

August 1, 2022

# GMEXICO

Quarterly Report

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## Prospects deteriorate given the complex environment

- **GMexico reported significant falls, due to lower production in Peru and an increase in cash cost, reflecting a lower-than-expected profitability which we believe will continue to affect the figures for the rest of the year**
- **Despite financial strength and an attractive valuation (FV/EBITDA 4.3x), inflationary pressures and the global economic slowdown will continue to generate volatility in the stock price**
- **By incorporating the results and reducing our estimates, we adjusted our PT to MXN 86.00 (2022e FV/EBITDA of 5.6x vs. L1y average of 5.8x). Given the current challenges, we downgrade our recommendation to Hold**

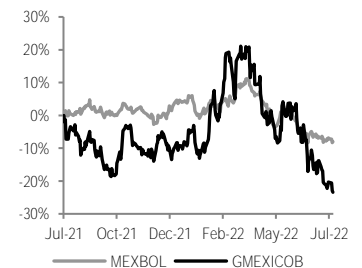
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**Strong impact on Mining due to inflationary environment and lower production.** GMexico reported below our expectations and the market's, with annual sales drop of 18.2% and with EBITDA sliding by 41.2%, as well as a margin contraction of 17.9pp to 44.4%. Mining (AMC) showed the greatest weakness, registering a decrease in copper production of 12.2% y/y and in sales volumes of 16.2% y/y, given the blockade of Cuajone complex in Peru, lower ore grades and a market-to-market adjustments to open sales. While metal prices were mixed, copper prices fell only 2.0% y/y. However, net cash cost rose 28.1% y/y due to the higher costs given the inflationary environment and lower production, impacting profitability by 20.8pp to 42.9%. Meanwhile, [GMXT's](#) figures were affected by a decline in volumes. In Infrastructure, although EBITDA grew 8.4% y/y profitability also decreased. Despite the above, financial strength (ND/EBITDA of 0.4x), led to a dividend decree of MXN 1.0 per share (vs. MXN 1.5 previously), payable on August 29 (annualized dividend yield of ~5%). **The outlook is deteriorating**, resulting from challenges which include high inflation and a lower global economic dynamism, which we believe will affect copper demand, and metal prices, as well as the company's profitability in the coming quarters. In that sense, we modify our estimates to the downward and note that in the short-term share price volatility will continue.

HOLD	
Current Price	\$75.32
PT	\$86.00
Dividend	\$2.00
Dividend Yield (%)	2.9%
Upside Potential	16.8%
Max – Min LTM (\$)	122.1-73.3
Market Cap (US\$m)	28,761.0
Shares Outstanding (m)	7,785
Float	46.0%
Daily Turnover US\$m	632.5
Valuation metrics LTM	
FV/EBITDA	4.3x
P/E	9.4x
MSCI ESG Rating	B

Relative performance to Mexbol LTM



### Financial Statements

	2019	2020	2021	2022E
Revenue	10,681	10,909	14,777	13,844
Operating Income	3,480	3,958	7,467	5,473
EBITDA	4,945	5,363	8,927	6,864
EBITDA Margin	46.3%	49.2%	60.4%	49.6%
Net Income	1,766	2,118	3,600	2,583
Net Margin	16.5%	19.4%	24.4%	18.7%
Total Assets	27,566	28,608	30,078	30,359
Cash	2,610	4,091	6,461	5,644
Total Liabilities	13,320	13,364	13,433	12,744
Debt	9,377	8,952	8,782	8,807
Common Equity	14,246	15,244	16,645	17,615

Source: Banorte

### Valuation and Financial metrics

	2019	2020	2021	2022E
FV/EBITDA	7.6x	6.7x	3.7x	5.0x
P/E	16.2x	13.5x	8.0x	11.1x
P/VB	2.4x	2.2x	2.0x	1.9x
ROE	14.7%	16.3%	25.0%	16.9%
ROA	6.4%	7.4%	12.0%	8.5%
EBITDA/ interest	9.0x	9.7x	16.2x	12.5x
Net Debt/EBITDA	1.4x	0.9x	0.3x	0.5x
Debt/Equity	0.7x	0.6x	0.5x	0.5x

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GMEXICO – Results 2022  
MXN, million

Concept	2021	2022	Var %	2022e	Diff % vs Estim.
Revenue	3,914	3,203	-18.2%	3,812	-16.0%
Operating Income	2,076	1,079	-48.0%	1,863	-42.1%
Ebitda	2,416	1,421	-41.2%	2,207	-35.6%
Net Income	906	490	-45.9%	875	-44.0%
<b>Margins</b>					
Operating Margin	53.0%	33.7%	-19.3pp	48.9%	-15.2pp
Ebitda Margin	61.7%	44.4%	-17.4pp	57.9%	-13.5pp
Net Margin	23.1%	15.3%	-7.9pp	22.9%	-7.7pp
EPS	\$0.12	\$0.06	-45.9%	\$0.11	-44.0%

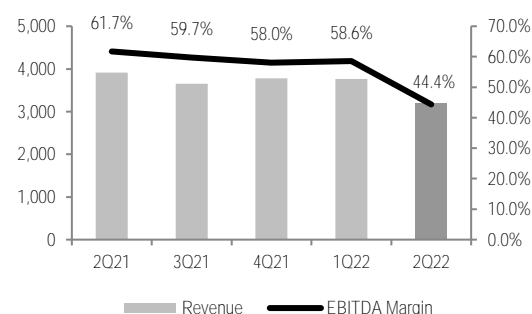
Income Statement (Million pesos)					
Año	2021	2022	2022	Change	Change
Trimestre	2	1	2	% y/y	% q/q
Net Revenue	3,913.7	3,764.1	3,203.2	-18.2%	-14.9%
Costs of goods sold	1,428.9	1,485.0	1,696.8	18.7%	14.3%
Gross profit	2,484.8	2,279.1	1,506.4	-39.4%	-33.9%
General expenses	68.8	71.2	71.4	3.7%	0.3%
Operating Income	2,075.5	1,868.8	1,079.2	-48.0%	-42.3%
Operating Margin	53.0%	49.6%	33.7%	(19.3pp)	(16.0pp)
Depreciation	340.5	339.1	355.8	4.5%	4.9%
EBITDA	2,416.2	2,204.8	1,420.7	-41.2%	-35.6%
EBITDA Margin	61.7%	58.6%	44.4%	(17.4pp)	(14.2pp)
Interest Income (Expense) net	(228.0)	(97.8)	(132.5)	-41.9%	35.4%
Interest expense	137.3	134.5	134.6	-2.0%	0.1%
Interest income	3.2	13.4	19.3	>500%	43.6%
Other income (expense)	(93.9)	23.2	(17.2)	-81.7%	N.A.
Foreign exchange gain (loss)				N.A.	N.A.
Unconsolidated subsidiaries	(5.9)	2.2	(2.1)	-63.6%	N.A.
Income before taxes	1,847.5	1,771.0	946.7	-48.8%	-46.5%
Income taxes	802.5	702.1	361.6	-54.9%	-48.5%
Discontinued operations					
Consolidated Net Income	1,050.9	1,071.2	587.3	-44.1%	-45.2%
Non-controlling interest	145.1	151.1	97.6	-32.8%	-35.4%
Net Income	905.8	920.1	489.7	-45.9%	-46.8%
Net Margin	23.1%	24.4%	15.3%	(7.9pp)	(9.2pp)
EPS	0.116	0.118	0.063	-45.9%	-46.8%

Balance Sheet (Million pesos)					
Total Current Assets	9,408.7	10,149.4	9,566.9	1.7%	-5.7%
Cash & Short Term Investments	5,697.7	6,338.7	5,704.6	0.1%	-10.0%
Long Term Assets	20,091.1	19,893.1	20,108.2	0.1%	1.1%
Property, Plant & Equipment (Net)	16,979.3	16,939.3	16,981.7	0.0%	0.3%
Intangible Assets (Net)	3,111.7	2,953.8	3,126.5	0.5%	5.8%
Total Assets	29,499.8	30,042.5	29,675.1	0.6%	-1.2%
Current Liabilities	2,263.8	2,453.4	2,171.3	-4.1%	-11.5%
Short Term Debt	271.0	503.1	495.6	82.9%	-1.5%
Accounts Payable				N.A.	N.A.
Long Term Liabilities	10,989.7	10,499.7	10,436.9	-5.0%	-0.6%
Long Term Debt	8,802.6	8,325.6	8,311.5	-5.6%	-0.2%
Total Liabilities	13,253.5	12,953.1	12,608.2	-4.9%	-2.7%
Stockholders' Equity	16,246.3	17,089.4	17,066.9	5.1%	-0.1%
Non-controlling interest	2,283.9	2,286.5	2,222.7	-2.7%	-2.8%
Total Equity	13,962.4	14,802.9	14,844.2	6.3%	0.3%
Liabilities & Equity	29,499.8	30,042.5	29,675.1	0.6%	-1.2%
Net Debt	3,375.9	2,490.0	3,102.5	-8.1%	24.6%

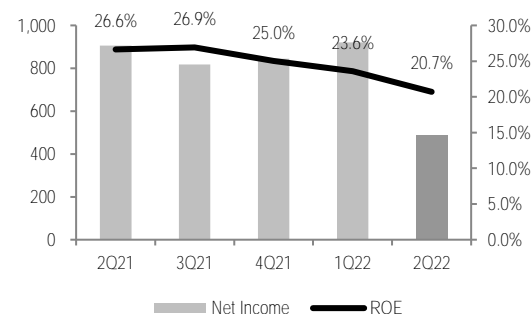
Cash Flow					
CF from Operating Activities	1,707.5	1,092.4	642.8		
CF from Investing Activities	(119.8)	(372.7)	(392.0)		
CF from Financing Activities	(686.0)	(812.0)	(806.7)		
Change in Cash Balance	805.5	(150.6)	(616.0)		

Source: Banorte, MSE.

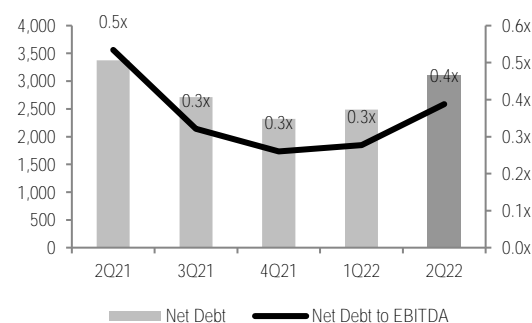
Revenue & EBITDA Margin  
MXN, million



Net Income & ROE  
MXN, million



Net Debt & Net Debt to EBITDA ratio  
MXN, million



## 2022 estimates update

The outlook for 2022 has deteriorated compared to the beginning of the year, mainly due to the expectation [of a lower global economic dynamism](#), because of restrictive monetary policies from central bankers to combat the increasing levels of inflation, which have even raised recession fears. In that sense, we believe that copper demand would be affected. This becomes more relevant after China's GDP data, being the main copper consumer, reflected a slower growth impacted by COVID-19 confinement measures, leading to downward adjustments in the indicator for this year ([3.3% 2022e by the International Monetary Fund](#)).

Although in the long run, the strengthening trends around a more-technological society and a greater boom in renewable energy projects will led to greater consumption of the metal, in the short-term economic challenges will keep pressuring copper prices, and even more, considering the International Copper Study Group (ICSG) estimate of a 5.1% increase in world production this year, according to its forecast report published on May 3, 2022.

As a result of external factors that have impacted the Mining division's production and higher costs due to the inflationary environment, as well as a decrease in the copper price, where we now project an average price of \$4.22 per pound (vs. \$4.51e previously), -0.6% vs. 2021, in line with the Bloomberg consensus, we adjusted downward our estimates for the Mining division. On the other hand, GMXT should also show lower than expected growth given the current challenges, although it will be focusing on increasing profitability, supported by operation-efficient investments. Finally, Infrastructure would continue to recover benefited by the higher Energy revenues, the increase in Highways' volumes and fares, and the continuous operation of the 6 *Perforadora* platforms.

In this way, our company projections assume annual falls in the consolidated revenues of 6.3% to \$13.8 billion (-11% vs. previous estimate) and in EBITDA of 28.3% to \$6.9 billion (-24.7% vs previous), reflecting an EBITDA margin contraction of 10.8pp to 49.6%, mainly due to higher cash cost and lower expected production.

**Detailing our projections by division**, in AMC (Mining), we expect an EBITDA of \$5.4 billion (-28.1%), given the production decrease of ~9.0% due to the Cuajone's operation suspension, which affected the 1H22 and minor ore grades, as well as a lower copper price of \$4.22 per pound (-0.6%), considering the decrease in economic dynamism. This, alongside higher costs due to high inflation, will affect profitability. In Transport, we estimate for GMXT revenues of \$2.6 billion (+4.5%) and an EBITDA of \$1.2 billion (+4.0%) and thus moderating the growth expectation already observed in the 2Q22, where we expect higher average prices per ton to be partially offset by a less transported volume. Thus, we forecast a slightly EBITDA margin reversion of 0.2pp, standing at 44.4%. For Infrastructure, we anticipate an EBITDA of \$2.5billion (+9.3% y/y), showing a continuous recovery.

**It will continue with investments to keep growing.** While the company noted that its investment commitment for the year is \$2.2 billion, we believe it will take longer to execute that amount, although it will remain focused on achieving more operations efficiencies and maintaining future growth.

A competitive advantage of GMexico is that it has **a healthy financial balance sheet** and our expectation for 2022, despite the estimate's adjustment, is that it will continue with a Net Debt to EBITDA ratio standing at 0.5x (vs. 0.3x in 2021). **This will allow it to continue retributing shareholders**, so we estimate that for the accumulated year the company will pay a dividend of MXN 4.50 per share. For 2H22 we expect an amount of MXN 2.00 per share, representing an annualized dividend yield of ~5% over current prices.

### **Valuation and PT of MXN 86.00**

We use the **sum-of-the-parts valuation** method to reflect the value of each of GMexico's subsidiaries. It should be noted that there has been a fall in the sector's multiple due to the higher interest rates environment, and particularly in mining, given the already-mentioned challenges.

For Southern Copper (SCCO), in which GMexico has an 88.9% stake, we allocate a 2022e FV/EBITDA multiple of 7.2x, being Bloomberg's 2022e. While for Asarco, we established a FV/EBITDA multiple of 5.0x, slightly above Bloomberg's 2022e for the sector (4.6x), but below GMexico's 1-year average (5.8x).

For GMXT, the Bloomberg's consensus PT of \$39.94, represents a 2022e FV/EBITDA multiple of 8.4x vs. 11.4x sector's median, which we used in the valuation. In the Infrastructure division, we assume a multiple of 8.0x, in line with the sector's average sample. Finally, we value GMexico's 2.9% stake in GAP, using the expected market value for 2022 according to our area's estimates.

In this way, we obtained a **target price for GMexico of MXN 86.00 per share**. This price represents a 2022e FV/EBITDA multiple of 5.6x, below the 1-year average of 5.8x and above the 4.6x of peer companies' average according to Bloomberg's consensus, which is justified by the firm's strong operations and leadership position, solid balance sheet, higher copper reserves, and lower cash cost on global basis. It should be noted that we maintain a holding discount of 20%.

**The yield offered by our price target is 16.8%** which considers a dividend rate of 2.9% (with 2 remaining payments of MXN 1.0 each during the year). Despite the current attractive valuation of 4.3x, environment challenges including persistent inflationary pressures, higher interest rates, and lower global economic growth, will continue to generate volatility in the stock price, so we lower **our recommendation to HOLD**.

GMexico – Sum-of-the-parts valuation  
USD, Million

Subsidiary	2022e EBITDA	FV/EBITDA	Net Debt	Market Cap	Participation	Total
SCCO	4,637	7.2x	4,194	29,193	88.9%	25,953
ASARCO	818	5.0x	75	4,166	100.0%	4,166
GMXT	1,167	8.4x	684	9,156	70.0%	6,406
INFRAESTRUCTURA	250	8.0x	626	1,371	100.0%	1,371
GAP				7,370	2.9%	214
Sum-of-the-parts						38,109
(-) Net Debt GMexico						- 2,273
<b>(=) GMexico's Value</b>						<b>40,383</b>
Shares Outstanding						7,785
Price \$US per share						5.19
Exchange rate 2022e						20.70
Price GMexico						\$107.38
Holding Discount						20.0%
PT 2022e						<b>\$85.95</b>

Source: Banorte, Bloomberg

**Minnings' relative valuation**

ISSUER	PRICE	Market Cap (US\$MM)	Enterprise Value (US\$MM)	P/BV	P/E	P/E 2021E	P/E 2022E	FV/EBITDA	FV/EBITDA 2021E	FV/EBITDA 2022E	DIVIDEND YIELD
BHP GROUP LTD	AUD 37.52	132,881	100,462	2.7x	8.4x	8.0x	10.2x	3.8x	4.3x	5.2x	18.3%
RIO TINTO PLC	GBP 4,788.00	97,911	126,788	2.0x	5.3x	5.8x	7.2x	3.5x	3.6x	4.1x	11.0%
VALE SA	BRL 70.52	67,169	72,374	2.6x	2.8x	3.6x	4.2x	2.4x	2.7x	3.1x	5.3%
SOUTHERN COPPER CORP	USD 48.32	37,356	42,417	5.0x	11.8x	13.2x	13.7x	6.8x	7.2x	7.7x	6.2%
ANGLO AMERICAN PLC	GBP 2,775.00	41,339	63,276		8.1x	5.7x	6.7x	2.6x	3.0x	3.3x	7.7%
FREEPORT-MCMORAN INC	USD 29.29	42,449	53,207		8.7x	10.0x	13.1x	4.7x	5.0x	5.0x	2.0%
JIANGXI COPPER CO LTD-H	HKD 9.54	6,851	10,052	0.4x	4.5x	5.2x	5.7x		6.8x	7.5x	6.1%
ANTOFAGASTA PLC	GBP 1,079.00	8,749	12,396	1.5x	10.3x	16.2x	14.8x	3.4x	4.9x	4.4x	10.0%
CIA DE MINAS BUENAVENTUR.COM	PEN 23.50	1,652	572	0.5x	16.6x	3.0x	6.9x	8.7x	4.2x	5.4x	2.3%
Average		48,484	53,505	2.1x	8.5x	7.9x	9.2x	4.5x	4.6x	5.1x	7.7%
Median		41,339	53,207	2.0x	8.4x	5.8x	7.2x	3.6x	4.3x	5.0x	6.2%
GRUPO MEXICO SAB DE CV-SER B	Ps 75.32	28,761	1,659	2.1x	7.4x	8.5x	8.4x	3.8x	4.2x	4.4x	8.0%

Source: Bloomberg (07/27/22).

**Transports' relative valuation**

ISSUER	PRICE	Market Cap (US\$MM)	Enterprise Value (US\$MM)	P/BV	P/E	P/E 2022E	P/E 2023E	FV/EBITDA	FV/EBITDA 2022E	FV/EBITDA 2023E	DIVIDEND YIELD
UNION PACIFIC CORP	USD 219.89	137,317	170,099	10.8x	20.9x	18.9x	17.3x	14.2x	13.4x	12.6x	2.4%
CANADIAN NATL RAILWAY CO	CAD 156.91	84,409	95,500		24.2x	22.2x	19.7x	16.1x	14.6x	14.1x	1.9%
CSX CORP	USD 31.83	68,156	84,037	5.4x	19.2x	16.9x	16.2x	11.6x	11.3x	11.1x	1.3%
DAQIN RAILWAY CO LTD -A	CNY 6.04	13,285	13,088	0.8x	7.8x	7.3x	7.3x		4.2x	4.6x	7.9%
CANADIAN PACIFIC RAILWAY LTD	CAD 98.53	71,461	86,732	2.7x	21.3x	26.5x	22.2x	29.4x	25.8x	22.9x	0.8%
NORFOLK SOUTHERN CORP	USD 243.24	57,131	70,926	4.3x	19.6x	17.7x	16.3x	12.2x	11.6x	11.1x	2.0%
AURIZON HOLDINGS LTD	AUD 3.92	5,048	7,444	1.8x	12.1x	14.2x	13.1x	7.2x	7.3x	6.8x	8.5%
CHINA RAILWAY TIELONG CONT-A	CNY 5.31	1,026	957	1.1x	20.1x	16.4x	14.0x		6.4x	5.7x	1.5%
Average		54,729	66,098	3.8x	18.1x	20.3x	17.8x	15.1x	11.8x	11.1x	3.3%
Median		62,643	77,481	2.7x	19.9x	17.7x	16.3x	13.2x	11.4x	11.1x	2.0%
GMEXICO TRANSPORTES SAB DE C	MXN 33.51	7,183	8,855	2.6x	17.6x	15.6x	13.9x	7.7x	7.0x	6.5x	6.0%
GRUPO MEXICO SAB DE CV-SER B	MXN 75.32	28,761	1,659	2.1x	7.4x	8.5x	8.4x	3.8x	4.2x	4.4x	8.0%

Source: Bloomberg (07/27/22).

## Certification of Analysts.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Yazmin Selene Pérez Enríquez, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Oscar Rodolfo Olivos Ortiz, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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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In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date

### Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

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**Grupo Financiero Banorte S.A.B. de C.V.**, through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

### Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

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The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

### Guide for investment recommendations.

	Reference
<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.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

### Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

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### History of PT and ratings

Stock	Date	Rating	PT
GMEXICO	07/27/22	Hold	\$ 86.00
GMEXICO	04/27/21	Buy	\$135.00
GMEXICO	01/07/21	Hold	\$101.00
GMEXICO	07/28/20	Hold	\$ 63.00

### MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD		AVERAGE		LEADER		

\*MSCI ESG Rating is an indicator that evaluates companies in Environment, Social and Governance (ESG) metrics.

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