

GMEXICO

Quarterly Report

February 27, 2020

Mining weakness mitigated by Transportation

- GMexico's results came neutral, although below our estimates. Lower mining margins were partially offset by higher profitability in [GMXT](#)
- Record copper volume figures stand out, while financial strength continues with a 1.4x ND/EBITDA ratio. After incorporating the results, FV/EBITDA multiple remained stable at 5.7x

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Pressures on Mining and Infrastructure profitability offset Transportation expansion. GMexico posted a 2.8% y/y rise on revenues reaching US\$2.6 billion, and a slight 0.6% EBITDA increase to stand at US\$1.2 billion. Thus, a 1.0pp drop on the EBITDA margin was registered, standing at 44.1%. In 2019, Mining registered a record level on copper production (1.1 million tons +11.7% y/y), supported by Toquepala mine expansion in Peru as well as to the operating improvements at Buenavista in Mexico; however, lower prices (-2.4% y/y) affected quarter results and therefore the division profitability. As for Transportation, GMXT posted an improvement on productivity metrics that led to a higher than expected business profitability expansion and with a very positive 2020 outlook. Regarding the Infrastructure division, results were hit by lower Energy sales volume and a weak performance at México Compañía Constructora which had a negative impact on margins. At net level, the company registered US\$586 million profit, above estimates, driven by a higher than expected rise in capital gains on shares held.

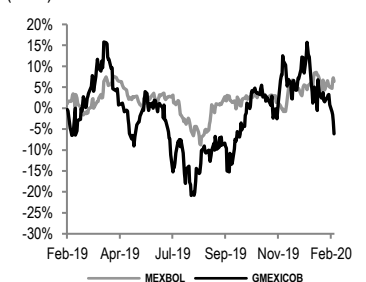
Neutral effect. We believe GMexico's 4Q19 results should have a neutral impact on the stock price. The company announced a cash dividend of \$0.80 per share to be paid on March 26, which is equivalent to an annualized yield of 6.7%, very attractive, especially when considering a lower rate environment. We reiterate BUY.

BUY

Current Price	\$47.61
PT2020	\$63.00
Dividend 2020	\$3.20
Dividend (%)	6.7%
Upside Potential	39.0%
Max – Min LTM (\$)	59.20-39.17
Market Cap (US\$m)	19,425.8
Shares Outstanding (m)	7,785
Float	49.0%
Daily Turnover (\$m)	354.8
Valuation Metrics LTM *	
FV/EBITDA	5.7x
P/E	10.7x

*Data from press release

Relative performance to MEXBOL (LTM)



Financial statements

USD, million	2018	2019	2020E	2021E
Revenues	10,495	10,683	11,383	11,689
Operating Income	3,590	3,491	3,848	4,050
Adjusted EBITDA	4,889	4,948	5,387	5,678
EBITDA Margin	46.6%	46.3%	45.6%	48.6%
Net Income	1,147	1,810	1,332	1,441
Net margin	10.9%	16.9%	10.7%	12.3%
Total Assets	25,909	27,461	28,771	30,199
Cash	1,674	2,608	2,737	2,997
Total Liabilities	12,301	13,162	13,579	13,525
Debt	8,384	9,377	9,833	9,833
Common Equity	13,609	14,300	15,192	16,674

Source: Banorte

Valuation and financial metrics

	2018	2019	2020E	2021E
EV/EBITDA	5.9x	5.7x	5.4x	5.2x
P/E	16.9x	10.7x	14.6x	13.5x
P/BV	1.7x	1.6x	1.6x	1.5x
ROE	10.0%	15.0%	10.7%	10.8%
ROA	4.4%	6.6%	4.6%	4.8%
EBITDA/ Interest exp	4.0x	8.3x	4.4x	4.5x
Net Debt/EBITDA	1.4x	1.4x	1.3x	1.2x
Debt/Equity	0.6x	0.7x	0.6x	0.6x

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GMEXICO – 4Q19 Results

USD, million

Concept	4Q18	4Q19	Var %	4Q19e	Diff % vs. Estim.
Revenue	2,567	2,637	2.8%	2,826	-6.7%
Operating Income	799	830	4.0%	914	-9.1%
Ebitda	1,157	1,163	0.6%	1,284	-9.4%
Net Income	76	586	>500%	245	139.7%
Margins					
Operating Margin	31.1%	31.5%	0.4pp	32.3%	-0.9pp
Ebitda Margin	45.1%	44.1%	-1.0pp	45.4%	-1.3pp
Net Margin	3.0%	22.2%	19.3pp	8.7%	13.6pp
EPS	\$0.01	\$0.08	>500%	\$0.03	139.7%

Income Statement (Million)

Year	2018	2019	2019	Change	Change
Quarter	4	3	4	% y/y	% q/q
Net Revenue	2,566.6	2,793.9	2,637.5	2.8%	-5.6%
Cost of goods sold	1,359.8	1,479.1	1,396.3	2.7%	-5.6%
Gross profit	1,206.7	1,314.8	1,241.1	2.9%	-5.6%
General expenses	91.3	82.5	76.7	-16.0%	-7.0%
Operating Income	798.7	883.2	830.4	4.0%	-6.0%
Operating Margin	31.1%	31.6%	31.5%	0.4pp	(0.1pp)
Depreciation	316.7	349.1	334.0	5.5%	-4.3%
EBITDA	1,156.5	1,248.4	1,163.4	0.6%	-6.8%
EBITDA Margin	45.1%	44.7%	44.1%	(1.0pp)	(0.6pp)
Interest income (expense) net	(503.5)	(284.4)	231.0	N.A.	N.A.
Interest expense	124.8	137.5	148.4	18.9%	7.9%
Interest income	14.3	11.1	16.5	15.1%	49.3%
Other financial income (expense)	(393.1)	(158.0)	362.9	N.A.	N.A.
Exchange Income (loss)				N.A.	N.A.
Unconsolidated subsidiaries	(4.6)	0.1	5.0	N.A.	>500%
Net Income before taxes	290.5	598.9	1,066.4	267.0%	78.1%
Provision for income taxes	153.8	261.1	366.5	138.2%	40.3%
Discontinued Operations					
Consolidated Net Income	136.7	337.8	700.0	412.0%	107.2%
Minorities	60.8	88.1	113.7	87.1%	29.1%
Net Income	75.9	249.7	586.2	>500%	134.8%
Net Margin	3.0%	8.9%	22.2%	19.3pp	13.3pp
EPS	0.010	0.032	0.075	>500%	134.8%

Balance Sheet (MXN, million)

Total Current Assets	4,789.3	4,749.2	5,927.8	23.8%	24.8%
Cash & Short Term Investments	1,673.6	1,365.8	2,608.1	55.8%	91.0%
Long Term Assets	21,119.8	21,582.7	21,533.6	2.0%	-0.2%
Property, Plant & Equipment (Net)	17,145.9	16,989.3	16,955.8	-1.1%	-0.2%
Intangible Assets (Net)	3,973.9	4,593.4	4,577.8	15.2%	-0.3%
Total Assets	25,909.1	26,331.9	27,461.3	6.0%	4.3%
Current Liabilities	1,872.0	2,105.4	2,215.0	18.3%	5.2%
Short Term Debt	107.9	568.5	592.1	448.8%	4.1%
Accounts Payable				N.A.	N.A.
Long Term Liabilities	10,428.6	10,236.6	10,946.5	5.0%	6.9%
Long Term Debt	8,276.0	7,836.6	8,748.8	5.7%	11.6%
Total Liabilities	12,300.5	12,342.1	13,161.5	7.0%	6.6%
Common Stock	13,608.5	13,989.8	14,299.8	5.1%	2.2%
Minorities	2,096.7	2,164.6	2,224.1	6.1%	2.8%
Total Equity	11,511.8	11,825.2	12,075.7	4.9%	2.1%
Liabilities & Equity	25,909.1	26,331.9	27,461.3	6.0%	4.3%
Net Debt	6,710.3	7,039.3	6,732.7	0.3%	-4.4%

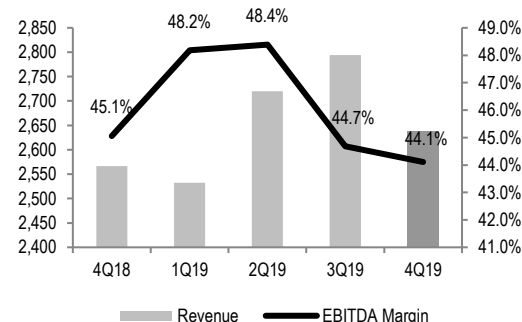
Cash Flow

Cash Flow from Operating Activities	623.6	824.2	740.4
Cash Flow from Investing Activities	(433.0)	(311.6)	(129.3)
Cash Flow from Financing Activities	(399.2)	571.9	(420.5)
Increase (decrease) in cash	(201.9)	1,083.0	221.1

Source: Banorte, MSE

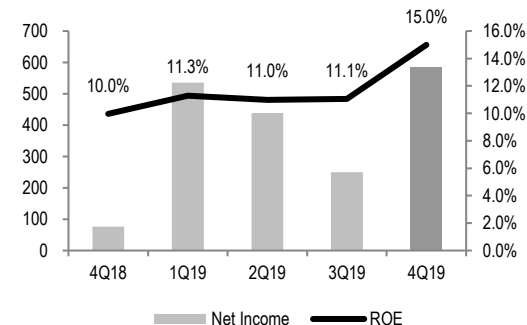
Revenue & EBITDA Margin

USD, million



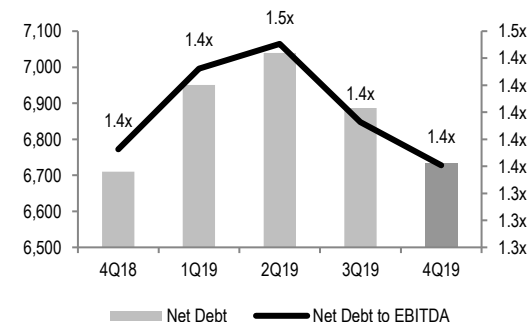
Net Income & ROE

USD, million



Net Debt & Net Debt to EBITDA

USD, million



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, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, 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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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.

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PT and recommendation history

Stock	Date	Recommendation	PT
GMEXICO	December 20, 2019	BUY	\$63.00
GMEXICO	April 30, 2019	BUY	\$61.00
GMEXICO	January 9, 2019	BUY	\$53.00
GMEXICO	October 17, 2017	BUY	\$70.80

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