

ALPEK

Quarterly Report

April 17, 2020

Focused on maintaining its financial stability

- The decline in raw material prices affected Alpek's results, although less than expected weakness is observed, supported by record volumes in the Polyester segment
- The company removed its 2020 Guideline recognizing the prevailing challenges that dull clarity, hence it will focus its strategy on maintaining a healthy financial stability

Less than expected weakness, supported by better sales volume. Although company results were weak, they came above our estimates, mainly supported by higher than expected volumes in Polyester, reaching record levels. Thus, sales decreased only 9.6% y/y and EBITDA fell by only 17.8% y/y. Weakness in oil prices and consequently in raw materials (such as *paraxylene*) reflected through adjustments of a non-cash inventory loss as well as a carry-forward effect. On a comparable basis, excluding one-time benefits and non-recurring adjustments, EBITDA would have decreased by only 14.2% y/y. The most relevant, in addition to solid volumes is that reference Polyester integrated margins in Asia reported a better than expected performance, sustained by lower production from Asian manufacturers due to the pandemic effect.

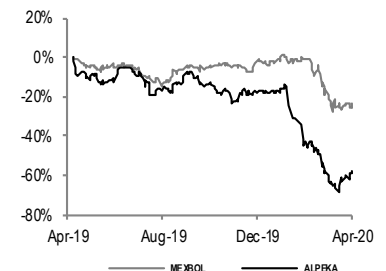
Removes its 2020 Guideline. Alpek recognizes that it is hard to predict raw material prices, demand and margins for the forthcoming months, while there is no clarity on the pandemic duration and severity. Meanwhile it will focus its strategy on maintaining a solid financial structure (it reported a 2.3x Net Debt/EBITDA multiple), by decreasing investments, seeking to optimize its working capital, cutting dividends, and making use of its credit lines. We believe that further quarters should be weaker, amid a very complex environment. Due to the above, we will be cautious when incorporating the results and reviewing our estimates and rating.

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Hold	
Current Price	\$10.55
PT2020	\$19.00
Dividend 2020	
Dividend (%)	
Upside Potential	
Max – Min LTM (\$)	26.00-7.58
Market Cap (US\$m)	925.9
Shares outstanding (m)	2,118
Float	17.9%
Daily Turnover (\$m)	53.2
Valuation Metrics LTM *	
FV/EBITDA Adj	4.1x
P/E	4.0x

Relative performance to MEXBOL LTM



Financial statements

MXN, Million	2018	2019	2020E	2021E
Revenues	134,523	119,685	110,243	118,441
Operating Income	21,202	12,361	6,736	7,603
Adjusted EBITDA	20,607	16,395	10,927	11,885
EBITDA Margin	15.32%	13.70%	9.91%	10.03%
Net Income	13,633	6,605	1,215	2,352
Net margin	10.13%	5.52%	1.10%	1.99%
Total Assets	119,897	102,794	108,676	110,806
Cash	4,168	7,059	7,286	5,557
Total Liabilities	76,734	57,736	60,075	60,653
Debt	41,464	32,710	34,186	34,221
Common Equity	43,163	45,058	48,601	50,153

Source: Banorte

Valuation and financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	3.1x	3.2x	5.0x	4.8x
P/E	1.6x	3.4x	18.4x	9.5x
P/BV	0.6x	0.6x	0.5x	0.5x
ROE	35.8%	16.3%	4.2%	6.5%
ROA	11.4%	6.4%	1.1%	2.1%
EBITDA/ Interest exp	11.9x	8.0x	5.6x	5.2x
Net Debt/EBITDA	1.8x	1.6x	2.5x	2.4x
Debt/Equity	1.0x	0.7x	0.7x	0.7x

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ALPEK –1Q20 Results

MXN, Millions

Concept	1Q19	1Q20	Var %	1Q20e	Diff % vs Estim.
Revenue	31,567	28,522	-9.6%	21,909	30.2%
Operating Income	1,722	1,151	-33.2%	1,250	-7.9%
Ebitda	2,684	2,205	-17.8%	2,023	9.0%
Net Income	517	-453	N.A.	-1,300	-65.2%
margins					
Operating Margin	5.5%	4.0%	-1.4pp	5.7%	-1.7pp
Ebitda Margin	8.5%	7.7%	-0.8pp	9.2%	-1.5pp
Net Margin	1.6%	-1.6%	-3.2pp	-5.9%	4.3pp
EPS	\$0.24	-\$0.21	N.A.	-\$0.61	-65.1%

Income Statement (Millions)

Year	2019	2019	2020	Var%	Var%
Quarter	1	4	1	% y/y	% q/q
Net Revenue	31,567.3	27,133.3	28,522.3	-9.6%	5.1%
Cost of goods sold	28,909.6	23,882.8	26,174.7	-9.5%	9.6%
Gross profit	2,657.7	3,250.5	2,347.6	-11.7%	-27.8%
General expenses	935.2	(2,583.2)	1,196.3	27.9%	N.A.
Operating Income	1,722.5	5,833.7	1,151.3	-33.2%	-80.3%
Operating Margin	5.5%	21.5%	4.0%	(1.4pp)	(17.5pp)
Depreciation	960.9	1,028.8	1,053.5	9.6%	2.4%
EBITDA	2,684.0	6,863.0	2,205.0	-17.8%	-67.9%
EBITDA Margin	8.5%	25.3%	7.7%	(0.8pp)	(17.6pp)
Interest income (expense) net	(429.1)	(693.9)	(1,882.6)	338.7%	171.3%
Interest expense	551.8	626.2	477.8	-13.4%	-23.7%
Interest income	33.8	52.2	35.7	5.8%	-31.5%
Exchange Income (loss)	34.1	66.3	(22.8)	N.A.	N.A.
Unconsolidated subsidiaries	54.8	(186.2)	(1,417.7)	N.A.	>500%
Unconsolidated subsidiaries	(3.8)	(301.9)	58.8	N.A.	N.A.
Net Income before taxes	1,289.5	4,837.9	(672.6)	N.A.	N.A.
Provision for Income taxes	524.6	628.2	(270.0)	N.A.	N.A.
Discontinued Operations					
Consolidated Net Income	765.0	4,209.6	(402.6)	N.A.	N.A.
Minorities	247.6	162.5	50.5	-79.6%	-68.9%
Net Income	517.3	4,047.2	(453.0)	N.A.	N.A.
Net Margin	1.6%	14.9%	-1.6%	(3.2pp)	(16.5pp)
EPS	0.244	1.911	(0.214)	N.A.	N.A.

Balance Sheet (MXN, million)

Total Current Assets	45,500.8	43,574.7	55,388.2	21.7%	27.1%
Cash & Short Term Investments	4,447.2	7,058.7	13,197.4	196.8%	87.0%
Long Term Assets	71,584.0	59,219.2	73,229.2	2.3%	23.7%
Property, Plant & Equipment (Net)	47,094.8	37,082.1	44,108.1	-6.3%	18.9%
Intangible Assets (Net)	3,940.7	3,406.3	4,062.2	3.1%	19.3%
Total Assets	117,084.8	102,793.8	128,617.4	9.8%	25.1%
Current Liabilities	36,386.6	20,321.0	35,170.0	-3.3%	73.1%
Short Term Debt	14,997.0	2,147.1	8,651.7	-42.3%	302.9%
Accounts Payable	20,194.4	16,455.0	24,782.5	22.7%	50.6%
Long Term Liabilities	40,549.7	37,414.4	50,018.8	23.4%	33.7%
Long Term Debt	32,887.1	30,563.1	41,514.7	26.2%	35.8%
Total Liabilities	76,936.3	57,735.4	85,188.8	10.7%	47.6%
Common Stock	40,148.5	45,058.4	43,428.7	8.2%	-3.6%
Minorities	4,541.6	4,578.8	5,352.0	17.8%	16.9%
Total Equity	35,606.9	40,479.6	38,076.6	6.9%	-5.9%
Liabilities & Equity	117,084.8	102,793.8	128,617.4	9.8%	25.1%
Net Debt	43,436.9	25,651.5	36,968.9	-14.9%	44.1%

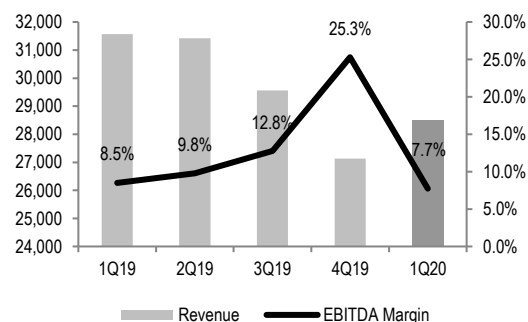
Cash Flow

Cash Flow from Operating Activities	2,227.0	12,765.6	4,172.6
Cash Flow from Investing Activities	(1,221.4)	10,948.2	(182.8)
Cash Flow from Financing Activities	(65.5)	(17,700.9)	2,738.0
Increase (decrease) in cash	358.0	3,247.6	5,367.1

Source: Banorte, MSE

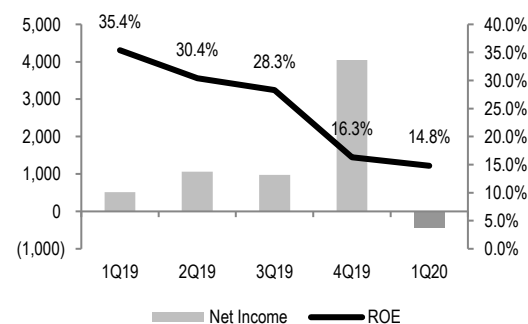
Revenue & EBITDA Margin

MXN, million



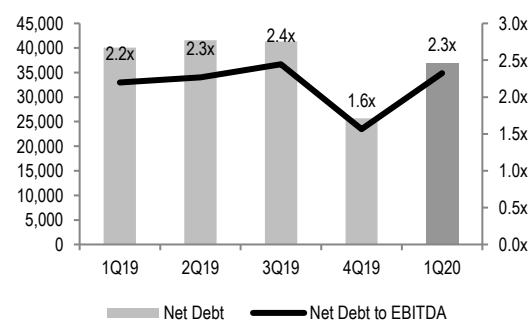
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA

MXN, million



Results by Business Segment

Polyester

MXN, Million

	1Q19	Margin	4Q19	Margin	1Q20	Margin	% y/y	% q/q
Revenue	23,823	100.0%	20,731	100.0%	21,795	100.0%	-8.5%	5.1%
EBITDA	1,541	6.5%	2,349	11.3%	1,151	5.3%	-25.3%	-51.0%
EBITDA*	1,614	6.8%	2,368	11.4%	1,475	6.8%	-8.6%	-37.7%

* Inventory and non – operating (non – recurring) gains/losses are not included

Source: Alpek

Plastics and Chemicals

MXN, Million

	1Q19	Margin	4Q19	Margin	1Q20	Margin	% y/y	% q/q
Revenue	7,229	100.0%	6,006	100.0%	5,964	100.0%	-17.5%	-0.7%
EBITDA	1,040	14.4%	819	13.6%	987	16.5%	-5.1%	20.5%
EBITDA*	1,120	15.5%	888	14.8%	1,000	16.8%	-10.7%	12.6%

* Inventory and non – operating (non – recurring) gains/losses are not included

Source: Alpek

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	<i>Reference</i>
BUY	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
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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Historical PT and Rating

Stock	Date	Rating	PT
ALPEK	February 18, 2020	HOLD	\$19.00
ALPEK	January 20, 2020	Under Review	Under Review
ALPEK	July 17, 2019	BUY	\$30.00
ALPEK	January 14, 2019	BUY	\$35.00

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