

NEMAK

Quarterly Report

April 24, 2019

Expense control outweighs a decline in volume

- Nemark reported a weak year-start, although above our estimates, as expense control offset a lower operating leverage in light of the drop in volume
- Volume fell 7.6% yoy to 12.1 million equivalent units, while sales did so by 10.8% to US\$1.1 billion, EBITDA 11.2% to US\$175 million and net profit 15.9% to US\$58 million
- After incorporating numbers from the quarterly report, valuation parameters rose to 4.4x FV/EBITDA from 4.2x, and to 10.1x P/E from 9.6x. We reiterate our SELL rating with a PT2019 of P\$13.00

Lesser pressure on profitability than expected. Although, just as we had anticipated, Nemark faced a very challenging global-wide operating environment, the company carried out initiatives to reduce expenses, practically offsetting the negative effect on operating leverage given a drop in volume. Volume fell 7.6% year-on-year to 12.1 million equivalent units (+0.2% vs BNTe), given declines in all regions. In parallel, revenue shrunk 10.8% yoy to US\$1.1 billion (vs -10.1%e), due to volume contraction coupled with the impact of an FX conversion effect in view of the euro's depreciation. In turn, the implementation of corporate initiatives to control expenses allowed the reduction of such indicator by 3.9% yoy, which together with a more favorable sales mix in Europe, offset a lower operating leverage caused by a reduction in volume. Thus, EBITDA fell 11.2% to US\$175 million (+8.7% vs BNTe) and the corresponding margin contracted by only 10bps to 15.9% (vs 14.5%e). Finally, net profit declined 15.9% yoy to US\$58 million (vs US\$39Me), as a 48.3% lower Net Interest Expense offset a higher tax rate.

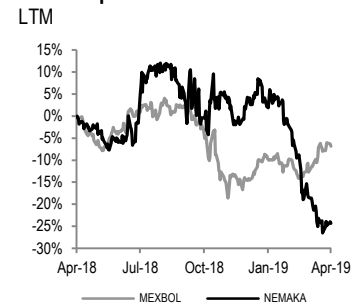
www.banorte.com
@ analisis_fundam

Valentín Mendoza

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

SELL

Current Price	MXN\$10.80
PT 2019	MXN\$13.00
Dividend 2019	MXN\$0.60
Dividend Yield (%)	5.5%
Upside Potential	25.9%
Max – Min LTM (P\$)	16.48 – 10.36
Market Cap (US\$m)	1,755.9
Shares Outstanding (m)	3,079.1
Float	19.24%
Daily Turnover (P\$ m)	29.7
Valuation metrics TTM	
EV/EBITDA	4.4x
P/E	10.1x

Relative performance to Mexbol

Financial Statements

MXN, million	2017	2018	2019E	2020E
Revenues	84,779	90,327	89,904	101,303
Operating Income	5,767	7,823	6,017	7,699
EBITDA	13,547	13,916	12,818	15,341
EBITDA Margin	16.0%	15.4%	14.3%	15.1%
Net Income	3,691	3,464	2,916	4,287
Net Margin	4.4%	3.8%	3.2%	4.2%
Total Assets	96,690	93,258	96,092	102,576
Cash	3,757	3,555	2,756	4,300
Total Liabilities	58,267	57,154	61,728	69,170
Debt	29,461	29,187	34,194	34,161
Common Equity	38,423	36,104	34,364	33,406

Source: Banorte with data from MSE

Valuation and financial metrics

	2017	2018	2019E	2020E
EV/EBITDA	4.4x	4.2x	5.2x	3.9x
P/E	8.5x	9.6x	12.7x	6.3x
P/Book	0.8x	0.9x	1.0x	1.0x
ROE	9.8%	9.3%	8.3%	12.7%
ROA	3.8%	3.7%	3.0%	4.2%
EBITDA/ Interest expen	9.0x	7.4x	8.4x	9.2x
Net Deb/EBITDA	1.9x	1.8x	2.5x	1.9x
Deb/Equity	0.8x	0.8x	1.0x	1.0x

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 "Control de gastos compensó caída en volúmenes" was released on April 23, 2019.
Document for distribution among public

NEMAK – Results 1Q19

MXN, million

Concept	1Q18	1Q19	Chg %	1Q19e	Diff% vs Estim.
Revenue	23,163	21,183	-8.5%	21,323	-0.7%
Operating Income	2,032	1,744	-14.2%	1,323	31.8%
Ebitda	3,695	3,362	-9.0%	3,100	8.5%
Net Income	1,287	1,122	-12.9%	753	49.0%
Margins					
Operating Margin	8.8%	8.2%	-0.5pp	6.2%	2.0pp
Ebitda Margin	16.0%	15.9%	-0.1pp	14.5%	1.3pp
Net Margin	5.6%	5.3%	-0.3pp	3.5%	1.8pp
EPS	\$0.42	\$0.36	-12.8%	\$0.24	49.0%

Income Statement (Million pesos)

Year	2018	2018	2019	Change	Change
Quarter	1	4	1	% yoy	% qoq
Net Revenue	23,163.0	21,319.1	21,182.8	-8.5%	-0.6%
Cost of goods sold	19,697.4	18,246.1	18,014.1	-8.5%	-1.3%
Gross profit	3,465.6	3,073.0	3,168.7	-8.6%	3.1%
General expenses	1,425.4	1,192.7	1,424.8	0.0%	19.5%
Operating Income	2,032.3	1,852.0	1,743.9	-14.2%	-5.8%
Operating Margin	8.8%	8.7%	8.2%	(0.5pp)	(0.5pp)
Depreciation	1,654.8	1,455.9	1,602.8	-3.1%	10.1%
EBITDA	3,695.0	3,378.0	3,362.0	-9.0%	-0.5%
EBITDA Margin	16.0%	15.8%	15.9%	(0.1pp)	0.0pp
Interes income (expense) net	(548.5)	(281.5)	(267.2)	-51.3%	-5.1%
Interest expense	782.6	339.5	396.5	-49.3%	16.8%
Interest income	35.9	22.8	21.8	-39.4%	-4.6%
Other income (expenses)	12.4	(7.9)	1.7	-86.3%	N.A.
Exchange Income (loss)	185.8	43.1	105.8	-43.0%	145.7%
Unconsolidated subsidiaries	92.0	10.7	43.2	-53.1%	303.0%
Income before taxes	1,575.8	1,581.2	1,519.9	-3.6%	-3.9%
Income taxes	288.8	834.8	398.3	37.9%	-52.3%
Discontinued operations					
Consolidated Net Income	677.8	940.9	746.4	10.1%	-20.7%
Minorities				N.A.	N.A.
Net Income	677.8	940.9	746.4	10.1%	-20.7%
Net margin	3.3%	4.3%	3.5%	0.2pp	(0.8pp)
EPS	0.220	0.305	0.242	10.1%	-20.7%

Balance Sheet (Million pesos)

Total Current Assets	27,756.3	27,404.9	27,217.4	-1.9%	-0.7%
Cash & Short Term Investments	2,464.9	3,555.1	3,633.2	47.4%	2.2%
Long Term Assets	63,339.6	65,852.8	66,146.4	4.4%	0.4%
Property, Plant & Equipment (Net)	49,446.6	51,628.8	50,839.4	2.8%	-1.5%
Intangible Assets (Net)	5,039.7	5,286.9	5,368.9	6.5%	1.6%
Total Assets	91,095.9	93,257.6	93,363.8	2.5%	0.1%
Current Liabilities	25,736.2	26,543.8	26,731.8	3.9%	0.7%
Short Term Debt	2,774.5	2,833.9	4,055.9	46.2%	43.1%
Accounts Payable	22,463.6	23,257.7	22,117.5	-1.5%	-4.9%
Long Term Liabilities	29,995.7	30,610.1	30,783.1	2.6%	0.6%
Long Term Debt	26,291.9	26,352.9	26,688.7	1.5%	1.3%
Total Liabilities	55,731.9	57,154.0	57,514.9	3.2%	0.6%
Common Stock	35,364.0	36,103.7	35,848.9	1.4%	-0.7%
Noncontrolling Interest				N.A.	N.A.
Total Equity	35,364.0	36,103.7	35,848.9	1.4%	-0.7%
Liabilities & Equity	91,095.9	93,257.6	93,363.8	2.5%	0.1%
Net Debt	26,601.6	25,631.7	27,111.4	1.9%	5.8%

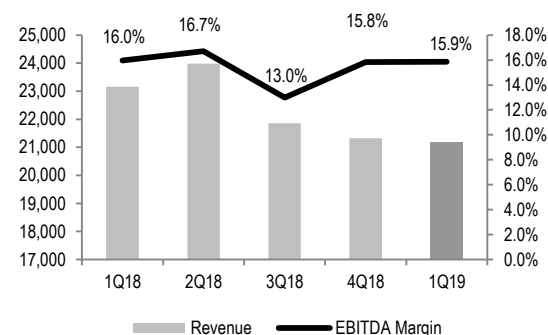
Cash Flow (Million pesos)

FX differences in cash & equivalents	(87.3)	44.1	(437.8)		
Cash Flow from Operating Activities	872.0	5,738.4	2,679.2		
Cash Flow from Investing Activities	(1,963.9)	(3,084.1)	(1,839.6)		
Cash Flow from Financing Activities	(112.7)	(2,008.7)	(233.7)		
Change in Cash Balance	(1,291.8)	689.6	168.0		

Source: Banorte, MSE.

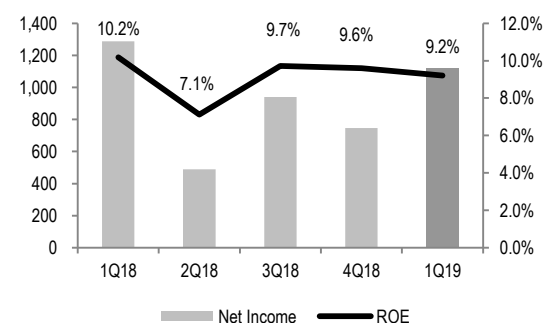
Revenue & EBITDA Margin

MXN, million



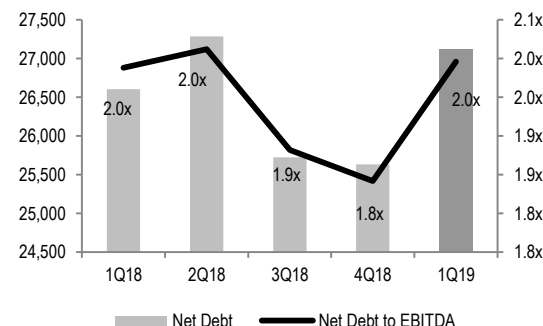
Net Income & ROE

MXN, million



Net Debt & Net debt to EBITDA ratio

MXN, million



Volume fell across all regions. In 1Q19, consolidated volume reached 12.1 million equivalent units, down 7.6% from the year-ago period and only 0.2% above our estimates. Such figure is explained by a 6.6% yoy decline in Nafta's metric to 7.1 million units (+2.2% vs BNTe), standing below the performance of vehicle production in the region (stable) due to a less favorable sales mix and lower exports to China. As for Europe, such indicator plunged 7.0% year-on-year to 4 million (vs 4.1Me), in view of a more moderate economic growth, which became evident through a 2.8% decline in vehicle production in said continent and a 5.1% decline in company's clients there. Finally, in the Rest of the World, volume retreated 16.7% to 1 million, down 5% vs. our estimates, mainly given lower sales in China.

Revenue slumped 10.8% to US\$1.10 billion. In 1Q19, the company reported a 10.8% year-on-year drop in sales to US\$1.10 billion, 70bps below our forecast (US\$1.11 billion), after the above-mentioned volume contraction was added to an unfavorable FX conversion effect in the old continent, related to the Euro's 7.6% depreciation during the period. By region, revenue in North America fell 9%, in line with our estimate (-8.6%), in Europe, 11.1% (vs 11.9%e) and in the Rest of the World, 20%.

Cost control managed to uphold profitability. As opposed to our 150bps EBITDA margin contraction expectation as a result of a lower operating leverage from a drop in volume, the company managed to maintain this indicator practically stable (-10bps yoy) at 15.9% during 1Q19. Such performance is explained by the implementation of initiatives to reduce expenses, decreasing such item by 3.9% yoy, along with a more favorable sales mix in Europe. Therefore, consolidated EBITDA underwent an 11.2% yoy reduction to US\$175 million, up 8.7% from our US\$161 million estimate. By region, EBITDA in Nafta plunged 9.9% to US\$109 million (vs -18.3% BNTe), in Europe, 4.3% to US\$67 million (+9% vs. our US\$61 million projection) and the Rest of the World reported a US\$1 million loss (vs +1.9Me).

Lower Net Interest Expense offset a higher tax effective rate. Nemark's net profit declined 15.9% yoy to US\$58 million, beating our expectations (48.7%), as a 48.3% lower Net Interest Expense- related to a 50% lower interest expense- compensated the effect of a higher tax rate (26.2% vs. a previous 18.3%).

Leverage increased during the quarter. Considering the effects of IFRS 16, the company's leverage rose to 2.0x ND/EBITDA from 1.8x in 4Q18. It should be noted that such change is explained, mainly, by a MXN\$1.5 billion qoq increase in interest-bearing debt (MXN\$1.2 billion corresponding to lease liabilities), coupled with a lower LTM EBITDA.

Performance summary by region

NAFTA								
	1Q18	Margin	4Q18	Margin	1Q19	Margin	% yoy	% qoq
Volume	7.6		6.9		7.1		-6.6%	2.9%
Revenue	\$ 675	100%	\$ 603	100%	\$ 614	100%	-9.0%	1.8%
EBITDA	\$ 121	17.9%	\$ 92	15.3%	\$ 109	17.8%	-9.9%	18.5%

Europe								
	1Q18	Margin	4Q18	Margin	1Q19	Margin	% yoy	% qoq
Volume	4.3		3.5		4.0		-7.0%	14.3%
Revenue	\$ 450	100%	\$ 389	100%	\$ 400	100%	-11.1%	2.8%
EBITDA	\$ 70	15.6%	\$ 74	19.0%	\$ 67	16.8%	-4.3%	-9.5%

Rest of the World								
	1Q18	Margin	4Q18	Margin	1Q19	Margin	% yoy	% qoq
Volume	1.2		1.1		1.0		-16.7%	-9.1%
Revenue	\$ 110	100%	\$ 86	100%	\$ 88	100%	-20.0%	2.3%
EBITDA	\$ 6	5.5%	\$ 5	5.8%	-\$ 1	-1.1%	N.A.	N.A.

Consolidated								
	1Q18	Margin	4Q18	Margin	1Q19	Margin	% yoy	% qoq
Volume	13.1		11.5		12.1		-7.6%	5.2%
Revenue	\$ 1,235	100%	\$ 1,078	100%	\$ 1,102	100%	-10.8%	2.2%
EBITDA	\$ 197	16.0%	\$ 171	15.9%	\$ 175	15.9%	-11.2%	2.3%

Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldivar, 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, Jorge Antonio Izquierdo Lobato 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	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
SELL	<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
NEMAK A	25/02/2019	Sell	\$13.00
NEMAK A	14/01/2019	Buy	\$17.00
NEMAK A	18/04/2018	Buy	\$16.00
NEMAK A	14/02/2018	Hold	\$16.00

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