# Equity Research

México

# ALFA

Quarterly Report

April 30, 2019

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## Weak start to the year

- **Alfa reported weak results, which fell short of expectations, mainly due to figures reported in Alpek. Revenue remained stable but EBITDA fell 15.3% yoy**
- **Following first-quarter results, Alfa's shares trade at a 20.3% discount over their net assets value (NAV) and at this moment we see no catalyst for such discount to reduce**
- **We have adjusted our sum of the parts valuation and downgraded our PT 2019 to MXN$26.80, which represents a 6.0x FV/EBITDA 2019e multiple, similar to the 3 year average, above the current level (5.0x)**

**Weaker-than-expected, mainly in Alpek.** Alfa reported weak results, which fell short of expectation, mainly due to figures reported in **Alpek**. Revenue remained stable at MXN$86.0 billion (+0.3% yoy), in line with our estimates. However, EBITDA fell 15.3% yoy to MXN$9.9 billion given the impact of oil and feedstock prices over **Alpek's** results, a drop in volume over **Nemak's** figures, and the sale of the Mass Market business and towers in **Axtel.** The latter was offset by solid numbers in **Sigma**, supported by the favorable performance in Mexico and in the U.S. Alfa reported MXN$ 1.2 billion in net profit, down 64.5% yoy affected by the weak operating performance and a less favorable FX conversion effect. After having incorporated these results into our net assets value exercise, Alfa's shares trade at a 20.3% discount over their theoretical value and at this moment we see no catalyst for such discount to reduce. We have adjusted our sum of the parts valuation model and have incorporated the new FX direction. Hence, we have downgraded our PT2019 to MXN$26.80. Although we have a BUY recommendation, we consider investors would still rather invest through each particular subsidiary.

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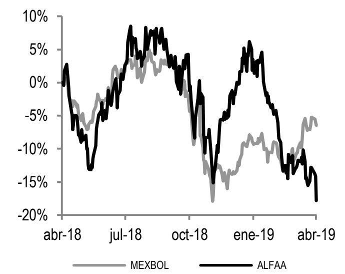
**BUY**

| | |
|---|---|
| Current Price | MXN$20.07 |
| **PT2019** | **MXN$26.80** |
| Dividend 2019 | MXN$ 0.40 |
| Dividend (%) | 2.0% |
| Upside Potential | 35.5% |
| Max – Mín LTM | 25.54-18.65 |
| Market Cap (USD$m) | 6,534.5 |
| Shares outstanding (m) | 5,058.3 |
| Float | 54.5% |
| Daily Turnover (MXN$m) | 163.9 |
| **Valuation Metrics LTM *** | |
| FV/EBITDA Adj | 5.0x |
| P/E | 9.5x |

**Relative performance to MEXBOL**
(LTM)




**Financial statements**

| MXN, Million | 2017 | 2018 | 2019E | 2020E |
|---|---|---|---|---|
| Revenues | 317,627 | 366,432 | 373,047 | 419,229 |
| Operating Income | 19,235 | 35,705 | 30,334 | 34,660 |
| Adjusted EBITDA | 38,312 | 55,178 | 49,354 | 53,858 |
| EBITDA Margin | 12.06% | 15.06% | 13.23% | 12.85% |
| Net Income | -2,051 | 13,143 | 10,809 | 13,190 |
| Net margin | -0.65% | 3.59% | 2.90% | 3.15% |
| | | | | |
| Total Assets | 358,968 | 369,828 | 373,142 | 393,620 |
| Cash | 32,813 | 26,411 | 34,023 | 28,177 |
| Total Liabilities | 266,542 | 271,604 | 262,885 | 269,113 |
| Debt | 159,403 | 157,049 | 164,021 | 171,686 |
| Common Equity | 92,427 | 98,224 | 110,257 | 124,507 |

Source: Banorte

**Valuation and financial metrics**

| | 2017 | 2018 | 2019E | 2020E |
|---|---|---|---|---|
| FV/EBITDA | 6.6x | 4.7x | 5.3x | 5.2x |
| P/E | -50.3x | 7.9x | 9.5x | 7.8x |
| P/BV | 1.5x | 1.4x | 1.3x | 1.1x |
| | | | | |
| ROE | -3.0% | 17.9% | 13.4% | 14.6% |
| ROA | -0.6% | 3.6% | 2.9% | 3.4% |
| EBITDA/ Interest exp | 4.8x | 5.9x | 5.4x | 6.0x |
| Net Debt/EBITDA | 3.3x | 2.4x | 2.6x | 2.7x |
| Debt/Equity | 1.7x | 1.6x | 1.5x | 1.4x |

## ALFA –1Q19 Results

MXN, Millions

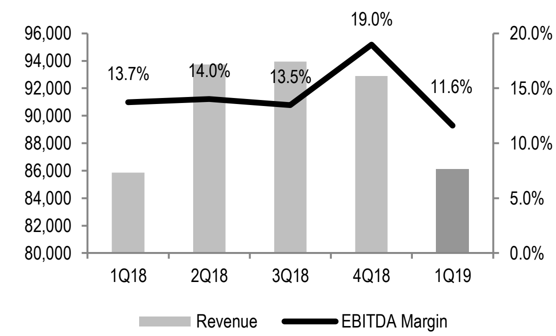
| Concept | 1Q18 | 1Q19 | Var % | 1Q19e | Diff % vs Estim. |
|---|---|---|---|---|---|
| Revenue | 85,850 | 86,090 | 0.3% | 87,578 | -1.7% |
| Operating Income | 7,046 | 4,964 | -29.5% | 6,071 | -18.2% |
| Ebitda | 11,787 | 9,982 | -15.3% | 10,826 | -7.8% |
| Net Income | 3,554 | 1,263 | -64.5% | 1,917 | -34.1% |
| **margins** | | | | | |
| Operating Margin | 8.2% | 5.8% | -2.4pp | 6.9% | -1.2pp |
| Ebitda Margin | 13.7% | 11.6% | -2.1pp | 12.4% | -0.8pp |
| Net Margin | 4.1% | 5.0% | 0.9pp | 2.2% | 2.8pp |
| EPS | $0.70 | $0.25 | -64.5% | $0.38 | -34.1% |

| **Income Statement (Millions)** | | | | | |
|---|---|---|---|---|---|
| **Year** | **2018** | **2018** | **2019** | **Variación** | **Variación** |
| Quarter | **1** | **4** | **1** | **% YoY** | **% QoQ** |
| **Net Revenue** | **85,849.9** | **92,903.7** | **86,089.7** | **0.3%** | **-7.3%** |
| Cost of goods sold | 68,197.5 | 75,594.1 | 70,246.0 | 3.0% | -7.1% |
| Gross profit | 17,652.3 | 17,309.6 | 15,843.8 | -10.2% | -8.5% |
| General expenses | 10,606.0 | 4,808.9 | 10,879.4 | 2.6% | 126.2% |
| **Operating Income** | **7,046.3** | **12,500.7** | **4,964.4** | **-29.5%** | **-60.3%** |
| **Operating Margin** | **8.2%** | **13.5%** | **5.8%** | **(2.4pp)** | **(7.7pp)** |
| Depreciation | 4,740.7 | 5,123.3 | 4,948.8 | 4.4% | -3.4% |
| **EBITDA** | **11,787.0** | **17,624.0** | **9,982.0** | **-15.3%** | **-43.4%** |
| **EBITDA Margin** | **13.7%** | **19.0%** | **11.6%** | **(2.1pp)** | **(7.4pp)** |
| **Interest income (expense) net** | **(148.3)** | **(2,719.7)** | **(1,816.9)** | **>500%** | **-33.2%** |
| Interest expense | 2,512.7 | 2,359.4 | 2,272.2 | -9.6% | -3.7% |
| Interest income | 152.0 | 125.5 | 119.8 | -21.2% | -4.6% |
| Exchange Income (loss) | 69.3 | 111.5 | 64.2 | -7.3% | -42.4% |
| Unconsolidated subsidiaries | 2,143.1 | (597.3) | 271.3 | -87.3% | N.A. |
| Unconsolidated subsidiaries | 88.2 | (14.9) | 57.0 | -35.4% | N.A. |
| **Net Income before taxes** | **6,986.2** | **9,766.1** | **3,204.5** | **-54.1%** | **-67.2%** |
| Provision for Income taxes | 2,048.1 | 2,862.0 | 1,452.2 | -29.1% | -49.3% |
| Discontinued Operations | 0.3 | 0.3 | | | |
| **Consolidated Net Income** | 4,938.0 | 6,904.1 | 1,752.3 | -64.5% | -74.6% |
| Minorities | 1,383.7 | 2,260.3 | 489.1 | -64.7% | -78.4% |
| **Net Income** | **3,554.3** | **4,643.8** | **1,263.2** | **-64.5%** | **-72.8%** |
| **Net Margin** | **4.1%** | **5.0%** | **1.5%** | **(2.7pp)** | **(3.5pp)** |
| **EPS** | **0.703** | **0.919** | **0.250** | **-64.5%** | **-72.8%** |
| **Balance Sheet (MXN, million)** | | | | | |
| **Total Current Assets** | **124,216.1** | **127,384.2** | **120,077.3** | **-3.3%** | **-5.7%** |
| Cash & Short Term Investments | 32,784.1 | 26,410.8 | 24,233.3 | -26.1% | -8.2% |
| **Long Term Assets** | 224,799.6 | 242,444.1 | 244,466.5 | 8.7% | 0.8% |
| Property, Plant & Equipment (Net) | **145,981.2** | **153,388.9** | **150,743.9** | **3.3%** | **-1.7%** |
| Intangible Assets (Net) | 29,689.4 | 29,512.3 | 28,475.8 | -4.1% | -3.5% |
| **Total Assets** | **349,015.6** | **369,828.4** | **364,543.8** | **4.4%** | **-1.4%** |
| **Current Liabilities** | 94,685.1 | 112,720.9 | 108,436.7 | 14.5% | -3.8% |
| Short Term Debt | 15,393.3 | 21,319.5 | 26,547.3 | 72.5% | 24.5% |
| Accounts Payable | 75,970.4 | 86,708.0 | 77,454.3 | 2.0% | -10.7% |
| **Long Term Liabilities** | **166,160.8** | **158,883.4** | **161,060.7** | **-3.1%** | **1.4%** |
| Long Term Debt | 143,580.1 | 135,729.2 | 138,744.3 | -3.4% | 2.2% |
| **Total Liabilities** | **260,845.8** | **271,604.3** | **269,497.4** | **3.3%** | **-0.8%** |
| Common Stock | 88,169.8 | 98,224.0 | 95,046.4 | 7.8% | -3.2% |
| Minorities | 22,566.1 | 24,833.9 | 23,638.8 | 4.8% | -4.8% |
| **Total Equity** | **65,603.7** | **73,390.1** | **71,407.6** | **8.8%** | **-2.7%** |
| **Liabilities & Equity** | **349,015.6** | **369,828.4** | **364,543.8** | **4.4%** | **-1.4%** |
| **Net Debt** | **126,189.3** | **130,637.9** | **141,058.3** | **11.8%** | **8.0%** |
| **Cash Flow** | | | | | |
| Cash Flow from Operating Activities | 2,640.2 | 42,153.4 | 5,129.2 | | |
| Cash Flow from Investing Activities | (3,785.8) | (25,997.3) | (3,022.5) | | |
| Cash Flow from Financing Activities | 2,914.7 | (14,384.9) | (2,366.2) | | |
| **Increase (decrease) in cash** | **1,224.2** | **(5,331.8)** | **(1,737.8)** | | |

Source: Banorte, MSE

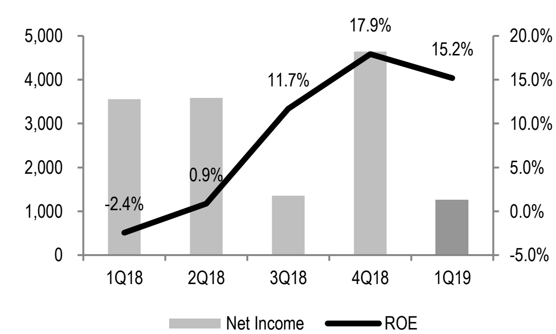
## Revenue & EBITDA Margin

MXN, million



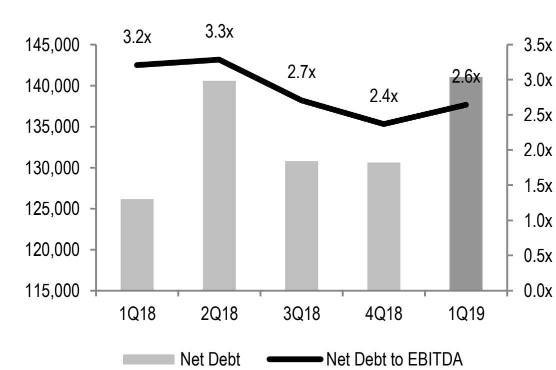

## Net Income & ROE

MXN, million




## Net Debt & Net Debt to EBITDA

MXN, million



**Net profit affected by operating performance and lower FX gains.** The company reported MXN$1.2 billion in net profit, down 64.5% yoy, affected by the weak operating performance and a less favorable FX effect. Exchange gains decreased 87.3% yoy as the peso appreciated just 2.3% during this quarter vs. the year ago's 7.5%.

**The balance sheet slightly deteriorates in view of the IFRS 16 implementation.** The company's net debt by the end of the period totaled MXN$141.0 billion, up 8.0% vs 4Q18. It should be mentioned that given the implementation of IFRS 16 accounting standards on leasing as of January of this year, MXN$7.8 billion was reported under lease liabilities during this quarter, representing 5.6% of the company's net debt. Consequently, the Net/Debt ratio rose to 2.6x in 1Q19 vs. 2.4x in 4Q18, with a 5.7x interest coverage ratio.

## Report Details by Division

**Alpek: A weaker-than-expected quarter, but with hints of improvement for the rest of 2019.** During 1Q19, Alpek's results missed our estimates and also stood below those of the consensus. Sales surged 9.8% yoy to MXN$31.5 billion (in line with our estimate) and backed up by the integration of operations in Brazil (Suape/Citepe), but EBITDA dropped 20.8% yoy to MXN$2.6 billion (below expectations). This result suffered the impact of inventory devaluation adjustments given a context of less favorable oil and feedstock prices, which was offset by a gain obtained from insurance payout. On a comparable basis, excluding non-recurring gains and adjustments, EBITDA would have only declined 11.2% yoy to MXN$2.8 billion, in line with our estimate. The sharpest weakness in results was seen in the Polyester segment, where the drop in feedstock prices caused a temporary distortion in margins, in addition to costs related to the launching of the Altamira cogeneration power plant. Finally, net profit underwent a 66.6% yoy downturn to MXN$517 million in view of a weak operating performance and higher financial costs. *See Alpek's 1Q19 quarterly report.*

**Operating results**
MXN, Million

| | 1Q18 | Margin | 4Q18 | Margin | 1Q19 | Margin | % yoy | % qoq |
|---|---|---|---|---|---|---|---|---|
| Revenue | 28,746 | 100.0% | 34,802 | 100.0% | 31,567 | 100.0% | 9.8% | -9.3% |
| EBITDA | 3,391 | 11.8% | 7,355 | 21.1% | 2,684 | 8.5% | -20.8% | -63.5% |
| EBITDA* | 3,195 | 11.1% | 3,417 | 9.8% | 2,837 | 9.0% | -11.2% | -17.0% |

*Inventory and non – operating (non – recurring) gains/losses are excluded
Source: Alfa

**Axtel: A neutral quarter in line with estimates.** We must remember that Axtel sold the residential fiber-to-the-home business last December with the purpose of focusing efforts on the enterprise and government segments. This is why historical figures are not comparable. In addition, in 1Q18, the company reported MXN$122 million in net profit from the sale of telecommunication towers, elevating EBITDA and profitability. During this first quarter, Axtel reported MXN$3.1 billion in consolidated revenue, representing a 3% increase against a comparable basis. On this occasion, recurring revenue that represents 95.9% of the aggregate rose 2% yoy, while non-recurring revenue did so by 38%. Breaking it down by segment, enterprise revenue added 4.6% yoy and government revenue fell 1.7%. Axtel reported MXN$1.0 billion in EBITDA (-3% yoy), in line with our forecast, equaling a 34.1% margin and a 2.1pp reduction vs. 1Q18. The company presented MXN$236 million in financial expenses resulting from a lower FX gain and a drop in net interests. The company closed the quarter with a MXN$71 million net loss and a net debt to EBITDA ratio of 3.1x. *See Axtel's 1Q19 quarterly report*

**Operating results**
MXN, Million

| | 1Q18 | Margin | 4Q18 | Margin | 1Q19 | Margin | % yoy | % qoq |
|---|---|---|---|---|---|---|---|---|
| Revenue | 3,049 | 100.0% | 3,446 | 100.0% | 3,147 | 100.0% | 3.2% | -8.7% |
| EBITDA | 1,104 | 36.2% | 1,097 | 31.8% | 1,074 | 34.1% | -2.7% | -2.1% |
| EBITDA* | 3,049 | 100.0% | 3,446 | 100.0% | 3,147 | 100.0% | 3.2% | -8.7% |

Source: Alfa

**Nemak: Profitability was pressured below expectations.** Although, just as we had anticipated, Nemak faced a very challenging global-wide operating environment, the company carried out initiatives to reduce costs, practically offsetting the negative operating leverage effect brought on by a drop in volume. Thus, volume fell 7.6% year-on-year to 12.1 million equivalent units (+0.2% vs BNTe), given declines in all regions. Meanwhile, revenue decreased 8.5% yoy to MX$21.1 billion, due mainly to volume contraction. In turn, the implementation of corporate initiatives to control costs coupled with a more favorable sales mix in Europe offset a lower operating leverage caused by a reduction in volume. Thus, EBITDA fell 9.0% to MXN$3.3 billion and the corresponding margin contracted by only 10bps to 15.9% (vs 14.5%e). Finally, net profit declined 12.8% yoy to MXN$1.1 billion as a lower Net Interest Expense made up for a higher tax rate. *See Nemak's 1Q19 report*

**Operating results**
MXN, Million

| | 1Q18 | Margin | 4Q18 | Margin | 1Q19 | Margin | % yoy | % qoq |
|---|---|---|---|---|---|---|---|---|
| Revenue | 23,163 | 100.0% | 21,319 | 100.0% | 21,183 | 100.0% | -8.5% | -0.6% |
| EBITDA | 3,695 | 16.0% | 3,230 | 15.2% | 3,362 | 15.9% | -9.0% | 4.1% |

Source: Alfa

**Sigma: A positive quarter, in line with expectations.** This quarter, Sigma's revenue remained stable at MXN$29.1 billion. This was mainly supported by a slight increase in average peso-denominated prices (+0.8% yoy) and a marginal drop in volume (-0.7% yoy). Mexico was the country that posted the best results, offsetting declines in other regions. In terms of EBITDA, a 5.0% yoy increase was observed to MXN$3.1 billion (this amount includes a roughly MXN$575 million gain given the IFRS 16 implementation on long-term leasing). In this sense, the corresponding margin expanded 50bps yoy to 11.0%, supported by improved margins in Mexico, the U.S. and Latam, given better price dynamics. Conversely, operations in Europe showed the highest pressures in profitability, in view of weak results from the fresh meat business in Spain.

**Operating results**
MXN, Million

| | 1Q18 | Margin | 4Q18 | Margin | 1Q19 | Margin | % yoy | % qoq |
|---|---|---|---|---|---|---|---|---|
| Revenue | 29,111 | 100.0% | 31,651 | 100.0% | 29,146 | 100.0% | 0.1% | -7.9% |
| EBITDA | 3,044 | 10.5% | 3,448 | 10.9% | 3,195 | 11.0% | 5.0% | -7.3% |

Source: Alfa

Finally, in **Newpek,** a negative MXN$159 million EBITDA was reported, given lower production levels in the U.S. The company maintains its strategy to focus operations in Mexico.

**Operating results**
MXN, Million

| | 1Q18 | Margin | 4Q18 | Margin | 1Q19 | Margin | % yoy | % qoq |
|---|---|---|---|---|---|---|---|---|
| Revenue | 624 | 100.0% | 438 | 100.0% | 441 | 100.0% | -29.3% | 0.7% |
| EBITDA | 297 | 47.6% | 290 | 66.2% | - 159 | -36.1% | NA | NA |

Source: Alfa

**Alfa trades at a 20.3% discount over the net value of its assets and at this moment we see no catalyst for such discount to reduce.** Adjusting our NAV exercise of Alfa with the results reported during this quarter, and considering market prices for Alpek, Axtel and Nemak, Alfa's shares trade at a 20.3% discount over their theoretical value (vs. 20.9% with figures from 4Q18). It should be noted that in the case of Sigma, we are assuming a price of MXN$15.50, which would represent an 8.5x FV/EBITDA multiple, in line with the average multiple of comparable companies in Mexico, according the Bloomberg.

**ALFA'S NET ASSET VALUE**
MXN, thousands

| | Shares | Current Price | Mkt Cap | Participation | Total Equity | Debt | Cash | Net Debt |
|---|---|---|---|---|---|---|---|---|
| **Alpek** | 2,118,163 | $ 24.95 | 52,848,158 | 82.0% | 43,335,489 | 47,884,103 | 4,447,191 | 43,436,912 |
| **Axtel** | 2,892,747 | $ 2.37 | 6,855,810 | 53.5% | 3,667,858 | 16,283,900 | 881,700 | 15,402,200 |
| **Nemak** | 3,063,014 | $ 10.80 | 33,080,551 | 75.2% | 24,876,575 | 30,744,599 | 3,633,207 | 25,631,736 |
| **Sigma** | 4,750,000 | $ 15.50 | 73,625,000 | 100.0% | 73,625,000 | 47,417,000 | 10,454,000 | 36,963,000 |
| **Total** | | | | | 145,504,922 | 142,329,602 | 19,416,098 | 122,913,504 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **ALFA** | 5,055,110 | $ 20.07 | 101,456,058 | | | 165,291,619 | 24,233,290 | 141,058,329 |
| **Holding** | | | | | | 22,962,017 | 4,817,192 | 18,144,825 |

| | |
|---|---|
| **Theoretical Price ALFA** | **127,360,097** |
| **Per share** | **$ 25.19** |
| **Discount/Premium** | **-20.3%** |

Source: Banorte, Alfa

**We have downgraded our PT 2019 to MXN$26.80 with a Buy recommendation.** Following these results, we are updating our sum of the parts valuation model and are incorporating the new FX direction according to our Fixed Income and FX Strategy department, which is now estimated to close the year at MXN$20.30 (vs. the previous MXN$21.30). It should be noted that our model assumes the price targets for each one of the company's subsidiaries. In the case of Alpek, our PT2019 is MXN$35.00, in the case of Axtel, it is MXN$3.55 and in the case of Nemak, it is MXN$13.00. In the case of Sigma, we are assuming an 8.5x FV/EBITDA multiple, in line with the 2019e average multiple of comparable companies in Mexico, according to Bloomberg. In addition, we are considering a 20% Holding discount, similar to the discount at which the company trades in relation to its NAV. Based on the latter, our 2019 target price for Alfa now stands at MXN$26.80 (vs a previous MXN$29.50), which would represent a 6.0x FV/EBITDA 2019e multiple, in line with the last 3-year average multiple and above the current level (5.0x). Although we have a BUY recommendation, we consider investors would still rather invest through each particular subsidiary; it is more attractive to participate directly through Alfa when the discount is higher than the appreciation potential offered by each one of the divisions in relation to our price targets.

**Sum of the Parts Valuation**
USD, millions

| | EBITDA 2019e | FV/EBITDA | Net Debt | MKT CAP | Share | TOTAL | Price |
|---|---|---|---|---|---|---|---|
| ALPEK | 919 | 5.8x | 1,294 | 3,652 | 82.0% | 2,994 | $ 12.02 |
| AXTEL | 223 | 5.5x | 727 | 506 | 53.5% | 271 | $ 1.09 |
| NEMAK | 644 | 5.6x | 1,549 | 1,972 | 75.2% | 1,484 | $ 5.96 |
| SIGMA | 725 | 8.5x | 1,821 | 4,342 | 100.0% | 4,342 | $ 17.43 |
| NEWPEK | - 3 | 1.0x | 18 | - 21 | 100.0% | - 21 | -$ 0.08 |
| **Sum of the parts value** | | | | | | 9,070 | |
| **ALFA Holding Net Debt** | | | | | | 711 | -$ 2.85 |
| **Total ALFA** | | | | | | 8,359 | |
| **# of shares** | | | | | | 5,055 | |
| **Price US$ per share** | | | | | | 1.65 | |
| FX 2019e | | | | | | **20.30** | |
| PRICE ALFA | | | | | | $ 33.57 | |
| **Holding Discount** | | | | | | 20.0% | |
| PT 2019e | | | | | | **$ 26.85** | |

Source: Banorte Estimates

## Certification of Analysts.

**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 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.**

## Relevant statements.

**In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.**

**Compensation of Analysts.**

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte Ixe and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

**Last-twelve-month activities of the business areas.**

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

**Activities of the business areas during the next three months.**

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

**Securities holdings and other disclosures**.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

**Guide for investment recommendations.**

| | ***Reference*** |
|---|---|
| ***BUY*** | *When the share expected performance is greater than the MEXBOL estimated performance.* |
| ***HOLD*** | *When the share expected performance is similar to the MEXBOL estimated performance.* |
| ***SELL*** | *When the share expected performance is lower than the MEXBOL estimated performance.* |

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

*Determination of Target Prices*

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.



**Historical PT and Rating**

| Stock | Date | Rating | PT |
|---|---|---|---|
| ALFA | April 24, 2019 | BUY | MXN$26.80 |
| ALFA | January 18, 2019 | BUY | MXN$29.50 |
| ALFA | July 20, 2018 | BUY | MXN$30.00 |
| ALFA | February 16, 2018 | BUY | MXN$28.50 |

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

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