

LIVEPOL

Quarterly Report

February 21, 2019

Solid report, in line with expectations

- **Liverpool reported 4Q18 figures in line with our estimates, achieving a 40bp EBITDA margin expansion to 19.2%, due to lower provisions for doubtful accounts**
- **Control on past-due loan portfolio stood out, as tougher credit policies finally translated into a stable 4.5% NPL rate yoy (-130bps qoq)**
- **After incorporating the company's 4Q18 figures, LIVEPOL's FV/EBITDA multiple fell to 8.7x from 9.5x. For now, we reiterate our HOLD rating and PT2019 of MXN\$ 151.00**

NPL seems to be under control. We rate Liverpool's report as neutral, in line with our expectations, but highlighting improved profitability. This is explained by lower growth of expenses, after finally controlling NPL rate and allocating fewer provisions for such item. On one hand, consolidated revenue rose 8.6% yoy to MXN 48.3 billion (+0.5% vs BNTe), thanks to a 9.3% increase in sales for the commercial division (SSS Liverpool +6.4% and +6.6% Suburbia), a 13.6% increment in interest income, a 20.5% rise in leasing and a 66.2% drop in other revenues and services. Meanwhile, the company's gross margin dropped 10bps to 38.7%, due to the reprogramming of a "Venta Nocturna" sale event towards 4Q18 and higher costs of logistics. Expenses rose only 6.3%, as provisions for doubtful accounts grew by only 0.3% in view of a stable 4.5% yoy NPL rate. Consequently, EBITDA reported a 10.8% year-on-year increase to MXN 9.2 billion (-0.4% vs BNTe) and the corresponding margin improved by 40bps to 19.2%. Finally, net profit grew 7.8% to MXN 6.0 billion as a higher tax effective rate offset operating progress and the benefit of a 26.9% lower Net Interest Expense.

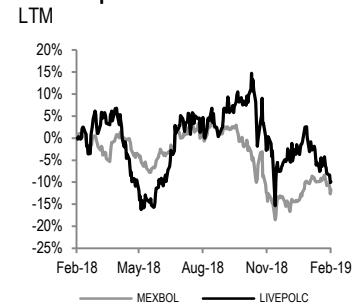
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HOLD

Current Price	MXN\$118.12
PT 2019	MXN\$151.00
Dividend 2019	P\$1.1
Dividend Yield (%)	0.9%
Upside Potential	28.8%
Max – Min LTM (MXN\$)	152.97 – 108.5
Market Cap (US\$m)	8,437.3
Shares Outstanding (m)	1,342.2
Float	19.24%
Daily Turnover (MXN\$m)	57.8
Valuation metrics TTM	
FV/EBITDA	8.7x
P/E	13.5x

Relative performance to Mexbol

Financial Statements

MXN, million	2017	2018	2019E	2020E
Revenues	122,168	135,535	148,824	161,133
Operating Income	15,232	16,925	18,795	20,632
EBITDA	18,350	20,258	22,846	25,052
EBITDA Margin	15.0%	14.9%	15.4%	15.5%
Net Income	9,885	11,704	13,383	15,301
Net Margin	8.1%	8.6%	9.0%	9.5%
Total Assets	168,227	175,256	193,264	204,357
Cash	16,635	13,535	18,425	26,365
Total Liabilities	78,144	74,052	76,059	74,450
Debt	36,841	31,088	35,990	28,988
Common Equity	90,082	101,204	117,205	129,906

Source: Banorte with data from MSE

Valuation and financial metrics

	2017	2018	2019E	2020E
FV/EBITDA	9.8x	8.7x	7.7x	6.4x
P/E	16.0x	13.5x	11.8x	10.4x
P/Book	1.8x	1.6x	1.4x	1.2x
ROE	11.5%	12.2%	12.3%	12.4%
ROA	5.9%	6.7%	6.9%	7.5%
EBITDA/ Interest exp	6.6x	7.5x	9.6x	13.6x
Net Debt/EBITDA	1.1x	0.9x	0.8x	0.1x
Debt/Equity	0.4x	0.3x	0.3x	0.2x

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Document for distribution among public

LIVEPOL – Results 4Q18

MXN, million

Concept	4Q17	4Q18	Chg %	4Q18e	Diff% vs Estim.
Revenue	44,546	48,395	8.6%	48,136	0.5%
Operating Income	7,570	8,410	11.1%	8,335	0.9%
Ebitda	8,383	9,290	10.8%	9,330	-0.4%
Net Income	5,636	6,076	7.8%	5,853	3.8%
Margins					
Operating Margin	17.0%	17.4%	0.4pp	17.3%	0.1pp
Ebitda Margin	18.8%	19.2%	0.4pp	19.4%	-0.2pp
Net Margin	12.7%	12.6%	-0.1pp	12.2%	0.4pp
EPS	\$4.20	\$4.53	7.8%	\$4.36	3.8%

Income Statement (Million pesos)

Year	2017	2018	2018	Change	Change
Quarter	4	3	4	% yoy	% qoq
Net Revenue	44,546.3	29,244.3	48,394.6	8.6%	65.5%
Cost of goods sold	27,247.4	17,464.3	29,644.6	8.8%	69.7%
Gross profit	17,298.9	11,780.1	18,750.0	8.4%	59.2%
General expenses	9,728.6	8,876.6	10,340.3	6.3%	16.5%
Operating Income	7,570.2	2,903.5	8,409.7	11.1%	189.6%
Operating Margin	17.0%	9.9%	17.4%	0.4pp	7.4pp
Depreciation	812.7	819.6	880.3	8.3%	7.4%
EBITDA	8,382.9	3,723.1	9,290.0	10.8%	149.5%
EBITDA Margin	18.8%	12.7%	19.2%	0.4pp	6.5pp
Interes income (expense) net	(540.3)	(463.0)	(394.9)	-26.9%	-14.7%
Interest expense	786.4	650.5	641.7	-18.4%	-1.3%
Interest income	228.7	175.4	182.9	-20.1%	4.2%
Other income (expenses)	(1.3)	(12.4)	48.6	N.A.	N.A.
Exchange Income (loss)	18.7	24.4	15.4	-17.4%	-36.8%
Unconsolidated subsidiaries	208.5	95.0	196.9	-5.6%	107.4%
Income before taxes	7,238.5	2,535.4	8,211.7	13.4%	223.9%
Income taxes	1,602.5	618.4	2,135.1	33.2%	245.3%
Discontinued operations					
Consolidated Net Income	5,636.0	1,917.0	6,076.6	7.8%	217.0%
Minorities	0.2	4.0	0.3	94.9%	-91.5%
Net Income	5,635.8	1,913.0	6,076.3	7.8%	217.6%
Net margin	12.7%	6.5%	12.6%	(0.1pp)	6.0pp
EPS	4.199	1.425	4.527	7.8%	217.6%

Balance Sheet (Million pesos)

Total Current Assets	65,783.1	57,509.7	66,321.0	0.8%	15.3%
Cash & Short Term Investments	16,635.1	5,970.8	13,535.5	-18.6%	126.7%
Long Term Assets	102,443.7	105,116.6	108,934.8	6.3%	3.6%
Property, Plant & Equipment (Net)	43,855.9	46,352.9	47,115.1	7.4%	1.6%
Intangible Assets (Net)	8,793.0	8,830.8	9,002.8	2.4%	1.9%
Total Assets	168,226.8	162,626.3	175,255.9	4.2%	7.8%
Current Liabilities	35,804.4	30,195.3	34,352.0	-4.1%	13.8%
Short Term Debt	3,482.5	964.9	554.3	-84.1%	-42.6%
Accounts Payable	22,535.8	19,554.4	23,694.3	5.1%	21.2%
Long Term Liabilities	42,340.0	38,999.2	39,700.2	-6.2%	1.8%
Long Term Debt	33,358.5	30,430.7	30,533.8	-8.5%	0.3%
Total Liabilities	78,144.4	69,194.5	74,052.2	-5.2%	7.0%
Common Stock	90,082.4	93,431.8	101,203.7	12.3%	8.3%
Noncontrolling Interest	0.2	4.0	0.3	94.9%	-91.5%
Total Equity	89,858.1	93,201.8	100,973.2	12.4%	8.3%
Liabilities & Equity	168,226.8	162,626.3	175,255.9	4.2%	7.8%
Net Debt	20,205.9	25,424.8	17,552.6	-13.1%	-31.0%

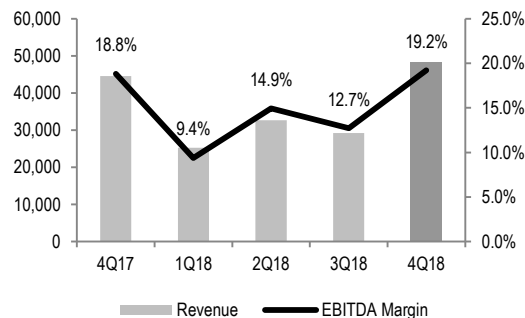
Cash Flow (Million pesos)

Operating Cash Flow before taxes	6,798.7	1,643.2	10,429.5
Cash Flow from Operating Activities	7,747.4	2,935.0	10,488.3
Cash Flow from Investing Activities	(3,651.8)	(2,131.0)	(2,305.1)
Cash Flow from Financing Activities	(2,980.7)	(1,275.9)	(1,633.2)
Change in Cash Balance	7,913.7	1,171.4	16,979.5

Source: Banorte, MSE.

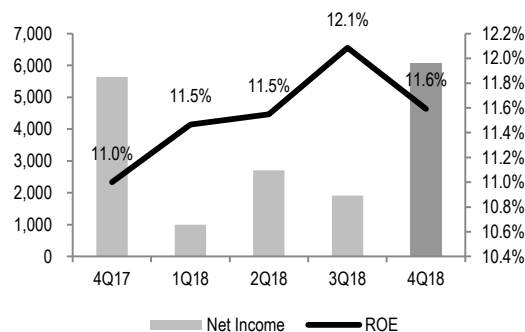
Revenue & EBITDA Margin

MXN, million



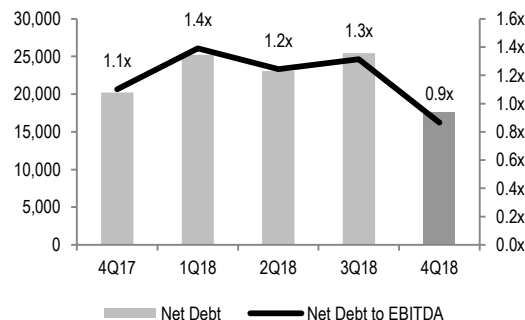
Net Income & ROE

MXN, million



Net Debt & Net debt to EBITDA ratio

MXN, million



Revenue rose 8.6% in 4Q18. Liverpool's consolidated revenue rose 8.6% yoy, in line with expectations, to stand at MXN 48.3 billion (+0.5% vs BNTe), resulting from increments in all divisions. Such result is explained by: (1) a 9.3% increase in revenue from the commercial division, given an 8.2% growth in Liverpool (vs. 8.0%e) and 7.5% in Suburbia (11.2%e), which derived from SSS increments of 6.4% and 6.6%, respectively, as well as from the opening of 5 Liverpool department stores and 7 Suburbia stores (sales floor +3.4% and +2.6% A/A, respectively). Meanwhile, interest income rose 13.6% year-on-year to MXN 3.4 billion, standing in line with our +12.7% estimate. Such growth is attributable to a 5.2% portfolio increase and a higher active rate. On the other hand, revenue from rent expanded 20.5% to MXN 929 million (vs. +25.2%e). Finally, other revenue and services added MXN 229 million to the consolidated statement, dropping 66.2% year-on-year.

The reprogramming of a night-time sale event pressured the gross margin by 10bps. Liverpool reported a gross margin of 38.7% by the closing of 2018, representing a 10 bp- year-on-year contraction over the year-ago period. Such reduction is attributable, mainly, to a 40 bp-drop of the commercial margin to 32.7%, explained by a Fabricas de Francia's night-time sale event that was rescheduled to 4Q18 from 3Q18, as well as to higher costs of logistics.

Delinquency control relieved expense pressures. During the period, Liverpool's expenses rose 6.3% year-on-year, below the sales growth rhythm, to MXN 10.3 billion. This figure is primarily attributed to an increase of only 0.3% in past-due loan portfolio reserves, after-for the first time in ten quarters- the delinquency rate remained unchanged yoy at 4.5% (vs. 5.1%e y -130pb qoq). It is worth saying that all this is very positive for the company, as it reveals, it seems, that strategies to control delinquency are finally paying off. With this in mind, the company reported an EBITDA of MXN 9.2 billion in 4Q18 (-0.4% vs. BNTe), up 10.8% from the year-ago period, improving the corresponding margin by 40bps yoy to 19.2%.

A higher tax effective rate capped net profit growth. Liverpool's net profit stood at MXN 6.0 billion in 4Q18, increasing 7.8% year-on-year, in line with our MXN 5.8 billion estimate (+3.8%). This figure is explained by the company's operating growth (+11.1%), which, coupled with a 26.9% lower Net Interest Expense, was partially offset by a higher effective tax rate (26% vs. a previous 22.1%). Thus, the gross margin stood at 12.6% (-10pb).

A drop in leverage. Liverpool's financial structure was strengthened towards year-end 2018 by reducing the net debt to EBITDA ratio to 0.9x from 1.3x previously reported in 3Q18. Such improvement is due to: (1) a qoq increase of MXN 7.5 billion in cash as a result of a solid cash flow generation; (2) a MXN 308 million reduction in cost-bearing debt; and (3) a higher L12M EBITDA generation.

Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldivar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato and Leslie Thalía Orozco Vélez, 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
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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	Rating	PT
LIVEPOL	17/01/19	Hold	MXN\$151.00
LIVEPOL	02/05/18	Hold	MXN\$140.00
LIVEPOL	26/10/17	Buy	MXN\$163.00
LIVEPOL	22/02/17	Buy	MXN\$178.00

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