

# NEMAK

Quarterly Report

July 28, 2020

## Focusing the strategy on resuming growth

- Nematik's results came even weaker than expected, reflecting the temporary closure of its plants - as a result of the pandemic - and also some non-recurring severance charges
- The latter relate to labor efficiencies so, while they have now exacerbated the slump, going forward those should strengthen the cost structure, better positioning the company for recovery

### Short-term impacts in pursuit of harvesting its fruits in the future.

Nematik's report was negative, below expectations. Figures certainly reflect the full impact of the pandemic and some non-recurring severance charges, related to its cost reduction strategy. The volume plummeted 60.7% y/y to 4.4 million equivalent units, with significant drops in all regions. Revenues decreased 52.5% to MXN 9.171 billion, also affected by lower aluminum prices, and despite the sharp depreciation of the Mexican peso against the US dollar. The company reported a negative EBITDA of MXN 920 million, resulting from a gross loss, strong operational deleveraging, as well as extraordinary expenses of MXN 945 million related to labor efficiencies. However, when excluding them, EBITDA would be MXN 25 million, still well below our estimate. Despite a tax gain of MXN 395 million, Nematik reported a net loss of MXN 2.945 billion in the face of operating weakness and a 67.0% increase in the CFC.

**The worst seems to be behind us, already.** Both OEMs and the company have resumed their operations already; therefore, this might be the inflection point. Notwithstanding the above, recovery will still depend on the evolution of the pandemic, framed within a particularly challenging economic outlook, so we thus still call for caution. We will be incorporating this result and such challenging outlook into our estimates soon.

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@analysis\_fundam

Consumer and Telecom

Valentin Mendoza

Senior Strategist, Equity  
valentin.mendoza@banorte.com

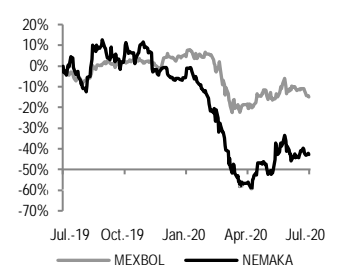
Juan Barbier

Analyst  
juan.barbier@banorte.com

### Hold

Current Price	\$4.76
PT 2020	\$7.00
Dividend 2020e	
Dividend Yield (%)	
Upside Potential	47.1%
Max - Min LTM (\$)	9.60 - 3.25
Market Cap (US\$m)	655.5
Shares Outstanding (m)	3,076.6
Float	19.26%
Daily Turnover US\$m	16.9
<b>Valuation metrics TTM</b>	
FV/EBITDA	6.9x
P/E	N.A.

### Relative performance to Mexbol LTM



### Financial Statements

	2018	2019	2020E	2021E
Revenue	90,327	77,363	73,946	75,725
Operating Income	7,823	4,964	4,701	4,787
EBITDA	14,105	11,958	10,704	10,722
EBITDA Margin	15.6%	15.5%	14.5%	14.2%
Net Income	3,464	2,493	2,033	2,265
Net Margin	3.8%	3.2%	2.7%	3.0%
Total Assets	93,258	88,744	89,010	90,140
Cash	3,555	5,883	5,313	5,211
Total Liabilities	57,154	54,800	52,906	52,763
Debt	29,187	28,605	29,842	29,861
Common Equity	36,104	33,943	36,104	37,376

Source: Banorte

### Valuation and Financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	2.9x	3.1x	3.6x	3.6x
P/E	6.4x	7.7x	8.7x	8.1x
P/BV	0.3x	0.3x	0.3x	0.3x
ROE	9.3%	7.1%	5.8%	6.2%
ROA	3.7%	2.8%	2.3%	2.5%
EBITDA/ interest	7.5x	7.6x	6.6x	6.5x
Net Debt/EBITDA	1.8x	1.9x	2.3x	2.3x
Debt/Equity	0.8x	0.8x	0.8x	0.8x

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Document for distribution among public

## NEMAK – Results 2020

MXN, million

Concept	2Q19	2Q20	Var %	2Q20e	Diff% vs Estim.
Revenue	19,325	9,171	-52.5%	7,437	23.3%
Operating Income	1,731	-2,694	N.A.	101	N.A.
Ebitda	3,325	-920	N.A.	509	N.A.
Net Income	809	-2,945	N.A.	-595	N.A.
<b>Margins</b>					
Operating Margin	9.0%	-29.4%	-38.3pp	1.4%	-30.7pp
Ebitda Margin	17.2%	-10.0%	-27.2pp	6.8%	-16.9pp
Net Margin	4.2%	-32.1%	-36.3pp	-8.0%	-24.1pp
EPS	\$0.26	-\$0.96	N.A.	-\$0.19	N.A.

### Income Statement (Million pesos)

Year	2019	2020	2020	Change	Change
Quarter	2	1	2	% y/y	% q/q
<b>Net Revenue</b>	<b>19,325</b>	<b>17,841</b>	<b>9,171</b>	<b>-52.5%</b>	<b>-48.6%</b>
Costs of goods sold	16,429	15,109	9,930	-39.6%	-34.3%
Gross profit	2,896	2,732	(759)	N.A.	N.A.
General expenses	1,307	1,492	1,134	-13.2%	-24.0%
<b>Operating Income</b>	<b>1,731</b>	<b>1,279</b>	<b>(2,694)</b>	<b>N.A.</b>	<b>N.A.</b>
<b>Operating Margin</b>	<b>9.0%</b>	<b>7.2%</b>	<b>-29.4%</b>	<b>(38.3pp)</b>	<b>(36.5pp)</b>
Depreciation	1,588	1,535	1,770	11.5%	15.3%
<b>EBITDA</b>	<b>3,325</b>	<b>2,814</b>	<b>(920)</b>	<b>N.A.</b>	<b>N.A.</b>
<b>EBITDA Margin</b>	<b>17.2%</b>	<b>15.8%</b>	<b>-10.0%</b>	<b>(27.2pp)</b>	<b>(25.8pp)</b>
<b>Interest Income (Expense) net</b>	<b>(376)</b>	<b>(1,461)</b>	<b>(627)</b>	<b>67.0%</b>	<b>-57.1%</b>
Interest expense	376	400	478	27.0%	19.4%
Interest income	25	8	25	-0.5%	206.4%
Other income (expense)	125	(0)	(2)	N.A.	249.3%
Foreign exchange gain (loss)	(149)	(1,069)	(173)	15.6%	-83.9%
Unconsolidated subsidiaries	(24)	10	(18)	-23.9%	N.A.
<b>Income before taxes</b>	<b>1,331</b>	<b>(173)</b>	<b>(3,340)</b>	<b>N.A.</b>	<b>&gt;500%</b>
Income taxes	522	130	(395)	N.A.	N.A.
Discontinued operations					
<b>Consolidated Net Income</b>	<b>809</b>	<b>(303)</b>	<b>(2,945)</b>	<b>N.A.</b>	<b>&gt;500%</b>
Non-controlling interest				N.A.	N.A.
<b>Net Income</b>	<b>809</b>	<b>(303)</b>	<b>(2,945)</b>	<b>N.A.</b>	<b>&gt;500%</b>
<b>Net Margin</b>	<b>4.2%</b>	<b>-1.7%</b>	<b>-32.1%</b>	<b>(36.3pp)</b>	<b>(30.4pp)</b>
<b>EPS</b>	<b>0.263</b>	<b>(0.098)</b>	<b>(0.957)</b>	<b>N.A.</b>	<b>&gt;500%</b>

### Balance Sheet (Million pesos)

<b>Total Current Assets</b>	<b>26,689</b>	<b>39,967</b>	<b>36,803</b>	<b>37.9%</b>	<b>-7.9%</b>
Cash & Short Term Investments	4,267	18,154	14,618	242.6%	-19.5%
<b>Long Term Assets</b>	<b>66,423</b>	<b>77,793</b>	<b>75,938</b>	<b>14.3%</b>	<b>-2.4%</b>
Property, Plant & Equipment (Net)	50,467	59,216	57,862	14.7%	-2.3%
Intangible Assets (Net)	5,361	6,881	6,582	22.8%	-4.3%
<b>Total Assets</b>	<b>93,112</b>	<b>117,760</b>	<b>112,741</b>	<b>21.1%</b>	<b>-4.3%</b>
<b>Current Liabilities</b>	<b>26,205</b>	<b>38,267</b>	<b>33,767</b>	<b>28.9%</b>	<b>-11.8%</b>
Short Term Debt	4,231	12,510	11,986	183.3%	-4.2%
Accounts Payable	21,377	24,925	20,761	-2.9%	-16.7%
<b>Long Term Liabilities</b>	<b>30,798</b>	<b>39,888</b>	<b>41,813</b>	<b>35.8%</b>	<b>4.8%</b>
Long Term Debt	26,515	35,246	37,407	41.1%	6.1%
<b>Total Liabilities</b>	<b>57,002</b>	<b>78,156</b>	<b>75,580</b>	<b>32.6%</b>	<b>-3.3%</b>
Stockholders' Equity	36,109	39,605	37,161	2.9%	-6.2%
Non-controlling interest				N.A.	N.A.
<b>Total Equity</b>	<b>36,109</b>	<b>39,605</b>	<b>37,161</b>	<b>2.9%</b>	<b>-6.2%</b>
<b>Liabilities &amp; Equity</b>	<b>93,112</b>	<b>117,760</b>	<b>112,741</b>	<b>21.1%</b>	<b>-4.3%</b>
<b>Net Debt</b>	<b>26,479</b>	<b>29,601</b>	<b>34,774</b>	<b>31.3%</b>	<b>17.5%</b>

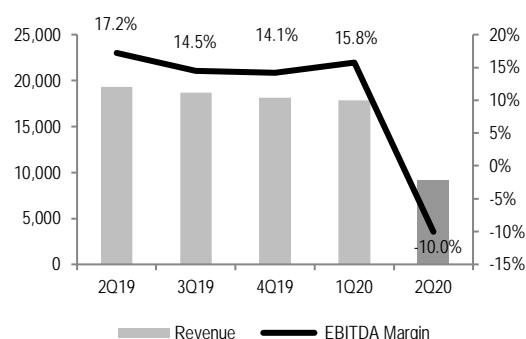
### Cash Flow

CF from Operating Activities	2,631.8	2,709.2	(5,234.6)
CF from Investing Activities	(1,318.1)	(1,927.0)	(940.4)
CF from Financing Activities	(646.0)	10,325.7	2,776.6
FX effect on cash	(34.0)	1,163.1	(137.9)
<b>Change in Cash Balance</b>	<b>633.8</b>	<b>12,270.9</b>	<b>(3,536)</b>

Source: Banorte, MSE.

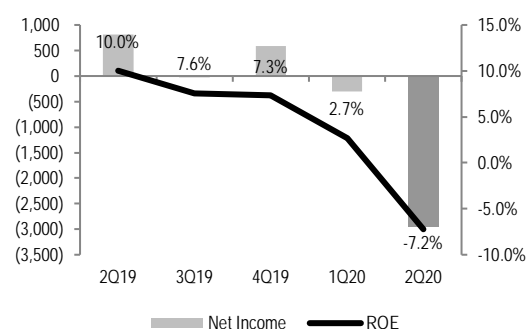
### Revenue & EBITDA Margin

MXN, million



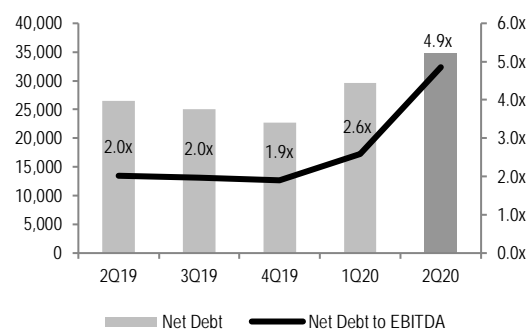
### Net Income & ROE

MXN, million



### Net Debt & Net Debt to EBITDA ratio

MXN, million



## Performance by Region

North America (Nafta)								
	2Q19	Margin	1Q20	Margin	2Q20	Margin	% y/y	% q/q
Volume	6.5		6.1		2.2		-66.2%	-63.9%
Revenues	\$ 557	100%	\$ 508	100%	\$ 182	100%	-67.3%	-64.2%
EBITDA	\$ 100	18.0%	\$ 91	17.9%	-\$ 24	-13.2%	-124.0%	-126.4%

Europe								
	2Q19	Margin	1Q20	Margin	2Q20	Margin	% y/y	% q/q
Volume	3.7		3.4		1.5		-59.5%	-55.9%
Revenues	\$ 368	100%	\$ 323	100%	\$ 156	100%	-57.6%	-51.7%
EBITDA	\$ 59	16.0%	\$ 46	14.2%	-\$ 16	-10.3%	-127.1%	-134.8%

Rest of the World								
	2Q19	Margin	1Q20	Margin	2Q20	Margin	% y/y	% q/q
Volume	1.0		1		0.7		-30.0%	-30.0%
Revenues	\$ 87	100%	\$ 76	100%	\$ 65	100%	-25.3%	-14.5%
EBITDA	\$ 16	18.4%	\$ 5	6.6%	\$ 3	4.6%	-81.3%	-40.0%

Consolidated								
	2Q19	Margin	1Q20	Margin	2Q20	Margin	% y/y	% q/q
Volume	11.2		10.5		4.4		-60.7%	-58.1%
Revenues	\$ 1,012	100%	\$ 907	100%	\$ 402	100%	-60.3%	-55.7%
EBITDA	\$ 175	17.3%	\$ 142	15.7%	-\$ 38	-9.5%	-121.7%	-126.8%

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

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## History of PT and ratings

Stock	Date	Recommendation	PT
NEMAK A	4/3/2020	Hold	\$7.00
NEMAK A	9/1/2020	Buy	\$10.00
NEMAK A	17/07/2019	Hold	\$10.00
NEMAK A	25/02/2019	Sell	\$13.00

<b>Research and Strategy</b>			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
<b>Economic Research and Financial Market Strategy</b>			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
<b>Economic Research</b>			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katía Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
<b>Market Strategy</b>			
Manuel Jiménez Zaldivar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
<b>Fixed income and FX Strategy</b>			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
<b>Equity Strategy</b>			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
<b>Corporate Debt</b>			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
<b>Economic Studies</b>			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
<b>Wholesale Banking</b>			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Oswaldo Brondo Menchaca	Head of Specialized Banking Services	oswaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454