

ALPEK

Quarterly Report

October 22, 2021

A very favorable environment. Guidance up again

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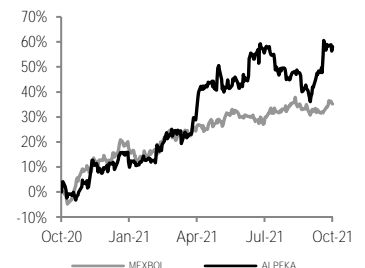
- **Another extraordinary quarter, helped by the favorable raw material environment, volumes supported by solid demand, very strong margins, and outstanding financial strength**
- **The company raised its 2021 guidance again (+19%) to \$1.05 billion EBITDA (\$850 on a comparable basis), considering that margin resilience will continue, along with record volumes**
- **We raise our price target to \$32.00, (FV/EBITDA 2022e of 6.0x, similar to the LTM average), reiterating Alpek within our selection of [companies favored by the environment](#)**

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BUY	
Current Price	\$25.27
PT	\$32.00
Dividend	
Dividend (%)	
Upside Potential	26.6%
Max – Min LTM (\$)	26.7 – 15.03
Market Cap (US\$m)	2,625.2
Shares Outstanding (m)	2,111
Float	17.9%
Daily Turnover US\$m	33.1
Valuation metrics LTM	
FV/EBITDA	4.0x
P/E	5.8x
MSCI ESG Rating*	N.A.

Another quarter that should be well received by the market. Alpek reported revenue growth of 42.1% y/y to MXN 41.652 billion, higher than our estimate, and EBITDA growth of 41.0% to MXN 5.581 billion, similar to our expectations. This led to a virtually stable EBITDA margin of 13.4%. On this occasion, the result was supported by a positive inventory adjustment and a MXN 905 million (\$45 million) raw material carryforward effect due to the increase in the price of Brent crude oil, paraxylene and propylene. Even on a comparable basis, the result was very favorable, reflecting EBITDA of MXN 4,677 million (+37.4% y/y) due to: (1) Polyester margins underpinned by strong demand and the high spread vs. China; (2) record polypropylene margins in a favorable demand/supply environment; and (3) EPS performance, with record volumes favored by demand in the construction and e-commerce sectors, in addition to the acquisition of the styrenics business from *Nova Chemicals*. The financial structure remains very solid at 1.2x ND/EBITDA levels, while the valuation is very attractive with an FV/EBITDA multiple that decreased to 4.0x vs. 5.1x previously. The company raised its 2021 guidance again, and now anticipates EBITDA of \$1.05 billion (+86% y/y) vs. \$880 million previously, and on a comparable basis to \$850 million (+41% y/y), given the favorable dynamics that are expected to continue.

Relative performance to Mexbol LTM



Financial Statements

	2019	2020	2021E	2022E
Revenue	119,685	113,989	143,673	146,477
Operating Income	12,361	7,493	16,899	11,707
EBITDA	16,395	11,993	21,089	15,973
EBITDA Margin	13.7%	10.5%	14.7%	10.9%
Net Income	6,605	3,123	8,592	5,369
Net Margin	5.5%	2.7%	6.0%	3.7%
Total Assets	102,794	106,353	112,140	116,651
Cash	7,059	10,144	7,018	11,529
Total Liabilities	57,736	60,840	59,035	59,270
Debt	32,710	33,729	32,328	31,312
Common Equity	45,058	45,512	53,105	57,381

Source: Banorte

Valuation and Financial metrics

	2019	2020	2021E	2022E
FV/EBITDA	5.1x	6.9x	4.0x	5.1x
P/E	8.1x	17.1x	6.2x	10.0x
P/BV	1.3x	1.3x	1.1x	1.1x
ROE	16.3%	7.7%	18.5%	10.8%
ROA	6.4%	2.9%	7.7%	4.6%
EBITDA/ interest	11.9x	6.1x	7.9x	9.5x
Net Debt/EBITDA	1.6x	2.0x	1.2x	1.2x
Debt/Equity	0.7x	0.7x	0.6x	0.5x

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ALPEK – Results 3Q21
MXN, million

Concept	3Q20	3Q21	Var %	3Q21e	Diff% vs Estim.
Revenue	29,310	41,652	42.1%	33,539	24.2%
Operating Income	2,735	4,522	65.3%	4,198	7.7%
Ebitda	3,958	5,581	41.0%	5,434	2.7%
Net Income	1,436	2,219	54.5%	2,068	7.3%
Margins					
Operating Margin	9.3%	10.9%	1.5pp	12.5%	-1.7pp
Ebitda Margin	13.5%	13.4%	-0.1pp	16.2%	-2.8pp
Net Margin	4.9%	5.3%	0.4pp	6.2%	-0.8pp
EPS	\$0.68	\$1.05	54.5%	\$0.98	7.3%

Income Statement (Million pesos)

Year	2020	2021	2021	Change	Change
Quarter	3	2	3	% y/y	% q/q
Net Revenue	29,310.1	37,077.5	41,652.0	42.1%	12.3%
Costs of goods sold	25,315.7	31,380.7	35,644.2	40.8%	13.6%
Gross profit	3,994.4	5,696.8	6,007.8	50.4%	5.5%
General expenses	1,259.4	1,259.3	1,486.0	18.0%	18.0%
Operating Income	2,734.9	4,437.5	4,521.8	65.3%	1.9%
Operating Margin	9.3%	12.0%	10.9%	1.5pp	(1.1pp)
Depreciation	1,220.9	1,038.9	1,053.3	-13.7%	1.4%
EBITDA	3,958.0	5,481.0	5,581.0	41.0%	1.8%
EBITDA Margin	13.5%	14.8%	13.4%	(0.1pp)	(1.4pp)
Interest Income (Expense) net	(355.0)	(374.3)	(743.1)	109.3%	98.5%
Interest expense	501.7	418.8	436.2	-13.0%	4.2%
Interest income	29.7	46.3	51.0	72.0%	10.3%
Other income (expense)	(57.0)	(99.9)	(107.1)	87.8%	7.1%
Foreign exchange gain (loss)	174.1	98.1	(250.8)	N.A.	N.A.
Unconsolidated subsidiaries	(11.8)	(13.0)	(12.3)	3.5%	-5.5%
Income before taxes	2,368.2	4,050.2	3,766.4	59.0%	-7.0%
Income taxes	596.6	860.4	917.3	53.8%	6.6%
Discontinued operations					
Consolidated Net Income	1,771.6	3,189.8	2,849.1	60.8%	-10.7%
Non-controlling interest	335.6	705.9	629.9	87.7%	-10.8%
Net Income	1,435.9	2,483.9	2,219.2	54.5%	-10.7%
Net Margin	4.9%	6.7%	5.3%	0.4pp	(1.4pp)
EPS	0.678	1.173	1.048	54.5%	-10.7%

Balance Sheet (Million pesos)

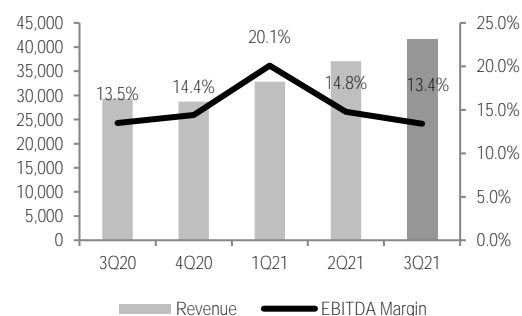
Total Current Assets	47,544.8	55,117.3	60,562.3	27.4%	9.9%
Cash & Short Term Investments	11,602.2	9,381.1	7,865.4	-32.2%	-16.2%
Long Term Assets	67,223.4	62,738.5	63,018.5	-6.3%	0.4%
Property, Plant & Equipment (Net)	41,517.0	40,098.0	40,475.4	-2.5%	0.9%
Intangible Assets (Net)	3,689.0	3,082.6	3,056.7	-17.1%	-0.8%
Total Assets	114,768.2	117,855.8	123,580.7	7.7%	4.9%
Current Liabilities	24,546.6	28,970.2	31,528.4	28.4%	8.8%
Short Term Debt	4,244.3	1,751.8	1,343.7	-68.3%	-23.3%
Accounts Payable	19,315.8	26,346.6	28,958.6	49.9%	9.9%
Long Term Liabilities	44,135.2	39,664.8	40,608.6	-8.0%	2.4%
Long Term Debt	35,977.0	32,196.3	33,268.9	-7.5%	3.3%
Total Liabilities	68,681.7	68,635.0	72,137.1	5.0%	5.1%
Stockholders' Equity	46,086.5	49,220.8	51,443.7	11.6%	4.5%
Non-controlling interest	5,654.3	5,935.8	6,326.1	11.9%	6.6%
Total Equity	40,432.1	43,284.9	45,117.6	11.6%	4.2%
Liabilities & Equity	114,768.2	117,855.8	123,580.7	7.7%	4.9%
Net Debt	28,619.2	24,566.9	26,747.3	-6.5%	8.9%

Cash Flow

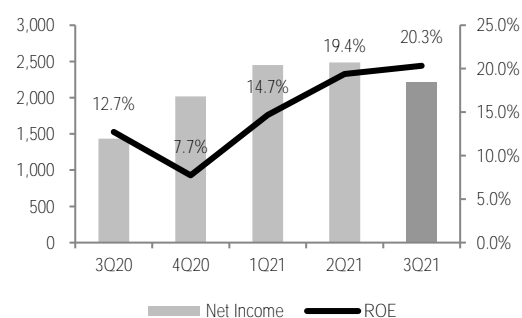
CF from Operating Activities	11,554.7	8,306.0	8,984.6		
CF from Investing Activities	(1,130.8)	(2,931.7)	(3,482.5)		
CF from Financing Activities	(3,886.2)	(4,622.0)	(6,229.5)		
Change in Cash Balance	4,394.0	(798.3)	(2,334.5)		

Source: Banorte, MSE.

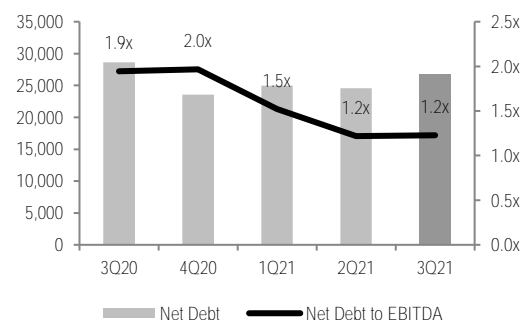
Revenue & EBITDA Margin
MXN, million



Net Income & ROE
MXN, million



Net Debt & Net Debt to EBITDA ratio
MXN, million



Results by Business Segment

Polyester
MXN, Million

	3Q20	Margin	2Q21	Margin	3Q21	Margin	% y/y	% q/q
Revenue	21,901	100.0%	23,720	100.0%	24,574	100.0%	12.2%	3.6%
EBITDA	2,409	11.0%	2,690	11.3%	2,761	11.2%	14.6%	2.6%
EBITDA*	2,107	9.6%	2,050	8.6%	2,141	8.7%	1.6%	4.4%

*Inventory and non – operating (non – recurring) gains/losses are not included
Source: Alpek

Plastics and Chemicals
MXN, Million

	3Q20	Margin	2Q21	Margin	3Q21	Margin	% y/y	% q/q
Revenue	6,552	100.0%	12,220	100.0%	13,656	100.0%	108.4%	11.8%
EBITDA	1,481	22.6%	2,727	22.3%	2,771	20.3%	87.1%	1.6%
EBITDA*	1,230	18.8%	2,408	19.7%	2,487	18.2%	102.2%	3.3%

*Inventory and non – operating (non – recurring) gains/losses are not included
Source: Alpek

Adjusting outlook after an increase in the 2021 guidance of 19%, while the environment is more favorable than expected. The company's results showed that the dynamics in the environment have been more favorable than anticipated, leading to a faster-than-expected recovery and expecting these dynamics to continue into 1H22. Based on the above, Alpek again improved its 2021 guidance, where it now anticipates EBITDA of \$1.05 billion, which would represent an 86% y/y increase; and on a comparable basis, excluding extraordinary items and adjustments for raw material and inventory carryforwards, of \$850 million (+41% y/y) vs. the previous guidance of \$765 million. The higher outlook is supported by: (1) in the Polyester segment, on increased demand and high Asian integrated margins (\$315 per ton for 4Q21 vs. \$285 previous), as high marine freight cost will continue to provide additional support to the solid balance between the supply-demand, expected to normalize through 2022; and (2) in Plastics & Chemicals, expecting the positive effect of the polar vortex on polypropylene margins in addition to the effects of Hurricane Ida that impacted US Gulf Coast producers, to be extended to 4Q21, also supported by the strength in demand and the recovery trends observed. Based on the above, and after incorporating the company's results and new guidance into our model, our 2021 estimates assume revenues of MXN 143.673 billion (\$7.097 billion vs. \$5.717 billion previously, +33.3% y/y) and EBITDA of MXN 21.089 billion (\$1.042 billion vs. \$744 billion previously, +84.4% y/y), which would represent increases of 26.0% and 75.8%, respectively. In our estimates we have incorporated the [adjustments recently made to the exchange rate trajectory](#) by the Fixed Income and Exchange Rate Strategy area, now anticipating a 2021 close at MXN 20.50 vs. MXN 20.20 previously. What is noteworthy is that we anticipate that resilience in volumes will continue to be supported by the new dynamics observed after the pandemic, the strength in demand, and low inventories, in the context of the bottlenecks faced by supply chains, which will continue to be reflected in very solid margins, even until the first half of 2022. Thus, on a

consolidated basis, we anticipate a 420bps increase in EBITDA margin to 14.7% vs. 13.0% previously.

A very solid balance sheet, ready for strategic options. The company's solid cash flow generation has allowed it to maintain an outstanding financial strength, with a ND/EBITDA ratio of 1.2x, which in our opinion opens up interesting opportunities for acquisitions and/or strategic alliances, seeking to continue strengthening the company's core business, such as the alliance formed with *Contour Global* to jointly develop a carbon dioxide capture and liquefaction facility, and we expect to reach a definitive investment decision soon. In that sense, we do not rule out that the company could take advantage of any alternative that may present, not without leaving aside distributions to shareholders through dividends that will continue to be attractive, in our opinion, with average yields of ~7.0% in annual terms.

Strengthening ESG strategies. The company recently communicated the *Evergreen Project*, which is a comprehensive and analytical effort designed to understand, compare, define and communicate the corresponding objectives for each of Alpek's Environmental, Social and Corporate Governance (ESG) issues. These include achieving carbon neutrality by 2050 by initiating the transition of its energy contracts to renewable energy sources and exploring the adoption of new technologies to eliminate the use of fossil fuels in steam generation. Similarly, it will seek to improve safety rates to the top decile of the industry, while increasing PET (rPET) recycling capacity to more than 300 thousand tons through the expansion of its current operations, by mergers and acquisitions focused on the sector, and will focus on providing value-added granulation, necessary to guarantee bottle-to-bottle recycling. This is undoubtedly a strength that will enable it to continue to stand out in the industry.

Valuation. After adjusting our estimates and valuation model, we raised our target price for Alpek shares from MXN 25.50 to MXN 32.00, which represents a FV/EBITDA 2022e multiple of 6.0x (similar to the LTM average), albeit above the current multiple of 4.0x, but in line with the median of comparable companies in North America of 6.1x. In our view, the current valuation level does not reflect the resilience of the business under the environment, the financial strength and prospects of the company. The potential return offered by our target price above current levels is 26.6%, thus, we reiterate our BUY rating.

Our target price has been calculated through a discounted cash flow valuation model, using a discount rate (WACC) of 10.5%, which assumes a cost of capital of 13.5%, a risk-free rate of 7.8% (estimated for the 10-year Mexican bond), a beta of 0.95 and a market risk premium of 6.0%. The average cost of debt is 7.5%, and the debt/equity ratio is 36.9%. For terminal value (perpetuity), we are considering an FV/EBITDA multiple of 6.0x, below the median of global peers of 7.0x according to Bloomberg consensus, but similar to the median of companies in North America.

Discounted cash flow valuation model

MXN, million

	2022e	2023e	2024e	2025e	2026e	2027e	2028e	Perpet.
(+) EBITDA	15,973	16,412	16,905	17,412	17,934	18,472	19,026	
(-) Working Capital	(1,051)	(995)	(1,014)	(1,045)	(1,076)	(1,108)	(1,142)	
(-) Fixed Capital Investment	(6,157)	(6,058)	(6,361)	(6,679)	(7,013)	(7,363)	(7,731)	
(-) Taxes	(2,740)	(2,740)	(2,705)	(2,786)	(2,869)	(2,956)	(3,044)	
(=) FCFF	6,025	6,619	6,825	6,903	6,976	7,045	7,109	
(+) Perpetuity	0	0	0	0	0	0	0	117,583
(=) Total FCFF	6,025	6,619	6,825	6,903	6,976	7,045	7,109	117,583

Risk-free Rate	7.8%	(+) FCFs Present Value	29,596
10-year spread Mexico vs US		(+) Perpetuity Present Value	58,620
Market Risk	6.0%	= Enterprise value	88,216
Beta	0.95	(+) Other investments	
CAPM	13.50%	(-) Net Debt	(19,783)
		(-) Minority interest	
Cost of Debt	7.50%	(=) Equity Value	68,434
Tax rate	30%	Shares Outstanding	2,118
Net Cost of Debt	5.25%		
Debt/Capital	36.9%	Target Price \$	32.31
WACC	10.45%		
Terminal Value	6.0x		

Source: Banorte

Relative Valuation

Stock	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
AMERICA											
LYONDELLBASELL INDU-CL A	USD 98.39	32,913	47,063	4.2x	7.7x	5.1x	6.4x	8.0x	4.9x	5.9x	4.6%
EASTMAN CHEMICAL CO	USD 106.87	14,511	19,695		13.7x	11.8x	11.4x	15.1x	8.7x	8.7x	2.6%
BRASKEM SA-PREF A	BRL 57.75	8,023	13,910	7.9x				5.6x	3.8x	2.7x	4.0x
ORBIA ADVANCE CORP SAB DE CV	P\$ 55.52	5,761	500		12.0x	9.7x	12.4x	5.8x	5.7x	6.4x	3.7%
	Average	15,302	20,292	6.0x	11.1x	8.8x	8.9x	8.2x	5.5x	6.2x	3.6%
	Median	11,267	16,802	6.0x	12.0x	9.7x	8.9x	6.9x	5.3x	6.1x	3.7%
EUROPE & ASIA											
BASF SE	€ 63.87	68,272	88,109	2.4x	30.1x	9.9x	11.1x	8.4x	6.6x	7.1x	5.2%
FORMOSA PLASTICS CORP	TWD 114.00	26,039	23,967	2.0x	11.1x	10.4x	11.8x	12.9x	10.0x	12.9x	2.1%
NAN YA PLASTICS CORP	TWD 88.90	25,299	27,076	1.9x	11.1x	9.7x	12.5x	10.4x	8.7x	11.2x	2.7%
FORMOSA CHEMICALS & FIBRE	TWD 82.00	17,246	17,512	1.3x	9.9x	11.4x	13.7x	8.5x	8.6x	11.6x	3.0%
PETRONAS CHEMICALS GROUP BHD	MYR 8.75	16,789	14,263	2.1x	16.5x	12.8x	14.9x	9.5x	7.8x	8.5x	3.4%
SOLVAY SA	€ 106.05	13,067	18,301			12.6x	11.7x	9.1x	6.9x	6.7x	3.5%
MITSUBISHI CHEMICAL HOLDINGS	JPY 981.60	12,936	33,505	8.5x	37.5x	10.0x	10.0x	11.4x	7.1x	7.0x	
SUMITOMO CHEMICAL CO LTD	JPY 573.00	8,299	20,878	2.5x		7.7x	7.5x	7.9x	6.3x	6.2x	3.5%
INDORAMA VENTURES PCL	THB 44.75	7,531	13,843	2.6x	16.5x	12.1x	12.9x	9.8x	8.8x	8.7x	1.9%
SINOPEC SHANGHAI PETROCHE-A	CNY 4.56	6,103	5,811	1.7x	13.3x	16.3x	13.9x		9.3x	8.1x	
LANXESS AG	€ 58.26	5,855	7,237	3.2x	31.3x	13.7x	11.1x	8.2x	6.1x	5.3x	1.7%
MITSUMI CHEMICALS INC	JPY 3,600.00	6,446	9,928	1.1x	6.9x	7.0x	7.9x	5.9x	5.0x	5.3x	3.1%
SUMITOMO SEIKA CHEMICALS CO	JPY 3,370.00	412	326	0.6x							3.0%
	Average	16,484	21,597	2.5x	18.4x	11.1x	11.6x	9.3x	7.6x	8.2x	3.0%
	Median	12,936	17,512	2.1x	14.9x	10.9x	11.8x	9.1x	7.5x	7.6x	3.0%
GLOBAL											
	Average	16,206	21,290	3.0x	16.7x	10.7x	10.9x	9.0x	7.1x	7.7x	3.1%
	Median	12,936	17,512	2.3x	13.3x	10.4x	11.5x	8.5x	7.0x	7.0x	3.1%
ALPEK SADE CV	Ps 25.27	2,636	83,844	6.4x	8.4x	12.0x	4.2x	4.8x	5.9x	4.8%	

Source: Bloomberg

Certification of Analysts.

We, 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, Alik Daniel García Álvarez, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo 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.

Relevant statements.

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.

Last-twelve-month activities of the business areas.

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.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

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
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.

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
ALPEK	20/10/2021	BUY	\$32.00
ALPEK	20/04/2021	BUY	\$25.50
ALPEK	11/02/2021	BUY	\$22.00
ALPEK	18/02/2020	HOLD	\$19.00

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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