITDA Margin	42.9%	44.3%	43.8%	44.9%
Net Income	7,008	6,038	6,159	7,517
Net Margin	15.4%	12.7%	13.1%	14.9%
Total Assets	107,396	110,812	119,175	122,193
Cash	3,671	3,837	3,993	5,945
Total Liabilities	47,951	51,868	52,866	51,507
Debt	28,300	34,565	34,993	34,993
Common Equity	51,116	50,439	57,611	60,209

Valuation and financial metrics				
	2018	2019	2020E	2021E
FV/EBITDA	7.9x	7.6x	7.8x	7.1x
P/E	17.2x	20.0x	19.6x	16.1x
P/BV	2.4x	2.4x	2.1x	2.0x
ROE	13.7%	12.0%	10.7%	12.5%
ROA	6.5%	5.4%	5.2%	6.2%
EBITDA/ interest exp	7.8x	8.4x	8.6x	9.1x
Net Debt/EBITDA	1.3x	1.5x	1.5x	1.3x
Debt/Equity	0.5x	0.6x	0.5x	0.5x

Source: Banorte

# NEMAK

## 2021: Growth and attractive valuation

- **Growth outlook for [NEMAK](#), hand in hand with vehicle production recovery. While cost and expense reduction strategy should boost its profitability**
- **A strengthened financial structure, resumption of dividend payments, and solid operating performance place it as one of our favorites in 2021**
- **Furthermore, Nemak's valuation at 3.8x FV/EBITDA 2021E looks very attractive compared to the sector average (-33.3%), and the 3Y average (-25.5%), presenting an interesting entry point**

**A very favorable year, growth at attractive multiples.** 2021 is shaping up to be a year of recovery in automotive industry volumes, which should support Nemak's growth. Considering that global vehicle production would rebound 13.7% y/y, according to *IHS Automotive* estimates, we project a 16.2% y/y increase in the company's volume to 40.8 million equivalent units, and a 12.3% y/y increase in revenues to MXN 75.4 billion. In addition, the cost and expense reduction strategy implemented in 2020, with expected recurring savings, should lead to improved margins and boost profitability. With that in mind, we estimate that EBITDA would rise 28.8% y/y to MXN 12.0 billion, while its margin would expand 115bp to 15.9%. On the other hand, following the implemented measures to preserve liquidity due to the pandemic, we forecast that Nemak would resume dividend payments with a MXN 0.60 cash distribution per share (9.8% yield on current prices), resume higher capital expenditures, as well as strengthen its capital structure through a solid operating performance and debt repayment (2.2x ND/EBITDA 2021E vs. 3.0x in 2020E). Furthermore, current valuation (3.8x FV/EBITDA 2021E), in our opinion, implies an unjustified discount to the sector average of 5.7x (-33.3%) and to the 3Y average of 5.1x (-25.5%) given the issuer's favorable outlook, therefore, this differential should close in the near term. Based on the above, we believe that our PT represents an interesting investment opportunity, with an attractive potential return of 65.0% (including dividend return).

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BUY	
Current Price	\$6.12
PT 2021	\$9.50
Price NMK	\$2.85
PT 2021	\$4.49
Dividend 2021	\$0.60
Dividend Yield (%)	9.8%
Upside Potential	65.0%
Max – Min LTM (\$)	8.49 – 3.25
Market Cap (US\$m)	958.17
Shares Outstanding (m)	3,077.0
Float	24.76%
Daily Turnover US\$m	10.0
Valuation metrics LTM	
FV/EBITDA	6.2x
P/E	N.A.
MSCI ESG Rating*	N.A.

Relative performance to MEXBOL LTM



### Financial Statements

	2018	2019	2020E	2021E
Revenue	90,327	77,363	67,133	75,376
Operating Income	7,823	4,964	2,681	5,689
EBITDA	14,105	11,958	9,327	12,017
EBITDA Margin	15.6%	15.5%	13.9%	15.9%
Net Income	3,464	2,493	-552	2,701
Net Margin	3.8%	3.2%	-0.8%	3.6%
Total Assets	93,258	88,744	105,539	104,195
Cash	3,555	5,883	13,899	10,443
Total Liabilities	57,154	54,800	66,129	63,931
Debt	29,187	28,605	41,609	37,422
Common Equity	36,104	33,943	39,410	40,265

Source: Banorte

### Valuation and Financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	3.2x	3.5x	5.0x	3.8x
P/E	5.4x	7.6x	-34.1x	7.0x
P/BV	0.5x	0.6x	0.5x	0.5x
ROE	9.3%	7.1%	-1.5%	6.8%
ROA	3.7%	2.8%	-0.5%	2.6%
EBITDA/ interest	7.5x	7.6x	5.4x	7.0x
Net Debt/EBITDA	1.8x	1.9x	3.0x	2.2x
Debt/Equity	0.8x	0.8x	1.1x	0.9x



## 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 Thalia 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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## Last-twelve-month activities of the business areas.

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.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

## Securities holdings and other disclosures.

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The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

## Guide for investment recommendations.

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

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.

## Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V., since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

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