

WALMEX

Quarterly Report

October 25, 2021

The omnichannel strategy is advancing favorably

- **Walmex's report was positive, in line with expectations, but highlighting profitability improvements. Successful omnichannel strategy continues to be reflected in increased market share**
- **We will be updating our estimates and although we maintain a positive outlook, current valuation at 15.7x FV/EBITDA looks tight and limits a significant share rerating**

It does not decelerate the pace of growth. As expected, Walmex' SSS maintained a positive differential vs. ANTAD self-service (SSS +5.5% y/y), posting 6.0% y/y growth in Mexico (CA +12.5%), despite facing a challenging comparable base. This reflects a steady gain in market share as a result of the development of its omnichannel strategy. The company has focused its efforts on creating a holistic ecosystem, making progress in initiatives such as Cashi, Bait, Connect, Walmart Pass, and this quarter the launch of Walmart Fulfillment Services (WFS) where sellers leverage the company's logistics scale to make more efficient deliveries, resulting in an accelerated growth of the marketplace—aligned with the retailer's objectives—. Accordingly, consolidated revenues increased 6.4% y/y to MXN 176.042 billion (Mexico +7.7%, CA +0.8%), further supported by the low-price tactic, with special attention to the solid performance at *Aurrerá*, as well as a 1.9% increase in the sales floor. Meanwhile, EBITDA rose 9.8% y/y to MXN 20.039 billion and the respective margin improved by 30bps to 11.4%, after higher operating leverage in CA and an extraordinary benefit related to an impairment reversal (margin of 11.1% without this effect, in line with our estimates) offset higher expenses in Mexico allocated to the growth plan (remodeling, associates and technology). Finally, net income amounted to MXN 11.049 billion (+20.5% y/y), benefiting from a lower effective tax rate (21.5% vs. 25.7%). **Valuation is already tight.** We will be revising our estimates, including growth expectations; however, the current multiple at 15.7x FV/EBITDA is high (L3Y average at 14.6x; sector average at 9.3x), for which we believe the price already reflects a major part of the positive outlook.

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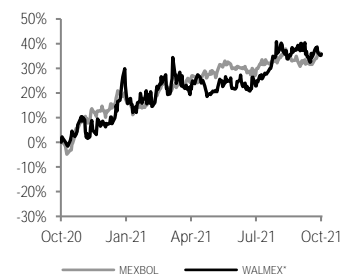
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HOLD	
Current Price	\$71.17
PT	\$67.00
Dividend 2021	\$1.63
Dividend Yield (%)	2.3%
Upside Potential	-3.6%
Max – Min LTM (\$)	74.42– 49.49
Market Cap (US\$m)	61,253.13
Shares Outstanding (m)	17,461.4
Float	29.5%
Daily Turnover US\$m	979.8
Valuation metrics LTM	
FV/EBITDA	15.7x
P/E	28.6x
MSCI ESG Rating*	A

Relative performance to Mexbol LTM



Financial Statements	2019	2020	2021E	2022E
Revenue	646,846	701,734	730,188	782,941
Operating Income	54,003	57,447	62,492	68,139
EBITDA	71,005	75,387	80,569	86,708
EBITDA Margin	11.0%	10.7%	11.0%	11.1%
Net Income	37,898	33,435	43,955	48,874
Net Margin	5.9%	4.8%	6.0%	6.2%
Total Assets	349,172	361,883	387,914	461,144
Cash	30,857	35,670	37,958	61,079
Total Liabilities	181,028	192,764	229,878	283,550
Debt	57,213	59,738	62,216	62,216
Common Equity	168,145	169,119	158,036	177,594

Source: Banorte

Valuation and Financial metrics	2019	2020	2021E	2022E
FV/EBITDA	17.9x	16.8x	15.7x	14.3x
P/E	32.8x	37.2x	28.3x	25.4x
P/BV	7.4x	7.3x	7.9x	7.0x
ROE	22.8%	19.8%	26.9%	29.1%
ROA	10.9%	9.2%	11.3%	10.6%
EBITDA/ interest	N.A.	N.A.	N.A.	N.A.
Net Debt/EBITDA	0.4x	0.3x	0.3x	0.0x
Debt/Equity	0.3x	0.4x	0.4x	0.4x

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WALMEX – Results 3Q21
MXN, million

Concept	3Q20	3Q21	Var %	3Q21e	Diff% vs Estim.
Revenue	165,386	176,042	6.4%	174,438	0.9%
Operating Income	13,783	15,460	12.2%	14,612	5.8%
Ebitda	18,256	20,039	9.8%	19,075	5.1%
Net Income	9,172	11,049	20.5%	10,149	8.9%
Margins					
Operating Margin	8.3%	8.8%	0.4pp	8.4%	0.4pp
Ebitda Margin	11.0%	11.4%	0.3pp	10.9%	0.4pp
Net Margin	5.5%	6.3%	0.7pp	5.8%	0.5pp
EPS	\$0.53	\$0.63	20.5%	\$0.58	8.9%

Income Statement (Million pesos)

Year	2020	2021	2021	Change	Change
Quarter	3	2	3	% y/y	% q/q
Net Revenue	165,386	174,674	176,042	6.4%	0.8%
Costs of goods sold	126,290	134,046	134,399	6.4%	0.3%
Gross profit	39,095	40,628	41,643	6.5%	2.5%
General expenses	25,448	27,169	26,837	5.5%	-1.2%
Operating Income	13,783	13,652	15,460	12.2%	13.2%
Operating Margin	8.3%	7.8%	8.8%	0.4pp	1.0pp
Depreciation	4,473	4,485	4,579	2.4%	2.1%
EBITDA	18,256	18,136	20,039	9.8%	10.5%
EBITDA Margin	11.0%	10.4%	11.4%	0.3pp	1.0pp
Interest Income (Expense) net	(1,447)	(1,167)	(1,384)	-4.3%	18.6%
Interest expense				N.A.	N.A.
Interest income	232	183	253	9.0%	38.4%
Other income (expense)	(1,588)	(1,478)	(1,497)	-5.8%	1.2%
Foreign exchange gain (loss)	(91)	128	(141)	54.8%	N.A.
Unconsolidated subsidiaries				N.A.	N.A.
Income before taxes	12,337	12,485	14,076	14.1%	12.7%
Income taxes	3,165	2,720	3,026	-4.4%	11.3%
Discontinued operations					
Consolidated Net Income	9,172	9,764	11,049	20.5%	13.2%
Non-controlling interest				N.A.	N.A.
Net Income	9,172	9,764	11,049	20.5%	13.2%
Net Margin	5.5%	5.6%	6.3%	0.7pp	0.7pp
EPS	0.525	0.559	0.633	20.5%	13.2%

Balance Sheet (Million pesos)

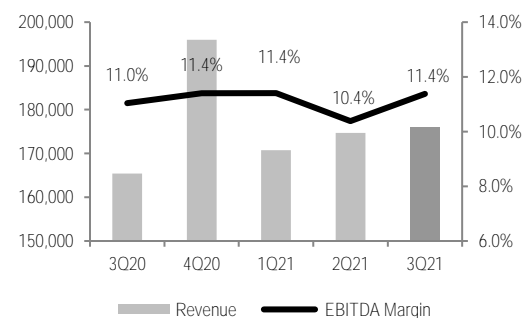
Total Current Assets	124,773	125,212	146,448	17.4%	17.0%
Cash & Short Term Investments	38,348	41,802	48,287	25.9%	15.5%
Long Term Assets	246,462	240,741	246,996	0.2%	2.6%
Property, Plant & Equipment (Net)	136,277	134,159	137,328	0.8%	2.4%
Intangible Assets (Net)	2,388	2,606	2,685	12.4%	3.0%
Total Assets	371,235	365,953	393,444	6.0%	7.5%
Current Liabilities	132,677	134,519	147,481	11.2%	9.6%
Short Term Debt	3,228	3,056	3,486	8.0%	14.1%
Accounts Payable	124,748	126,176	137,224	10.0%	8.8%
Long Term Liabilities	71,352	71,311	72,537	1.7%	1.7%
Long Term Debt	57,289	58,100	58,729	2.5%	1.1%
Total Liabilities	204,029	205,830	220,018	7.8%	6.9%
Stockholders' Equity	167,206	160,123	173,426	3.7%	8.3%
Non-controlling interest				N.A.	N.A.
Total Equity	167,206	160,123	173,426	3.7%	8.3%
Liabilities & Equity	371,235	365,953	393,444	6.0%	7.5%
Net Debt	22,169	19,354	13,929	-37.2%	-28.0%

Cash Flow

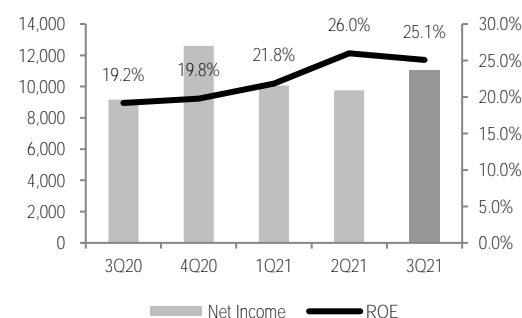
CF from Operating Activities	14,424.7	19,082.9	14,644.5
CF from Investing Activities	(4,193.9)	(3,998.8)	(5,421.6)
CF from Financing Activities	(2,290.8)	(2,252.2)	(2,339.2)
FX effect on cash	(397.0)	(877.8)	(399.0)
Change in Cash Balance	7,543.1	11,954.1	6,484.8

Source: Banorte, MSE.

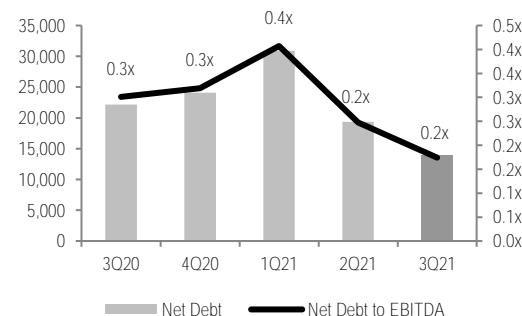
Revenue & EBITDA Margin
MXN, million



Net Income & ROE
MXN, million



Net Debt & Net Debt to EBITDA ratio
MXN, million



Certification of Analysts.

We, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Alik Daniel García Álvarez, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo 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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	Reference
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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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History of PT and ratings

Stock	Date	Rating	PT
WALMEX	19/02/2021	Hold	\$67.00
WALMEX	23/10/2019	Buy	\$65.00
WALMEX	28/5/2019	Buy	\$60.00
WALMEX	08/1/2019	Buy	\$58.00

MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD			AVERAGE		LEADER	

*MSCI ESG Rating is an indicator that evaluates companies in Environment, Social and Governance (ESG) metrics.

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