

# ALPEK

Quarterly Report

February 13, 2020

## Weak results, although stronger balance

- **Weakness in raw material prices affected Alpek's results, although profitability improvements are observed. The remarkable side is a kick-start of the year with such important financial strength**
- **We believe that valuation levels now reflect weak figures (FV/EBITDA lowers from 4.8x to 4.0x). However, the Polyester outlook is challenging, thus we are awaiting to the 2020 Guideline tomorrow**

**The cogeneration power plants sale is recorded.** Weak report, standing below estimates. Sales posted a 19.7% decrease y/y, but EBITDA decreased only by 6.7% y/y. These figures were impacted by a non-cash inventory loss as well as a raw material carry-forward effect, given a weak price outlook. However, a US\$188 million extraordinary profit related to the sale of cogeneration power plants was posted. On a comparable basis, excluding one-time benefits and non-recurring adjustments, EBITDA would have decreased by only 3.0% y/y. Although y/y recovery is observed on margins for both Polyester and Plastics and Chemicals, q/q pressures related to lower volumes are observed given the businesses seasonality and the weak price outlook.

**Awaiting to the 2020 Guideline.** The most remarkable of the quarter is that given the results the Net Debt/EBITDA multiple decreases to 1.6x, resulting in a relevant financial strength. For its part, the FV/EBITDA multiple also lowers to 4.0x. Although we believe that these levels already discount the weak results, the 2020 guideline that will be published tomorrow by the company will be the most relevant. Although the strategy remains focused on strengthening existing operations, in the hands of strategic acquisitions, the global market conditions has affected Polyester reference margins. Thus, the outlook of lower demand, along with incremental capacity, particularly in polypropylene, could affect the results for 2020.

Financial statements				
MXN, Million	2018	2019	2020E	2021E
Revenues	134,523	119,685	129,531	140,748
Operating Income	21,202	12,361	7,136	8,119
Adjusted EBITDA	20,607	16,395	11,041	12,098
EBITDA Margin	15.32%	13.70%	8.52%	8.60%
Net Income	13,633	6,605	2,784	4,674
Net margin	10.13%	5.52%	2.15%	3.32%
Total Assets	119,897	102,794	115,245	119,594
Cash	4,168	7,059	9,266	13,444
Total Liabilities	76,734	57,736	69,246	70,833
Debt	41,464	32,710	47,521	47,569
Common Equity	43,163	45,058	45,999	48,710

Source: Banorte

Valuation and financial metrics				
	2018	2019	2020E	2021E
FV/EBITDA	3.8x	4.0x	6.4x	5.7x
P/E	2.6x	5.4x	12.7x	7.6x
P/BV	0.9x	0.9x	0.9x	0.8x
ROE	35.8%	16.3%	6.7%	9.3%
ROA	11.4%	6.4%	2.4%	3.9%
EBITDA/ Interest exp	11.9x	15.1x	19.0x	10.3x
Net Debt/EBITDA	1.8x	1.6x	3.5x	2.8x
Debt/Equity	1.0x	0.7x	1.0x	1.0x

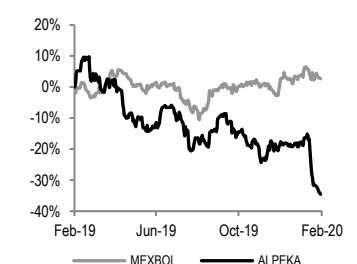
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### Under Review

Current Price	\$16.73
PT2020	
Dividend 2020	
Dividend (%)	
Upside Potential	
Max – Min LTM (\$)	28.66-16.62
Market Cap (US\$m)	1,899.9
Shares outstanding (m)	2,118
Float	17.9%
Daily Turnover (\$m)	32.1
<b>Valuation Metrics LTM *</b>	
FV/EBITDA Adj	4.0x
P/E	5.4x

### Relative performance to MEXBOL LTM



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Document for distribution among public

## ALPEK –4Q19 Results

MXN, Millions

Concept	4Q18	4Q19	Var %	4Q19e	Diff % vs Estim.
Revenue	34,802	27,133	-22.0%	32,548	-16.6%
Operating Income	10,167	5,834	-42.6%	7,166	-18.6%
Ebitda	7,355	6,863	-6.7%	8,131	-15.6%
Net Income	7,815	4,047	-48.2%	5,209	-22.3%
<b>margins</b>					
Operating Margin	29.2%	21.5%	-7.7pp	22.0%	-0.5pp
Ebitda Margin	21.1%	25.3%	4.2pp	25.0%	0.3pp
Net Margin	22.5%	14.9%	-7.5pp	16.0%	-1.1pp
EPS	\$3.69	\$1.91	-48.2%	\$2.46	-22.3%

### Income Statement (Millions)

Year	2018	2019	2019	Var%	Var%
Quarter	4	3	4	% y/y	% q/q
<b>Net Revenue</b>	<b>34,802.2</b>	<b>29,559.7</b>	<b>27,133.3</b>	<b>-22.0%</b>	<b>-8.2%</b>
Cost of goods sold	31,245.7	25,416.4	23,882.8	-23.6%	-6.0%
Gross profit	3,556.5	4,143.2	3,250.5	-8.6%	-21.5%
General expenses	(6,610.3)	1,436.9	(2,583.2)	-60.9%	N.A.
<b>Operating Income</b>	<b>10,166.9</b>	<b>2,706.3</b>	<b>5,833.7</b>	<b>-42.6%</b>	<b>115.6%</b>
Operating Margin	29.2%	9.2%	21.5%	(7.7pp)	12.3pp
Depreciation	681.9	1,036.5	1,028.8	50.9%	-0.7%
<b>EBITDA</b>	<b>7,355.0</b>	<b>3,771.0</b>	<b>6,863.0</b>	<b>-6.7%</b>	<b>82.0%</b>
EBITDA Margin	21.1%	12.8%	25.3%	4.2pp	12.5pp
Interest income (expense) net	(934.6)	(1,157.2)	(693.9)	-25.8%	-40.0%
Interest expense	487.2	570.8	626.2	28.5%	9.7%
Interest income	30.8	51.7	52.2	69.4%	1.0%
Exchange Income (loss)	42.9	(51.8)	66.3	54.6%	N.A.
Unconsolidated subsidiaries	(521.1)	(586.3)	(186.2)	-64.3%	-68.2%
Unconsolidated subsidiaries	(23.3)	(7.0)	(301.9)	>500%	>500%
<b>Net Income before taxes</b>	<b>9,208.9</b>	<b>1,542.2</b>	<b>4,837.9</b>	<b>-47.5%</b>	<b>213.7%</b>
Provision for Income taxes	1,199.6	316.2	628.2	-47.6%	98.7%
Discontinued Operations					
<b>Consolidated Net Income</b>	<b>8,009.3</b>	<b>1,225.9</b>	<b>4,209.6</b>	<b>-47.4%</b>	<b>243.4%</b>
Minorities	193.9	249.9	162.5	-16.2%	-35.0%
<b>Net Income</b>	<b>7,815.4</b>	<b>976.0</b>	<b>4,047.2</b>	<b>-48.2%</b>	<b>314.7%</b>
Net Margin	22.5%	3.3%	14.9%	(7.5pp)	11.6pp
EPS	3.691	0.461	1.911	-48.2%	314.7%

### Balance Sheet (MXN, million)

<b>Total Current Assets</b>	<b>51,115.3</b>	<b>43,714.2</b>	<b>43,574.7</b>	-14.8%	-0.3%
Cash & Short Term Investments	4,168.3	6,069.4	7,058.7	69.3%	16.3%
<b>Long Term Assets</b>	<b>68,781.7</b>	<b>72,189.5</b>	<b>59,219.2</b>	-13.9%	-18.0%
Property, Plant & Equipment (Net)	47,033.3	47,322.4	37,082.1	-21.2%	-21.6%
Intangible Assets (Net)	4,029.4	3,800.1	3,406.3	-15.5%	-10.4%
<b>Total Assets</b>	<b>119,897.0</b>	<b>115,903.6</b>	<b>102,793.8</b>	<b>-14.3%</b>	<b>-11.3%</b>
<b>Current Liabilities</b>	<b>38,575.9</b>	<b>24,336.2</b>	<b>20,321.0</b>	<b>-47.3%</b>	<b>-16.5%</b>
Short Term Debt	11,165.4	4,450.4	2,147.1	-80.8%	-51.8%
Accounts Payable	26,051.0	18,633.5	16,455.0	-36.8%	-11.7%
<b>Long Term Liabilities</b>	<b>38,157.7</b>	<b>49,834.5</b>	<b>37,414.4</b>	-1.9%	-24.9%
Long Term Debt	30,298.8	42,913.4	30,563.1	0.9%	-28.8%
<b>Total Liabilities</b>	<b>76,733.6</b>	<b>74,170.7</b>	<b>57,735.4</b>	<b>-24.8%</b>	<b>-22.2%</b>
Common Stock	43,163.4	41,732.9	45,058.4	4.4%	8.0%
Minorities	5,036.1	5,087.1	4,578.8	-9.1%	-10.0%
<b>Total Equity</b>	<b>38,127.3</b>	<b>36,645.8</b>	<b>40,479.6</b>	<b>6.2%</b>	<b>10.5%</b>
<b>Liabilities &amp; Equity</b>	<b>119,897.0</b>	<b>115,903.6</b>	<b>102,793.8</b>	<b>-14.3%</b>	<b>-11.3%</b>
<b>Net Debt</b>	<b>37,295.9</b>	<b>41,294.4</b>	<b>25,651.5</b>	<b>-31.2%</b>	<b>-37.9%</b>

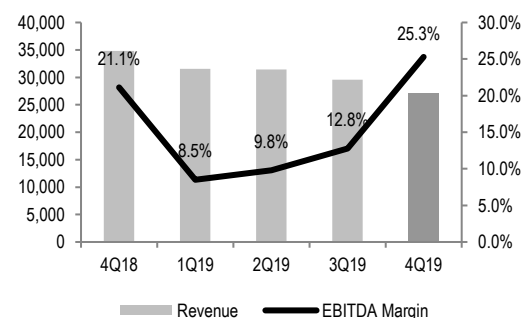
### Cash Flow

Cash Flow from Operating Activities	10,020.3	10,831.8	12,765.6		
Cash Flow from Investing Activities	(15,488.9)	(2,618.6)	10,948.2		
Cash Flow from Financing Activities	2,989.5	(3,912.4)	(17,700.9)		
<b>Increase (decrease) in cash</b>	<b>(4,238.4)</b>	<b>2,095.7</b>	<b>3,247.6</b>		

Source: Banorte, MSE

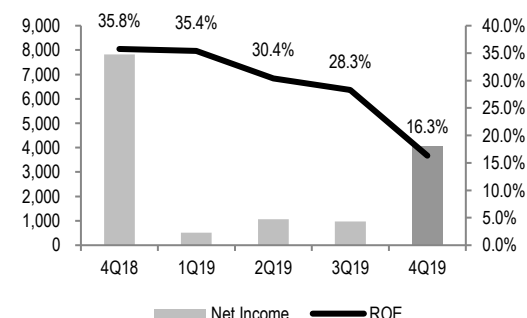
## Revenue & EBITDA Margin

MXN, million



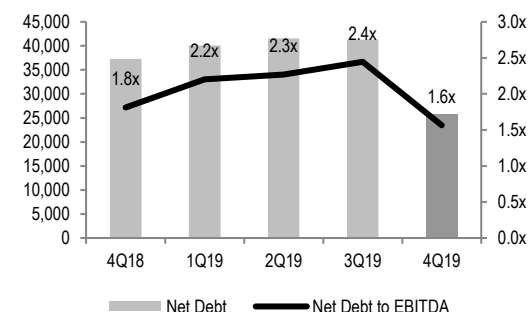
## Net Income & ROE

MXN, million



## Net Debt & Net Debt to EBITDA

MXN, million



## Results by Business Segment

### Polyester

MXN, Million

	4Q18	Margin	3Q19	Margin	4Q19	Margin	% y/y	% q/q
Revenue	25,623	100.0%	22,553	100.0%	20,731	100.0%	-19.1%	-8.1%
EBITDA	6,300	24.6%	2,516	11.2%	2,349	11.3%	-62.7%	-6.6%
EBITDA*	2,252	8.8%	2,803	12.4%	2,368	11.4%	5.2%	-15.5%

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

Source: Alpek

### Plastics and Chemicals

MXN, Million

	4Q18	Margin	3Q19	Margin	4Q19	Margin	% y/y	% q/q
Revenue	7,910	100.0%	6,693	100.0%	6,006	100.0%	-24.1%	-10.3%
EBITDA	1,017	12.9%	1,173	17.5%	819	13.6%	-19.5%	-30.2%
EBITDA*	1,127	14.2%	1,254	18.7%	888	14.8%	-21.2%	-29.2%

\* 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 Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, 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>
<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>

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## Historical PT and Rating

Stock	Date	Rating	PT
ALPEK	January 20, 2020	Under Review	Under Review
ALPEK	July 17, 2019	BUY	\$30.00
ALPEK	January 14, 2019	BUY	\$35.00
ALPEK	July 19, 2018	BUY	\$39.50

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