

# WALMEX

**Company Note**
**May 28, 2019**

## Model update reflecting IFRS 16

- We have incorporated into our model the effects of IFRS 16, as well as new exchange rate (USD/MXN 2019E 20.30 vs previous 22.50) and interest rates projections (10Y Mbono 8.4% vs previous 9.2%)
- A 60bps decline in WACC increased our PT2019 3.4% to MXN\$60.00, representing a 15.2x FV/EBITDA 2019 multiple, in line with the company's historical averages (15.0x)
- We continue to favor Walmex's leadership, execution and marketability, projecting the highest benefit within the sector from the government's social programs. Thus, we reiterate our Buy rating

**We maintain our positive outlook.** We have incorporated the effects of IFRS 16, on leasing, into our projections model, as well as the new exchange rate and interest rates estimates from our FI and FX Strategists. Regarding the former, the change in recognizing the depreciation of lease assets (right-of-use assets) and accrued interest of lease liabilities, instead of being classified as operating leasing expenses, boosted the company's EBITDA margin by 70bps to 10.8%, yet slightly impacted its net profit. Meanwhile, a lower FX conversion effect in Central America resulting from a lower USD/MXN exchange rate (2019E 20.30 vs 22.50 previous) trimmed our TS estimate by 0.9%. On our DCF valuation model, the 85bp decline of the 10-year bond rate reduced the WACC by 60bps to 13.6%, causing our PT2019 to rise 3.4% to MXN\$60.00. Finally, we maintain our thesis that a higher disposable income, through greater transfers, should be reflected on an outstanding performance in the company vs its competitors, given its focus on the low-income segment of the population with formats like Bodega Aurrerá. We reiterate our BUY rating, as well.

www.banorte.com  
@ analisis\_fundam

**Valentín Mendoza**

Auto Parts/ Consumer Discretionary /  
Real Estate/ Retail  
valentin.mendoza@banorte.com

**BUY**

Current Price	MXN\$55.15
<b>PT 2019</b>	<b>MXN\$60.00</b>
Dividend	1.12
Dividend Yield (%)	2.0%
Upside Potential	10.8%
Max – Min LTM (P\$)	58.00 – 46.15
Market Cap (US\$m)	50,269.7
Shares Outstanding (m)	17,461.4
Float	30%
Daily Turnover (P\$ m)	709.7
<b>Valuation metrics TTM</b>	
EV/EBITDA	15.5x
P/E	26.0x

**Relative performance to Mexbol LTM**

**Financial statements**

MXN, million	2017	2018	2019E	2020E
Revenues	573,265	616,910	654,219	708,666
Operating Income	43,838	49,190	53,997	60,678
Adjusted EBITDA	55,473	61,747	70,387	77,857
EBITDA Margin	9.7%	10.0%	10.8%	11.0%
Net Income	39,865	36,753	36,549	41,302
Net margin	7.0%	6.0%	5.6%	5.8%
Total Assets	295,256	306,529	355,780	390,484
Cash	35,596	38,830	35,512	54,701
Total Liabilities	135,722	141,615	218,793	240,751
Debt	15,053	15,465	54,929	55,082
Common Equity	159,534	164,914	136,986	149,733

Source: Banorte

**Valuation and financial metrics**

	2017	2018	2019E	2020E
EV/EBITDA	17.0x	15.2x	14.0x	12.4x
P/E	24.2x	26.2x	26.4x	23.3x
P/BV	6.0x	5.8x	7.0x	6.4x
ROE	24.4%	22.7%	24.2%	28.8%
ROA	13.5%	12.0%	10.3%	10.6%
EBITDA/ Interest exp	6.9x	6.9x	6.9x	6.9x
Net Debt/EBITDA	-0.4x	-0.4x	0.3x	0.0x
Debt/Equity	0.1x	0.1x	0.4x	0.4x

This document is provided for the reader's convenience only. The translation from the original Spanish version was made by Banorte's staff. Discrepancies may possibly arise between the original document in Spanish and its English translation. For this reason, the original research paper in Spanish is the only official document. The Spanish version was released before the English translation. The original document entitled "Actualización de estimados tras NIIF 16" was released on May 28, 2019.

Document for distribution among public

## WALMEX Financial Statements

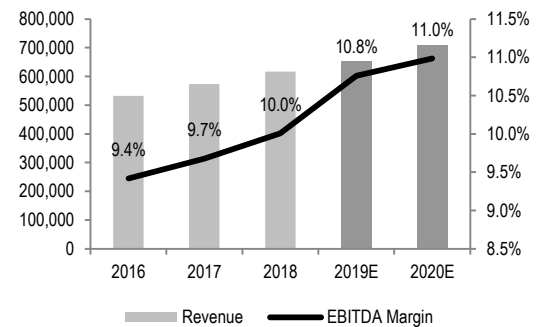
MXN, million

Income Statement					
Year	2017	2018	2019E	2020E	CAGR
<b>Net Revenue</b>	<b>573,265</b>	<b>616,910</b>	<b>654,219</b>	<b>708,666</b>	<b>7.3%</b>
Cost of goods sold	445,570	475,324	504,888	546,901	7.1%
Gross profit	127,695	141,587	149,332	161,765	8.2%
General expenses	83,684	92,598	95,269	101,166	6.5%
<b>Operating Income</b>	<b>43,838</b>	<b>49,190</b>	<b>53,997</b>	<b>60,678</b>	<b>11.4%</b>
Operating Margin	7.6%	8.0%	8.3%	8.6%	3.8%
Depreciation	11,645	12,558	16,390	17,179	13.8%
<b>EBITDA</b>	<b>55,473</b>	<b>61,747</b>	<b>70,387</b>	<b>77,857</b>	<b>12.0%</b>
EBITDA Margin	9.7%	10.0%	10.8%	11.0%	
<b>Interest income (expense) net</b>	<b>(548)</b>	<b>(330)</b>	<b>(4,977)</b>	<b>(4,865)</b>	<b>107.1%</b>
Interest expense					
Interest income	1,030	1,268	1,197	1,571	15.1%
Other Financial Income (expenses)	(1,587)	(1,773)	(6,104)	(6,423)	59.4%
Exchange Income (loss)	9	175	(71)	(13)	-213.5%
Unconsolidated subsidiaries					
<b>Net Income before taxes</b>	<b>43,290</b>	<b>48,860</b>	<b>49,020</b>	<b>55,813</b>	<b>8.8%</b>
Provision for Income taxes	10,900	12,107	12,470	14,511	10.0%
Discontinued Operations	7,475				
<b>Consolidated Net Income</b>	<b>24,916</b>	<b>36,753</b>	<b>36,549</b>	<b>41,302</b>	<b>18.3%</b>
Minorities					
<b>Net Income</b>	<b>39,865</b>	<b>36,753</b>	<b>36,549</b>	<b>41,302</b>	<b>1.2%</b>
Net Margin	7.0%	6.0%	5.6%	5.8%	
<b>EPS</b>	<b>2.283</b>	<b>2.105</b>	<b>2.093</b>	<b>2.365</b>	<b>1.2%</b>
<b>Balance Sheet (MXN, million)</b>					
<b>Total Current Assets</b>	<b>106,876</b>	<b>115,615</b>	<b>119,728</b>	<b>142,515</b>	<b>10.1%</b>
Cash & Short Term Investments	35,596	38,830	35,512	54,701	15.4%
<b>Long Term Assets</b>	<b>188,379</b>	<b>190,914</b>	<b>236,052</b>	<b>247,969</b>	<b>9.6%</b>
Property, Plant & Equipment (Net)	134,963	139,368	137,029	148,947	3.3%
Intangible Assets (Net)	1,995	2,009	1,903	1,903	-1.6%
<b>Total Assets</b>	<b>295,256</b>	<b>306,529</b>	<b>355,780</b>	<b>390,484</b>	<b>9.8%</b>
<b>Current Liabilities</b>	<b>107,828</b>	<b>114,165</b>	<b>158,433</b>	<b>180,391</b>	<b>18.7%</b>
Short Term Debt	449	335	3,107	3,260	93.6%
Accounts Payable	80,099	85,327	89,261	93,194	5.2%
<b>Long Term Liabilities</b>	<b>27,894</b>	<b>27,449</b>	<b>60,361</b>	<b>60,361</b>	<b>29.3%</b>
Long Term Debt	14,603	15,129	52,233	52,705	53.4%
<b>Total Liabilities</b>	<b>135,722</b>	<b>141,615</b>	<b>218,793</b>	<b>240,751</b>	<b>21.1%</b>
Common Stock	159,534	164,914	136,986	149,733	-2.1%
Non-controlling interest					
<b>Total Equity</b>	<b>159,534</b>	<b>164,914</b>	<b>136,986</b>	<b>149,733</b>	<b>-2.1%</b>
<b>Liabilities &amp; Equity</b>	<b>295,256</b>	<b>306,529</b>	<b>355,780</b>	<b>390,484</b>	<b>9.8%</b>
<b>Net Debt</b>	<b>(20,544)</b>	<b>(23,365)</b>	<b>19,417</b>	<b>382</b>	<b>-126.5%</b>
<b>Cash Flow (Million Pesos)</b>					
Cash Flow from Operating Activities	49,084	47,535	58,649	74,348	
Cash Flow from Investing Activities	3,923	(15,468)	(22,848)	(21,641)	
Cash Flow from Financing Activities	(44,366)	(27,139)	(38,709)	(33,519)	
FX conversion effects	(1,021)	(1,694)	(410)		
<b>Change in cash balance</b>	<b>7,621</b>	<b>3,233</b>	<b>(3,317)</b>	<b>19,188</b>	

Source: Banorte,MSE

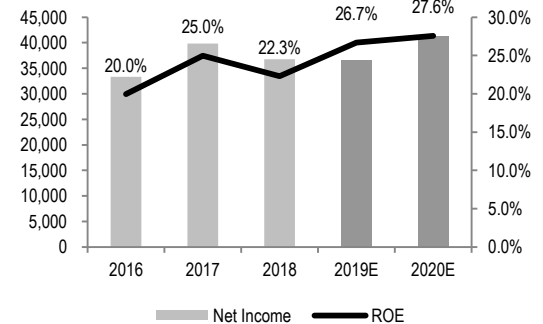
## Revenue & EBITDA Margin

MXN, million



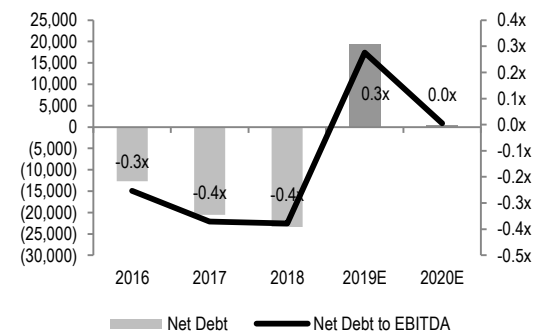
## Net Income & ROE

MXN, million



## Net Debt & Net Debt to EBITDA

MXN, million



	Estimates					
	2019 (current)	2019 (previous)	Δ%	2020 (current)	2020 (previous)	Δ%
SSS*	4.3%	5.0%	-0.7%	6.2%	6.2%	0.0%
Revenue+	654,219	659,839	-0.9%	708,666	715,151	-0.9%
EBITDA+	70,387	66,645	+5.6%	77,857	73,929	+5.3%
EBITDA Margin*	10.8%	10.1%	+0.7%	11.0%	10.3%	+0.7%
Net Income+	36,549	39,230	-6.8%	41,302	44,244	-6.6%

### DISCOUNTED CASH FLOWS MODEL

	2019e	2020e	2021e	2022e	2023e	2024e
(+) EBITDA	70,387	77,857	86,854	93,905	101,386	109,350
(-) Working Capital	(2,711)	2,525	4,777	5,165	5,576	6,014
(-) Capex	(22,789)	(23,212)	(23,644)	(19,074)	(19,350)	(19,591)
(-) Taxes	(14,429)	(15,961)	(17,805)	(19,250)	(20,784)	(22,417)
(=) Cash Flow	30,458	41,209	50,181	60,745	66,828	73,357
(+) Perpetuity	0	0	0	0	0	1,640,257
(=) Total Cash Flow	30,458	41,209	50,181	60,745	66,828	1,713,613

			YE19	
Risk-free Rate(RF)	8.4%	(+) Present Value of Cash Flows		195,457
Equity Risk Premium (RM)	5.5%	(+) Present Value of Perpetuity		866,697
Beta	0.96	<b>= Enterprise Value</b>		<b>1,062,154</b>
<b>CAPM</b>	<b>13.6%</b>	(-) Net Debt		(19,417)
Cost of Debt	0.0%	(-) Minorities		
Tax Rate	30.0%	(+) Other Investments		
<b>Net Cost of Debt</b>	<b>0.0%</b>	<b>(=) Equity Value</b>		1,042,738
Debt/Equity	0.0%	Shares Outstanding		17,461
<b>WACC</b>	<b>13.6%</b>	Price Target MXN\$		<b>59.72</b>
Exit Multiple FV/EBITDA	15.0x			

Source: Banorte

### SENSITIVITY ANALYSIS

#### MÚLTIPLE

		14.5x	15.0x	15.5x	16.0x
B E T A	0.86	59.41	61.10	62.80	64.49
	0.91	58.73	60.40	62.08	63.75
	0.96	58.06	<b>59.72</b>	61.37	63.03
	1.01	57.40	59.04	60.67	62.31
	1.06	56.76	58.37	59.99	61.60

#### MÚLTIPLE

		14.5x	15.0x	15.5x	16.0x
W A C C	13.1%	59.28	60.97	62.67	64.36
	13.4%	58.67	60.34	62.01	63.69
	13.6%	58.06	<b>59.72</b>	61.37	63.03
	13.9%	57.46	59.10	60.74	62.37
	14.1%	56.87	58.49	60.11	61.73

## Certification of Analysts.

Gabriel Casillas Olvera, Delia María Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Marissa Garza Ostos, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Gerardo Daniel Valle Trujillo, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato y 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.

	<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>

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.

**The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.**

## History of PT and Ratings

Stock	Date	Rating	PT
WALMEX	May 28, 2019	BUY	MXN\$60.00
WALMEX	January 08, 2019	BUY	MXN\$58.00
WALMEX	July 25, 2018	HOLD	MXN\$59.00
WALMEX	April 25, 2018	HOLD	MXN\$54.00

**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**
**Research and Strategy**

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

**Economic Analysis**

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

**Fixed income and FX Strategy**

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

**Equity Strategy**

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

**Corporate Debt**

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

**Wholesale Banking**

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
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
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454