

EQUITY STRATEGY

Special Note

September 6, 2018

Trimming our 2018 Mexbol target to 52,200

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- The Jan-Aug cautious stance amid the Mexican stock market was triggered by uncertainty related to the NAFTA renegotiation and the electoral process
- At this time, the issues that weigh on investors' mood are US-China trade tensions and contagion risk towards emerging countries from crises in Turkey and Argentina
- In that sense, we have revised down our MEXBOL YE2018 target from 56,900 to 52,200, by assuming a 9.2x FV/EBITDA multiple, similar to the current TTM level

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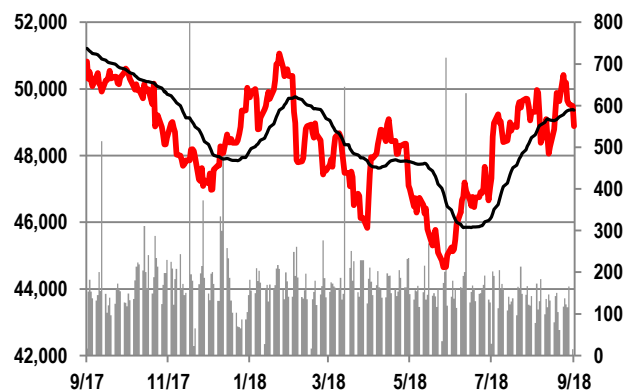
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Current Index	48,595.37
2018E Index	52,200
Expected Return	7.4%
FV/EBITDA 2018E	9.2x

Contagion risk into emerging markets could restrain Mexico's stock market performance. At the beginning of 2018, our base-case scenario anticipated uncertainty due to NAFTA renegotiation, a non-disruptive electoral process, a gradual interest rates hike, a GDP growth of 2.5% and a volatile FX. So far, such scenario has materialized, albeit a downward revision to the 2018E growth to 2.1%. The process of a stable political transition coupled with the recent US-Mexico agreement should reduce risk aversion towards Mexican stocks. Nonetheless, new uncertainty factors have arisen such as: (1) contagion risk to emerging countries from crises in Turkey and Argentina; and (2) intensification of the US-China trade tensions, hence, volatility within stock markets will prevail. In that regard, we have updated our MEXBOL 2018E target by using a relative valuation method. Assuming a 9.2x FV/EBITDA multiple our new reference level stands at 52,200pts.

Mexbol- LTM performance

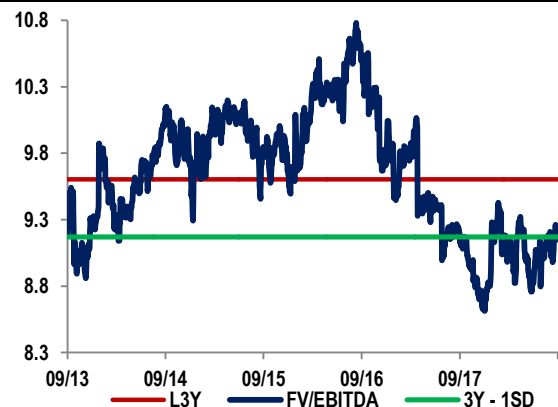
Mexbol (left), Volume in million shares (right)



Source: MSE

IPC - FV/EBITDA

Times, from September 2013 up today



Source: Bloomberg

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Document for distribution among public

Relative valuation method. In order to establish our Mexbol target, we decided to assume a conservative stance by maintaining the current valuation level for the index. Therefore, assuming a 9.2x FV/EBITDA multiple and an estimated 6.8% yoy EBITDA growth, along with a 1% Net Debt reduction, our new Mexbol 2018 target stands a 52,200 points. Our reference level implies an upside potential of 7.4% over current levels.

The 9.2x multiple is just one standard deviation below the 3-year and 5-year average multiple of 9.6x. So far, Mexico-related uncertainty factors have virtually faded away. However, greater global risks related to US protectionist measures and ongoing crises in some emerging countries lead us to think that the MEXBOL's valuation should remain similar to current levels. As long as current concerns remain, and in the absence of short-term drivers, a significant re-rating seems complicated, in our view.

2018E				
FV/EBITDA	EBITDA 2018E	Net Debt 2018E	Mexbol 2018E	Potential Return
9.0x			50,772	4.5%
9.1x			51,478	5.9%
9.2x	\$7,058	\$12,753	52,184	7.4%
9.3x	(+6.8%)	(-1.0%)	52,890	8.8%
9.4x			53,595	10.3%

Mexbol 2018- Expectations



Source: Banorte

Regardless the latter, we believe that in the medium term, the MEXBOL valuation level should converge towards its 3 and 5 year averages (9.6x) as investors get a better picture of the global panorama, while recognizing the solid fundamentals of the Mexican economy and companies. On a very early stage, and subject to a thorough review of our economic assumptions and company estimations for 2019, we believe MEXBOL could reach our previously anticipated level of 56,900pts.

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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.

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