

ALPEK

Quarterly Report

July 17, 2020

Resilience on volumes and margins

- Lower than expected results, due to a higher than anticipated inventory and raw material carry-forward effect. However, solid volumes and resilient margins stand out
- The environment remains challenging, but the implemented strategy, along with a solid financial structure and a more favorable price scenario, will support a more stable second half of the year

Results affected by weakness in raw material prices. Alpek's figures came below estimates, with 12.7% year-on-year declines in revenues and 44.8% in EBITDA, due to a higher than anticipated inventory and raw-material carry-forward effect. On a comparable basis, EBITDA would have been \$2.6 billion (-29.0% y/y) as a result of the sharp falls registered in oil and raw materials prices, reaching minimums in April, and recouping until June. The highlights of the quarter are the solid volumes in Polyester (+5.0% y/y), and a favorable scenario in this division's margins, supported by lower production from Asian manufacturers due to the pandemic impact, which kept this division's margin, on a comparable basis, stable q/q at 6.8%. In Plastics and Chemicals, we observed drops in volumes related to products focused on the construction sector, but margins were supported by a better sales mix as they stood at 21.0% vs. 16.5% in 2Q19 and 16.8% in 1Q20.

Focused on its long-term strategy. The next quarters are still challenging for the company at the current conjuncture. However, we believe that the second half of the year reflects a more dynamic outlook on raw material prices. The strategy remains focused on strengthening and improving current businesses' efficiency, continuing to foster a circular economy by supporting the recycling of its products, without neglecting strategic and focused growth opportunities. The latter seeks to preserve a solid balance (ND/EBITDA at the report of 2.3x).

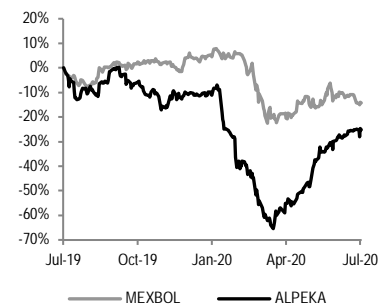
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Hold

Current Price	\$17.61
PT2020	\$19.00
Dividend 2020	
Dividend (%)	
Upside Potential	7.9%
Max - Min LTM (\$)	24.44-7.58
Market Cap (US\$m)	1,660.9
Shares outstanding (m)	2,118
Float	17.9%
Daily Turnover (\$m)	54.6
Valuation Metrics LTM *	
FV/EBITDA Adj	5.3x
P/E	8.0x

Relative performance to MEXBOL LTM



Financial statements

MXN, Million	2018	2019	2020E	2021E
Revenues	134,523	119,685	109,802	114,104
Operating Income	21,202	12,361	5,308	6,053
Adjusted EBITDA	20,607	16,395	9,167	9,902
EBITDA Margin	15.32%	13.70%	8.35%	8.68%
Net Income	13,633	6,605	1,224	3,025
Net margin	10.13%	5.52%	1.11%	2.65%
Total Assets	119,897	102,794	120,367	121,130
Cash	4,168	7,059	13,589	8,405
Total Liabilities	76,734	57,736	76,810	75,869
Debt	41,464	32,710	46,622	44,503
Common Equity	43,163	45,058	43,557	45,262

Source: Banorte

Valuation and financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	3.9x	4.1x	8.3x	8.1x
P/E	2.7x	5.6x	30.5x	12.3x
P/BV	1.0x	0.9x	1.0x	1.0x
ROE	35.8%	16.3%	3.3%	7.8%
ROA	11.4%	6.4%	1.0%	2.5%
EBITDA/ Interest expens	11.9x	8.0x	5.8x	6.0x
Net Debt/EBITDA	1.8x	1.6x	3.6x	3.6x
Debt/Equity	1.0x	0.7x	1.1x	1.0x

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Document for distribution among public

ALPEK – 2Q20 Results

MXN, Millions

Concept	2Q19	2Q20	Var %	2Q20e	Diff % vs Estim.
Revenue	31,425	27,447	-12.7%	31,089	-11.7%
Operating Income	2,099	482	-77.0%	1,114	-56.7%
Ebitda	3,077	1,700	-44.8%	2,046	-16.9%
Net Income	1,064	121	-88.7%	220	-45.1%
margins					
Operating Margin	6.7%	1.8%	-4.9pp	3.6%	-1.8pp
Ebitda Margin	9.8%	6.2%	-3.6pp	6.6%	-0.4pp
Net Margin	3.4%	0.4%	-2.9pp	0.7%	-0.3pp
EPS	\$0.50	\$0.06	-88.7%	\$0.10	-45.1%

Income Statement (Millions)

Year	2019	2020	2020	Var%	Var%
Quarter	2	1	2	y/y	q/q
Net Revenue	31,425.0	28,522.3	27,447.5	-12.7%	-3.8%
Cost of goods sold	28,460.1	26,174.7	25,864.3	-9.1%	-1.2%
Gross profit	2,964.9	2,347.6	1,583.2	-46.6%	-32.6%
General expenses	866.3	1,196.3	1,100.9	27.1%	-8.0%
Operating Income	2,098.6	1,151.3	482.3	-77.0%	-58.1%
Operating Margin	6.7%	4.0%	1.8%	(4.9pp)	(2.3pp)
Depreciation	978.3	1,053.5	1,217.8	24.5%	15.6%
EBITDA	3,077.0	2,205.0	1,700.0	-44.8%	-22.9%
EBITDA Margin	9.8%	7.7%	6.2%	(3.6pp)	(1.5pp)
Interest income (expense) net	(354.4)	(1,882.6)	113.4	N.A.	N.A.
Interest expense	568.4	477.8	543.2	-4.4%	13.7%
Interest income	40.0	35.7	40.6	1.4%	13.6%
Exchange Income (loss)	43.4	(22.8)	37.7	-13.0%	N.A.
Unconsolidated subsidiaries	130.6	(1,417.7)	578.3	342.9%	N.A.
Unconsolidated subsidiaries	(0.7)	58.8	(88.4)	>500%	N.A.
Net Income before taxes	1,743.5	(672.6)	507.3	-70.9%	N.A.
Provision for Income taxes	419.5	(270.0)	182.5	-56.5%	N.A.
Discontinued Operations					
Consolidated Net Income	1,324.0	(402.6)	324.9	-75.5%	N.A.
Minorities	259.9	50.5	204.3	-21.4%	304.6%
Net Income	1,064.0	(453.0)	120.6	-88.7%	N.A.
Net Margin	3.4%	-1.6%	0.4%	(2.9pp)	2.0pp
EPS	0.503	(0.214)	0.057	-88.7%	N.A.

Balance Sheet (MXN, million)

Total Current Assets	45,500.8	43,574.7	50,922.6	11.9%	16.9%
Cash & Short Term Investments	4,447.2	7,058.7	13,828.9	211.0%	95.9%
Long Term Assets	71,584.0	59,219.2	70,606.6	-1.4%	19.2%
Property, Plant & Equipment (Net)	47,094.8	37,082.1	42,774.3	-9.2%	15.4%
Intangible Assets (Net)	3,940.7	3,406.3	3,871.5	-1.8%	13.7%
Total Assets	117,084.8	102,793.8	121,529.3	3.8%	18.2%
Current Liabilities	36,386.6	20,321.0	27,819.8	-23.5%	36.9%
Short Term Debt	14,997.0	2,147.1	7,896.4	-47.3%	267.8%
Accounts Payable	20,194.4	16,455.0	18,454.1	-8.6%	12.1%
Long Term Liabilities	40,549.7	37,414.4	48,699.6	20.1%	30.2%
Long Term Debt	32,887.1	30,563.1	40,348.0	22.7%	32.0%
Total Liabilities	76,936.3	57,735.4	76,519.4	-0.5%	32.5%
Common Stock	40,148.5	45,058.4	45,009.8	12.1%	-0.1%
Minorities	4,541.6	4,578.8	5,434.4	19.7%	18.7%
Total Equity	35,606.9	40,479.6	39,575.4	11.1%	-2.2%
Liabilities & Equity	117,084.8	102,793.8	121,529.3	3.8%	18.2%
Net Debt	43,436.9	25,651.5	34,415.5	-20.8%	34.2%

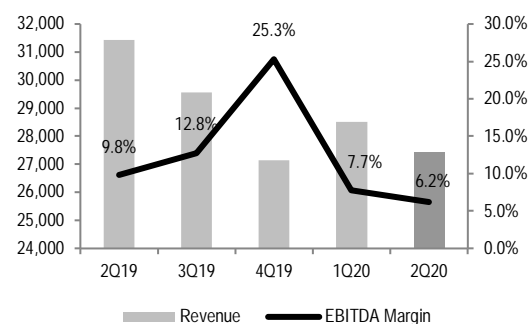
Cash Flow

Cash Flow from Operating Activities	7,042.6	4,172.6	6,397.1
Cash Flow from Investing Activities	(1,743.3)	(182.8)	(770.4)
Cash Flow from Financing Activities	(2,210.3)	2,738.0	2,951.5
Increase (decrease) in cash	1,370.3	5,367.1	6,341.7

Source: Banorte, MSE

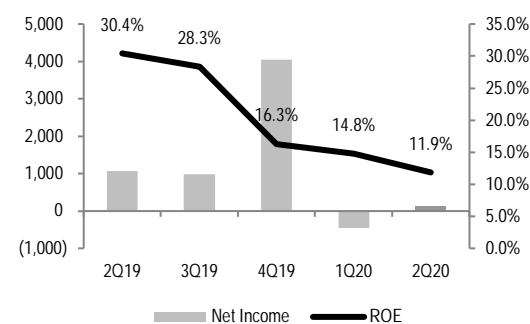
Revenue & EBITDA Margin

MXN, million



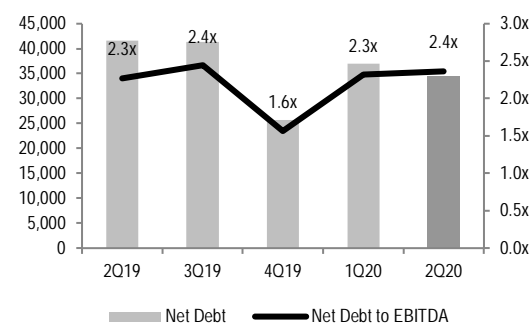
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA

MXN, million



Results by Business Segment

Polyester

MXN, Million

	2Q19	Margin	1Q20	Margin	2Q20	Margin	% y/y	% q/q
Revenue	23,749	100.0%	21,795	100.0%	21,635	100.0%	-8.9%	-0.7%
EBITDA	1,242	5.2%	1,151	5.3%	739	3.4%	-40.5%	-35.8%
EBITDA*	2,352	9.9%	1,475	6.8%	1,466	6.8%	-37.7%	-0.6%

* Inventory and non – operating (non – recurring) gains/losses are not included

Source: Alpek

Plastics and Chemicals

MXN, Million

	2Q19	Margin	1Q20	Margin	2Q20	Margin	% y/y	% q/q
Revenue	7,168	100.0%	5,964	100.0%	5,147	100.0%	-28.2%	-13.7%
EBITDA	1,166	16.3%	987	16.5%	943	18.3%	-19.1%	-4.5%
EBITDA*	1,185	16.5%	1,000	16.8%	1,083	21.0%	-8.6%	8.3%

* Inventory and non – operating (non – recurring) gains/losses are not included

Source: Alpek

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

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Historical PT and Rating

Stock	Date	Rating	PT
ALPEK	February 18, 2020	HOLD	\$19.00
ALPEK	January 20, 2020	Under Review	Under Review
ALPEK	July 17, 2019	BUY	\$30.00
ALPEK	January 14, 2019	BUY	\$35.00

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