

MEGA

Quarterly Report

April 24, 2020

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Efficiencies in Cable boosted profitability

- **Mega's results came in line with expectations, although profitability was above our estimates due to operating efficiencies in Cable and higher ARPU, because of higher demand amid COVID-19 outbreak**
- **The stock could be more defensive in the current environment due to their business segments' resilience and a very solid balance sheet. Nevertheless, we will incorporate a [lower economic growth outlook](#)**

Consumer and Telecoms

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Social distancing boosted demand in the Mass Market. Megacable results were in line with our estimates at operating level. The lockdown, aiming to contain the Coronavirus outbreak, boosted telephony and internet RGU, as a result of higher connectivity demand, as well as video's ARPU and per unique subscriber's (as a consequence of higher demand for additional services), while easing churn rates. In this context, the company reported 113,400 net additions q/q (RGU +6.3% y/y), a 2.1% increase in unique subscribers and a 1.8% ARPU growth (+7.7% in unique subscriber). Thus, revenues grew 7.2% y/y to \$5.520 billion (Mass Market +8.3%; Corporate Telecom +2.2%). Meanwhile, cost reduction strategies (specially in Cable) drove gross margin up by 20bps, which coupled with expense efficiencies boosted EBITDA margin by 60bps y/y to 50.1% (Cable +70bps to 51.7%). In this context, EBITDA grew 8.5% y/y to \$2.767 billion. Finally, net income increased 11.8% y/y to \$1.320 billion, bolstered by FX gains.

Solid balance sheet to face a challenging outlook. In spite of an increase in debt levels to preserve liquidity, due to COVID-19 uncertainty and aggressive investments focused on its network update, Mega's financial structure remains quite solid at 0.8x ND/EBITDA ratio (vs 0.5x in 4Q19). Thus, FV/EBITDA multiple increased slightly to 5.6x from 5.4x.

Under review

Current Price	\$56.97
PT 2020	
Dividend 2020e	
Dividend Yield (%)	
Upside Potential	
Max – Min LTM (\$)	93.19 – 54.80
Market Cap (US\$m)	1,982.4
Shares Outstanding (m)	860
Float	48%
Daily Turnover US\$m	76.5
Valuation metrics TTM	
FV/EBITDA	5.6x
P/E	10.9x

Relative performance to Mexbol



Financial Statements

	2018	2019	2020E	2021E
Revenue	19,535	21,605	23,628	25,216
Operating Income	6,207	6,172	7,636	8,083
EBITDA	9,446	10,240	11,624	12,458
EBITDA Margin	48.4%	47.4%	49.2%	49.4%
Net Income	4,601	4,337	5,129	5,215
Net Margin	23.6%	20.1%	21.7%	20.7%
Total Assets	39,408	43,308	48,645	52,390
Cash	3,331	2,206	2,693	2,781
Total Liabilities	7,850	2,714	4,047	4,290
Debt	3,903	7,006	7,008	7,008
Common Equity	28,650	30,974	34,979	38,480

Source: Banorte

Valuation and Financial metrics

	2018	2019	2020E	2021E
EV/EBITDA	5.4x	5.4x	4.6x	4.2x
P/E	10.5x	11.3x	9.1x	9.0x
P/BV	2.2x	2.0x	1.8x	1.6x
ROE	16.9%	14.5%	15.6%	14.2%
ROA	11.7%	10.0%	10.5%	10.0%
EBITDA/ Interest	23.1x	15.0x	15.4x	16.0x
Net Debt/EBITDA	0.1x	0.5x	0.4x	0.3x
Debt/Equity	0.1x	0.2x	0.2x	0.2x

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MEGA – Results 1Q20

MXN, million

Concept	1Q19	1Q20	Var %	1Q20e	Diff% vs Estim.
Revenue	5,150	5,520	7.2%	5,507	0.2%
Operating Income	1,597	1,658	3.8%	1,578	5.1%
Ebitda	2,550	2,767	8.5%	2,705	2.3%
Net Income	1,181	1,320	11.8%	1,057	24.9%
Margins					
Operating Margin	31.0%	30.0%	-1.0pp	28.7%	1.4pp
Ebitda Margin	49.5%	50.1%	0.6pp	49.1%	1.0pp
Net Margin	22.9%	23.9%	1.0pp	19.2%	4.7pp
EPS	\$1.37	\$1.54	12.0%	\$1.23	24.9%

Income Statement (Million pesos)

Year	2019	2019	2020	Change	Change
Quarter	1	4	1	% YoY	% QoQ
Net Revenue	5,150	5,625	5,520	7.2%	-1.9%
Costs of goods sold	1,334	1,669	1,417	6.2%	-15.1%
Gross profit	3,816	3,956	4,103	7.5%	3.7%
General expenses	2,221	2,570	2,454	10.5%	-4.5%
Operating Income	1,597	1,408	1,658	3.8%	17.8%
Operating Margin	31.0%	25.0%	30.0%	(1.0pp)	5.0pp
Depreciation	955	1,130	1,117	17.0%	-1.1%
EBITDA	2,550	2,515	2,767	8.5%	10.0%
EBITDA Margin	49.5%	44.7%	50.1%	0.6pp	5.4pp
Interest Income (Expense) net	(26)	(177)	135	N.A.	N.A.
Interest expense	103	206	115	11.0%	-44.4%
Interest income	85	62	51	-40.1%	-17.2%
Other income (expense)				N.A.	N.A.
Foreign exchange gain (loss)	(8)	(33)	199	N.A.	N.A.
Unconsolidated subsidiaries				N.A.	N.A.
Income before taxes	1,571	1,230	1,794	14.2%	45.8%
Income taxes	346	270	430	24.6%	59.2%
Discontinued operations					
Consolidated Net Income	1,225	960	1,363	11.3%	42.0%
Non-controlling interest	45	72	43	-3.5%	-40.7%
Net Income	1,181	888	1,320	11.8%	48.8%
Net Margin	22.9%	15.8%	23.9%	1.0pp	8.1pp
EPS	1.372	1.033	1.537	12.0%	48.8%

Balance Sheet (Million pesos)

Total Current Assets	6,731	5,665	9,248	37.4%	63.2%
Cash & Short Term Investments	3,850	2,206	4,675	21.4%	111.9%
Long Term Assets	34,135	37,643	37,781	10.7%	0.4%
Property, Plant & Equipment (Net)	27,531	30,623	28,367	3.0%	-7.4%
Intangible Assets (Net)	616	824	854	38.7%	3.6%
Total Assets	40,866	43,308	47,029	15.1%	8.6%
Current Liabilities	7,912	2,714	5,147	-34.9%	89.6%
Short Term Debt	3,854	251	1,712	-55.6%	>500%
Accounts Payable	4,058	2,463	3,435	-15.4%	39.4%
Long Term Liabilities	3,159	9,620	9,628	204.7%	0.1%
Long Term Debt	336	6,755	6,683	>500%	-1.1%
Total Liabilities	11,072	12,334	14,775	33.4%	19.8%
Stockholders' Equity	29,795	30,974	32,253	8.3%	4.1%
Non-controlling interest	1,312	1,331	1,334	1.7%	0.3%
Total Equity	28,482	29,643	30,919	8.6%	4.3%
Liabilities & Equity	40,866	43,308	47,029	15.1%	8.6%
Net Debt	4,190	4,800	8,395	100.4%	74.9%

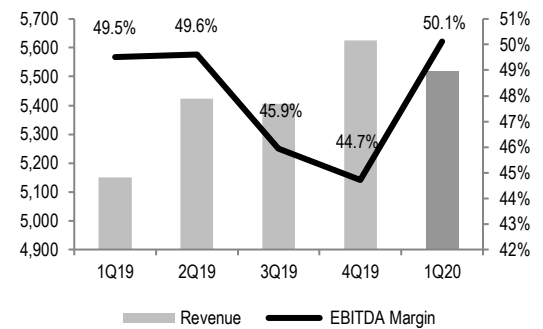
Cash Flow

CF from Operating Activities	2,041	1,453	2,516
CF from Investing Activities	(1,330)	(1,695)	(1,429)
CF from Financing Activities	(178)	(319)	1,374
FX effect on cash	(13)	20	9
Change in Cash Balance	519	(541)	2,469

Source: Banorte, MSE..

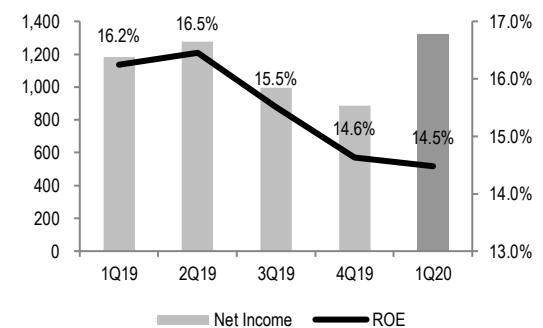
Revenue & EBITDA Margin

MXN, million



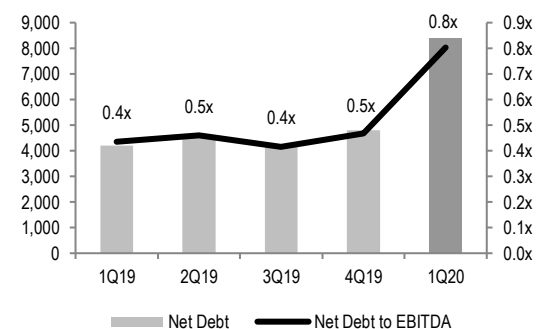
Net Income & ROE

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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	Reference
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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	Recommendation	PT
Mega CPO	25/1/2019	Buy	\$108.50
Mega CPO	7/02/2018	Buy	\$92.00
Mega CPO	24/10/2017	Buy	\$86.00
Mega CPO	27/07/2017	Buy	\$80.00

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