

NEMAK

Quarterly Report

April 20, 2021

Strong recovery not reflected in valuation

- **Nemak's report exceeded all expectations, for which we anticipate a favorable reaction. Weakness in North America was more than compensated by Europe and the Rest of the World**
- **Meanwhile, operational efficiencies and a more favorable mix boosted profitability, confirming the company's positive outlook, which remains within our [top picks](#) for the year**

Operational efficiencies offset complications in vehicle production. Despite the global semiconductor crisis that started this 2021, which has led *IHS Markit* to reduce its vehicle production estimates by ~700bps for 1H21 and 180bps for 2021 (now +11.9%e y/y vs. +13.7%e in January), Nemak's figures were positive and exceeded our estimates. In this context, North America volume reflected such repercussions with a -8.3% y/y decline; however, new launches in Europe (+9.3% y/y), and recovery in the Rest of the World (+36.5%) offset said effect. As a result, consolidated volume grew 1.5% to 10.7 million units. Meanwhile, revenues increased 18.4% y/y to MXN 21.125 billion, supported by higher aluminum prices and a positive FX effect (+14.6% in USD). For its part, the company's cost and expense reduction strategy and a better sales mix in all regions –given its EV/SC segment's development with higher profitability– boosted EBITDA 22.1% y/y to MXN 3.436 billion, with which EBITDA margin expanded by 50bps to 16.3%. Finally, net income reached MXN 826 million (vs. MXN -303 million in 1Q20), thanks to a 53% lower CFC, attributable to lower FX losses, which contributed to the strong operating performance. **Valuation still does not reflect the favorable outlook.** Although automotive industry will be dependent on the evolution of semiconductor supply –where *IHS* estimates the shortage to continue in 2Q and then normalize towards 2H21– we continue to believe that 2021 will be a year of imminent recovery and higher profitability for Nemak, while valuation remains more than attractive at 3.0x FV/EBITDA 2021E.

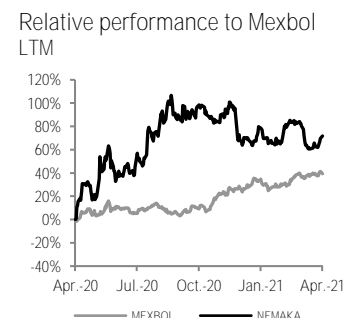
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BUY	
Current Price	\$5.91
PT	\$9.50
Price NMK	\$2.75
PT	\$4.49
Dividend 2021	\$0.60
Dividend Yield (%)	10.2%
Upside Potential	70.9%
Max – Min LTM (\$)	7.28 – 3.27
Market Cap (US\$m)	917.6
Shares Outstanding (m)	3,076.6
Float	24.76%
Daily Turnover US\$m	12.6
Valuation metrics LTM	
FV/EBITDA	4.6x
P/E	93.0x
MSCI ESG Rating*	N.A.



Financial Statements

	2019	2020	2021E	2022E
Revenue	77,363	66,325	86,811	97,553
Operating Income	4,964	1,967	7,722	8,760
EBITDA	11,958	8,926	14,164	15,890
EBITDA Margin	15.5%	13.5%	16.3%	16.3%
Net Income	2,493	-933	4,220	5,413
Net Margin	3.2%	-1.4%	4.9%	5.5%
Total Assets	88,744	98,732	94,945	101,042
Cash	5,883	8,720	2,073	4,352
Total Liabilities	54,800	63,065	56,675	59,297
Debt	28,605	33,222	26,621	27,994
Common Equity	33,943	35,667	38,269	41,745

Source: Banorte

Valuation and Financial metrics

	2019	2020	2021E	2022E
FV/EBITDA	3.4x	4.8x	3.0x	2.6x
P/E	7.3x	-19.5x	4.3x	3.4x
P/BV	0.5x	0.5x	0.5x	0.4x
ROE	7.1%	-2.7%	11.4%	13.5%
ROA	2.8%	-0.9%	4.4%	5.4%
EBITDA/Interest	7.6x	5.2x	9.1x	11.2x
Net Debt/EBITDA	1.9x	2.7x	1.7x	1.5x
Debt/Equity	0.8x	0.9x	0.7x	0.7x

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NEMAK – Results 1Q21
MXN, million

Concept	1Q20	1Q21	Var %	1Q21e	Diff% vs Estim.
Revenue	17,841	21,125	18.4%	19,197	10.0%
Operating Income	1,279	1,817	42.1%	1,508	20.5%
Ebitda	2,814	3,436	22.1%	3,067	12.0%
Net Income	-303	826	N.A.	1,018	-18.9%
Margins					
Operating Margin	7.2%	8.6%	1.4pp	7.9%	0.7pp
Ebitda Margin	15.8%	16.3%	0.5pp	16.0%	0.3pp
Net Margin	-1.7%	3.9%	5.6pp	5.3%	-1.4pp
EPS	-\$0.10	\$0.27	N.A.	\$0.33	-18.9%

Income Statement (Million pesos)

Year	2020	2020	2021	Change	Change
Quarter	1	4	1	% y/y	% q/q
Net Revenue	17,841	19,548	21,125	18.4%	8.1%
Costs of goods sold	15,109	16,837	17,866	18.3%	6.1%
Gross profit	2,732	2,711	3,258	19.3%	20.2%
General expenses	1,492	1,258	1,369	-8.2%	8.8%
Operating Income	1,279	1,179	1,817	42.1%	54.1%
Operating Margin	7.2%	6.0%	8.6%	1.4pp	2.6pp
Depreciation	1,535	1,816	1,619	5.5%	-10.8%
EBITDA	2,814	3,117	3,436	22.1%	10.2%
EBITDA Margin	15.8%	15.9%	16.3%	0.5pp	0.3pp
Interest Income (Expense) net	(1,461)	(537)	(681)	-53.4%	26.9%
Interest expense	400	421	411	2.7%	-2.3%
Interest income	8	18	14	73.2%	-23.5%
Other income (expense)	(0)	(32)	(18)	>500%	-44.2%
Foreign exchange gain (loss)	(1,069)	(103)	(267)	-75.1%	158.9%
Unconsolidated subsidiaries	10	(1)	57	469.0%	N.A.
Income before taxes	(173)	641	1,193	N.A.	86.1%
Income taxes	130	303	367	182.7%	21.2%
Discontinued operations					
Consolidated Net Income	(303)	338	826	N.A.	144.0%
Non-controlling interest				N.A.	N.A.
Net Income	(303)	338	826	N.A.	144.0%
Net Margin	-1.7%	1.7%	3.9%	5.6pp	2.2pp
EPS	(0.098)	0.110	0.268	N.A.	144.0%

Balance Sheet (Million pesos)

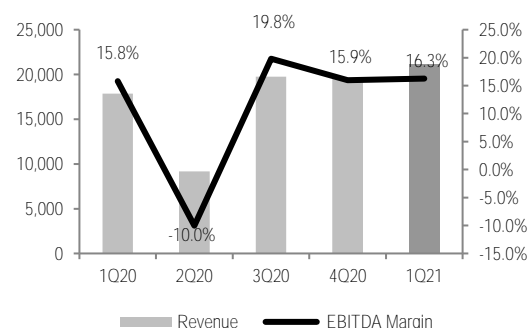
Total Current Assets	39,967	31,192	31,942	-20.1%	2.4%
Cash & Short Term Investments	18,154	8,720	5,673	-68.8%	-34.9%
Long Term Assets	77,793	67,540	67,771	-12.9%	0.3%
Property, Plant & Equipment (Net)	59,216	51,491	51,976	-12.2%	0.9%
Intangible Assets (Net)	6,881	6,027	5,889	-14.4%	-2.3%
Total Assets	117,760	98,732	99,713	-15.3%	1.0%
Current Liabilities	38,267	31,027	31,045	-18.9%	0.1%
Short Term Debt	12,510	4,944	3,453	-72.4%	-30.2%
Accounts Payable	24,925	25,220	26,627	6.8%	5.6%
Long Term Liabilities	39,888	32,038	31,948	-19.9%	-0.3%
Long Term Debt	35,246	28,277	28,044	-20.4%	-0.8%
Total Liabilities	78,156	63,065	62,992	-19.4%	-0.1%
Stockholders' Equity	39,605	35,667	36,721	-7.3%	3.0%
Non-controlling interest				N.A.	N.A.
Total Equity	39,605	35,667	36,721	-7.3%	3.0%
Liabilities & Equity	117,760	98,732	99,713	-15.3%	1.0%
Net Debt	29,601	24,502	25,823	-12.8%	5.4%

Cash Flow

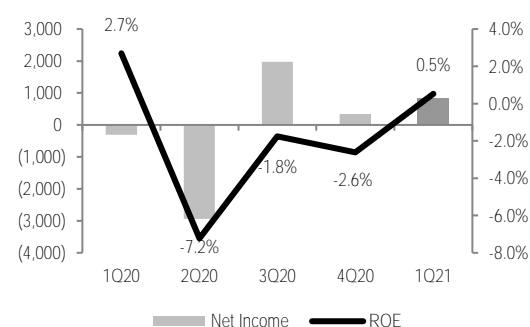
CF from Operating Activities	2,709.2	6,557.6	(7,571.0)
CF from Investing Activities	(1,927.0)	(1,738.3)	4,364.5
CF from Financing Activities	10,325.7	(9,209.5)	(3,198.2)
FX effect on cash	1,163.1	(1,347.8)	522.2
Change in Cash Balance	12,270.9	(5,738.0)	(5,883)

Source: Banorte, MSE.

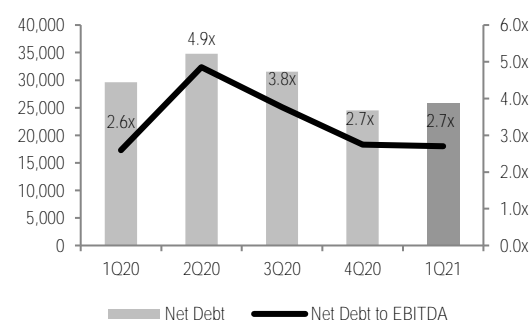
Revenue & EBITDA Margin
MXN, million



Net Income & ROE
MXN, million



Net Debt & Net Debt to EBITDA ratio
MXN, million



Performance by Region

North America								
	1Q20	Margin	4Q20	Margin	1Q21	Margin	% y/y	% q/q
Volume	6.1		5.3		5.6		-8.3%	5.7%
Revenue	\$ 508	100%	\$ 464	100%	\$ 520	100%	2.4%	12.1%
EBITDA	\$ 91	17.9%	\$ 77	16.6%	\$ 82	15.8%	-9.9%	6.5%

Europe								
	1Q20	Margin	4Q20	Margin	1Q21	Margin	% y/y	% q/q
Volume	3.4		3.4		3.8		9.3%	11.8%
Revenue	\$ 323	100%	\$ 360	100%	\$ 397	100%	22.9%	10.3%
EBITDA	\$ 46	14.2%	\$ 64	17.8%	\$ 75	18.9%	63.0%	17.2%

Rest of the World								
	1Q20	Margin	4Q20	Margin	1Q21	Margin	% y/y	% q/q
Volume	1.0		1.4		1.3		36.5%	-7.1%
Revenue	\$ 76	100%	\$ 123	100%	\$ 121	100%	59.2%	-1.6%
EBITDA	\$ 5	6.6%	\$ 8	6.5%	\$ 12	9.9%	140.0%	50.0%

Consolidated								
	1Q20	Margin	4Q20	Margin	1Q21	Margin	% y/y	% q/q
Volume	10.5		10.1		10.7		1.5%	5.9%
Revenue	\$ 907	100%	\$ 947	100%	\$ 1,039	100%	14.6%	9.5%
EBITDA	\$ 142	15.7%	\$ 149	15.7%	\$ 169	16.3%	19.0%	13.4%

Certification of Analysts.

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, 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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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	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
NEMAK A	01/21/2021	Buy	\$9.50
NEMAK A	09/29/2020	Hold	\$7.60
NEMAK A	03/04/2020	Hold	\$7.00
NEMAK A	01/09/2020	Buy	\$10.00

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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