

WALMEX

Company Note

August 30, 2018

We don't expect major surprises in August

- On Thursday September 6th, Walmex will release its sales data for August. In Mexico we expect SSS to grow 5.2%, while for Central America there would be a 1.0% drop
- In our view, back-to-school season coupled with aggressive promotions to wrap the summer campaign up would translate into a mild growth rate in terms of revenue vs July
- In that sense, pricing strategies would contain the average ticket surge to 3.2% (-160pb vs inflation), while traffic should rise 2.0pp

A healthy organic growth rate in August. In the absence of any extraordinary effect, we expect Walmex' revenue growth to post a sequential deceleration vs the pace recorded in July, due to: (1) aggressive promotions to wrap the summer campaign up; and (2) a more cautious consumer stemmed from the back-to-school season. Minding the aforementioned, we anticipate average ticket to advance 3.2%; that is 160bp lower than yoy inflation (4.8%). At the same time, we consider that price investments would result in a 2.0pp hike in terms of traffic. Therefore, like-for-like (LfL) sales in Mexico would soar 5.2% yoy. Furthermore, new openings are expected to add 140bp (6.6%), in such a way that domestic revenues would stand at MXN \$39,769m. As for Central America, we expect SSS to fall 1.0% yoy, as Nicaragua and Costa Rica's environment remains challenging. Meanwhile, new units would contribute with 350bp to total growth; same as the exchange conversion effect of the period, with which the MXN-denominated total revenue of this region would advance 6.0%. Thus, at a consolidated level, sales would increase 6.5% yoy to MXN \$ 48,328m, a positive figure despite showing some deceleration vs. previous months, in our view.

 www.banorte.com
 @ analisis_fundam

Valentín Mendoza

 Auto Parts/ Consumer Discretionary /
 Real Estate/ Retail
 valentin.mendoza@banorte.com

HOLD

Current Price	MXN \$53.09
PT 2018	MXN \$59.00
Dividend 2018	0.64
Dividend Yield (%)	1.2%
Upside Potential	12.3%
Max – Min LTM (P\$)	57.50 – 40.45
Market Cap (US\$m)	48,523.5
Shares Outstanding (m)	17,461.4
Float	30%
Daily Turnover (P\$ m)	718.7
Valuation metrics TTM	
EV/EBITDA	15.7x
P/E	26.1x

Relative performance to Mexbol

Financial Statements

MXN, million	2016	2017	2018E	2019E
Revenues	532,384	573,265	617,201	663,333
Operating Income	39,454	43,838	49,052	53,906
EBITDA	50,148	55,473	60,607	66,324
EBITDA Margin	9.4%	9.7%	9.8%	10.0%
Net Income	33,352	39,865	35,980	38,802
Net Margin	6.3%	7.0%	5.8%	5.8%
Total Assets	287,930	295,256	304,487	327,871
Cash	27,976	35,596	45,172	55,018
Total Liabilities	135,722	157,314	179,044	179,044
Debt	15,295	15,053	15,794	15,672
Common Equity	167,026	159,534	147,173	148,826

Source: Banorte with data from MSE

Valuation and financial metrics

	2016	2017	2018E	2019E
EV/EBITDA	18.2x	16.3x	14.8x	13.4x
P/E	27.8x	23.3x	25.8x	23.9x
P/Book	5.6x	5.8x	6.3x	6.2x
ROE	20.9%	24.4%	23.5%	26.2%
ROA	11.6%	13.5%	11.8%	11.8%
EBITDA/ Interest expen	8.1x	6.9x	6.9x	6.9x
Net Debt/EBITDA	-0.3x	-0.4x	-0.5x	-0.6x
Debt/Equity	0.1x	0.1x	0.1x	0.1x

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Document for distribution among public

WALMEX– Pro Forma Financial Statements

MXN, million

Income Statement					
Year	2016	2017	2018E	2019E	CAGR
Net Revenue	532,384	573,265	617,201	663,333	7.6%
Cost of goods sold	414,900	445,570	477,847	512,902	7.3%
Gross profit	117,483	127,695	139,354	150,431	8.6%
General expenses	77,833	83,684	91,317	97,602	7.8%
Operating Income	39,454	43,838	49,052	53,906	11.0%
Operating Margin	7.4%	7.6%	7.9%	8.1%	3.1%
Depreciation	10,694	11,645	12,492	13,495	8.1%
EBITDA	50,148	55,473	60,607	66,324	9.8%
EBITDA Margin	9.4%	9.7%	9.8%	10.0%	
Interest income (expense) net	(322)	(548)	576	745	-232.2%
Interest expense					
Interest income	570	1,030	1,411	1,561	39.9%
Other income (expenses)	(1,317)	(1,587)	(1,272)	(817)	-14.7%
Exchange Income (loss)	383	9	437	1	-86.3%
Unconsolidated subsidiaries					
Net Income before taxes	39,132	43,290	49,628	54,651	11.8%
Provision for Income taxes	10,623	10,900	13,648	15,849	14.3%
Discontinued operations	4,842	7,475			
Consolidated Net Income	31,367	24,916	35,980	38,802	7.3%
Minorities	(0)				-100.0%
Net Income	33,352	39,865	35,980	38,802	5.2%
Net Margin	6.3%	7.0%	5.8%	5.8%	
EPS	1.910	2.283	2.061	2.222	5.2%

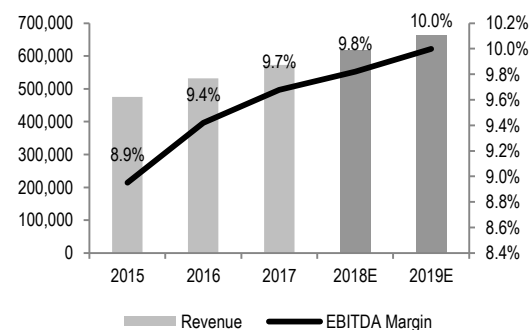
Balance Sheet (Million pesos)

Total Current Assets	104,023	106,876	113,335	134,885	9.0%
Cash & Short Term Investments	27,976	35,596	45,172	55,018	25.3%
Long Term Assets	183,908	188,379	191,152	192,986	1.6%
Property, Plant & Equipment (Net)	136,350	134,963	137,682	139,516	0.8%
Intangible Assets (Net)	1,919	1,995	1,912	1,912	-0.1%
Total Assets	287,930	295,256	304,487	327,871	4.4%
Current Liabilities	93,957	107,828	128,941	150,784	17.1%
Short Term Debt	614	449	300	291	-22.0%
Accounts Payable	65,558	80,099	91,312	111,875	19.5%
Long Term Liabilities	26,947	27,894	28,373	28,261	1.6%
Long Term Debt	14,681	14,603	15,494	15,382	1.6%
Total Liabilities	120,904	135,722	157,314	179,044	14.0%
Common Stock	167,026	159,534	147,173	148,826	-3.8%
Preferred Stock	(0)				-100.0%
Total Equity	167,026	159,534	147,173	148,826	-3.8%
Liabilities & Equity	287,930	295,256	304,487	327,871	4.4%
Net Debt	(12,681)	(20,544)	(29,378)	(39,345)	45.9%

Cash Flow (Million pesos)				
	2016	2017	2018E	2019E
Cash Flow from Operating Activities before Taxes	29,045	9,511	34,684	66,585
Cash Flow from Operating Activities	36,114	24,731	21,192	(6,247)
Cash Flow from Investing Activities	(13,487)	3,923	(17,469)	(17,619)
Cash Flow from Financing Activities	(30,523)	(44,366)	(26,214)	(32,873)
Change in Cash Balance	21,149	(6,201)	12,192	9,845

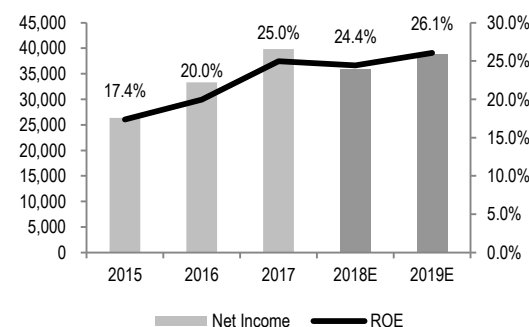
Revenue & EBITDA Margin

MXN, million



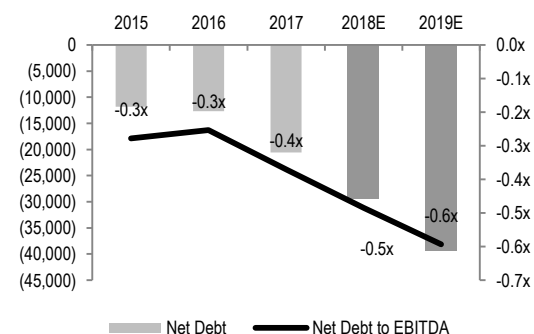
Net Income & ROE

MXN, million



Net Debt & Net debt to EBITDA ratio

MXN, million



Source: Banorte, MSE.

Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, 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 and Francisco Duarte Alcocer 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	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
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
WALMEX	25/7/2018	Hold	P\$59.00
WALMEX	25/4/2018	Hold	P\$54.00
WALMEX	19/10/2017	Buy	P\$50.00
WALMEX	27/4/2017	Buy	P\$46.00

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Francisco Duarte Alcocer	Analyst	francisco.duarte.alcocer@banorte.com	(55) 1670 - 2707
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454