

LACOMER

Quarterly Report

October 26, 2018

Positive and in line, excluding extraordinary effect

- **La Comer reported above our expectations, due to a MXN\$230 million extraordinary profit from the sale of a land, yet highlighting higher profitability (even after excluding the non-recurring benefit)**
- **Better commercial conditions, logistical efficiencies and a more favorable sales mix boosted the company's gross margin by 110bps, to 26.2%, outweighing a 21.1% expense increase**
- **After incorporating 3Q figures, the FV/EBITDA multiple fell to 11.8x from 14.2x (adjusted 13.5x). We will shortly release our PT2019, meanwhile, we reiterate our BUY recommendation**

Positive 3Q18. La Comer's 3Q18 earnings exceeded our expectations by far, after recognizing a MXN\$230 million extraordinary profit, related to the sale of a land adjacent to one store in Puebla. Sales grew 15.9% yoy to MXN\$4.9 billion, in line with our MXN\$5.0 billion expectation, due to a 7.5% yoy improvement on SSS (10.3%e), added to an 8.7% sales floor increase, from the net opening of 5 new units. Meanwhile, more favorable commercial conditions, combined with logistical efficiencies and a more favorable sales mix (with higher contribution of more profitable formats such as *Fresko* and *City Market*), boosted the company's gross margin by 110bp to 26.2%, translating into an increase in gross profit of 20.8%. Moreover, EBITDA doubled to MXN\$619 million (+106.7%), supported by the above-mentioned non-recurring benefit. By excluding such event, the figure would have stood at MXN\$389 million (+5.9% vs. BNTe), due to a 21.1% increase in expenses, mainly from the opening of new units, higher electricity prices, as well as investments in the commercial channel. Finally, net profit rose 128.3%, impacted by forex losses.

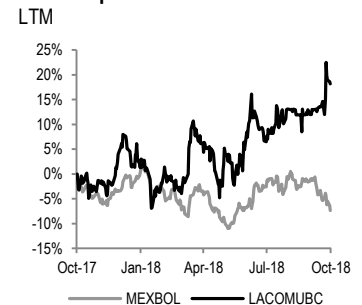
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BUY

Current Price	\$22.19
PT 2018	\$23.00
Dividend 2018	
Dividend Yield (%)	
Upside Potential	3.7%
Max – Min LTM (MXN\$)	23.84 – 17.05
Market Cap (US\$m)	1,226.5
Shares Outstanding (m)	1,086.00
Float	43.6%
Daily Turnover (MXN\$m)	17.3
Valuation metrics TTM	
EV/EBITDA	11.8x
P/E	22.4x

Relative performance to Mexbol

Financial Statements

MXN, million	2016	2017	2018E	2019E
Revenues	14,757	16,635	19,077	22,015
Operating Income	416	771	954	1,015
EBITDA	938	1,374	1,686	1,864
EBITDA Margin	6.4%	8.3%	8.8%	8.5%
Net Income	518	782	793	882
Net Margin	3.5%	4.7%	4.2%	4.0%
Total Assets	23,438	24,585	27,141	29,443
Cash	3,225	2,545	3,936	4,887
Total Liabilities	3,331	3,747	4,816	5,507
Debt	0	0	0	0
Common Equity	20,107	20,837	22,326	23,936

Source: Banorte with data from MSE

Valuation and financial metrics

	2016	2017	2018E	2019E
EV/EBITDA	22.3x	15.7x	12.0x	10.3x
P/E	46.6x	30.8x	30.4x	27.3x
P/Book	1.2x	1.2x	1.1x	1.0x
ROE	2.5%	3.8%	3.7%	3.8%
ROA	2.2%	3.2%	2.9%	3.0%
EBITDA/ Interest exp	8.1x	6.9x	6.9x	7.9x
Net Deb/EBITDA	-3.4x	-1.9x	-2.3x	-2.6x
Debt/Equity	0.0x	0.0x	0.0x	0.0x

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Document for distribution among public

LACOMER – Results 3Q18

MXN, million

Concept	3Q17	3Q18	Chg %	3Q18e	Diff% vs Estim.
Revenue	4,256	4,931	15.9%	5,000	-1.4%
Operating Income	146	432	195.8%	172	151.8%
Ebitda	300	619	106.7%	368	68.5%
Net Income	135	309	128.3%	144	114.8%
Margins					
Operating Margin	3.4%	8.8%	5.3pp	3.4%	5.3pp
Ebitda Margin	7.0%	12.6%	5.5pp	7.4%	5.2pp
Net Margin	3.2%	6.3%	3.1pp	2.9%	3.4pp
EPS	\$0.12	\$0.28	128.3%	\$0.13	114.8%

Income Statement (Million pesos)

Year	2017	2018	2018	Change	Change
Quarter	3	2	3	% yoy	% qoq
Net Revenue	4,256.4	4,829.8	4,931.5	15.9%	2.1%
Cost of goods sold	3,188.5	3,581.7	3,641.9	14.2%	1.7%
Gross profit	1,067.9	1,248.1	1,289.6	20.8%	3.3%
General expenses	902.2	1,041.4	1,092.7	21.1%	4.9%
Operating Income	146.1	203.4	432.2	195.8%	112.4%
Operating Margin	3.4%	4.2%	8.8%	5.3pp	4.6pp
Depreciation	153.5	189.7	187.0	21.8%	-1.4%
EBITDA	299.6	393.2	619.2	106.7%	57.5%
EBITDA Margin	7.0%	8.1%	12.6%	5.5pp	4.4pp
Interes income (expense) net	50.6	68.0	(21.0)	N.A.	N.A.
Interest expense	1.1	1.1	1.3	12.1%	19.1%
Interest income	46.2	31.9	26.3	-43.0%	-17.5%
Other income (expenses)				N.A.	N.A.
Exchange Income (loss)	5.6	37.1	(46.0)	N.A.	N.A.
Unconsolidated subsidiaries				N.A.	N.A.
Income before taxes	196.7	271.4	411.2	109.0%	51.5%
Income taxes	61.5	73.6	102.6	66.8%	39.5%
Discontinued operations					
Consolidated Net Income	135.2	197.8	308.6	128.3%	56.0%
Minorities				N.A.	N.A.
Net Income	135.2	197.8	308.6	128.3%	56.0%
Net margin	3.2%	4.1%	6.3%	3.1pp	2.2pp
EPS	0.124	0.182	0.284	128.3%	56.0%

Balance Sheet (Million pesos)

Total Current Assets	5,595.4	6,792.6	6,047.6	8.1%	-11.0%
Cash & Short Term Investments	2,491.7	2,742.7	2,629.4	5.5%	-4.1%
Long Term Assets	18,622.5	19,370.4	19,372.8	4.0%	0.0%
Property, Plant & Equipment (Net)	10,745.6	11,447.1	11,650.7	8.4%	1.8%
Intangible Assets (Net)	6,278.0	6,278.0	6,278.0		
Total Assets	24,217.9	26,163.0	25,420.4	5.0%	-2.8%
Current Liabilities	3,541.1	4,652.9	3,501.1	-1.1%	-24.8%
Short Term Debt				N.A.	N.A.
Accounts Payable	2,279.1	3,616.9	2,476.2	8.6%	-31.5%
Long Term Liabilities	239.9	272.8	329.8	37.5%	20.9%
Long Term Debt				N.A.	N.A.
Total Liabilities	3,781.0	4,925.7	3,830.8	1.3%	-22.2%
Common Stock	20,437.0	21,237.3	21,589.6	5.6%	1.7%
Noncontrolling Interest				N.A.	N.A.
Total Equity	20,437.0	21,237.3	21,589.6	5.6%	1.7%
Liabilities & Equity	24,217.9	26,163.0	25,420.4	5.0%	-2.8%
Net Debt	(2,491.7)	(2,742.7)	(2,629.4)	5.5%	-4.1%

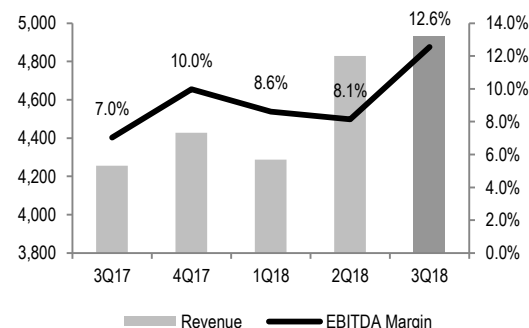
Cash Flow (Million pesos)

FX differences in cash & equivalents	313.9	462.2	361.9		
Cash Flow from Operating Activities	315.9	457.0	359.6		
Cash Flow from Investing Activities	(504.7)	(462.5)	(10.5)		
Cash Flow from Financing Activities	1.0	28.9	42.4		
Change in Cash Balance	126.1	485.5	753.4		

Source: Banorte, MSE.

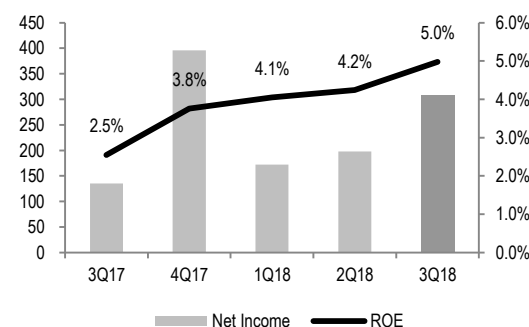
Revenue & EBITDA Margin

MXN, million



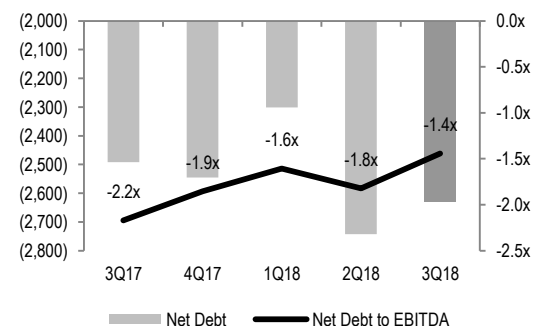
Net Income & ROE

MXN, million



Net Debt & Net debt to EBITDA ratio

MXN, million



The highest SSS growth within the retail sector in Mexico. La Comer reported an increase in LfL sales of 7.5% yoy, the highest of the retail sector in Mexico (WALMEX +6.3%; CHDRAUI +5.4%; ANTAD +4.7%; SORIANA -0.2%). This figure turned out below our 10.3% forecast. This solid performance is related to the favorable execution of promotional campaigns such as “Temporada Naranja” and “Miércoles de Plaza”, as well as to a favorable acceptance of the company’s differentiated formats. The latter is evidenced by significant growth achieved at luxury formats: *City Market* and *Fresko*. On a regional basis, Central Mexico reported the highest dynamism during the quarter, compensating a lower growth rhythm in Mexico City and the Metro Area (where the company faced a complicated comparative base due to the effect of extraordinary purchases after last year’s earthquakes). By product category, the sale of perishables posted the greatest increase. In turn, LaComer’s sales floor underwent an 8.7% yoy increase, as a result of the net opening of 5 new units in the last 12 months: 3 *City Market* and 2 *La Comer*. The latter contributed with an additional 840bps to the period’s growth, resulting in MXN\$4.9 billion in total revenue (+15.9% yoy), in line with our MXN\$5.0 billion projection (-1.4% vs. BNTe).

110bps gross margin expansion. Lacomer reported a 26.2% gross margin during 3Q18, representing a year-over-year 110bps expansion. Such improvement is attributed mainly to better commercial conditions, logistical efficiencies at its distribution centers (“CEDIS”), shrinkage control and a better sales mix. The latter was due to a higher contribution of the most profitable formats such as *Fresko* and *City Market* to the company’s consolidated revenue. Accordingly, the company’s gross profit grew 20.8% year-over-year to MXN\$1.2 billion (4.9pp above the sale’s growth rhythm).

By excluding the MXN\$230 million extraordinary income from the sale of land, EBITDA grew practically in line with expectations. At operating level, the company broadly exceeded our estimations, driven by a non-recurring income related to the sale of a land adjacent to *City Market Solesta* in Puebla, with the purpose of facilitating the construction of a new shopping center that may produce positive adjacencies for bolstering traffic into the store. Such effect totaled MXN\$230 million, resulting in a 106.7% yoy EBITDA increase, to MXN\$619 million (vs. our MXN\$368 million projection), placing the EBITDA margin at 12.6% (+5.5pp) higher than that reported by Walmex (10.1%). However, by excluding such non-recurring event, La Comer would have reported MXN\$389 million in EBITDA, up 5.9% from our estimate and equaling a 7.9% margin (90bp above 3Q17 and +50pb vs BNTe). Such result is explained, mainly, by the expansion of gross profit, as expenses rose 21.1% to MXN\$1.0 billion. According to the company, in addition to higher expenses from store openings, a strong increase in electricity prices and investments in last mile deliver for its e-commerce channel affected such indicator.

Solid net profit growth. Lacomer's net benefit stood at MXN\$309 million, increasing 128.3% year-to-year, and widely surpassing our MXN\$144 million projection, due to a sharp 195.8% yoy increase in operating profit. This result, in turn, was partially offset by a MXN\$21 million net interest expense, which compares unfavorably with the MXN\$51 million net interest income reported during the year-ago period, given a lower interest income (-43%) and a MXN\$46 million forex loss.

The company's financial structure remains solid. Although La Comer's net debt/EBITDA ratio remains negative and with a very solid financial structure, sequentially, the indicator posted a slight deterioration, going from -1.8x (2Q18) to -1.4x. Such shift is attributed mostly to a lower proportion of cash, down MXN\$113 million qoq, against the LTM EBITDA (which reported a strong increase during the quarter).

Sharp drop in multiples. By incorporating this quarter's earnings, the company's valuation cheapened. On one hand, LTM FV/EBITDA fell from 14.2x, prior to the report, to 11.8x afterwards. Meanwhile, PE shrunk to 22.4x from 26.7x. However, it is important to point out that under a comparable base, the FV/EBITDA multiple would fall to 13.5x, below that of Walmex (15.9x).

In our opinion, the increase in profitability and the decline of multiples could be catalysts for the stock. For the time being, we reiterate our BUY recommendation and PT2018 of MXN\$23.00. We will shortly release our PT2019.

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 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
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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History of PT and Ratings

Stock	Date	Rating	PT
LACOMER UBC	25/7/2018	Buy	\$23.00
LACOMER UBC	15/12/2017	Buy	\$22.00

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