

WALMEX

Quarterly Report

February 13, 2019

Impressive profitability expansion

- We rate Walmex report as positive, highlighting the solid expansion in profitability, resulting from leveraging expenses and a slight increase in gross margin
- Sales grew 5.5% yoy to MXN\$177.4 billion (SSS+3.7%) and EBITDA, 12.3% to MXN\$18.9 billion (BNTe MXN\$17.6 billion), with a 70bps expansion in the corresponding margin to 10.7%
- By incorporating 4Q18 figures, the EV/EBITDA dropped to 13.3x from 13.9x, thus we expect a positive reaction on the share price of Walmex. We reiterate a BUY rating with a PT2019 of MXN\$ 58.00

Outstanding year-end. Walmex's 3Q report was positive, beating our expectations, managing a surprising 70 bps EBITDA margin expansion to 10.7% (BNTe 10%) and consequently, reaching double-digit profitability for the full year 2018. Once again, the main driver of such performance was SSS growth (+3.7%) in view of a 4.6% increase in Mexico and a slight drop in CA (-0.1%). Meanwhile, sales floor rose 1.8% thanks to the opening of 125 units, which resulted in a 5.5% yoy consolidated revenue increase to close at MXN\$177.4 billion. In turn, improved commercial conditions not only allowed the widening of the price gap vs its competitors, but it also boosted the company's gross margin by 20bps to 22.8%. Moreover, a strict spending control and a higher operating leverage translated into a year-on-year growth of only 3.8% in this line, increasing EBITDA margin by 70bps to 10.7% during the period, while EBITDA grew 12.3% to MXN\$18.9 billion (+7.3% vs BNTe's MXN\$17.6 billion). Finally, net profit climbed 11.2% to MXN\$11.7 billion, as a higher tax rate (24.1% vs. the previous 22.7%) offset part of the positive effect of having only 3.8% interest expense increase.

Financial Statements

MXN, million	2017	2018	2019E	2020E
Revenues	573,265	616,910	659,839	715,151
Operating Income	43,838	49,190	52,781	59,349
EBITDA	55,473	61,747	66,645	73,929
EBITDA Margin	9.7%	10.0%	10.1%	10.3%
Net Income	39,865	36,753	39,230	44,224
Net Margin	7.0%	6.0%	5.9%	6.2%
Total Assets	295,256	306,529	327,783	348,983
Cash	35,596	38,830	37,766	44,233
Total Liabilities	135,722	141,615	149,835	160,076
Debt	15,053	15,465	16,123	16,188
Common Equity	159,534	164,914	177,947	188,907

Source: Banorte with data from MSE

Valuation and financial metrics

	2017	2018	2019E	2020E
EV/EBITDA	14.9x	13.3x	12.4x	11.1x
P/E	21.2x	23.0x	21.6x	19.1x
P/Book	5.3x	5.1x	4.8x	4.5x
ROE	24.4%	22.7%	22.9%	24.1%
ROA	13.5%	12.0%	12.0%	12.7%
EBITDA/ Interest exp	6.9x	6.9x	6.9x	6.9x
Net Debt/EBITDA	-0.4x	-0.4x	-0.3x	-0.4x
Debt/Equity	0.1x	0.1x	0.1x	0.1x

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 @ analisis_fundam

Valentín Mendoza

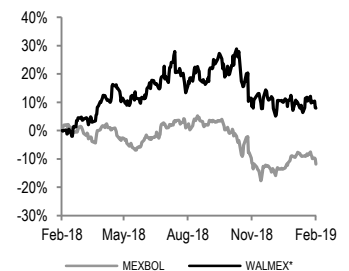
 Auto Parts/ Consumer Discretionary /
 Real Estate/ Retail
 valentin.mendoza@banorte.com

BUY

Current Price	MXN\$48.49
PT 2019	MXN\$58.00
Dividend	1.75
Dividend Yield (%)	3.6%
Upside Potential	23.2%
Max – Min LTM (MXN\$)	57.49 – 42.94
Market Cap (US\$m)	43,646.5
Shares Outstanding (m)	17,461.4
Float	30%
Daily Turnover (MXN\$ m)	773.4
Valuation metrics TTM	
EV/EBITDA	13.3x
P/E	23.0x

Relative performance to Mexbol

LTM



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Document for distribution among public

WALMEX – Results 4Q18

MXN, million

Concept	4Q17	4Q18	Chg %	3Q18e	Diff% vs Estim.
Revenue	168,185	177,422	5.5%	177,181	0.1%
Operating Income	13,814	15,618	13.1%	14,578	7.1%
Ebitda	16,883	18,964	12.3%	17,666	7.3%
Net Income	10,579	11,762	11.2%	10,813	8.8%
Margins					
Operating Margin	8.2%	8.8%	0.6pp	8.2%	0.6pp
Ebitda Margin	10.0%	10.7%	0.7pp	10.0%	0.7pp
Net Margin	6.3%	6.6%	0.3pp	6.1%	0.5pp
EPS	\$0.61	\$0.67	11.2%	\$0.62	8.8%

Income Statement (Million pesos)

Year	2017	2018	2018	Change	Change
Quarter	4	3	4	% yoy	% qoq
Net Revenue	168,185.1	147,767.8	177,421.6	5.5%	20.1%
Cost of goods sold	131,210.9	113,355.4	136,967.3	4.4%	20.8%
Gross profit	36,974.3	34,412.4	40,454.3	9.4%	17.6%
General expenses	23,033.0	22,618.1	24,943.3	8.3%	10.3%
Operating Income	13,814.2	11,811.1	15,617.7	13.1%	32.2%
Operating Margin	8.2%	8.0%	8.8%	0.6pp	0.8pp
Depreciation	3,068.9	3,092.3	3,346.4	9.0%	8.2%
EBITDA	16,883.0	14,903.0	18,964.0	12.3%	27.2%
EBITDA Margin	10.0%	10.1%	10.7%	0.7pp	0.6pp
Interes income (expense) net	(121.3)	(366.1)	(125.9)	3.8%	-65.6%
Interest expense				N.A.	N.A.
Interest income	295.4	334.2	346.2	17.2%	3.6%
Other income (expenses)	(413.1)	(458.7)	(453.4)	9.8%	-1.2%
Exchange Income (loss)	(3.6)	(241.6)	(18.7)	420.1%	-92.3%
Unconsolidated subsidiaries				N.A.	N.A.
Income before taxes	13,692.9	11,445.0	15,491.8	13.1%	35.4%
Income taxes	3,113.4	2,763.3	3,730.0	19.8%	35.0%
Discontinued operations					
Consolidated Net Income	10,579.5	8,681.7	11,761.8	11.2%	35.5%
Minorities				N.A.	N.A.
Net Income	10,579.5	8,681.7	11,761.8	11.2%	35.5%
Net margin	6.3%	5.9%	6.6%	0.3pp	0.8pp
EPS	0.606	0.497	0.674	11.2%	35.5%

Balance Sheet (Million pesos)

Total Current Assets	106,876.2	104,341.3	115,614.8	8.2%	10.8%
Cash & Short Term Investments	35,596.1	33,061.2	38,829.6	9.1%	17.4%
Long Term Assets	188,379.5	187,780.4	190,914.0	1.3%	1.7%
Property, Plant & Equipment (Net)	134,962.7	134,975.6	139,368.0	3.3%	3.3%
Intangible Assets (Net)	1,994.8	1,882.4	2,008.5	0.7%	6.7%
Total Assets	295,255.7	292,121.8	306,528.8	3.8%	4.9%
Current Liabilities	107,827.5	109,824.3	114,165.5	5.9%	4.0%
Short Term Debt	449.2	317.8	335.1	-25.4%	5.4%
Accounts Payable	80,099.1	72,746.4	85,327.0	6.5%	17.3%
Long Term Liabilities	27,894.2	29,557.9	27,449.3	-1.6%	-7.1%
Long Term Debt	14,603.4	15,166.2	15,129.5	3.6%	-0.2%
Total Liabilities	135,721.7	139,382.1	141,614.8	4.3%	1.6%
Common Stock	159,534.0	152,739.7	164,914.1	3.4%	8.0%
Noncontrolling Interest				N.A.	N.A.
Total Equity	159,534.0	152,739.7	164,914.1	3.4%	8.0%
Liabilities & Equity	295,255.7	292,121.8	306,528.8	3.8%	4.9%
Net Debt	(20,543.5)	(17,577.1)	(23,365.0)	13.7%	32.9%

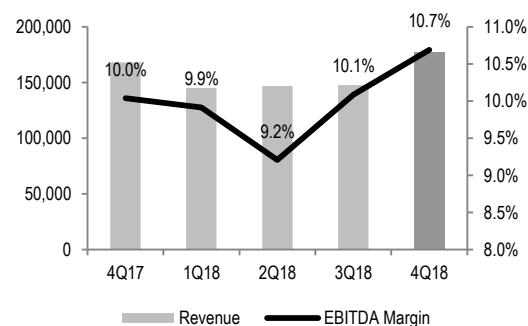
Cash Flow (Million pesos)

Operating Cash Flow before taxes	(1,817.4)	5,299.8	9,406.3		
Cash Flow from Operating Activities	4,221.0	8,451.8	12,589.3		
Cash Flow from Investing Activities	(5,410.5)	(4,581.3)	(6,605.2)		
Cash Flow from Financing Activities	(9,561.3)	(5,393.5)	(11,455.4)		
Change in Cash Balance	(12,568.1)	3,776.8	3,934.9		

Source: Banorte, MSE.

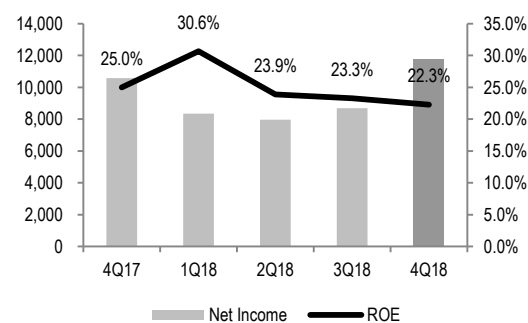
Revenue & EBITDA Margin

MXN, million



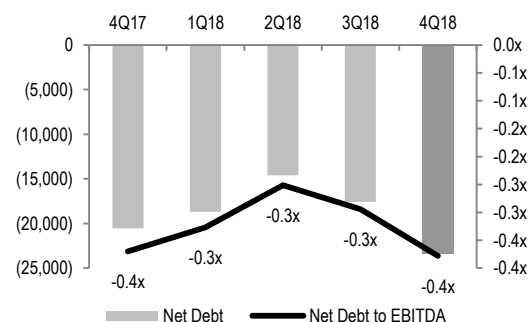
Net Income & ROE

MXN, million



Net Debt & Net debt to EBITDA ratio

MXN, million



SSS expansion continues to be the main driver of total revenue. In 4Q18, Walmex reported MXN\$177.42 in total revenue, in line with our expectation of MXN\$177.1 billion. This figure represented a 5.5% year-on-year growth and is explained, mainly, by a 3.7% increase in consolidated SSS. On a regional level, sales in Mexico climbed 6.0%, from which 460bps derived from an increase in LfL sales, while the opening of 92 new locations contributed with the additional 1.4pp resulting from a sales floor expansion. Meanwhile, in Central America, revenue rose 3.6% yoy (on a constant currency basis and 3.4% in pesos), following a 0.1% contraction of same store sales, also adding 370bps from the opening of 33 new stores (4.8% in terms of sales floor).

Negotiations with suppliers allowed the company to widen the price gap with its competitors and increase gross profitability. Walmex's gross margin rose 20bps to 22.8%, even despite having invested in prices during the last quarter to widen the gap with its competitors; thus, alluding to improved commercial conditions, thanks to successful negotiations with suppliers. By region, a 30 bps expansion on gross margin in Mexico stands out, which offset a 10bps contraction in Central America.

Surprising 70bp EBITDA margin expansion. In 4Q18, the company managed a 12.3% year-on-year EBITDA growth, reporting MXN\$18.9 billion, thus beating our MXN\$17.6 billion forecast (+7.3% vs BNTE). Consequently, EBITDA margin rose 70bp yoy to 10.7% during the period. Such phenomenon is explained not only by the above-mentioned gross margin expansion, but also by a strict spending control and a higher operating leverage, which translated into an increase of only 3.8% yoy in this line item. As for operations in Mexico, EBITDA grew 12.9%, with an improvement of similar extent in EBITDA margin to 11%, while CA rose 9.5% with a 0.5pp expansion to 9.4% in the metric of such region.

Net profit posted double-digit growth despite a higher tax effective rate. Walmex's net profit rose 11.2% to MXN\$11.7 billion in 4Q18 (+8.8% vs. our estimates), as a higher tax rate (24.1% vs. a previous 22.7%) offset part of the positive effect of the operating growth and a Net Interest Expense increase of only 3.8% yoy.

Strong cash generation further strengthens the company's financial structure. The company's net debt to EBITDA ratio improved in relation to 3Q18, falling to -0.4x from -0.3x. The latter is explained by a MXN\$5.7 billion increase in cash, to close 2018 at MXN\$ 38.8 billion, and also by a higher LTM EBITDA generation. This allowed Walmex to further strengthen its solid financial structure and carry out the distribution of higher dividends to its shareholders.

Walmex to propose dividend of MXN\$1.75 per share. The company announced it would propose the payment of a MXN\$1.75 dividend per share in the Shareholders' Meeting to be held on March 21st. Such distribution shall be composed of an ordinary dividend of MXN\$0.84 (+10.5% yoy), as well as an extraordinary dividend of MXN\$0.91 (+2.2% yoy). In consequence, dividend yield would total 3.6%. The company notified that in order to accelerate the distribution of excess cash to its shareholders, it would reduce the number of payments to three from four and would carry out such distributions as follows: (1) the ordinary dividend of MXN\$0.84 would be distributed in three payments of MXN\$0.28 each in April, August and November of 2019; (2) the extraordinary dividend of MXN\$0.91, in turn, would also be distributed in three partial payments of MXN\$0.35 in April, MXN\$0.30 in August and MXN\$0.26 in November of 2019.

The latest earnings release cheapened Walmex multiples. After incorporating the figures of 4Q18, the EV/EBITDA multiple fell to 13.3x from a previous 13.9x, while that of P/E dropped to 23.0x from 23.8x.

In our view, the increase in profitability and cheapening valuation may be catalysts for the company's share price. We reiterate our BUY recommendation and PT2019 of MXN\$ 58.00, maintaining our preference for this issuer within the retail sector in Mexico.

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.

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	Reference
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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>

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History of PT and Ratings

Stock	Date	Rating	PT
WALMEX	08/1/2019	Buy	P\$58.00
WALMEX	25/7/2018	Hold	P\$59.00
WALMEX	25/4/2018	Hold	P\$54.00
WALMEX	19/10/2017	Buy	P\$50.00

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
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) 1670 - 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
Francisco Duarte Alcocer	Analyst	francisco.duarte.alcocer@banorte.com	(55) 1670 - 2707
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	Analyst, 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