SPORT

Company Note

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Focus on future´s growth strategy

- **We estimate that the company will reach the goal set in 2017 of having 74 clubs in operation and improving profitability by 2020. However, profitability would be lower than its 20% goal level**
- **Knowing the company´s new strategic approach as of 2021 will be the most relevant, therefore we adopted a conservative position in the stock, subject to know more details**
- **We set our PT 2020 of MXN 25.00 (FV/EBITDA 2020E of 6.3x, below the current multiple and equal to the 1y average). Despite valuation levels, due to the lack of catalysts, we reiterate a HOLD rating**

High-digit growth in 2020. According to our estimates, in 2020 the company's revenues would be driven by the opening of 8 additional clubs and a 7.0% yoy increase in total members to 96,480. Meanwhile, the higher revenue from the hand of a better expense's absorption should help the EBITDA to grow interannually 8.5%, with a consequent expansion in the EBITDA margin of 50bp to place it at 39.7%. Despite the latter, by excluding the effect of IFRS16, the company would not reach its profitability objective set in 2017, where it assumed an EBITDA margin of at least 20%. On the other hand, the relevant thing will be knowing more details regarding its new long-term strategy, hoping that they will help us to visualize catalysts for the results. Finally, although the valuation looks attractive - even when assuming a target multiple FV/EBITDA 2020E of 6.3x below the current one - our recommendation is HOLD. This is due to the modest growth perspective for a stock that carries the additional risk of its low trading volume in an environment of high volatility like the current one.

Consumer and Telecoms

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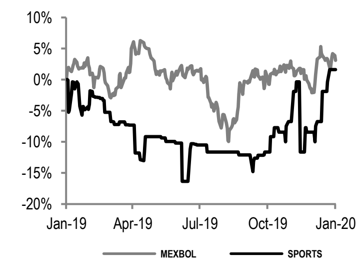
HOLD	
Current Price	$20.70
PT 2020	**$25.00**
Dividend 2020	
Dividend Yield (%)	
Upside Potential	20.8%
Max – Min LTM (P$)	20.70 – 17.04
Market Cap (US$m)	90.0
Shares Outstanding (m)	0.9
Float	77.4%
Daily Turnover (P$ m)	0.1
Valuation metrics TTM	
FV/EBITDA	7.2x
P/E	-27.8x

Relative performance to Mexbol
LTM



Financial Statements

MXN, million	2017	2018	2019E	2020E
Revenues	1,666	1,934	2,012	2,153
Operating Income	112	129	261	287
EBITDA	293	333	789	855
EBITDA Margin	17.6%	17.2%	39.2%	39.7%
Net Income	53	49	-108	-184
Net Margin	3.2%	2.5%	-5.4%	-8.5%
Total Assets	1,886	2,141	4,810	4,941
Cash	69	126	188	234
Total Liabilities	954	1,147	3,822	4,132
Debt	555	684	3,344	3,646
Common Equity	932	994	988	809

Source: Banorte with data from MSE

Valuation and financial metrics

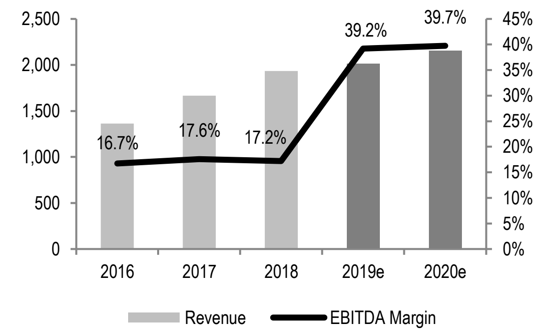
	2017	2018	2019E	2020E
FV/EBITDA	7.3x	6.6x	6.1x	5.9x
P/E	31.3x	33.9x	-15.2x	-9.0x
P/Book	1.8x	1.7x	1.7x	2.0x
ROE	5.8%	5.1%	-10.9%	-20.5%
ROA	2.8%	2.3%	-2.2%	-3.7%
EBITDA/ Interest exp	6.9x	6.9x	6.9x	6.9x
Net Debt/EBITDA	1.7x	1.7x	4.0x	4.0x
Debt/Equity	0.6x	0.7x	3.4x	4.5x

SPORT – Financial Statements
MXN, million

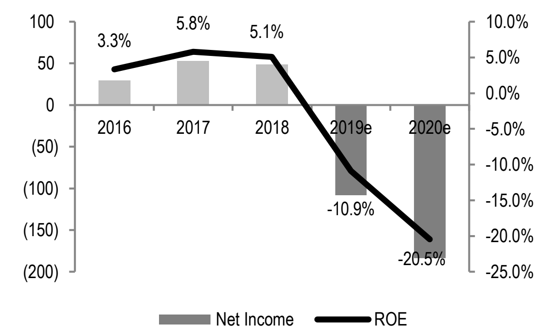
Year	2017	2018	2019E	2020E	CAGR
Net Revenue	**1,666**	**1,934**	**2,012**	**2,153**	**8.9%**
Cost of goods sold					
Gross profit	1,666	1,934	2,012	2,153	8.9%
General expenses	1,554	1,806	1,751	1,866	6.3%
Operating Income	**112**	**129**	**261**	**287**	**36.9%**
Operating Margin	**6.7%**	**6.7%**	**13.0%**	**13.3%**	**25.7%**
Depreciation	181	204	528	568	46.4%
EBITDA	**293**	**333**	**789**	**855**	**43.0%**
EBITDA Margin	**17.6%**	**17.2%**	**39.2%**	**39.7%**	
Interest income (expense) net	**(50)**	**(69)**	**(362)**	**(442)**	**106.5%**
Interest expense	56	80	366	449	99.8%
Interest income	8	10	8	13	18.8%
Other income (expenses)	(1)	(1)	(3)	(6)	88.7%
Exchange Income (loss)	(1)	2	(1)	(0)	-43.0%
Unconsolidated subsidiaries					
Net Income before taxes	**62**	**60**	**(101)**	**(155)**	**-236.0%**
Provision for Income taxes	9	11	8	29	48.8%
Discontinued operations					
Consolidated Net Income	**53**	**49**	**(108)**	**(184)**	**-251.6%**
Minorities					
Net Income	**53**	**49**	**(108)**	**(184)**	**-251.6%**
Net Margin	**3.2%**	**2.5%**	**-5.4%**	**-8.5%**	
EPS	**0.662**	**0.611**	**(1.358)**	**(2.308)**	**-251.6%**
Balance Sheet (Million pesos)					
Total Current Assets	**188**	**279**	**307**	**335**	**21.2%**
Cash & Short Term Investments	69	126	188	234	50.5%
Long Term Assets	1,698	1,862	4,503	4,606	39.5%
Property, Plant & Equipment (Net)	**1,394**	**1,501**	**1,709**	**1,812**	**9.1%**
Intangible Assets (Net)	30	58	75	75	35.4%
Total Assets	**1,886**	**2,141**	**4,810**	**4,941**	**37.9%**
Current Liabilities	491	450	999	1,150	32.8%
Short Term Debt	107	4	542	684	85.4%
Accounts Payable	361	446	457	466	8.9%
Long Term Liabilities	**463**	**697**	**2,823**	**2,983**	**86.1%**
Long Term Debt	448	680	2,803	2,963	87.7%
Total Liabilities	**954**	**1,147**	**3,822**	**4,132**	**63.0%**
Common Stock	932	994	988	809	-4.6%
Non-controlling interest					
Total Equity	**932**	**994**	**988**	**809**	**-4.6%**
Liabilities & Equity	**1,886**	**2,141**	**4,810**	**4,941**	**37.9%**
Net Debt	**486**	**557**	**3,156**	**3,412**	**91.4%**
Cash Flow (Million pesos)	**2017**	**2018**	**2019E**	**2020E**	
Cash flow from operating activities	251	346	682	500	
Cash flow from investing activities	(365)	(349)	(305)	(307)	
Cash flow from financing activities	48	60	(316)	(147)	
FX effect on cash					
Change in cash balance	**(65)**	**58**	**62**	**46**	

Source: Banorte, BMV

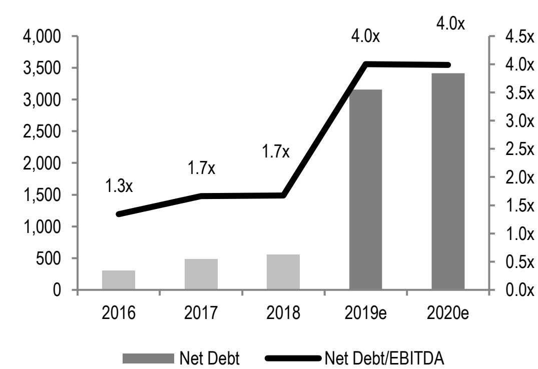
Revenue & EBITDA Margin
MXN, million



Net Income & ROE
MXN, million



Net Debt & Net Debt to EBITDA ratio
MXN, million



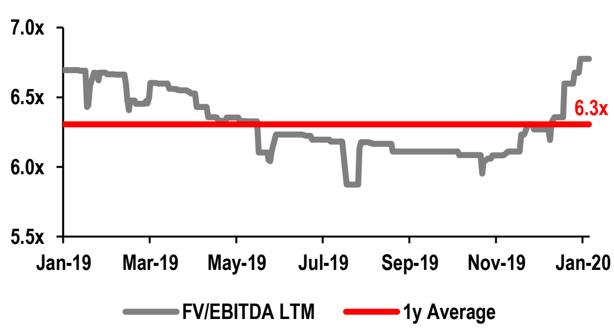
2020 Estimates.

Our projections consider that the company would open 8 additional clubs during the year, which would be reaching the goal set in 2017 to have 74 units in operation at the end of 2020. We also anticipate an increase in the number of mature clubs' users of 2.6% and a slight increase of 10bp in the churn rate to 3.8%. In this way, total customers would grow 7.0% to 96,480. Based on the latter, total revenues could be MXN 2,153 million, representing an annual advance of 7.0%. Regarding the breakdown by type of income, we forecast an annual increase of 7.0% for maintenance and membership fees, standing at MXN 1,754 million, while other revenues would grow 7.1% to MXN 399 million. On the other hand, we expect the company to continue with its strategy of operating leverage efficiency, so expenses should increase at a lower rate than revenues (+6.6%). However, by excluding the effect of IFRS 16, we anticipate that the profitability levels established in 2017 (an EBITDA margin of at least 20%) would not be achieved due to the expenses derived from the aggressive opening's strategy. In this sense, we project an 8.5% EBITDA growth to MXN 855 million, with the respective margin advancing 50bp to 39.7%. At net level, we expect the company to report a loss of MXN 184 million (+70.0% yoy), due to the effect of leases on the Net Interest Expense (+22.2% yoy). Finally, we estimate that the company would allocate MXN 320 million to Capex, using 65% for the opening of clubs and 35% for remodeling of units in operation.

We set our PT 2020 of MXN 25.00, reiterating a HOLD rating

The theoretical Sports World price was calculated using a relative valuation model. Thus, we determine our PT 2020 of MXN 25.00 per share by setting a target multiple FV/EBITDA 2020E of 6.3x, below the current one (7.2x) but equal to the 1-year average. Despite the attractive return, we assume a conservative position subject to knowing more details about the strategic objectives and forward approach, recognizing also as an additional risk the low trading volume of the stock. Even more in a high volatility environment, like the current one. In that sense, we reiterate our HOLD rating.

SPORT- FV/EBITDA *LTM*
times



Source: Bloomberg, Banorte

Certification of Analysts.

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	Reference
BUY	*When the share expected performance is greater than the MEXBOL estimated performance.*
HOLD	*When the share expected performance is similar to the MEXBOL estimated performance.*
SELL	*When the share expected performance is lower than the MEXBOL estimated performance.*

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History of PT and Ratings

Stock	Date	Rating	PT
SPORT S	9/1/2020	Hold	MXN 25.00
SPORT S	29/07/2019	Hold	MXN 19.00
SPORT S	25/02/2018	Hold	MXN 24.00
SPORT S	26/02/2018	Hold	MXN 21.50

BANORTE

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