

# SORIANA

Quarterly Report

April 27, 2020

## Outstanding expense control

- Soriana reported slightly above our sales estimate, amid panic-buying bolstering results. Nevertheless, profitability came below our expectations
- However, when excluding a non-recurring gain in 1Q19 -which now pressured gross margin 130bps-, an outstanding expense leverage driven would have boosted EBITDA margin 100bps to 7.7%

**In a comparable basis, a solid year kick-off.** Total revenues grew 9.9% y/y to \$37.755 billion (+4.9% vs our estimate), due to a 9.6% SSS growth -which more than offset a 1.3% decline in company's sales floor amid a 3-unit net closure (Soriana opened 2 stores during the quarter) during the last-twelve-months-. Meanwhile, gross margin receded 130bps y/y to stand at 21.9%, after facing tough comps in 1Q19 when the company recognized an extraordinary income (-20bps organically owing to a less favorable sales mix). On the other hand, expenses increased only by 1.6% y/y, resembling a strict expense control and improved operating leverage as a result of the strong LfL sales growth. That said, EBITDA grew 8.3% y/y to \$3.001 billion, while its respective margin declined 20bps to 7.7%. Nonetheless, on an adjusted basis, EBITDA would have grown 25.7% interannually while margin would have expanded by 100bps. Net income dropped 6.4% y/y to \$691 million, impacted by FX losses.

**Cutting capex while deleveraging the balance sheet.** Amid high uncertainty, the company will cut its capex to minimum (-65% to \$700-\$900 million) and will allocate its free cash flow towards paying debt. In that sense, Soriana confirmed the outlook is blurry as to updating guidance. On our end, we will be incorporating into our estimates a [more challenging macroeconomic framework](#).

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## Consumer and Telecoms

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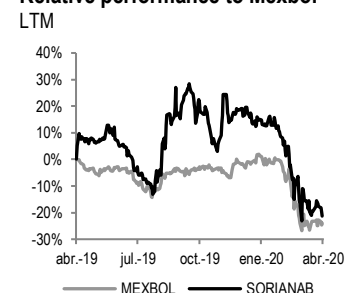
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### BUY

Current Price	\$17.80
PT 2020	\$31.00
Dividend 2020	
Dividend Yield (%)	
Upside Potential	
Max – Min LTM (\$)	27.50 – 16.14
Market Cap (US\$m)	1,304.3
Shares Outstanding (m)	1,800
Float	13.8%
Daily Turnover (\$ m)	9.7
<b>Valuation metrics TTM</b>	
FV/EBITDA	5.4x
P/E	10.1x

### Relative performance to Mexbol



### Financial Statements

MXN, million	2018	2019	2020E	2021E
Revenues	153,475	155,744	160,676	165,795
Operating Income	8,068	9,213	10,709	10,961
EBITDA	10,884	12,372	12,798	13,045
EBITDA Margin	7.1%	7.9%	8.0%	7.9%
Net Income	3,605	3,235	4,208	4,894
Net Margin	2.3%	2.1%	2.6%	3.0%
Total Assets	132,967	145,728	149,539	154,225
Cash	2,231	1,921	1,495	1,247
Total Liabilities	71,024	81,722	83,408	85,523
Debt	22,663	33,346	30,899	27,400
Common Equity	61,944	64,006	66,131	68,702

Source: Banorte with data from MSE

### Valuation and financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	5.0x	5.2x	4.8x	4.5x
P/E	8.7x	10.0x	7.0x	5.7x
P/Book	0.7x	0.6x	0.6x	0.6x
ROE	6.0%	5.1%	6.5%	7.3%
ROA	2.7%	2.2%	2.8%	3.2%
EBITDA/ Interest exper	4.7x	3.4x	3.5x	4.5x
Net Debt/EBITDA	1.9x	2.5x	2.3x	2.0x
Debt/Equity	0.4x	0.5x	0.5x	0.4x

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Document for distribution among public

## SORIANA – Results 1Q20

MXN, million

Concept	1Q19	1Q20	Var %	1Q20e	Diff% vs Estim.
Revenue	35,255	38,755	9.9%	36,943	4.9%
Operating Income	1,994	2,207	10.7%	2,113	4.4%
Ebitda	2,771	3,001	8.3%	2,961	1.3%
Net Income	738	691	-6.4%	707	-2.3%
<b>Margins</b>					
Operating Margin	5.7%	5.7%	0.0pp	5.7%	0.0pp
Ebitda Margin	7.9%	7.7%	-0.2pp	8.0%	-0.3pp
Net Margin	2.1%	1.8%	-0.3pp	1.9%	-0.1pp
EPS	\$0.41	\$0.38	-6.4%	\$0.39	-2.3%

Source: Banorte

### Income Statement (Million pesos)

Year	2019	2019	2020	Change	Change
Quarter	1	4	1	% YoY	% QoQ
<b>Net Revenue</b>	<b>35,255</b>	<b>41,930</b>	<b>38,755</b>	<b>9.9%</b>	<b>-7.6%</b>
Costs of goods sold	27,081	32,293	30,272	11.8%	-6.3%
Gross profit	8,174	9,637	8,483	3.8%	-12.0%
General expenses	6,266	6,571	6,357	1.4%	-3.3%
<b>Operating Income</b>	<b>1,994</b>	<b>3,142</b>	<b>2,207</b>	<b>10.7%</b>	<b>-29.8%</b>
<b>Operating Margin</b>	<b>5.7%</b>	<b>7.5%</b>	<b>5.7%</b>	<b>0.0pp</b>	<b>(1.8pp)</b>
Depreciation	777	727	795	2.2%	9.3%
<b>EBITDA</b>	<b>2,771</b>	<b>3,869</b>	<b>3,001</b>	<b>8.3%</b>	<b>-22.4%</b>
<b>EBITDA Margin</b>	<b>7.9%</b>	<b>9.2%</b>	<b>7.7%</b>	<b>(0.1pp)</b>	<b>(1.5pp)</b>
<b>Interest Income (Expense) net</b>	<b>(782)</b>	<b>(884)</b>	<b>(1,034)</b>	<b>32.1%</b>	<b>16.9%</b>
Interest expense	845	981	831	-1.7%	-15.3%
Interest income	58	50	56	-4.4%	12.8%
Other income (expense)				N.A.	N.A.
Foreign exchange gain (loss)	4	47	(259)	N.A.	N.A.
Unconsolidated subsidiaries	(105)	(137)	(144)	37.8%	5.3%
<b>Income before taxes</b>	<b>1,107</b>	<b>2,122</b>	<b>1,029</b>	<b>-7.1%</b>	<b>-51.5%</b>
Income taxes	359	955	332	-7.4%	-65.3%
Discontinued operations					
<b>Consolidated Net Income</b>	<b>748</b>	<b>1,166</b>	<b>697</b>	<b>-6.9%</b>	<b>-40.2%</b>
Non-controlling interest	11	3	6	-41.6%	104.1%
<b>Net Income</b>	<b>738</b>	<b>1,163</b>	<b>691</b>	<b>-6.4%</b>	<b>-40.6%</b>
<b>Net Margin</b>	<b>2.1%</b>	<b>2.8%</b>	<b>1.8%</b>	<b>(0.3pp)</b>	<b>(1.0pp)</b>
<b>EPS</b>	<b>0.410</b>	<b>0.646</b>	<b>0.384</b>	<b>-6.4%</b>	<b>-40.6%</b>

### Balance Sheet (Million pesos)

<b>Total Current Assets</b>	<b>42,987</b>	<b>46,523</b>	<b>44,089</b>	<b>2.6%</b>	<b>-5.2%</b>
Cash & Short Term Investments	2,634	1,921	2,250	-14.6%	17.1%
<b>Long Term Assets</b>	<b>98,918</b>	<b>99,205</b>	<b>98,974</b>	<b>0.1%</b>	<b>-0.2%</b>
Property, Plant & Equipment (Net)	68,368	67,640	67,203	-1.7%	-0.6%
Intangible Assets (Net)	20,340	20,367	20,364	0.1%	0.0%
<b>Total Assets</b>	<b>141,905</b>	<b>145,728</b>	<b>143,062</b>	<b>0.8%</b>	<b>-1.8%</b>
<b>Current Liabilities</b>	<b>42,435</b>	<b>43,117</b>	<b>43,667</b>	<b>2.9%</b>	<b>1.3%</b>
Short Term Debt	14,270	7,339	15,049	5.5%	105.0%
Accounts Payable	26,631	33,132	26,401	-0.9%	-20.3%
<b>Long Term Liabilities</b>	<b>37,003</b>	<b>38,605</b>	<b>34,728</b>	<b>-6.1%</b>	<b>-10.0%</b>
Long Term Debt	24,693	26,007	22,168	-10.2%	-14.8%
<b>Total Liabilities</b>	<b>79,439</b>	<b>81,722</b>	<b>78,395</b>	<b>-1.3%</b>	<b>-4.1%</b>
Common Stock	62,467	64,006	64,667	3.5%	1.0%
Non-controlling interest	131	137	120	-8.5%	-12.1%
<b>Total Equity</b>	<b>62,335</b>	<b>63,869</b>	<b>64,547</b>	<b>3.5%</b>	<b>1.1%</b>
<b>Liabilities &amp; Equity</b>	<b>141,905</b>	<b>145,728</b>	<b>143,062</b>	<b>0.8%</b>	<b>-1.8%</b>
<b>Net Debt</b>	<b>36,329</b>	<b>31,426</b>	<b>34,967</b>	<b>-3.7%</b>	<b>11.3%</b>

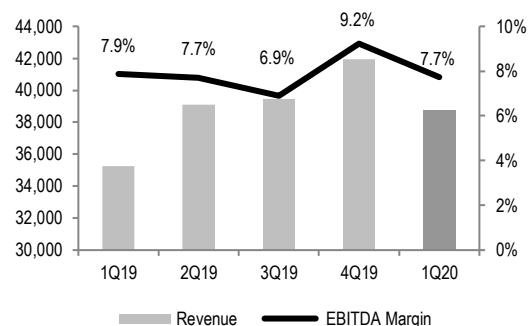
### Cash Flow

FX difference in cash & equivalents	(4,444.3)	12,314.5	(2,124.0)
CF from Operating Activities	(674.9)	(720.2)	(353.8)
CF from Investing Activities	5,524.2	(10,924.4)	2,807.0
CF from Financing Activities			
<b>Change in Cash Balance</b>	<b>405.0</b>	<b>670.0</b>	<b>329.2</b>

Source: Banorte, MSE.

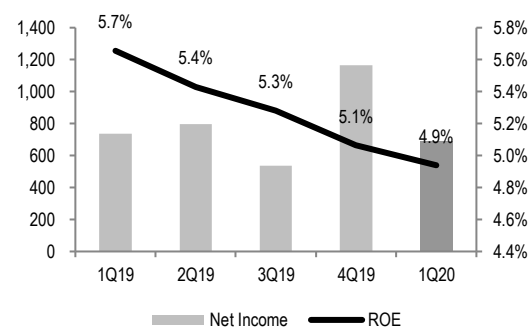
## Revenue & EBITDA Margin

MXN, million



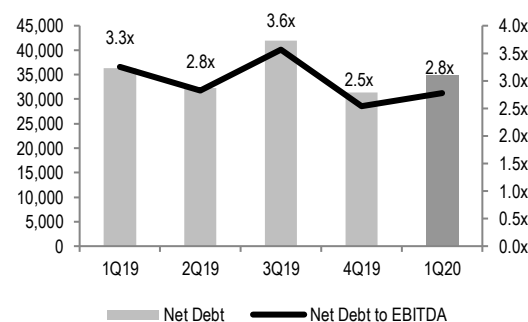
## Net Income & ROE

MXN, million



## Net Debt & Net debt to EBITDA ratio

MXN, million



## 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, Valentín 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>HOLD</b>	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
<b>SELL</b>	<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
SORIANA	25/10/19	Buy	\$31.00
SORIANA	30/07/19	Hold	\$26.00
SORIANA	08/01/19	Hold	\$33.00
SORIANA	15/08/18	Sell	\$35.50

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