

MEGA

Quarterly Report

February 25, 2020

Easing profitability pressures

- **Mega 4Q19 report was neutral, in line with expectations. Both telephony and internet RGU growth boosted the mass market segment, while the solid performance of the corporate segment was the highlight**
- **Costs pressures related to an increase in equipment sales, due to *Hola*'s solid growth, offset operating efficiencies. Thus, EBITDA margin decreased 40bp to 44.7%**

Corporate segment growth pressured profitability. Megacable results were in line with our estimates at operating level. Despite a challenging economic environment, revenue grew 11.2% to \$5,625 million, boosted by an 8.0% growth in the mass market segment, derived by a 6.2% RGU increase due to the solid performance in the telephony (17.5%) and internet (5.3%), as well as a 1.2% y/y ARPU's growth. Particularly, it is worth highlighting the outstanding sales dynamism in the corporate segment (+26% y/y), explained by a 109% increase in *Hola*, due to additional contracts signed during the quarter. In this context, EBITDA grew 10.3% y/y to \$2,515 million with a 40bp margin contraction to 44.7%, affected by higher costs related to equipment sales in the corporate segment, which offset operating efficiencies. However, it is worth mentioning that this margin contraction compares favorably vs the 180bp pressure reported in 3Q19. Finally, net income decreased 12.7% y/y due to a 99.4% increase in interest payments –explained by higher debt levels-.

Attention on 2020 outlook. After incorporating quarterly figures, the FV/EBITDA LTM multiple remains stable at 6.5x. We will be focused on the earnings conference which will take place tomorrow's morning, where a positive environment going forward should be confirmed. Our PT2020 will be released shortly.

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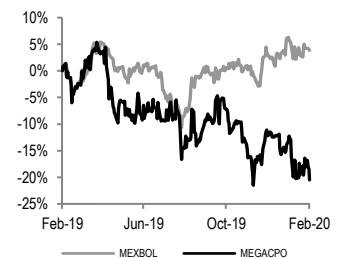
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Under review

Current Price	\$70.11
PT 2020	
Dividend 2020e	
Dividend Yield (%)	
Upside Potential	
Max – Min LTM (\$)	93.61 – 67.30
Market Cap (US\$m)	3,191.0
Shares Outstanding (m)	860
Float	48%
Daily Turnover US\$m	70.9
Valuation metrics TTM	
FV/EBITDA	6.5x
P/E	13.9x

Relative performance to Mexbol LTM



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	6.5x	6.5x	5.7x	5.3x
P/E	13.1x	13.9x	11.7x	11.6x
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 4Q19

MXN, million

Concept	4Q18	4Q19	Var %	4Q19e	Diff% vs Estim.
Revenue	5,057	5,625	11.2%	5,512	2.1%
Operating Income	1,382	1,408	1.9%	1,479	-4.9%
Ebitda	2,281	2,515	10.3%	2,486	1.2%
Net Income	1,017	888	-12.7%	1,004	-11.6%
Margins					
Operating Margin	27.3%	25.0%	-2.3pp	26.8%	-1.8pp
Ebitda Margin	45.1%	44.7%	-0.4pp	45.1%	-0.4pp
Net Margin	20.1%	15.8%	-4.3pp	18.2%	-2.4pp
EPS	\$1.18	\$1.03	-12.6%	\$1.17	-11.6%

Income Statement (Million pesos)

Year	2018	2019	2019	Change	Change
Quarter	4	3	4	% YoY	% QoQ
Net Revenue	5,057	5,405	5,625	11.2%	4.1%
Costs of goods sold	1,390	1,470	1,669	20.1%	13.5%
Gross profit	3,667	3,935	3,956	7.9%	0.5%
General expenses	2,303	2,509	2,570	11.6%	2.5%
Operating Income	1,382	1,447	1,408	1.9%	-2.7%
Operating Margin	27.3%	26.8%	25.0%	(2.3pp)	(1.7pp)
Depreciation	917	1,056	1,130	23.2%	6.9%
EBITDA	2,281	2,483	2,515	10.3%	1.3%
EBITDA Margin	45.1%	45.9%	44.7%	(0.4pp)	(1.2pp)
Interest Income (Expense) net	(12)	(156)	(177)	>500%	13.5%
Interest expense	103	203	206	99.4%	1.5%
Interest income	87	35	62	-28.6%	78.0%
Other income (expense)				N.A.	N.A.
Foreign exchange gain (loss)	5	12	(33)	N.A.	N.A.
Unconsolidated subsidiaries				N.A.	N.A.
Income before taxes	1,370	1,291	1,230	-10.2%	-4.7%
Income taxes	301	284	270	-10.3%	-4.9%
Discontinued operations					
Consolidated Net Income	1,069	1,007	960	-10.2%	-4.7%
Non-controlling interest	52	13	72	40.5%	460.2%
Net Income	1,017	994	888	-12.7%	-10.7%
Net Margin	20.1%	18.4%	15.8%	(4.3pp)	(2.6pp)
EPS	1.182	1.156	1.033	-12.6%	-10.7%

Balance Sheet (Million pesos)

Total Current Assets	6,175	5,937	5,665	-8.3%	-4.6%
Cash & Short Term Investments	3,331	2,747	2,206	-33.8%	-19.7%
Long Term Assets	33,233	36,683	37,643	13.3%	2.6%
Property, Plant & Equipment (Net)	26,890	29,724	30,623	13.9%	3.0%
Intangible Assets (Net)	289	436	824	184.9%	89.1%
Total Assets	39,408	42,620	43,308	9.9%	1.6%
Current Liabilities	7,850	3,102	2,714	-65.4%	-12.5%
Short Term Debt	3,779	183	251	-93.4%	37.2%
Accounts Payable	4,071	2,919	2,463	-39.5%	-15.6%
Long Term Liabilities	2,908	9,478	9,620	230.8%	1.5%
Long Term Debt	125	6,718	6,755	>500%	0.5%
Total Liabilities	10,758	12,580	12,334	14.7%	-2.0%
Stockholders' Equity	28,650	30,040	30,974	8.1%	3.1%
Non-controlling interest	959	1,237	1,331	38.8%	7.6%
Total Equity	27,692	28,804	29,643	7.0%	2.9%
Liabilities & Equity	39,408	42,620	43,308	9.9%	1.6%
Net Debt	572	4,154	4,800	>500%	15.5%

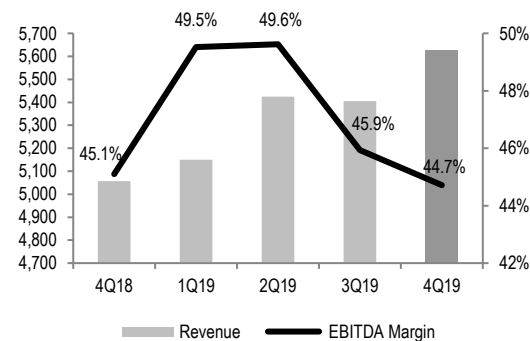
Cash Flow

CF from Operating Activities	1,909	3,120	1,453
CF from Investing Activities	(1,783)	(3,943)	(1,695)
CF from Financing Activities	31	982	(319)
FX effect on cash	(84)	20	20
Change in Cash Balance	75	179	(541)

Source: Banorte, MSE..

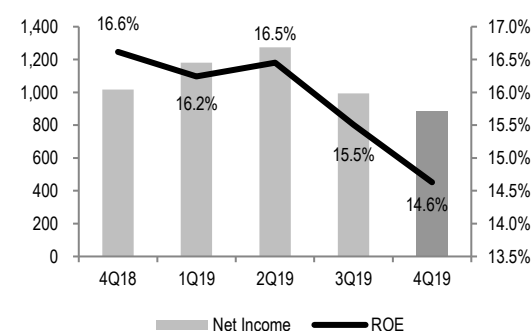
Revenue & EBITDA Margin

MXN, million



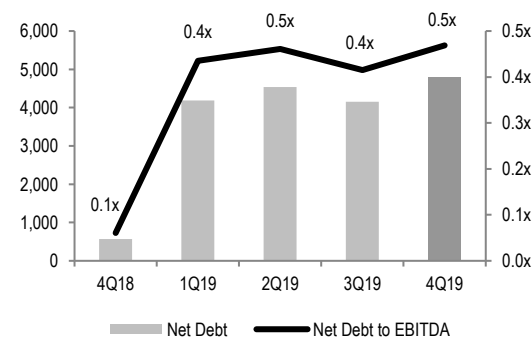
Net Income & ROE

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, Valentin 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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