

AMX

Quarterly Report

July 16, 2019

Data service demand is reflected on higher ARPU

- América Móvil's 2Q19 results stood in line with our estimates. Company figures show a negative FX conversion effect and IFRS 16 accounting changes
- Value-added services maintain a solid dynamism. AMX printed a 7.3% increase in its postpaid subscriber base and a 6% growth in fixed broadband access
- After incorporating these results, América Móvil's share trades at 5.7x FV/EBITDA, below average, mainly reflecting local uncertainty and a drop in investor confidence

Postpaid service moves forward, now representing 30% of the mobile subscriber base. During the second quarter of the year, the company reported improvement in performance as the revenue growth rate from value-added services gained momentum, highlighting operations from Mexico, Colombia and the United States. However, the FX conversion effect negatively impacted consolidated figures. Against this backdrop, AMX reported MXN\$250.0 billion in revenue, down an annual 2.7% and 2.5% above our estimate. It should be mentioned that in Mexico and Brazil, average revenue per user rose due to higher data traffic and an increase in the postpaid subscriber base. In terms of EBITDA, the company reported MXN\$78.1 billion, which represents a 6.3% yoy improvement and a 31.3% margin (+2.6pp vs 2Q18 and +60pb vs our estimate) mainly explained by the adoption of IFRS 16 accounting standards which represented a gain of MXN\$6.7 billion. Net Interest Expenses fell 63.2% to MXN\$11.8 billion given an easy comparative basis which was distorted by a MXN\$30.2 billion FX loss. Finally, net profit stood in line with our MXN\$14.0 billion estimate.

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BUY

Current Price	\$14.21
PT 2019	\$17.00
Dividend 2019e	0.17
Dividend Yield (%)	1.2%
Upside Potential	20.8%
ADR current price	US\$14.86
PO2019 ADR	US\$16.75
# Shares each ADR	20
Max – Min LTM (P\$)	16.64 – 12.57
Market Cap (US\$m)	49,056
Shares Outstanding (m)	66,014
Float	49%
Daily Turnover US\$m	519
Valuation metrics TTM	
EV/EBITDA	5.7x
P/E	14.9x

Relative performance to Mexbol
 LTM

Financial Statements

	2017	2018	2019E	2020E
Revenue	1,021,634	1,020,727	996,967	1,037,924
Operating Income	100,143	137,502	141,272	152,054
EBITDA	258,755	289,497	305,586	317,876
EBITDA Margin	25.3%	28.4%	30.7%	30.6%
Net Income	29,326	48,129	52,950	54,801
Net Margin	2.9%	4.7%	5.3%	5.3%
Total Assets	1,486,212	1,413,891	1,548,106	1,561,342
Cash	91,429	70,677	60,658	59,550
Total Liabilities	1,225,578	1,183,696	1,359,817	1,388,148
Debt	712,244	663,076	813,272	840,575
Common Equity	260,634	230,195	188,288	173,194

Source: Banorte

Valuation and Financial metrics

	2017	2018	2019E	2020E
EV/EBITDA	6.3x	5.4x	5.6x	5.5x
P/E	31.7x	19.2x	17.5x	16.9x
P/BV	4.8x	5.2x	6.1x	6.7x
ROE	11.3%	21.1%	28.1%	31.6%
ROA	2.0%	3.4%	3.4%	3.5%
EBITDA/ Interest	8.5x	8.5x	9.1x	8.8x
Net Deb/EBITDA	2.4x	2.0x	2.5x	2.5x
Debt/Equity	2.7x	2.9x	4.3x	4.9x

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Document for distribution among public

AMX – Results 2Q19

MXN, million

Concept	2Q18	2Q19	Var %	2Q19e	Diff% vs Estim.
Revenue	256,975	250,083	-2.7%	243,886	2.5%
Operating Income	34,129	36,766	7.7%	34,037	8.0%
Ebitda	73,506	78,153	6.3%	74,774	4.5%
Net Income	435	14,065	>500%	14,211	-1.0%
Margins					
Operating Margin	13.3%	14.7%	1.4pp	14.0%	0.7pp
Ebitda Margin	28.6%	31.3%	2.6pp	30.7%	0.6pp
Net Margin	0.2%	5.6%	5.5pp	5.8%	-0.2pp
EPS	\$0.01	\$0.21	>500%	\$0.22	-1.0%

Income Statement (Million pesos)

Year	2018	2019	2019	Change	Change
Quarter	2	1	2	% YoY	% QoQ
Net Revenue	256,975	245,653	250,083	-2.7%	1.8%
Costs of goods sold	163,435	154,173	157,341	-3.7%	2.1%
Gross profit	93,541	91,480	92,742	-0.9%	1.4%
General expenses	57,886	54,677	54,795	-5.3%	0.2%
Operating Income	34,129	35,386	36,766	7.7%	3.9%
Operating Margin	13.3%	14.4%	14.7%	1.4pp	0.3pp
Depreciation	39,377	39,662	41,387	5.1%	4.4%
EBITDA	73,506	75,048	78,153	6.3%	4.1%
EBITDA Margin	28.6%	30.6%	31.3%	2.6pp	0.7pp
Interest Income (Expense) net	(32,330)	(1,188)	(11,885)	-63.2%	>500%
Interest expense	8,023	9,700	10,167	26.7%	4.8%
Interest income	753	936	939	24.8%	0.4%
Other income (expense)	5,158	(674)	(4,824)	N.A.	>500%
Foreign exchange gain (loss)	(30,219)	8,250	2,167	N.A.	-73.7%
Unconsolidated subsidiaries	(20)	15	(2)	-90.2%	N.A.
Income before taxes	1,779	34,214	24,880	>500%	-27.3%
Income taxes	673	14,006	10,280	>500%	-26.6%
Discontinued operations					
Consolidated Net Income	1,105	20,208	14,600	>500%	-27.8%
Non-controlling interest	671	765	535	-20.3%	-30.1%
Net Income	435	19,443	14,065	>500%	-27.7%
Net Margin	0.2%	7.9%	5.6%	5.5pp	(2.3pp)
EPS	0.007	0.294	0.213	>500%	-27.7%

Balance Sheet (Million pesos)

Total Current Assets	349,056	358,480	368,377	5.5%	2.8%
Cash & Short Term Investments	68,949	67,789	81,588	276.7%	20.4%
Long Term Assets	1,080,168	1,192,022	1,188,832	10.1%	-0.3%
Property, Plant & Equipment (Net)	640,001	630,808	637,893	-0.3%	1.1%
Intangible Assets (Net)	122,138	122,085	122,222	0.1%	0.1%
Total Assets	1,429,223	1,550,502	1,557,209	9.0%	0.4%
Current Liabilities	467,091	533,473	560,706	20.0%	5.1%
Short Term Debt	109,770	197,461	198,482	80.8%	0.5%
Accounts Payable	257,675	233,726	263,193	2.1%	12.6%
Long Term Liabilities	716,260	759,258	747,179	4.3%	-1.6%
Long Term Debt	546,260	586,206	585,383	7.2%	-0.1%
Total Liabilities	1,183,351	1,292,730	1,307,886	10.5%	1.2%
Stockholders' Equity	245,872	257,772	249,323	1.4%	-3.3%
Non-controlling interest	49,877	50,049	48,858	-2.0%	-2.4%
Total Equity	195,996	207,723	200,465	2.3%	-3.5%
Liabilities & Equity	1,429,223	1,550,502	1,557,209	9.0%	0.4%
Net Debt	634,370	715,878	702,277	10.7%	-1.9%

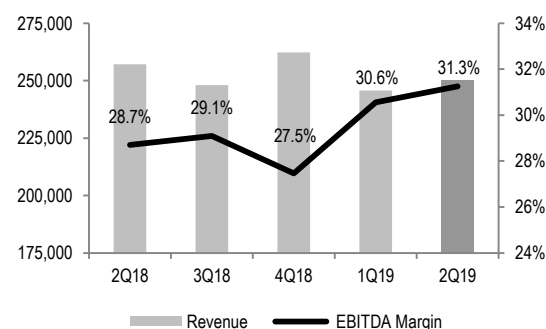
Cash Flow

CF from Operating Activities	65,869.7	12,080.7	65,267.6
CF from Investing Activities	(31,551.1)	(33,874.3)	(37,326.9)
CF from Financing Activities	(33,598.6)	17,467.5	(12,496.1)
FX effect on cash	302.6	(209.9)	26.0
Change in Cash Balance	1,022.5	(4,536.0)	15,470.6

Source: Banorte, MSE. Figures in line with IFRS 16.

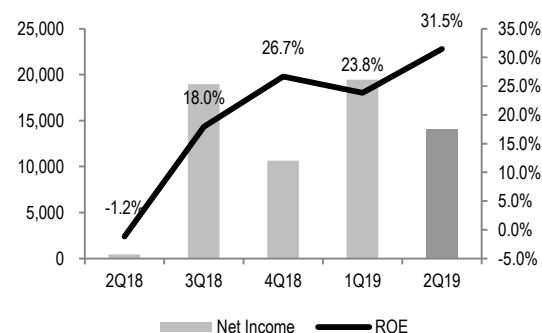
Revenue & EBITDA Margin

MXN, million



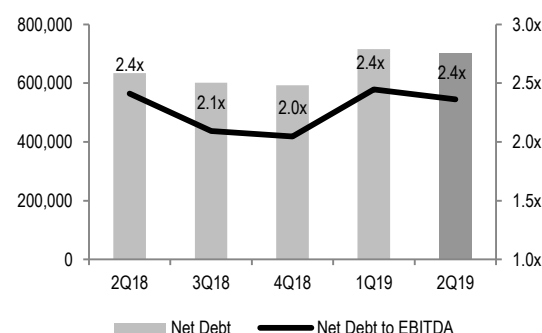
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA ratio

MXN, million



The Revenue Generating Unit base (RGU) remained flat vs. 2Q18. América Móvil concluded the quarter with a RGU base totaling 362.4 million, practically unchanged since 2Q18. During this period, the company reported 493 thousand net additions to the mobile subscriber base to finish at 277.9m (-0.4% vs 2Q18). Demand for higher connectivity among the population and more data included in rate plans continue to be the main drivers for post-payment scheme migration. Thus, postpaid subscribers rose 7.3% to 83.4 million, representing 30% of total mobile subscribers vs 28.2% in 2Q18. Conversely, the company disconnected 1.1 million pre-paid subscribers, resulting in a 3.6% yoy base reduction. Meanwhile, the fixed-access base climbed 1.4% to 84.5 million explained by a 6% growth in fixed broad-band access which offset a 1.9% decline in PayTV and a stable fixed voice access base.

Data traffic positively influences ARPU. The use of social media and other apps such as value-added service demand have significantly boosted data traffic and, to a lesser extent, revenue from data services. In this period, growth in average revenue per user (ARPU) stands out from operations in Brazil +13.8%, Colombia +6.9%, Mexico +6.2% and the United States +5.5%.

Equipment sales report marginal growth but with fewer subsidies. During the second quarter of the year, equipment sales rose 0.5% vs 2Q18 to MXN\$42.1 billion. On the back of a complex geo-political backdrop and a strong USD, telephone companies have chosen to significantly reduce telephone subsidies and AMX is not the exception. For the first time, the company reported lower costs than revenue from the sale of equipment, being more efficient in the acquisition of new users.

Distorted figures from the new accounting norms. The adoption of new International Financial Reporting Standards (IFRS) boosted this quarter's profitability, leading the company to report a margin that exceeded our estimate by 60bps. This accounting change depicted a gain of MXN\$ 6.7 billion, representing almost 2.7pp over AMX's consolidated revenue. The EBITDA margin from operations in Mexico expanded 33.6% to 37.1% while in Brazil, profitability rose from 32% to 37.2% and in Central America, such growth went from 31.8% to 34.6%.

The company's financial strength provided access to international debt markets. During the quarter, AMX placed a bond in the amount of €1.0 billion among the investor public with an 8-year maturity that pays a coupon of 0.75%, the lowest coupon achieved by any corporate issuer in Latin America in the euro market, to refinance a bond for the same amount maturing in October 2019. The company ended the quarter with a 2.4x ND/EBITDA ratio, in line with the previous quarter.

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We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, 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	Recommendation	PT
Amx L	8/01/2019	Buy	\$17.00
Amx L	17/01/2018	Buy	\$19.50
Amx L	24/10/2017	Hold	\$19.50
Amx L	18/07/2017	Buy	\$16.50

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