

GMEXICO

Company Note

January 11, 2021

Positive outlook, but tight valuation

- **In 2021 GMexico should benefit from favorable expectations for copper, in view of the expected demand recovery, and a significant improvement in the results of Transportation and Infrastructure**
- **For this year, our estimates assume a 14.6% upturn in revenue and a 16.6% y/y rise in EBITDA, with a 48.6% margin (+0.8pp), while the operating efficiency will continue to stand out**
- **We established a PT2021 of MXN 101.00 -FV/EBITDA 2021e of 8.0x, below the current 9.2x-. Since the current valuation reflects most of the positive outlook, we recommend HOLD**

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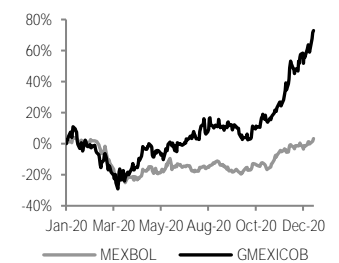
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A good performance in Mining due to the advance in copper prices, as well as a recovery in Transportation and Infrastructure operations. Following a complicated 2020, from which GMexico stood out for showing resilient results to the environment, the outlook for 2021 is encouraging. In Mining, higher copper prices are expected in response to an increase in demand, in a scenario of [economic recovery](#), which would weigh more than the expected rise in production in the industry globally. In this context, we estimate an average price of US\$3.31 per pound (+17.3% y/y), partially offset by a drop of no more than 1.0% in production. Meanwhile, [GMXT](#) will resume growth supported mainly by the automotive and industrial segments and will continue with investments focused on higher profitability. In Infrastructure, the recovery would go hand in hand with the opening of the new Fenicias wind farm in 1Q21 and the investment in fuel storage terminals will continue. Thus, in 2021, we expect annual growth of 14.6% in revenues and 16.6% in EBITDA. With this, we established a PT2021 of MXN 101.00, which represents a FV/EBITDA 2021e multiple of 8.0x, below the current 9.2x. We believe that most of the favorable outlook is already reflected in the stock (~60% in the last 3 months), therefore our recommendation is HOLD.

HOLD	
Current Price	\$91.54
PT2021	\$101.00
Dividend 2021	\$4.00
Dividend (%)	4.4%
Upside Potential	14.7%
Max – Min LTM	95.39-37.21
Market Cap (US\$m)	36,261.6
Shares outstanding (m)	7,785
Float	46.0%
Daily Turnover (\$m)	565.3
Valuation Metrics LTM*	
FV/EBITDA	9.2x
P/E	22.3x
MSCI ESG Rating*	CCC

*With press release data

Relative Performance to MEXBOL LTM



Financial Statements				
USD, million	2018	2019	2020E	2021E
Revenues	10,495	10,683	10,677	12,232
Operating Income	3,590	3,491	3,777	4,524
EBITDA	4,889	4,948	5,099	5,943
EBITDA Margin	46.6%	46.3%	47.8%	48.6%
Net Income	1,147	1,810	1,964	2,432
Net Margin	10.9%	16.9%	18.4%	19.9%
Total Assets	25,909	27,461	27,597	29,890
Cash	1,674	2,608	2,716	2,832
Total Liabilities	12,301	13,162	12,633	12,846
Debt	8,384	9,377	8,760	8,760
Common Equity	13,609	14,300	14,964	17,044

Source: Banorte

Valuation and financial metrics				
	2018	2019	2020E	2021E
EV/EBITDA	9.5x	9.1x	8.7x	7.5x
P/E	31.6x	20.0x	18.5x	14.9x
P/BV	3.2x	3.0x	2.8x	2.5x
ROE	10.0%	15.0%	15.4%	16.8%
ROA	4.4%	6.6%	7.1%	8.1%
EBITDA/ interest exp	9.6x	9.0x	9.3x	11.2x
Net Debt/EBITDA	1.4x	1.4x	1.2x	1.0x
Debt/Equity	0.6x	0.7x	0.6x	0.5x

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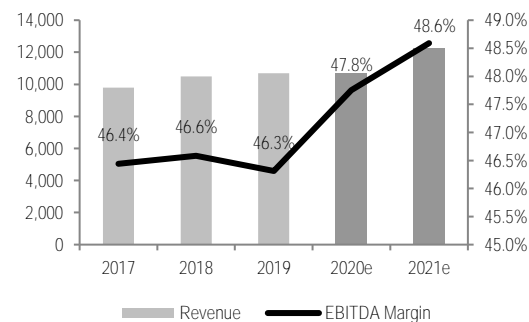
GMEXICO – Financial Statements
USD, million

Income Statement					
Year	2018	2019	2020E	2021E	TCAC
Net Revenue	10,494.8	10,683.4	10,677.2	12,231.6	5.2%
Cost of goods sold	5,418.7	5,509.7	5,264.4	6,091.2	4.0%
Gross profit	5,076.1	5,173.7	5,412.7	6,140.4	6.6%
General expenses	315.2	323.5	297.0	196.9	-14.5%
Operating Income	3,590.3	3,491.3	3,776.6	4,524.5	8.0%
Operating Margin	34.2%	32.7%	35.4%	37.0%	2.6%
Depreciation	1,170.5	1,358.9	1,339.2	1,419.0	6.6%
EBITDA Adjusted	4,888.9	4,947.8	5,098.7	5,943.4	6.7%
EBITDA Margin	46.6%	46.3%	47.8%	48.6%	1.4%
Interest income (expense) net	(1,096.3)	(39.7)	139.0	(564.5)	-19.8%
Interest expense	496.4	552.0	547.4	531.2	2.3%
Interest income	41.2	46.1	31.5	20.9	-20.2%
Unconsolidated subsidiaries	(641.1)	466.2	655.0	(54.3)	-56.1%
Net Income before taxes	9.5	(1.4)	2.1	8.8	-2.3%
Provision for Income taxes	2,495.0	3,451.6	3,915.6	3,960.0	16.6%
Consolidated Net Income	983.1	1,232.6	1,623.5	1,188.0	6.5%
Minorities	1,520.4	2,220.4	2,294.2	2,780.9	22.3%
Net Income	373.4	410.1	330.3	349.0	-2.2%
Net Margin	1,147.0	1,810.3	1,963.9	2,431.9	28.5%
EPS	10.9%	16.9%	18.4%	19.9%	22.1%

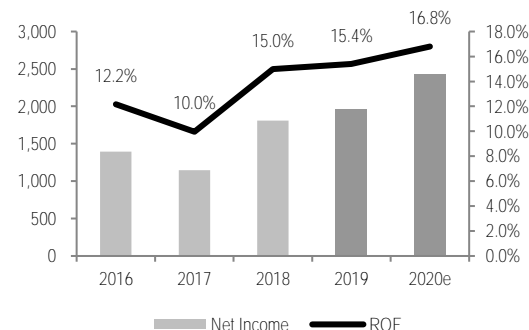
Balance Sheet (MXN, million)					
	2018	2019	2020E	2021E	
Total Current Assets	4,789.3	5,927.8	6,410.4	6,987.9	13.4%
Cash & Short Term Investments	1,673.6	2,608.1	2,715.9	2,832.5	19.2%
Long Term Assets	21,119.8	21,533.6	21,186.2	22,902.2	2.7%
Property, Plant & Equipment (Net)	17,145.9	16,955.8	16,344.0	17,725.0	1.1%
Intangible Assets (Net)	3,973.9	4,577.8	4,842.2	5,177.2	9.2%
Activo Total	25,909.1	27,461.3	27,596.6	29,890.0	4.9%
Current Liabilities	1,872.0	2,215.0	1,876.9	1,930.0	1.0%
Short Term Debt	107.9	592.1	208.7	208.7	24.6%
Accounts Payable	1,764.1	1,622.9	2,204.8	2,364.8	10.3%
Long Term Liabilities	10,428.6	10,946.5	10,756.2	10,916.1	1.5%
Long Term Debt	8,276.0	8,784.8	8,551.4	8,551.4	-1.1%
Total Liabilities	12,300.5	13,161.5	12,633.1	12,846.1	1.5%
Common Stock	13,608.5	14,299.8	14,963.5	17,043.9	7.8%
Preferred Stock	2,096.7	2,224.1	2,215.7	2,564.7	6.9%
Total Equity	11,511.8	12,075.7	12,747.8	14,479.2	7.9%
Liabilities & Equity	25,909.1	27,461.3	27,596.6	29,890.0	4.9%
Net Debt	6,710.3	6,768.7	6,044.2	5,927.6	-4.0%

Source: Banorte, BMV

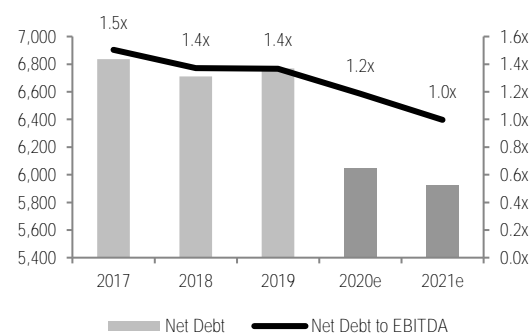
Revenue & EBITDA Margin
USD, million



Net Income & ROE
USD, million



Net debt & Net Debt to EBITDA
USD, million



2021 Estimates. After a very complicated year such as 2020, impacted by the health crisis that significantly affected economic performance, GMexico has stood out for being defensive in its results and furthermore, continue with efficient operations that have resulted in greater profitability (in [3Q20](#) it managed to obtain the best copper *cash cost* in the world). While 2021 might still present some challenges, the expected global economic recovery will carry more weight. Thus, we believe that the company has strong fundamentals and is well positioned to leverage the favorable environment outlook, and will therefore continue with a focus on further strengthening its operations through investments that result in greater profitability and lay the foundation for future growth. It is worth mentioning that the company expects to reach a production of around 1.9 million tons by the end of the decade, which would represent approximately 70% more than the 2020e production levels.

Thus, by 2021 we expect solid progress in GMexico's results. Taking into account the expected economic recovery, the outlook is for sustained growth in copper demand, mainly from China and other countries in Asia, as it is an essential product for economic activity and even more so with the strengthening of trends toward a more technological society, as well as a greater surge in renewable energy projects that would represent greater copper consumption. This would lead to higher copper prices, despite the estimated production increase in the world of 4.6%, according to the *International Copper Study Group (ICSG)*, in its forecast report published on October 19, 2020.

ICSG – World copper production 2019-2021e

Thousands of tons

Regions	2019	2020e	% y/y	2021e	% y/y
Africa	2,247	2,327	3.6%	2,516	8.1%
North America	2,627	2,519	-4.1%	2,680	6.4%
Latin America	8,779	8,506	-3.1%	9,058	6.5%
Asia	4,063	4,207	3.5%	4,525	7.6%
European Union	861	874	1.5%	837	-4.2%
Other European countries	919	1,069	16.3%	1,149	7.5%
Oceania	1,033	946	-8.4%	1,020	7.8%
Total	20,528	20,447	-0.4%	21,784	6.5%
Total adjusted*	20,528	20,223	-1.5%	21,151	4.6%

Source: ICSG. * Estimate of possible supply disruptions based on the average deviations from ICSG projections for the last 5 years.

Considering these expected favorable dynamics, we estimate an average copper price of US\$3.31 per pound, +17.3% vs. 2020 average price, in line with Bloomberg's consensus, which will support an important dynamism in Mining.

On its part, GMXT will resume its growth path, supported mainly by the automotive and industrial segments, with investments focused on making operations more efficient. Finally, in Infrastructure, there would be a recovery that would be favored by the opening of the new Fenicias wind farm expected in 1Q21. On the other hand, investments in fuel storage terminals are maintained.

Thus, on a consolidated basis, our forecasts assume annual increases in revenues of 14.6% to US\$12.2 billion and in EBITDA of 16.6% to US\$5.9 billion. With this, the EBITDA margin should increase by 0.8pp to 48.6%, supported not only by better copper prices but also by greater efficiencies in the rest of the businesses.

Breaking down our estimates by division, in AMC (Mining) we expect EBITDA of US\$4.5 billion, with an average copper price of US\$3.31 per pound, as noted above, which would more than offset a slight decrease in production of no more than 1.0%, due to postponement of mine stripping in 2020 and a decline in ore grade expected to return to normal in 2023. In Transportation, our estimates for GMXT incorporate revenues of US\$2.5 billion and EBITDA of US\$1.1 billion, driven by a 4.0% increase in average prices per ton and a 2.9% increase in transported volume. The expected expansion in the EBITDA margin is 1.0pp, to 44.9%. In relation to infrastructure, we anticipate a recovery (after the impact of the pandemic) and project an EBITDA of around US\$280 million (+6.0% y/y).

Maintains pace of investments to continue growing. GMexico will keep making investments to make operations more efficient and will be the foundation for future growth. We expect that in 2020 the amount actually spent will be around US\$1 billion, less than the amount mentioned by the company (US\$2 billion), as a result of the containment measures that prevailed during the year due to the health contingency. For its part, for the next 3 years the company plans to invest around US\$7.4 billion in all its divisions. In Mining, in Mexico, progress continues on the Pilares project in Sonora, which would have an annual production capacity of 35,000 tons of copper in concentrates and could start operations in 1H22; the Buenavista Zinc project in Sonora with an expected production capacity of 80,000 tons of zinc and 20,000 tons of copper to possibly start operations in 3Q22; and El Pilar in Sonora where production is estimated to start in 2023. On the other hand, in Peru they continue working on the Tía María, Michiquillay and Los Chancas projects, which involve a total expected investment of US\$7.9 billion (of which US\$1.6 billion has already been made), although it should be mentioned that these are longer-term projects. In Tía María, it is expected that the government will recognize the favorable results of the social impact review (conducted by a world leader in environmental, social and governmental assessments) and the contributions it would generate for the country's economy, and with it, take the necessary steps to begin construction. In GMXT, the investments to be made would be around US\$360 million (+14% vs. 2020e): 73% of the resources will be used in maintenance; 19% in growth (mergers and acquisitions projects such as Intermodal terminals and refined products terminals, the rehabilitation of the Chihuahua-Ojinaga corridor, and the Celaya and Monterrey beltways; among others); and the remaining 8% in improving the operations' efficiency (technology and equipment, construction and reconfiguration of yards, conversion of locomotives to liquefied natural gas). In Infrastructure, the amount of investment is expected to reach US\$230 million. It is anticipated that during 1Q21 the new Fenicias wind farm will begin operations. In addition, the projects of two new fuel storage terminals in Monterrey and Guadalajara continue, which are expected to start operations in 2022.

Solid financial position. One of GMexico's main strengths is the financial strength it has managed to preserve even in a difficult environment. Our estimate for 2020 includes a Net Debt / EBITDA ratio of 1.2x, and despite strong investment, we expect this to decrease to 1.0x by 2021.

Attractive 2021e dividend yield. Considering the good results expected for this year, we foresee that the company will pay a dividend of MXN 4.00 per share, distributed in four tranches (MXN 1.00 each quarter), equivalent to around 4.4% yield in 2021 over current prices. A higher amount would be contingent upon the recovery occurring as expected while investments continue to return to pre-pandemic levels.

Sum of the parts valuation. We used a sum of the parts valuation method to reflect the value of each of GMexico's subsidiaries. It is important to mention that there has been a revaluation in the sector multiples (mainly in Mining), due to the prospects of economic recovery, as well as the expectation of a possible increase in infrastructure spending with the next president of the United States, Joe Biden.

In the case of Southern Copper (SCCO), where GMexico has an 88.9% stake, we assumed a FV/EBITDA 2021e multiple of 12.0x, similar to the average of the last 5 years of 12.4x. For Asarco we assigned a FV/EBITDA multiple of 6.5x, in line with GMexico's average multiple of the last 5 years, though lower than the current one given the lower profitability levels.

In GMXT, the target price of MXN 36.30 that we obtained through our discounted cash flow valuation model represents a FV/EBITDA 2021e multiple of 8.3x vs. 8.0x current (See [GMXT: Favorable prospects and very attractive valuation](#)), which we used in the sum-of-the-parts valuation.

For the Infrastructure division, we assumed an 8.0x multiple, in line with the average price of a sample of companies in the sector. Finally, to value GMexico's 10.6% participation in GAP, we used the expected market value for 2021 according to our area's estimates.

Through our valuation model, we obtained a 2021 target price for GMexico of MXN 101.00 per share. This price represents a FV/EBITDA 2021e multiple of 8.0x (2022e of 7.6x), below the 9.2x multiple at which the company is currently trading and the median of comparable companies (11.1x) according to the Bloomberg consensus, though above the industry average of 2021e. It should be noted that we maintain a discount per holding of 20%.

Our target price offers a 14.7% return when including a 4.4% dividend yield. It is important to mention that the stock has shown a significant rally in the price of around 60.0% in the last 3 months, so we believe that the favorable outlook is largely discounted in the current issuer's valuation, which is even starting to look very tight, leaving a more limited appreciation potential with respect to our target price. Therefore, our recommendation is HOLD. In any case, it is important to always remember that, given the ever-present possibility of changes in the industry and concerns about the pace of global economic recovery, volatility in the price of the stock could return.

GMexico - Sum of the parts valuation
USD, million

Subsidiary	EBITDA 2021e	FV/EBITDA	Net debt	Market Cap	Participation	Total
SCCO	3,863	12.0x	4,367	41,989	88.9%	37,329
ASARCO	682	6.5x	9	4,440	100.0%	4,440
GMXT	1,119	8.3x	934	8,351	69.5%	5,806
INFRASTRUCTURE	280	8.0x	879	1,361	100.0%	1,361
GAP				5,950	10.6%	631
Sum of parts value						49,566
(-) GMexico Net Debt						-304
(=) Gmexico Value						49,870
Outstanding shares						7,785
Price US\$ per share						6.41
Exchange rate 2021e						19.80
GMexico price in pesos						126.84
Holding Discount						20.0%
PT 2021e						\$101.42

Source: Banorte Estimates, Bloomberg

Below are some graphs that reflect the level of valuation of the company with respect to its comparable. In the graph on the left, it can be seen that the average valuation of the sector has risen, on the one hand, due to the expected recovery in the industry which has boosted the prices of the issuers, but it should also be noted that the multiples show a significant distortion due to the weakness in the figures affected by the environment. We believe that more normalized valuation levels in the sector should tend to be reflected as the recovery takes place in the results of all companies in the sector.

In the case of GMexico, we observe that it is trading above the 3Y average of comparable (right side graph), which reaffirms our view that the company's price already incorporates a good part of the positive expectations. Additionally, we must mention that the differential between the GMexico and SCCO multiples has widened to -7.0x, compared to the 3A average of -4.4x, mainly reflecting a very advanced valuation by SCCO, as seen in our relative valuation table.

FV/EBITDA LTM GMexico and comparable average
Times



Source: Banorte, Bloomberg.

FV/EBITDA LTM GMexico vs. 3Y comparable average
Times



Source: Banorte, Bloomberg.

Relative Valuation Mining

ISSUER	PRICE	Market Cap (US\$MM)	Enterprise Value (US\$MM)	P/BV	P/E	P/E 2020E	P/E 2021E	FV/EBITDA	FV/EBITDA 2020E	FV/EBITDA 2021E	DIVIDEND YIELD
BHP GROUP LTD	AUD 44.21	164,326	142,293	3.7x	21.9x	14.5x	15.8x	8.7x	6.6x	7.2x	5.6%
RIO TINTO PLC	GBP 6,115.00	137,312	199,953	3.8x	18.8x	11.9x	10.9x	8.9x	6.6x	6.0x	4.9%
VALE SA	BRL 95.61	95,289	100,534	3.1x	32.1x	9.9x	6.8x	10.0x	5.2x	4.4x	1.5%
SOUTHERN COPPER CORP	USD 68.95	53,303	58,715	7.8x	34.2x	34.2x	24.7x	16.5x	15.7x	12.9x	2.9%
ANGLO AMERICAN PLC	GBP 2,756.50	46,929	82,475	2.4x	18.2x	18.2x	10.8x	8.4x	7.0x	5.0x	2.1%
FREEMOUNT-MCMORAN INC	USD 30.16	43,819	59,722		67.3x	67.3x	15.2x	19.9x	16.2x	7.9x	
JIANGXI COPPER CO LTD-H	HKD 13.74	9,224	10,915	0.8x	17.1x	17.1x	12.1x		11.4x	9.7x	0.8%
ANTOFAGASTA PLC	GBP 1,584.00	11,473	17,473	2.9x	42.8x	42.8x	25.3x	12.3x	10.5x	8.0x	0.7%
CIA DE MINAS BUENAVENTUR-COM	PEN 44.80	3,406	3,406	1.2x			16.4x	26.5x	8.1x	5.3x	
<i>Average</i>		62,787	74,812	3.2x	28.6x	27.0x	15.3x	13.9x	9.7x	7.4x	2.6%
<i>Median</i>		46,929	59,772	3.0x	21.0x	17.6x	15.2x	11.1x	8.1x	7.2x	2.1%
GRUPO MEXICO SAB DE CV-SER B	MXN 91.54	36,222	2,202	3.3x	18.3x	22.3x	14.7x	8.4x	8.5x	7.0x	4.4%

Source: Bloomberg (01/06/21).

Relative Valuation Transportation

ISSUER	PRICE	Market Cap (US\$MM)	Enterprise Value (US\$MM)	P/BV	P/E	P/E 2020E	P/E 2021E	FV/EBITDA	FV/EBITDA 2020E	FV/EBITDA 2021E	Dividend Yield
UNION PACIFIC CORP	USD 205.50	138,480	165,480		26.4x	25.9x	22.0x	15.9x	16.2x	14.6x	1.9%
CANADIAN NATL RAILWAY CO	CAD 140.66	78,965	89,959		27.4x	26.6x	22.4x	18.1x	16.8x	14.6x	1.6%
CSX CORP	USD 89.48	68,432	82,514		25.6x	24.8x	20.6x	14.5x	14.5x	13.0x	1.2%
DAQIN RAILWAY CO LTD -A	CNY 6.50	14,968	15,379	0.9x	9.3x	8.9x	7.6x		4.9x	4.2x	7.4%
CANADIAN PACIFIC RAILWAY LTD	CAD 447.50	47,420	54,996	8.3x	25.8x	25.5x	22.1x	17.2x	17.0x	15.5x	0.8%
NORFOLK SOUTHERN CORP	USD 235.71	59,867	71,231		26.0x	25.9x	21.0x	17.1x	15.5x	13.2x	1.6%
KANSAS CITY SOUTHERN	USD 204.05	19,099	22,611		32.1x	29.1x	24.0x	16.8x	16.2x	14.3x	0.9%
AURIZON HOLDINGS LTD	AUD 3.89	5,608	8,498	1.8x	12.5x	15.1x	13.5x	7.0x	7.7x	7.4x	9.2%
CHINA RAILWAY TIELONG CONT-A	CNY 6.09	1,231	1,201	1.4x	18.1x	20.3x	16.0x		8.6x	7.4x	1.8%
<i>Average</i>		48,230	56,874	3.1x	22.6x	22.5x	18.8x	15.2x	13.0x	11.6x	2.9%
<i>Median</i>		47,420	54,996	1.6x	25.8x	25.5x	21.0x	16.8x	15.5x	13.2x	1.6%
GMEXICO TRANSPORTES SAB DE C	MXN 30.73	6,333	8,311	2.8x	20.9x	22.0x	17.7x	8.0x	8.3x	7.5x	3.9%

Source: Bloomberg (01/06/21).

Certification of Analysts.

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentin III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalia Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega 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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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.

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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.

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History of PT and Ratings

Stock	Date	Rating	PT
GMEXICO	01/07/21	Hold	\$101.00
GMEXICO	07/28/20	Hold	\$61.00
GMEXICO	12/29/19	Buy	\$63.00
GMEXICO	04/20/19	Buy	\$61.00

MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD			AVERAGE		LEADER	

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

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