

RASSINI

Quarterly Report

October 23, 2018

Investment expenses pressured earnings

- **Rassini reported 3Q18 earnings below our expectations, posting pressure on profitability, due to investments carried out in the construction of a new plant for manufacturing lighter suspension products**
- **Although the company's gross margin improved 90bps in view of a better sales mix, its above-sales expense growth rhythm (13.5% vs. 12.6%) pressured the EBITDA margin by 30bps**
- **Rassini's valuation remained practically flat post-report (3.7x FV/EBITDA), below the average from comparable companies (5.3x). We reiterate our BUY recommendation**

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BUY

Current Price	MXN\$34.74
PT 2018	MXN\$45.00
Dividend 2018	
Dividend Yield (%)	
Upside Potential	29.5%
Max – Min LTM (MXN\$)	42.49 – 31.75
Market Cap (US\$m)	582.9
Shares Outstanding (m)	320.1
Float	66.4%
Daily Turnover (MXN\$m)	2.3
Valuation metrics TTM	
EV/EBITDA	3.7x
P/E	7.9x

Long-term investments impacted short-term earnings. Rassini reported 3Q18 earnings below our estimates, posting pressure on profitability, due to investments made for the construction of a new plant to manufacture lighter suspension products. Volume grew 4.0% yoy (BNTe +7.7%), driven by an 8.0% increase in brakes, 2.3% in suspensions and 5.3% in Brazil, which offset the 2.2% drop in coil springs. Thus, revenue grew 12.6% year-to-year to MXN\$4.7 billion (-1.6% vs. our forecast), as the increase in volume and the favorable peso depreciation effect over the US dollar offset the impact of a sharp real depreciation. Despite the rally on electricity prices, the company's gross margin improved 90bp to 18.6%, evidencing a more favorable sales mix. Meanwhile, expenses climbed 13.5% yoy, due the investments carried out on the above-mentioned "composite" plant; with which the EBITDA margin contracted 30bps to 15.8% and EBITDA increased 10.3% to MXN\$749 million (BNTe MXN\$798 million). Finally, Rassini's net profit fell 3.1% to MXN\$316 million, facing a higher effective tax rate (31.8% vs. the previous 11.9%).

Relative performance to Mexbol

Financial Statements

MXN, million	2016	2017	2018E	2019E
Revenues	16,340	18,104	18,916	18,880
Operating Income	2,259	2,308	2,406	2,599
EBITDA	3,190	3,366	3,378	3,428
EBITDA Margin	19.5%	18.6%	17.9%	18.2%
Net Income	1,431	1,475	1,522	1,866
Net Margin	8.8%	8.1%	8.0%	9.9%
Total Assets	15,024	14,469	12,476	13,012
Cash	1,913	1,991	846	1,342
Total Liabilities	9,318	8,283	6,113	5,535
Debt	3,145	2,596	1,641	992
Common Equity	5,706	6,185	6,364	7,476

Source: Banorte with data from MSE

Valuation and financial metrics

	2016	2017	2018E	2019E
EV/EBITDA	3.9x	3.5x	3.7x	3.3x
P/E	7.8x	7.5x	7.6x	6.2x
P/Book	2.0x	1.8x	1.9x	1.6x
ROE	29.6%	24.8%	24.3%	27.0%
ROA	9.5%	10.2%	12.2%	14.3%
EBITDA/ Interest exp	10.0x	10.7x	12.3x	79.0x
Net Debt/EBITDA	0.4x	0.2x	0.2x	-0.1x
Debt/Equity	0.6x	0.4x	0.3x	0.1x

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Document for distribution among public

RASSINI – Results 3Q18

MXN, million

Concept	3Q17	3Q18	Chg %	3Q18e	Diff% vs Estim.
Revenue	4,224	4,755	12.6%	4,832	-1.6%
Operating Income	432	514	19.0%	576	-10.7%
Ebitda	679	749	10.3%	798	-6.2%
Net Income	327	316	-3.1%	365	-13.4%
Margins					
Operating Margin	10.2%	10.8%	0.6pp	11.9%	-1.1pp
Ebitda Margin	16.1%	15.8%	-0.3pp	16.5%	-0.8pp
Net Margin	7.7%	6.7%	-1.1pp	7.6%	-0.9pp
EPS	\$1.02	\$0.99	-3.1%	\$1.14	-13.4%

Income Statement (Million pesos)

Year	2017	2018	2018	Change	Change
Quarter	3	2	3	% yoy	% qoq
Net Revenue	4,223.7	4,740.2	4,754.8	12.6%	0.3%
Cost of goods sold	3,476.0	3,816.4	3,869.5	11.3%	1.4%
Gross profit	747.7	923.8	885.3	18.4%	-4.2%
General expenses	311.8	325.8	353.8	13.5%	8.6%
Operating Income	432.2	593.0	514.2	19.0%	-13.3%
Operating Margin	10.2%	12.5%	10.8%	0.6pp	(1.7pp)
Depreciation	168.6	205.0	202.8	20.3%	-1.0%
EBITDA	679.0	864.0	749.0	10.3%	-13.3%
EBITDA Margin	16.1%	18.2%	15.8%	(0.3pp)	(2.5pp)
Interes income (expense) net	(79.1)	(63.7)	(55.9)	-29.3%	-12.2%
Interest expense	77.9	75.2	69.4	-10.9%	-7.7%
Interest income	1.8	3.6	6.9	279.2%	95.1%
Other income (expenses)	(3.0)	8.0	6.6	N.A.	-18.1%
Exchange Income (loss)				N.A.	N.A.
Unconsolidated subsidiaries	18.8	20.3	14.7	-21.8%	-27.5%
Income before taxes	372.0	549.7	473.0	27.1%	-14.0%
Income taxes	44.3	184.6	150.4	239.2%	-18.5%
Discontinued operations					
Consolidated Net Income	327.7	365.1	322.5	-1.6%	-11.7%
Minorities	1.0	5.1	6.1	>500%	18.3%
Net Income	326.7	359.9	316.5	-3.1%	-12.1%
Net margin	7.7%	7.6%	6.7%	(1.1pp)	(0.9pp)
EPS	1.020	1.124	0.989	-3.1%	-12.1%

Balance Sheet (Million pesos)

Total Current Assets	4,935.1	4,676.4	4,735.2	-4.1%	1.3%
Cash & Short Term Investments	1,487.1	1,065.2	1,034.4	-30.4%	-2.9%
Long Term Assets	8,525.0	9,190.2	8,604.3	0.9%	-6.4%
Property, Plant & Equipment (Net)	7,480.5	8,235.6	7,716.9	3.2%	-6.3%
Intangible Assets (Net)	161.1	180.2	189.2	17.4%	5.0%
Total Assets	13,460.1	13,866.6	13,339.4	-0.9%	-3.8%
Current Liabilities	5,318.0	5,545.5	5,281.3	-0.7%	-4.8%
Short Term Debt	1,492.4	1,453.2	1,349.9	-9.5%	-7.1%
Accounts Payable	2,411.8	2,863.9	2,753.4	14.2%	-3.9%
Long Term Liabilities	2,604.3	2,175.1	1,895.3	-27.2%	-12.9%
Long Term Debt	1,043.3	633.6	455.2	-56.4%	-28.2%
Total Liabilities	7,922.3	7,720.6	7,176.6	-9.4%	-7.0%
Common Stock	5,537.8	6,146.0	6,162.8	11.3%	0.3%
Noncontrolling Interest	1.0	5.1	6.1	>500%	18.3%
Total Equity	5,377.0	6,004.6	6,029.2	12.1%	0.4%
Liabilities & Equity	13,460.1	13,866.6	13,339.4	-0.9%	-3.8%
Net Debt	1,048.6	1,021.7	770.7	-26.5%	-24.6%

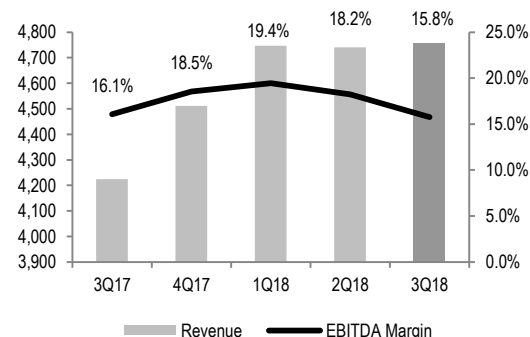
Cash Flow (Million pesos)

FX differences in cash & equivalents	174.7	232.2	285.6
Cash Flow from Operating Activities	336.5	423.9	433.0
Cash Flow from Investing Activities	(243.5)	(261.7)	(183.7)
Cash Flow from Financing Activities	(218.3)	(1,288.8)	(186.9)
Change in Cash Balance	49.3	(894.4)	347.9

Source: Banorte, MSE.

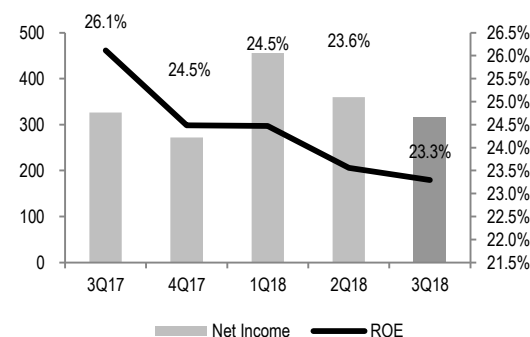
Revenue & EBITDA Margin

MXN, million



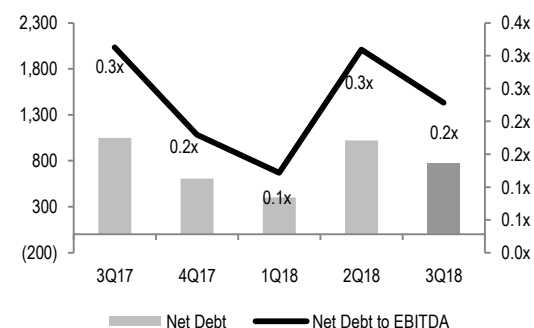
Net Income & ROE

MXN, million



Net Debt & Net debt to EBITDA ratio

MXN, million



Volume grew 4%. During the quarter, Rassini sold a volume up 4.0% from the year-ago period (vs. +7.7%e). This performance, in turn, is explained by an 8.0% increase in the brake division (+5.0%e), due to market gains and the start of production of recently awarded contracts. Meanwhile, NAFTA suspensions moved forward 1.6% (6.8%e), resulting from a 2.3% rally in multi-leaf springs (8.4%e), which offset a 2.2% drop in coil springs (-2.0%e). Furthermore, Brazil's suspension unit business reported a 5.3% year-to-year growth, below our 20.7% expectation, resulting from the impact of a road haulers strike, but surely posting a continuation in the recovery of the Brazilian operations. We should also stress that, during the third quarter, the company faced a complex comparative base, due to the extraordinary Toyota contract, the replacement of several platforms such as GM's K2XX and the end of the manufacturing platform service life for Nissan's Tsuru model.

Revenue underwent a revenue increase, in line with expectations.

Company sales grew 12.6% to MXN\$4.7 billion (-1.6% vs our MXN\$4.8 billion forecast). This expansion is mainly explained by increments observed in production volume, added to a 6.3% favorable forex conversion effect, related to the peso's depreciation over the U.S dollar, and higher iron and steel prices. Likewise, it should be noted that such factors offset the impact of a sharp real depreciation (24.8%). Thus, peso-based revenue from NAFTA suspensions rose 12.2% yoy, whilst that from brakes did so at 20.8%, with which the region's consolidated balance grew 15.2% to MXN\$4.2 billion. Finally, sales in Brazil contracted 6.4% in peso terms to MXN\$509 million, explained mostly by the above-mentioned currency conversion effect.

Investments in new plant eroded profitability. Contrary to our projection (40 bp EBITDA margin expansion), Rassini reported a 30bp contraction in such indicator, standing at 15.8% during 3Q18. Consequently, EBITDA rose 10.3% yoy to MXN\$749 million (BNTe MXN\$798 million). Meanwhile, reported profitability weakness is explained by a 13.5% year-to-year increase in operating expenses, following investments made for the construction of a "composite" plant in Piedras Negras, Coahuila, where the company is expected to manufacture suspension products with lighter materials in the future, with the purpose of light-weighting such items, and thus, supporting OEMs with vehicle efficiency in order meet stringent CO2 emission objectives contemplated by CAFE regulation. We confirmed the latter, as on a gross basis, the company's profitability level expanded by 90bp yoy to 18.6%, even despite the sharp increase observed in electricity charges, reflecting a more favorable sales mix, thanks to a greater contribution of brake discs to the results. By region, EBITDA in NAFTA rose 11.3% yoy to MXN\$700 million, equaling a 60bp EBITDA margin contraction to 16.4% mainly resulting from the above-mentioned events. Moreover, in Brazil, EBITDA fell 2.0% yoy to MXN\$49 million, placing the corresponding margin at 10% (+0.5pp).

Higher effective tax rate hit the company's net profit. In 3Q18, Rassini's net benefit dropped 3.1% yoy to stand at MXN\$316 million, down 13.4% from our MXN\$365 million estimate, as a higher effective tax rate (31.8% vs. a previous 11.9%) offset the positive operating increase effect and a net interest expense 29.3% lower in comparison to the year-ago period.

A solid financial structure. Rassini's leverage reported a mild drop over the previous quarter, posting a 0.2x net debt/EBITDA ratio, down from 0.3x in 2Q18, due to a sequential MXN\$282 million decline of interest-bearing debt and a higher EBITDA generation during the LTM.

Performance by region

NAFTA						
	3Q18				3Q17	
	Volume		MXN\$		Volume	MXN\$
	Tons/ m units	Δ% yoy	MXN\$	Δ% yoy	Tons/ m units	MXN\$
Suspensions	68,609	1.7%	\$ 2,721	12.2%	67,491	\$ 2,425
Breaks	39,897	8.0%	\$ 1,538	20.8%	36,941	\$ 1,273
Total	108,505	3.9%	\$ 4,259	15.2%	104,432	\$ 3,698
EBITDA			\$ 700	11.3%		\$ 629
EBITDA Margin			16.4%	-0.6pp		17.0%

Brazil						
	3Q18				3Q17	
	Volume		MXN\$		Volume	MXN\$
	Tons/ m units	Δ% yoy	MXN\$	Δ% yoy	Tons/ m units	MXN\$
Suspensions	12,990	5.3%	\$ 492	-6.4%	12,339	\$ 526
Total	12,990	5.3%	\$ 492	-6.4%	12,339	\$ 526
EBITDA			\$ 49	-2.0%		\$ 50
EBITDA Margin			10.0%	0.5pp		9.5%

Consolidated						
	3Q18				3Q17	
	Volume		MXN\$		Volume	MXN\$
	Tons/ m units	Δ% yoy	MXN\$	Δ% yoy	Tons/ m units	MXN\$
Suspensions	81,599	2.2%	\$ 3,213	8.9%	79,830	\$ 2,951
Breaks	39,897	8.0%	\$ 1,538	20.8%	36,941	\$ 1,273
Total	121,495	4.0%	\$ 4,755	12.5%	116,771	\$ 4,228
EBITDA			\$ 749	10.3%		\$ 679
EBITDA Margin			15.8%	-0.3pp		16.1%

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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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
RASSINI A	19/02/2018	Buy	\$45.00
RASSINI A	23/10/2017	Buy	\$42.00
RASSINI A	25/04/2017	Buy	\$47.00

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