

LIVEPOL

Quarterly Report

October 23, 2018

Positive quarter, above expectations

- We rate Liverpool's earnings report as positive, exceeding our estimates and expanding its EBITDA margin by 190bp to 12.7%. We expect a favorable reaction in the stock price.
- We highlight a 17.7% reduction on provisions for doubtful debts, as well as a lower NPL increase (+14bps to 5.8% vs. an average 50pbs increase during the previous 8 quarters).
- After incorporating 3Q18 figures, LIVEPOL's FV/EBITDA multiple dropped to 11.4x from 11.8x. For the time being, we reiterate our HOLD recommendation and PT2018 of MXN\$140.00

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HOLD

Current Price	MXN\$145.75
PT 2018	MXN\$140.00
Dividend 2018	
Dividend Yield (%)	
Upside Potential	-3.9%
Max – Min LTM (MXN\$)	146.70 – 108.5
Market Cap (US\$m)	9,723.7
Shares Outstanding (m)	1,342.2
Float	24.8%
Daily Turnover (MXN\$m)	49.8
Valuation metrics TTM	
EV/EBITDA	11.4x
P/E	17.4x

Higher-than-expected margins recovery. Liverpool reported better-than-expected 3Q18 figures, due to a surprising reduction of provisions for doubtful debts, in view of a lower NPL increase and a gross margin expansion. The company's solid revenue performance also stood out, after rallying 8.0% yoy to MXN\$29.2 billion (-1.2% vs BNTe), resulting from a 7.1% increase in the commercial division (Liverpool SSS +6.3% and Suburbia +11.7%), a 14.2% growth on interest income, added to a 2.7% increment on the leasing business and 59.3% climb in other revenue. Meanwhile, the company's gross margin expanded 80pb to 40.3%, following the rescheduling of a "venta nocturna" towards the fourth quarter of 2018, along with a higher contribution of the financial business to the company's consolidated revenues. On the other hand, expenses grew 3.1% yoy, as some extraordinary charges during 3Q17 assumed an easy comparative base. Thus, EBITDA grew 27.8% yoy to MXN\$3.7 billion (+9.3% vs our estimate) and the corresponding margin improved 190bps yoy to 12.7%. Liverpool's net profit expanded 52.1% year-to-year to MXN\$1.9 billion, as the company's operating increase coupled with a lower net interest expense (13.8%) offset a lower income coming from Unicomer (21.9%).

Relative performance to Mexbol

Financial Statements

MXN, million	2016	2017	2018E	2019E
Revenues	100,442	122,168	135,339	146,630
Operating Income	13,481	15,232	16,862	19,386
EBITDA	16,062	18,350	20,311	23,346
EBITDA Margin	16.0%	15.0%	15.0%	15.9%
Net Income	10,191	9,885	11,411	13,332
Net Margin	10.1%	8.1%	8.4%	9.1%
Total Assets	148,401	168,227	182,187	194,796
Cash	25,574	16,635	10,079	11,418
Total Liabilities	66,652	78,144	81,882	84,309
Debt	31,082	36,841	39,834	39,173
Common Equity	81,749	90,082	100,304	110,487

Source: Banorte with data from MSE

Valuation and financial metrics

	2016	2017	2018E	2019E
EV/EBITDA	12.5x	11.8x	11.1x	9.6x
P/E	19.2x	19.8x	17.1x	14.7x
P/Book	2.4x	2.2x	2.0x	1.8x
ROE	13.4%	11.5%	12.0%	12.6%
ROA	6.9%	5.9%	6.3%	6.8%
EBITDA/ Interest exp	12.0x	6.6x	7.5x	10.4x
Net Deb/EBITDA	0.3x	1.1x	1.5x	1.2x
Debt/Equity	0.4x	0.4x	0.4x	0.4x

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Document for distribution among public

LIVEPOL – Results 3Q18

MXN, million

Concept	3Q17	3Q18	Chg %	3Q18e	Diff% vs Estim.
Revenue	27,067	29,244	8.0%	29,601	-1.2%
Operating Income	2,082	2,903	39.4%	2,476	17.3%
Ebitda	2,913	3,723	27.8%	3,406	9.3%
Net Income	1,258	1,913	52.1%	1,568	22.0%
Margins					
Operating Margin	7.7%	9.9%	2.2pp	8.4%	1.6pp
Ebitda Margin	10.8%	12.7%	1.9pp	11.5%	1.2pp
Net Margin	4.6%	6.5%	1.9pp	5.3%	1.2pp
EPS	\$0.94	\$1.43	52.1%	\$1.17	22.0%

Income Statement (Million pesos)

Year	2017	2018	2018	Change	Change
Quarter	3	2	3	% yoy	% qoq
Net Revenue	27,067.5	32,633.4	29,244.3	8.0%	-10.4%
Cost of goods sold	16,371.6	19,543.1	17,464.3	6.7%	-10.6%
Gross profit	10,695.8	13,090.3	11,780.1	10.1%	-10.0%
General expenses	8,613.5	9,025.0	8,876.6	3.1%	-1.6%
Operating Income	2,082.3	4,065.3	2,903.5	39.4%	-28.6%
Operating Margin	7.7%	12.5%	9.9%	2.2pp	(2.5pp)
Depreciation	830.9	805.9	819.6	-1.4%	1.7%
EBITDA	2,913.2	4,871.3	3,723.1	27.8%	-23.6%
EBITDA Margin	10.8%	14.9%	12.7%	2.0pp	(2.2pp)
Interes income (expense) net	(536.9)	(461.0)	(463.0)	-13.8%	0.4%
Interest expense	714.8	686.9	650.5	-9.0%	-5.3%
Interest income	165.8	222.9	175.4	5.8%	-21.3%
Other income (expenses)	(1.1)	(1.7)	(12.4)	>500%	>500%
Exchange Income (loss)	13.3	4.7	24.4	83.7%	423.9%
Unconsolidated subsidiaries	121.5	161.1	95.0	-21.9%	-41.1%
Income before taxes	1,667.0	3,765.4	2,535.4	52.1%	-32.7%
Income taxes	408.5	1,045.2	618.4	51.4%	-40.8%
Discontinued operations					
Consolidated Net Income	1,258.4	2,720.2	1,917.0	52.3%	-29.5%
Minorities	0.5	8.4	4.0	>500%	-51.8%
Net Income	1,257.9	2,711.8	1,913.0	52.1%	-29.5%
Net margin	4.6%	8.3%	6.5%	1.9pp	(1.8pp)
EPS	0.937	2.020	1.425	52.1%	-29.5%

Balance Sheet (Million pesos)

Total Current Assets	58,953.6	58,386.6	57,509.7	-2.4%	-1.5%
Cash & Short Term Investments	10,659.9	9,161.7	5,970.8	-44.0%	-34.8%
Long Term Assets	97,540.6	104,356.9	105,116.6	7.8%	0.7%
Property, Plant & Equipment (Net)	43,790.3	45,226.0	46,352.9	5.9%	2.5%
Intangible Assets (Net)	4,269.5	8,797.0	8,830.8	106.8%	0.4%
Total Assets	156,494.2	162,743.5	162,626.3	3.9%	-0.1%
Current Liabilities	31,025.9	31,285.8	30,195.3	-2.7%	-3.5%
Short Term Debt	3,773.2	1,596.9	964.9	-74.4%	-39.6%
Accounts Payable	18,275.9	19,632.8	19,554.4	7.0%	-0.4%
Long Term Liabilities	43,930.5	39,367.6	38,999.2	-11.2%	-0.9%
Long Term Debt	35,514.1	30,626.4	30,430.7	-14.3%	-0.6%
Total Liabilities	74,956.4	70,653.5	69,194.5	-7.7%	-2.1%
Common Stock	81,537.7	92,090.1	93,431.8	14.6%	1.5%
Noncontrolling Interest	0.5	8.4	4.0	>500%	-51.8%
Total Equity	81,532.9	91,863.0	93,201.8	14.3%	1.5%
Liabilities & Equity	156,494.2	162,743.5	162,626.3	3.9%	-0.1%
Net Debt	28,627.5	23,061.7	25,424.8	-11.2%	10.2%

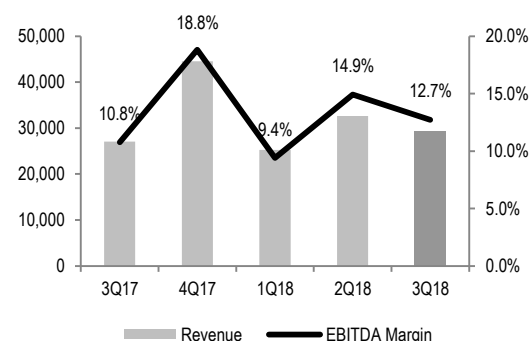
Cash Flow (Million pesos)

FX differences in cash & equivalents	807.9	4,484.2	1,643.2
Cash Flow from Operating Activities	2,063.1	4,855.7	2,935.0
Cash Flow from Investing Activities	(2,143.4)	(2,358.7)	(2,131.0)
Cash Flow from Financing Activities	4,713.9	(5,059.7)	(1,275.9)
Change in Cash Balance	5,441.6	1,921.7	1,171.4

Source: Banorte, MSE.

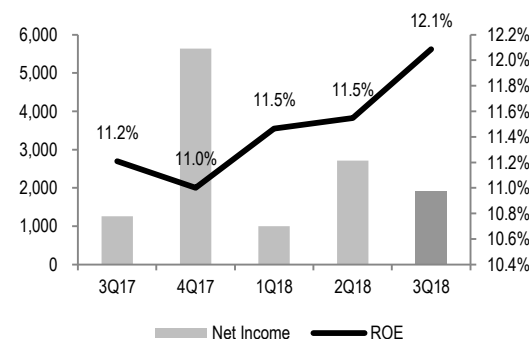
Revenue & EBITDA Margin

MXN, million



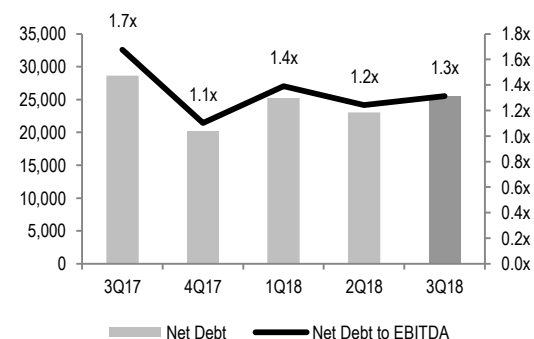
Net Income & ROE

MXN, million



Net Debt & Net debt to EBITDA ratio

MXN, million



One-digit growth on sales. During the quarter, Liverpool's total revenue grew 8.0% to MXN\$29.2 billion, in line with our MXN\$29.6 billion estimate (-1.2%). Such performance is explained by a solid 6.3% increase reported in Liverpool's SSS (vs. 8.5%e), in view of a 3.5% increase in the average ticket and a 280bps traffic expansion, as well as by an 11.7% increase for Suburbia's LfL sales (vs. 10.1%e). During the period, ANTAD affiliated department stores increased SSS sales by 8.4%, thus Liverpool's performance resulted slightly below. Breaking down by business segment, commercial revenue rose 7.1% year-to-year to MXN\$25.1 billion, slightly below our MXN\$25.7 estimates, due to a 7.4% increase in Liverpool and Fabricas de Francia store formats (MXN\$22.0 billion) and of 10.1% in Suburbia store formats (MXN\$3.1 billion). Meanwhile, the financial business reported- through interest income -MXN\$2.8 billion (+14.2%) vs BNTe MXN\$2.7 billion. This performance is attributed to a 3.0% credit portfolio increase, coupled with a higher active interest rate a penetration of Liverpool credit card of 45.8% of sales transactions (-60bp vs 3Q17). In turn, the real-estate business contributed with MXN\$809 million (BNTe MXN\$852 million) and revenue from services and other concepts amounted MXN\$360 million over our MXN\$243 million forecast. Thus, a shift in the sales mix was reported during the quarter by increasing the proportion of the financial division by 50bps over the year-ago period to 9.9%, while the commercial business dropped 0.3pp to 87.4% and the real-estate segment fell 20bps to 2.8%.

More favorable sales mix and the rescheduling of a “*venta nocturna*” event towards 4Q18 boosted gross profitability. During the third quarter of the year, the company's commercial business expanded its gross margin by 70bps yoy to 31.6%, as Liverpool chose to reprogram its Fabricas de Francia anniversary “*venta nocturna*” event towards 4Q18. Also, its consolidated indicator improved 0.8pp year-to-year during 3Q, following improved profitability on the sale of the above- mentioned merchandise and a higher contribution of interest income—which translated into a more favorable sales mix -, representing a 10.1% gross profit growth yoy to MXN\$11.7 billion.

EBITDA grew 27.8% yoy and its corresponding margin improved 190bp, exceeding our expectations for both indicators. In 3Q18, LIVEPOL's EBITDA totaled MXN\$3.7 billion (+9.30% vs. our MXN\$3.4 billion estimate), equaling a 27.8% year-over-year growth and translating into a 190bps yoy EBITDA margin expansion, to stand at 12.7%. Additionally, the expected effect from an easy comparative basis, after the company recognizing non-recurring charges worth MXN\$168 million in 3Q17 related to the September earthquakes, a lower deterioration rhythm on NPL (+20bp yoy to 5.8% vs. +50bp average from the previous eight quarters) translated into a 17.7% drop in provisions for doubtful debts, which resulted into a 3.1% year-to-year growth on expenses, lowering its proportion over sales by 140bp, which added to the increase in gross margin boosted the company's EBITDA.

Strong net income growth. The company's net profit grew 52.1% yoy to MXN\$1.9 billion (+22% vs. our MXN\$1.5 billion forecast). This increase is attributed to its solid operating performance, coupled with a 13.8% less net interest expense, in view of lower interest payments (-9.0%) added to a higher interest income (+5.8%) and MXN\$24 million in forex gains, which offset other financial expenses 10.3x higher than those reported during the year-ago period. Thus, such effects cancelled out the impact of a 21.9% lower income from Grupo Unicomer, stemming from a difficult situation in Nicaragua.

A slight increase in leverage. During the third quarter, the company's net debt/EBITDA rose to 1.3x, from the previous quarter's 1.2x, as a result of a MXN\$3.1 billion yoy drop in cash, which outweighed the positive effect of an MXN\$828 million sequentially lower interest-bearing debt and a higher generation of EBITDA during the LTM.

In our opinion, the increase in profitability and lower multiples could be catalysts for the price of the share. For the time being, we reiterate our HOLD recommendation and PT2018 of P\$140.00. We will briefly release our PT2019 report.

Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldivar, 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 and Francisco José Flores Serrano 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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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
LIVEPOL	02/05/18	Hold	MXN\$140.00
LIVEPOL	26/10/17	Buy	MXN\$163.00
LIVEPOL	22/02/17	Buy	MXN\$178.00

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