

# ALSEA

Quarterly Report

May 3, 2019

## In line when excluding the strong IFRS 16 effect

- On an IFRS 16 adjusted basis, Alsea reported in line with our estimate. Sales grew 24.3% yoy to MXN\$13.6 billion (vs 23.9%e) and EBITDA rose 8.2% to MXN\$1.5 billion (-3.5% vs BNTe)
- The impact of European acquisitions over profitability was lower than we had expected, partially offsetting weaker results in Mexico and South America
- We believe the new strategy focused on boosting SSS, improving margins and maximizing synergies within two years to rapidly reduce leverage is positive

**The consolidation of acquisitions in Europe pressured profitability.** On an IFRS 16 adjusted basis and considering the implementation of hyperinflationary accounting for operations in Argentina, Alsea's results stood in line with our estimates. Revenue grew 24.3% yoy to MXN\$13.6 billion (+0.3% vs BNTe) resulting from the incorporation of 672 corporate units in the L12M (225 organically). Meanwhile, a 25.1% growth in expenses pressured the EBITDA margin by 170bps, placing it at 11.3%. Such increment is attributed to the incorporation of Grupo Vips in Spain/Portugal and Starbucks operations in France and Benelux – which operate with a higher expenses structure-, as well as to the impact of minimum wage increments in Mexico and Spain and higher electricity prices in our country and in Argentina. Hence, EBITDA rose 8.2% year-on-year to MXN\$1.5 billion (-3.5% vs BNTe). Finally, net profit declined 41.6% to MXN\$124 million, as the reduction in operating profit (-9.2%) joined a 41% increase in Net Interest Expense, given an increment in interest payments due to higher leverage.

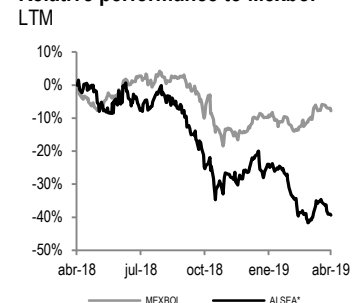
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**Valentín Mendoza**

 Auto Parts/ Consumer Discretionary /  
 Real Estate/ Retail  
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**HOLD**

Current Price	MXN\$42.38
<b>PT 2019</b>	<b>MXN\$60.00</b>
Dividend 2019	MXN\$0.9
Dividend Yield (%)	1.8%
Upside Potential	41.6%
Max – Min LTM (MXN\$)	71.50 – 40.13
Market Cap (US\$m)	1,865.3
Shares Outstanding (m)	835.6
Float	48.52%
Daily Turnover (MXN\$ m)	103.9
<b>Valuation metrics TTM</b>	
FV/EBITDA	11.5x
P/E	41.8x

**Relative performance to Mexbol**

**Financial Statements**

MXN, million	2017	2018	2019E	2020E
Revenues	42,529	46,157	58,165	64,742
Operating Income	3,715	3,294	4,063	4,685
EBITDA	6,466	6,408	7,790	8,788
EBITDA Margin	15.2%	13.9%	13.4%	13.6%
Net Income	1,089	953	829	1,570
Net Margin	2.6%	2.1%	1.4%	2.4%
Total Assets	39,659	53,750	61,014	67,208
Cash	1,540	1,988	1,746	2,142
Total Liabilities	29,056	40,101	45,995	50,751
Debt	15,063	25,901	28,019	22,851
Common Equity	10,603	13,649	15,019	16,458

Source: Banorte with data from MSE

**Valuation and financial metrics**

	2017	2018	2019E	2020E
FV/EBITDA	10.6x	12.4x	10.8x	9.2x
P/E	42.5x	47.9x	54.4x	30.9x
P/Book	4.4x	3.5x	3.2x	2.9x
ROE	10.6%	7.9%	5.8%	10.0%
ROA	2.7%	1.8%	1.4%	2.3%
EBITDA/ Interest expen	6.9x	6.9x	7.9x	7.9x
Net Deb/EBITDA	2.1x	3.7x	3.4x	2.4x
Debt/Equity	1.4x	1.9x	1.9x	1.4x

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Document for distribution among public

## ALSEA – Results 1Q19

MXN, million

Concept	1Q18	1Q19	Chg %	1Q19e	Diff% vs Estim.
Revenue	11,012	13,691	24.3%	13,644	0.3%
Operating Income	672	829	23.4%	749	10.8%
Ebitda	1,426	2,748	92.7%	1,599	71.8%
Net Income	212	106	-49.7%	159	-33.1%
<b>Margins</b>					
Operating Margin	6.1%	6.1%	0.0pp	5.5%	0.6pp
Ebitda Margin	13.0%	20.1%	7.1pp	11.7%	8.4pp
Net Margin	1.9%	0.8%	-1.1pp	1.2%	-0.4pp
EPS	\$0.25	\$0.13	-49.6%	\$0.19	-33.1%

### Income Statement (Million pesos)

Year	2018	2018	2019	Change	Change
Quarter	1	4	1	% yoy	% qoq
<b>Net Revenue</b>	<b>11,012.1</b>	<b>12,864.5</b>	<b>13,690.6</b>	<b>24.3%</b>	<b>6.4%</b>
Cost of goods sold	3,315.7	4,023.0	4,104.5	23.8%	2.0%
Gross profit	7,696.3	8,841.5	9,586.1	24.6%	8.4%
General expenses	7,001.5	7,905.8	8,756.8	25.1%	10.8%
<b>Operating Income</b>	<b>671.8</b>	<b>980.8</b>	<b>829.3</b>	<b>23.4%</b>	<b>-15.4%</b>
<b>Operating Margin</b>	<b>6.1%</b>	<b>7.6%</b>	<b>6.1%</b>	<b>(0.0pp)</b>	<b>(1.6pp)</b>
Depreciation	754.3	907.5	1,918.6	154.4%	111.4%
<b>EBITDA</b>	<b>1,426.1</b>	<b>1,888.3</b>	<b>2,747.9</b>	<b>92.7%</b>	<b>45.5%</b>
<b>EBITDA Margin</b>	<b>13.0%</b>	<b>14.7%</b>	<b>20.1%</b>	<b>7.1pp</b>	<b>5.4pp</b>
<b>Interes income (expense) net</b>	<b>(262.2)</b>	<b>(561.6)</b>	<b>(622.3)</b>	<b>137.3%</b>	<b>10.8%</b>
Interest expense	329.3	502.3	498.8	51.5%	-0.7%
Interest income	11.2	27.9	8.4	-25.3%	-70.0%
Other income (expenses)	120.3	(102.4)	(253.2)	N.A.	147.4%
Exchange Income (loss)	(64.3)	15.2	121.4	N.A.	>500%
Unconsolidated subsidiaries				N.A.	N.A.
<b>Income before taxes</b>	<b>409.6</b>	<b>419.1</b>	<b>207.0</b>	<b>-49.5%</b>	<b>-50.6%</b>
Income taxes	155.4	159.3	72.9	-53.1%	-54.2%
Discontinued operations					
<b>Consolidated Net Income</b>	<b>254.2</b>	<b>259.9</b>	<b>134.1</b>	<b>-47.3%</b>	<b>-48.4%</b>
Minorities	42.6	77.8	27.6	-35.2%	-64.5%
<b>Net Income</b>	<b>211.6</b>	<b>182.1</b>	<b>106.5</b>	<b>-49.7%</b>	<b>-41.5%</b>
<b>Net margin</b>	<b>1.9%</b>	<b>1.4%</b>	<b>0.8%</b>	<b>(1.1pp)</b>	<b>(0.6pp)</b>
<b>EPS</b>	<b>0.253</b>	<b>0.218</b>	<b>0.127</b>	<b>-49.6%</b>	<b>-41.5%</b>

### Balance Sheet (Million pesos)

<b>Total Current Assets</b>	<b>5,934.4</b>	<b>5,894.9</b>	<b>5,906.6</b>	<b>-0.5%</b>	<b>0.2%</b>
Cash & Short Term Investments	2,064.5	1,987.9	1,722.9	-16.5%	-13.3%
<b>Long Term Assets</b>	<b>33,758.3</b>	<b>47,855.2</b>	<b>71,646.3</b>	<b>112.2%</b>	<b>49.7%</b>
Property, Plant & Equipment (Net)	15,689.6	18,574.9	18,567.9	18.3%	0.0%
Intangible Assets (Net)	8,377.5	25,822.8	25,934.3	209.6%	0.4%
<b>Total Assets</b>	<b>39,692.7</b>	<b>53,750.0</b>	<b>77,552.8</b>	<b>95.4%</b>	<b>44.3%</b>
<b>Current Liabilities</b>	<b>12,472.9</b>	<b>14,438.0</b>	<b>21,399.6</b>	<b>71.6%</b>	<b>48.2%</b>
Short Term Debt	1,912.8	2,595.1	10,442.3	445.9%	302.4%
Accounts Payable	4,174.7	5,215.9	5,576.9	33.6%	6.9%
<b>Long Term Liabilities</b>	<b>16,086.1</b>	<b>25,663.3</b>	<b>44,906.8</b>	<b>179.2%</b>	<b>75.0%</b>
Long Term Debt	13,730.1	23,306.0	42,728.8	211.2%	83.3%
<b>Total Liabilities</b>	<b>28,559.1</b>	<b>40,101.3</b>	<b>66,306.4</b>	<b>132.2%</b>	<b>65.3%</b>
Common Stock	11,133.6	13,648.7	11,246.4	1.0%	-17.6%
Noncontrolling Interest	1,154.8	1,878.7	1,885.1	63.2%	0.3%
<b>Total Equity</b>	<b>9,978.8</b>	<b>11,770.0</b>	<b>9,361.3</b>	<b>-6.2%</b>	<b>-20.5%</b>
<b>Liabilities &amp; Equity</b>	<b>39,692.7</b>	<b>53,750.0</b>	<b>77,552.8</b>	<b>95.4%</b>	<b>44.3%</b>
<b>Net Debt</b>	<b>13,578.4</b>	<b>23,913.2</b>	<b>51,448.2</b>	<b>278.9%</b>	<b>115.1%</b>

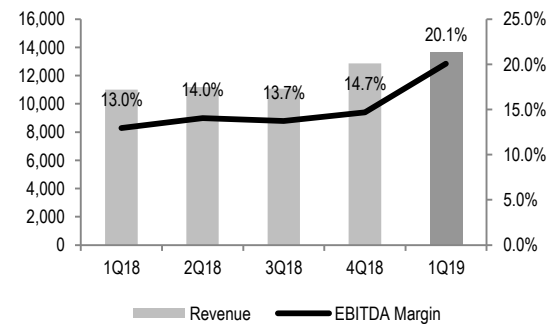
### Cash Flow (Million pesos)

Operating Cash Flow before tax	952.3	2,364.8	1,852.5		
Cash Flow from Operating Activities	1,049.1	2,470.3	(1,912.9)		
Cash Flow from Investing Activities	(957.9)	(14,284.3)	53.6		
Cash Flow from Financing Activities	673.7	10,053.0	(258.2)		
<b>Change in Cash Balance</b>	<b>1,717.2</b>	<b>603.7</b>	<b>(264.9)</b>		

Source: Banorte, MSE.

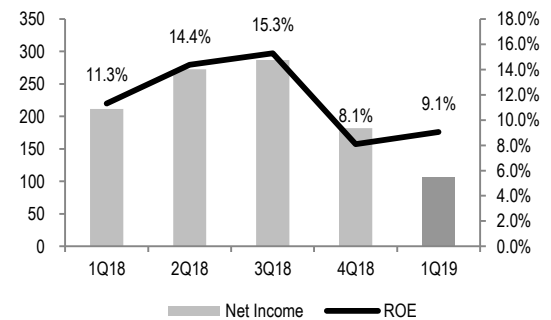
## Revenue & EBITDA Margin

MXN, million



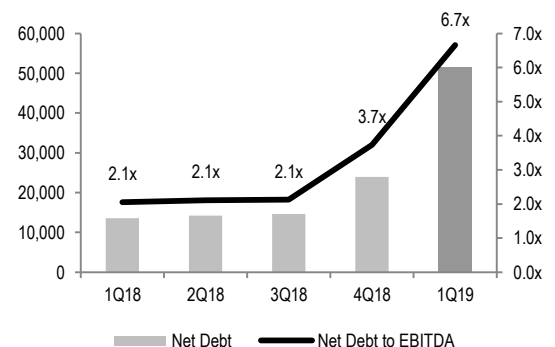
## Net Income & ROE

MXN, million



## Net Debt & Net debt to EBITDA ratio

MXN, million



**Revenue increased 24.3% yoy.** Alsea's sales reached MXN\$13.6 billion in 1Q19, rising 24.3% yoy, in line with our projection (+0.3% vs BNTe). Such performance is explained, mainly, by the incorporation of 672 corporate units in the L12M. From these, 365 correspond to acquisitions of Grupo Vips in Spain and Portugal, and 80 to Starbucks operations in France and Benelux, to which we add the organic opening of 225 restaurants and coffee shops in the different territories. Furthermore, a 2.8% SSS increment supported results, yet these were partially offset by an adverse FX conversion effect in Latin America (from the strong depreciation of the Argentinian peso) and in Europe (same effect in EUR/MXN parity).

**Despite tariffs imposed on some imported consumables and the sharp depreciation of the Argentinian peso, Alsea's gross margin improved by 10bps.** In the first quarter of the year, the company's gross profitability rose 10bps to 70.0%, resulting in a 24.6% yoy profit growth to MXN\$9.5 billion (+0.3pp vs the revenue growth rhythm). Such result is outstanding considering the pressure, on the results of each corresponding region, by tariffs applied on some consumables imported from the U.S., the negative depreciation effect of the Argentinian peso and the hyperinflation in said country.

**In line with our estimates, the EBITDA margin dropped 170bps to 11.3%.** Alsea's operating expenses rose 25.1% yoy, due to the incorporation effect of recent acquisitions-which operate with a higher expenses structure-, as well as to an increase of minimum wages in Mexico and Spain and higher electricity prices in Mexico and Argentina. Thus, the EBITDA margin contracted 1.7pp to 11.3%, 40bps below our 11.7% estimate, yet stressing the lower-than-expected pressure in Europe (-380pb vs BNTe -520pb) from the consolidation of new businesses, which was, in turn, offset by greater EBITDA generation weakness in Mexico and South America. With this in mind, EBITDA grew 8.2% to MXN\$1.5 billion (-3.5% vs BNTe).

**A 41% increase in Net Interest Expense exacerbated the drop in net profit.** Alsea's net income fell 41.6% year-on-year to MXN\$124 million, weaker than the performance reported by operating profit and standing below our forecasts, as a 53.5% higher net interest payment (explained by an increase in leverage due to the acquisitions in Europe), added to a MXN\$34 million loss from the revaluation of options over Grupo Zena, and MXN\$32 million worth of FX gains, translated into a 41% higher Net Interest Expense, which pressured results.

**The effects of IFRS 16 on the Income Statement.** Resulting from the implementation of IFRS 16, on leasing, Alsea reported an MXN\$18 million impact on net profit, resulting primarily from a MXN\$253 million gain in financial expenses. In parallel, at EBITDA level, it represented a MXN\$1.2 billion gain given the reduction of operating expenses from the recognition shift of leasing expenses. Therefore, considering such accounting changes, these figures stand at MXN\$106 million and MXN\$2.7 billion, with margins set at 0.8% and 20.1% (+880 bps), respectively. It should be noted that, being official figures, these figure in our comparative chart and differ over those that were mentioned in this report with comparative purposes.

**A rise in leverage.** By considering the effects of IFRS 16, the Company's leverage rose to 6.7x ND/EBITDA from 3.7x in 4Q18. It should be indicated that such change is explained, primarily, by a MXN\$27.2 billion qoq increase in interest-bearing debt (MXN\$25.9 billion corresponding to lease liabilities) and a MXN\$342 million sequential drop in cash, which were partially offset by a higher L12M EBITDA generation. Furthermore, it is worth highlighting, in this respect, that this indicator has yet to fully reflect the complete effect from the IFRS 16 implementation over the L12M EBITDA (~MXN\$3.6 billion). Upon considering it, leverage would stand at around 4.5x ND/EBITDA and at 3.5x by completely excluding the effect on leasing.

## Details by region

**A weaker than expected result in Mexico.** Alsea's TS in Mexico hiked 6.5% year-on-year to MXN\$6.3 billion in 1Q19, thanks to a 1.2% LFL growth and the contribution of 530bps arising from 119 new units yoy. These figures resulted in line with our expectations (+5.6%e and +2.0%e, respectively), resulting from a solid performance in fast food, particularly Burger King, as well as from an improvement in sale trends across the entire portfolio, overall. At EBITDA level, the increment in minimum wages, a 60bp impact over costs due to tariffs imposed on some U.S.-imported consumables, and the increase in electricity prices (being partially offset by a higher operating leverage), pressured the EBITDA margin 180bps to 20.9%, resulting in a 2.0% yoy EBITDA downturn to MXN\$1.3 billion, closing below our MXN\$1.4 billion estimate.

Mexico										
	1Q18		4Q18		1Q19		Δ yoy		Δ qoq	
	Value	Margin	Value	Margin	Value	Margin	%	pp	%	pp
SSS	7.1%		3.5%		1.2%			5.9pp		-2.3pp
Sales	\$ 5,997		\$ 6,932		\$ 6,387		6.5%		-7.9%	
EBITDA	\$ 1,365	22.8%	\$ 1,594	23.0%	\$ 1,338	20.9%	-2.0%	1.8pp	16.1%	-2.0pp
Units	2,358		2,467		2,477		5.0%		0.4%	

**Sales in Europe doubled and pressure in profitability was less than expected.** Alsea's earnings in Europe expanded significantly due to the acquisitions of Grupo Vips in Spain/Portugal and Starbucks operations in France and Benelux. Hence, revenue doubled (+102.9% yoy) to MXN\$5.0 billion (vs MXN\$4.8 Be), mainly due to the incorporation of 483 corporate units in the L12M. From these, 447 represented inorganic growth and 36 resulted from the organic opening of new restaurants. Such effect was partially offset by a 1.5% drop in LfL sales, as well as by a negative FX conversion effect from the depreciation of the euro against the Mexican peso. Moreover, EBITDA totaled MXN\$815 million, up 64.0% over the year-ago period (+20.2% vs BNTe) yet reporting a 380bp erosion in EBITDA margin to 16.2%, above our -520bp expectation. Such performance is explained by the following: (1) the new business mix following the consolidation of recent acquisitions (which operate with lower margins); (2) the minimum wage increment in Spain; and (3) a modest operating deleveraging related to the fall in SSS.

Europe										
	1Q18		4Q18		1Q19		Δ yoy		Δ qoq	
	Value	Margin	Value	Margin	Value	Value	Margin	Value	Margin	Value
SSS	3.7%		1.0%		-1.5%			-5.2pp		-2.5pp
Sales	\$ 2,481		\$ 2,690		\$ 5,033		102.9%		87.1%	
EBITDA	\$ 497	20.0%	\$ 552	20.5%	\$ 815	16.2%	64.0%	-3.8pp	47.6%	-4.3pp
Units	555		593		1,353		143.8%		128.2%	

**The sharp depreciation of the Argentinian peso continued to weigh on company figures in South America.** Different countries in Latin America stood out due to a weaker-than-expected performance. Alsea's figures in Latin America (Argentina, Colombia, Chile, Brazil and Uruguay) were hit by the difficult macroeconomic situation in Argentina and an extremely unfavorable FX conversion effect, in view of a strong depreciation of the Argentinian peso. Thus, sales stood at MXN\$2.2 billion, dropping 11.6% year-on-year and posting a weaker performance vs. our -1.7% estimate. The elements that contributed to the performance of Alsea's revenue in said region are the following: (1) a 13.1% SSS increase in that region; (2) the opening of 76 corporate units yoy; and (3) a 27.4% negative FX conversion effect, explained by the ARS sharp depreciation. Meanwhile, EBITDA fell 17.1% year-on-year to MXN\$277 million, standing below our MXN\$304 million forecast, with which the corresponding margin contracted 80bps to 12.4%, despite operating efficiencies and control on costs, and due to the impact brought on by the negative effect of the Argentinian peso's sharp depreciation, hyperinflation and higher electrical prices in said country.

South America										
	1Q18		4Q18		1Q19		Δ yoy		Δ qoq	
	Value	Margin	Value	Margin	Value	Value	Margin	Value	Margin	Value
SSS	9.6%		15.0%		13.1%			3.5pp		-1.9pp
Sales	\$ 2,533		\$ 2,406		\$ 2,238		-11.6%			-7.0%
EBITDA	\$ 334	13.2%	\$ 333	13.8%	\$ 277	12.4%	-17.1%	-0.8pp	-16.8%	-1.5pp
Units	555		628		12		-97.8%			-98.0%

## 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, Francisco José Flores Serrano, Francisco Duarte Alcocer and Leslie Thalía Orozco Vélez, 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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*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.

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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.

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	<b>Reference</b>
<b>BUY</b>	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
<b>HOLD</b>	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
<b>SELL</b>	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

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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
ALSEA	25/01/2019	Hold	P\$60.00
ALSEA	18/10/2017	Buy	P\$77.00
ALSEA	27/04/2017	Buy	P\$76.00
ALSEA	16/02/2017	Buy	P\$70.00

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

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