

# AXTEL

Quarterly Report

April 17, 2020

## Suspends strategic options for Infrastructure

- Data centers sale bolstered results, though on a comparable basis, a less favorable sales mix coupled with growing expenses in the Services business unit eroded consolidated profitability
- Given the complex outlook, Axtel withdrew its 2020 guidance and suspended attracting investment proposals and strategic alternatives for the Infrastructure business unit and/or the company

**Social distancing boosted IT revenues.** Mobility restrictions due the COVID-19 pandemic drove demand for Axtel's IT services, offsetting a decline in Telecom services and stable Infrastructure sales. On a comparable basis, consolidated revenues grew 0.6% y/y to \$3.106 billion (Services +1.1%; Infrastructure -0.3%). On the other hand, EBITDA increased 176.8% y/y amounting \$2.974 billion, bolstered by a non-recurring profit of \$2.021 billion related to the data centers sale to Equinix. When excluding such extraordinary effect, EBITDA dropped 6.8% y/y to \$954 million, as a less favorable sales mix and growing personnel and rents expenses impacted margin by 330bps to 30.8%. The company reported a \$599 million net income, driven by a fiscal benefit that compensated the impact of quite severe FX losses.

**Challenging outlook.** In light of strong uncertainty regarding the impact of the pandemic, Axtel withdrew its 2020 guidance, cut its capex by 65% to US\$45 million and suspended the process of evaluating strategic alternatives for the Infrastructure business unit and for the company. Even though, Axtel faces the situation with a good liquidity position and a strengthened financial structure (leveraged dropped to 2.2x ND/EBITDA from 3.1x in 4Q19), it is very likely that the company results will be weaker ahead. As such, we will be reviewing our estimates, PT and rating on the stock shortly.

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<b>BUY</b>	
Current Price	\$2.68
<b>PT 2020</b>	<b>\$4.50</b>
Dividend 2020e	
Dividend Yield (%)	
Upside Potential	
Max – Min LTM (\$)	4.41 – 2.00
Market Cap (US\$m)	314.3
Shares Outstanding (m)	2,867.8
Float	22%
Daily Turnover US\$m	6.7
<b>Valuation metrics TTM</b>	
EV/EBITDA	3.4x
P/E	11.6x

### Relative performance to Mexbol



#### Financial Statements

	2018	2019	2020E	2021E
Revenue	14,876	12,784	12,820	13,521
Operating Income	965	774	3,740	1,896
EBITDA	5,202	4,466	6,425	4,486
EBITDA Margin	35.0%	34.9%	50.1%	33.2%
Net Income	1,095	-14	2,485	889
Net Margin	7.4%	-0.1%	19.4%	6.6%
<b>Total Assets</b>	<b>28,156</b>	<b>24,331</b>	<b>23,407</b>	<b>23,623</b>
Cash	2,249	858	2,291	3,388
<b>Total Liabilities</b>	<b>24,535</b>	<b>20,920</b>	<b>19,000</b>	<b>19,269</b>
Debt	15,662	14,886	12,727	12,732
<b>Common Equity</b>	<b>3,621</b>	<b>3,411</b>	<b>4,406</b>	<b>4,354</b>

Source: Banorte

#### Valuation and Financial metrics

	2018	2019	2020E	2021E
EV/EBITDA	4.0x	4.9x	2.6x	3.8x
P/E	9.4x	-551.1x	3.7x	11.7x
P/BV	2.2x	2.3x	1.6x	1.6x
ROE	35.8%	-0.4%	63.6%	20.3%
ROA	3.9%	-0.1%	10.6%	3.8%
EBITDA/ Interest	2.8x	3.3x	5.4x	4.6x
Net Debt/EBITDA	2.6x	3.1x	1.6x	2.1x
Debt/Equity	4.3x	4.4x	2.9x	2.9x

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## AXTEL – Results 1Q20

MXN, million

Concept	1Q19	1Q20	Var %	1Q20e	Diff% vs Estim.
Revenue	3,147	3,106	-1.3%	3,152	-1.4%
Operating Income	127	2,019	>500%	2,538	-20.5%
Ebitda	1,074	2,974	176.8%	3,358	-11.4%
Net Income	-77	599	N.A.	2,203	-72.8%
<b>Margins</b>					
Operating Margin	4.0%	65.0%	61.0pp	80.5%	-15.6pp
Ebitda Margin	34.1%	95.7%	61.6pp	106.5%	-10.8pp
Net Margin	-2.5%	19.3%	21.8pp	69.9%	-50.6pp
EPS	-\$0.03	\$0.21	N.A.	\$0.77	-72.8%

## Income Statement (Million pesos)

Year	2019	2019	2020	Change	Change
Quarter	1	4	1	% YoY	% QoQ
<b>Net Revenue</b>	<b>3,147</b>	<b>3,378</b>	<b>3,106</b>	<b>-1.3%</b>	<b>-8.0%</b>
Costs of goods sold	1,508	1,650	1,583	5.0%	-4.1%
Gross profit	1,639	1,728	1,523	-7.1%	-11.8%
General expenses	1,496	1,443	1,423	-4.8%	-1.4%
<b>Operating Income</b>	<b>127</b>	<b>276</b>	<b>2,019</b>	<b>&gt;500%</b>	<b>&gt;500%</b>
<b>Operating Margin</b>	<b>4.0%</b>	<b>8.2%</b>	<b>65.0%</b>	<b>61.0pp</b>	<b>56.8pp</b>
Depreciation	933	879	846	-9.3%	-3.7%
<b>EBITDA</b>	<b>1,074</b>	<b>1,187</b>	<b>2,974</b>	<b>176.8%</b>	<b>150.5%</b>
<b>EBITDA Margin</b>	<b>34.1%</b>	<b>35.1%</b>	<b>95.7%</b>	<b>61.6pp</b>	<b>60.6pp</b>
<b>Interest Income (Expense) net</b>	<b>(236)</b>	<b>87</b>	<b>(2,355)</b>	<b>&gt;500%</b>	<b>N.A.</b>
Interest expense	366	326	344	-5.9%	5.8%
Interest income	21	9	13	-37.3%	47.6%
Other income (expense)	(51)	(18)	(31)	-38.6%	78.9%
Foreign exchange gain (loss)	159	421	(1,993)	N.A.	N.A.
Unconsolidated subsidiaries				N.A.	N.A.
<b>Income before taxes</b>	<b>(110)</b>	<b>363</b>	<b>(337)</b>	<b>207.4%</b>	<b>N.A.</b>
Income taxes	(38)	228	(936)	>500%	N.A.
Discontinued operations	(6)	(130)			
<b>Consolidated Net Income</b>	<b>(66)</b>	<b>265</b>	<b>599</b>	<b>N.A.</b>	<b>126.1%</b>
Non-controlling interest				N.A.	N.A.
<b>Net Income</b>	<b>(77)</b>	<b>6</b>	<b>599</b>	<b>N.A.</b>	<b>&gt;500%</b>
<b>Net Margin</b>	<b>-2.5%</b>	<b>0.2%</b>	<b>19.3%</b>	<b>21.8pp</b>	<b>19.1pp</b>
<b>EPS</b>	<b>(0.027)</b>	<b>0.002</b>	<b>0.209</b>	<b>N.A.</b>	<b>&gt;500%</b>

## Balance Sheet (Million pesos)

<b>Total Current Assets</b>	<b>6,127</b>	<b>6,035</b>	<b>6,894</b>	<b>12.5%</b>	<b>14.2%</b>
Cash & Short Term Investments	882	858	2,132	141.8%	148.5%
<b>Long Term Assets</b>	<b>21,344</b>	<b>18,296</b>	<b>19,014</b>	<b>-10.9%</b>	<b>3.9%</b>
Property, Plant & Equipment (Net)	15,678	12,964	12,493	-20.3%	-3.6%
Intangible Assets (Net)	850	633	943	10.9%	49.0%
<b>Total Assets</b>	<b>27,471</b>	<b>24,331</b>	<b>25,908</b>	<b>-5.7%</b>	<b>6.5%</b>
<b>Current Liabilities</b>	<b>8,012</b>	<b>5,178</b>	<b>5,663</b>	<b>-29.3%</b>	<b>9.4%</b>
Short Term Debt	940	635	867	-7.7%	36.5%
Accounts Payable	6,191	3,701	4,045	-34.7%	9.3%
<b>Long Term Liabilities</b>	<b>15,991</b>	<b>15,742</b>	<b>16,253</b>	<b>1.6%</b>	<b>3.2%</b>
Long Term Debt	15,344	14,251	15,302	-0.3%	7.4%
<b>Total Liabilities</b>	<b>24,003</b>	<b>20,920</b>	<b>21,916</b>	<b>-8.7%</b>	<b>4.8%</b>
Stockholders' Equity	3,468	3,411	3,991	15.1%	17.0%
Non-controlling interest				N.A.	N.A.
<b>Total Equity</b>	<b>3,468</b>	<b>3,411</b>	<b>3,991</b>	<b>15.1%</b>	<b>17.0%</b>
<b>Liabilities &amp; Equity</b>	<b>27,471</b>	<b>24,331</b>	<b>25,908</b>	<b>-5.7%</b>	<b>6.5%</b>
<b>Net Debt</b>	<b>15,402</b>	<b>14,028</b>	<b>14,037</b>	<b>-8.9%</b>	<b>0.1%</b>

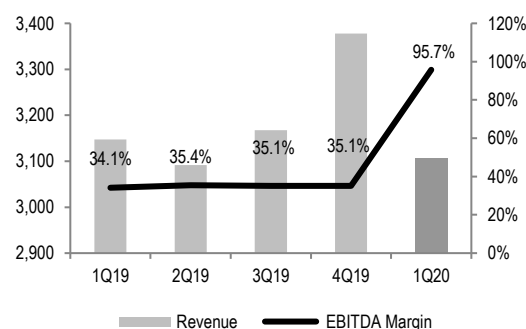
## Cash Flow

CF from Operating Activities	(218.5)	1,322.9	860.0		
CF from Investing Activities	(395.3)	(562.4)	2,193.6		
CF from Financing Activities	(752.7)	(668.4)	(2,101.8)		
FX effect on cash	(0.9)	(2.7)	322.3		
<b>Change in Cash Balance</b>	<b>(1,367.5)</b>	<b>89.4</b>	<b>1,274.1</b>		

Source: Banorte, MSE.

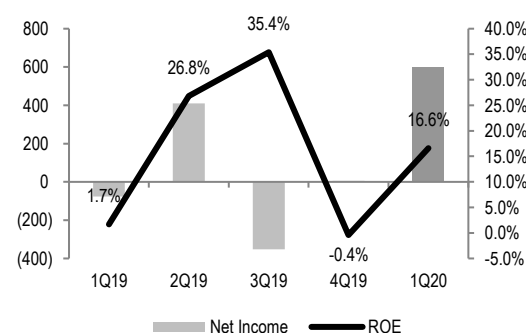
## Revenue & EBITDA Margin

MXN, million



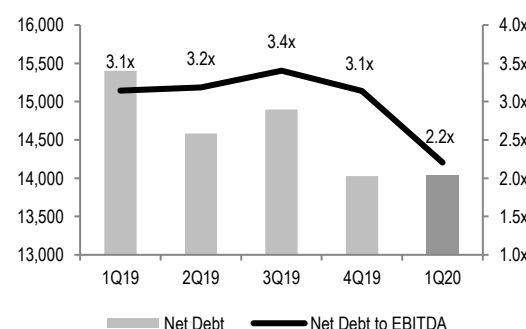
## Net Income & ROE

MXN, million



## Net Debt & Net Debt to EBITDA ratio

MXN, million



**Revenue performance by segment as of 1Q20**  
(Previous to the functional separation)

	Voice	Data	Networks	Telecom	IT	Total	% y/y Voice	% y/y Data	% y/y Networks	% y/y Telecom	% y/y IT	% y/y Total
Enterprise	377	685	648	1,711	305	2,016	-6.90%	1.30%	-1.40%	-1.70%	16.00%	0.60%
Government	24	95	121	239	298	536	-20.00%	19.00%	-36.00%	19.80%	34.20%	3.10%
Services	401	780	769	1,950	603	2,552	-7.80%	3.30%	-9.20%	-4.30%	24.30%	1.10%
Infrastructure						1,168						-4.80%
- Alestra						-615						1.80%
Total						3,106						0.60%

Source: Axtel, Banorte

**Revenue performance by segment as of 1Q20**  
(After the functional separation)

	Infrastructure	Services	% y/y Infrastructure	% y/y Services
Revenue	553	2,552	1.45%	1.10%
EBITDA	534	419	14.10%	-24.64%
Margin	96.56%	16.42%	0.00%	0.00%

Source: Axtel, Banorte

## 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 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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	<b>Reference</b>
<b>BUY</b>	When the share expected performance is greater than the MEXBOL estimated performance.
<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	When the share expected performance is lower than the MEXBOL estimated performance.

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## History of PT and ratings

Stock	Date	Recommendation	PT
Axtel CPO	15/01/2020	Buy	\$4.50
Axtel CPO	17/04/2019	Buy	\$3.15
Axtel CPO	24/04/2019	Buy	\$3.559
Axtel CPO	14/01/2019	Buy	\$4.00

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