

# LACOMER

Quarterly Report

May 03, 2019

## Kicks-off the year as the sector's top performer

- **Even on an IFRS 16-adjusted basis, La Comer reported figures that exceeded our estimates in terms of profitability given ongoing improvement in gross margin and expenses leveraging**
- **For the ninth straight quarter, SSS growth (+7.3% vs 5.5%e) outperformed all others from the retail sector in Mexico, while its aggressive expansion plan boosted TS by 14.8%**
- **We remain optimistic over the company's positive outlook. Therefore, we reiterate our BUY rating and PT2019 of MXN\$25.00**

**Once again, La Comer beats expectations.** We rate La Comer's 1Q19 report as positive, topping our expectations in terms of profitability. For the ninth quarter in a row, the company reported the sector's most aggressive LfL sales expansion (+7.3% yoy vs 5.5%e), reflecting the proper adoption of its differentiated formats and a positive effect from the celebration of Easter Week in April. Furthermore, the net opening of 5 stores in the LTM drove the sales floor up by 12.5%, translating into a 14.8% yoy TS increase (+0.7% vs BNTe). Meanwhile, lower storage costs and control on shrink led to a 60bps gross margin expansion to 27.7%. In turn, an improved operating leverage, added to better fixed cost absorption, allowed expenses to rise 110bps below TS, even despite pressures from higher electrical energy prices and e-commerce related investments. Thus, the EBITDA margin expanded by 80bps to 9.4%, while EBITDA grew 24.9% year-on-year to MXN\$461 million (+6.6% vs BNTe). Finally, net profit increased 59.1%, benefited by a lower tax effective rate, which offset a lower Net Interest Expense gain.

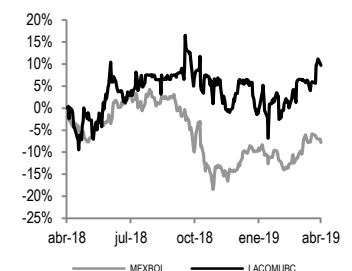
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**BUY**

Current Price	\$21.65
<b>PT 2019</b>	<b>\$25.00</b>
Dividend 2019	
Dividend Yield (%)	
Upside Potential	15.5%
Max – Min LTM (MXN\$)	23.84 – 17.74
Market Cap (US\$m)	1,157.4
Shares Outstanding (m)	1,086.00
Float	43.6%
Daily Turnover (MXN\$m)	13.4
<b>Valuation metrics TTM</b>	
FV/EBITDA	11.7x
P/E	20.0x

**Relative performance to Mexbol**  
 LTM

**Financial Statements**

MXN, million	2017	2018	2019E	2020E
Revenues	16,635	19,119	21,897	24,693
Operating Income	771	1,047	943	1,143
EBITDA	1,374	1,753	1,777	2,128
EBITDA Margin	8.3%	9.2%	8.1%	8.6%
Net Income	782	1,089	844	965
Net Margin	4.7%	5.7%	3.9%	3.9%
Total Assets	24,585	26,036	28,876	30,574
Cash	2,545	2,602	2,926	3,337
Total Liabilities	3,747	4,034	3,876	4,354
Debt	0	0	0	0
Common Equity	20,837	22,003	25,000	26,220

Source: Banorte with data from MSE

**Valuation and financial metrics**

	2017	2018	2019E	2020E
FV/EBITDA	15.3x	11.9x	11.6x	9.5x
P/E	30.1x	21.6x	27.9x	24.4x
P/Book	1.1x	1.1x	0.9x	0.9x
ROE	3.8%	5.1%	3.6%	3.8%
ROA	3.2%	4.2%	2.9%	3.2%
EBITDA/ Interest expen	6.9x	6.9x	7.9x	7.9x
Net Deb/EBITDA	-1.9x	-1.5x	-1.6x	-1.6x
Debt/Equity	0.0x	0.0x	0.0x	0.0x

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Document for distribution among public

## LACOMER – Results 1Q19

MXN, million

Concept	1Q18	1Q19	Chg %	1Q19e	Diff% vs Estim.
Revenue	4,287	4,922	14.8%	4,886	0.7%
Operating Income	207	300	45.0%	235	27.7%
Ebitda	369	507	37.4%	432	17.3%
Net Income	172	261	51.3%	199	30.7%
<b>Margins</b>					
Operating Margin	4.8%	6.1%	1.3pp	4.8%	1.3pp
Ebitda Margin	8.6%	10.3%	1.7pp	8.8%	1.5pp
Net Margin	4.0%	5.3%	1.3pp	4.1%	1.2pp
EPS	\$0.16	\$0.24	51.3%	\$0.18	30.7%

### Income Statement (Million pesos)

Year	2018	2018	2019	Change	Change
Quarter	1	4	1	% yoy	% qoq
<b>Net Revenue</b>	<b>4,287.3</b>	<b>5,070.5</b>	<b>4,921.6</b>	<b>14.8%</b>	<b>-2.9%</b>
Cost of goods sold	3,125.6	3,728.7	3,556.7	13.8%	-4.6%
Gross profit	1,161.7	1,341.8	1,365.0	17.5%	1.7%
General expenses	944.6	1,167.3	1,065.1	12.8%	-8.8%
<b>Operating Income</b>	<b>206.8</b>	<b>205.0</b>	<b>299.8</b>	<b>45.0%</b>	<b>46.3%</b>
<b>Operating Margin</b>	<b>4.8%</b>	<b>4.0%</b>	<b>6.1%</b>	<b>1.3pp</b>	<b>2.0pp</b>
Depreciation	162.3	166.2	207.4	27.8%	24.8%
<b>EBITDA</b>	<b>369.2</b>	<b>371.2</b>	<b>507.3</b>	<b>37.4%</b>	<b>36.7%</b>
<b>EBITDA Margin</b>	<b>8.6%</b>	<b>7.3%</b>	<b>10.3%</b>	<b>1.7pp</b>	<b>3.0pp</b>
<b>Interes income (expense) net</b>	<b>25.7</b>	<b>67.6</b>	<b>13.5</b>	<b>-47.4%</b>	<b>-80.0%</b>
Interest expense	2.5	0.9	29.2	>500%	>500%
Interest income	38.5	44.2	45.6	18.6%	3.4%
Other income (expenses)				N.A.	N.A.
Exchange Income (loss)	(10.3)	24.3	(2.9)	-71.9%	N.A.
Unconsolidated subsidiaries				N.A.	N.A.
<b>Income before taxes</b>	<b>232.5</b>	<b>272.6</b>	<b>313.3</b>	<b>34.8%</b>	<b>15.0%</b>
Income taxes	60.2	(138.0)	52.7	-12.5%	N.A.
Discontinued operations					
<b>Consolidated Net Income</b>	<b>172.3</b>	<b>410.5</b>	<b>260.6</b>	<b>51.3%</b>	<b>-36.5%</b>
Minorities				N.A.	N.A.
<b>Net Income</b>	<b>172.3</b>	<b>410.5</b>	<b>260.6</b>	<b>51.3%</b>	<b>-36.5%</b>
<b>Net margin</b>	<b>4.0%</b>	<b>8.1%</b>	<b>5.3%</b>	<b>1.3pp</b>	<b>(2.8pp)</b>
<b>EPS</b>	<b>0.159</b>	<b>0.378</b>	<b>0.240</b>	<b>51.3%</b>	<b>-36.5%</b>

### Balance Sheet (Million pesos)

<b>Total Current Assets</b>	<b>5,537.1</b>	<b>6,229.7</b>	<b>6,428.1</b>	<b>16.1%</b>	<b>3.2%</b>
Cash & Short Term Investments	2,300.8	2,601.9	2,685.8	16.7%	3.2%
<b>Long Term Assets</b>	<b>19,020.3</b>	<b>19,806.5</b>	<b>21,245.1</b>	<b>11.7%</b>	<b>7.3%</b>
Property, Plant & Equipment (Net)	11,087.1	12,129.7	12,337.3	11.3%	1.7%
Intangible Assets (Net)	6,278.0	6,278.0	6,278.0		
<b>Total Assets</b>	<b>24,557.3</b>	<b>26,036.2</b>	<b>27,673.2</b>	<b>12.7%</b>	<b>6.3%</b>
<b>Current Liabilities</b>	<b>3,370.9</b>	<b>3,901.8</b>	<b>4,022.4</b>	<b>19.3%</b>	<b>3.1%</b>
Short Term Debt			66.2	N.A.	N.A.
Accounts Payable	3,134.6	2,939.8	3,647.6	16.4%	24.1%
<b>Long Term Liabilities</b>	<b>176.9</b>	<b>131.9</b>	<b>1,387.6</b>	<b>&gt;500%</b>	<b>&gt;500%</b>
Long Term Debt			1,193.6	N.A.	N.A.
<b>Total Liabilities</b>	<b>3,547.8</b>	<b>4,033.6</b>	<b>5,410.0</b>	<b>52.5%</b>	<b>34.1%</b>
Common Stock	21,009.5	22,002.6	22,263.2	6.0%	1.2%
Noncontrolling Interest				N.A.	N.A.
<b>Total Equity</b>	<b>21,009.5</b>	<b>22,002.6</b>	<b>22,263.2</b>	<b>6.0%</b>	<b>1.2%</b>
<b>Liabilities &amp; Equity</b>	<b>24,557.3</b>	<b>26,036.2</b>	<b>27,673.2</b>	<b>12.7%</b>	<b>6.3%</b>
<b>Net Debt</b>	<b>(2,300.8)</b>	<b>(2,601.9)</b>	<b>(1,426.0)</b>	<b>-38.0%</b>	<b>-45.2%</b>

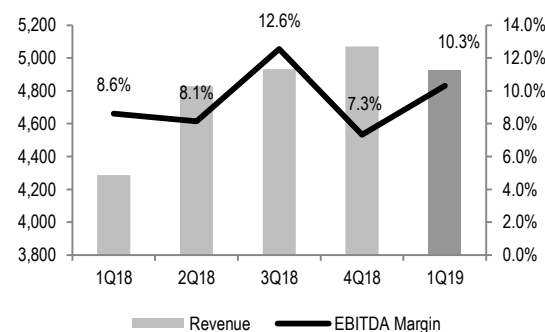
### Cash Flow (Million pesos)

FX differences in cash & equivalents	349.2	437.2	(7.0)
Cash Flow from Operating Activities	356.1	424.6	451.0
Cash Flow from Investing Activities	(297.7)	(587.2)	(312.9)
Cash Flow from Financing Activities	(2.5)	(0.9)	(47.3)
<b>Change in Cash Balance</b>	<b>405.1</b>	<b>273.8</b>	<b>83.9</b>

Source: Banorte, MSE.

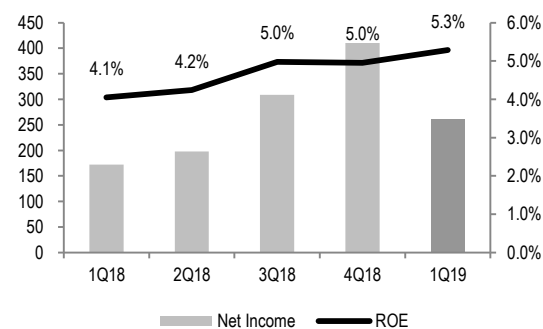
## Revenue & EBITDA Margin

MXN, million



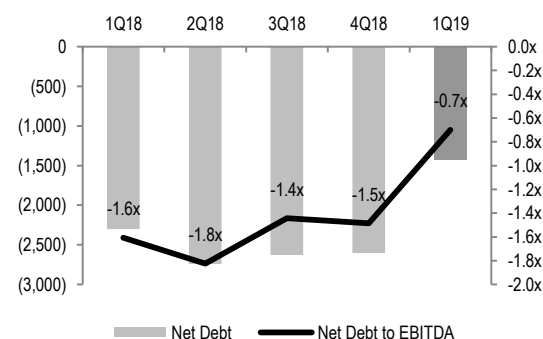
## Net Income & ROE

MXN, million



## Net Debt & Net debt to EBITDA ratio

MXN, million



**The best SSS performance of the sector, for the ninth quarter in a row.** In 1Q19, La Comer reported a 7.3% SSS growth, exceeding our 5.5% estimate. It should be noted that, in line with our investment thesis, this result implied that for the ninth straight quarter, the company reported the most aggressive LfL expansion of the retail sector in Mexico. Such solid performance is explained by the positive acceptance of the company's distinct formats, which is manifested through the significant growth seen across all formats, regions and categories. However, on this occasion, the company highlighted the results of *Fresko*, as well as those from the western region, and once again, from the perishable category. In parallel, the execution of the company's expansion plan was evidenced by the net opening of 5 new units in the L12M, increasing the sales floor by 12.5% yoy. This contributed with an additional 750bps to the quarter's growth, resulting in a 14.8% yoy total revenue upsurge, standing at MXN\$4.9 billion (+0.7% vs BNTe.)

**Gross margin expanded by 60bps.** Lower storage costs derived from greater logistics efficiencies, added to an improved control of product shrinkage, a more favorable sales mix, given a higher contribution from more profitable formats like *Fresko* and *City Market*, and favorable commercial conditions, boosted the company's gross margin by 60bps yoy to 27.7% in 1Q19. Hence, LACOMER's gross profit rose 17.5% year-on-year to MXN\$1.3 billion (+2.7pp vs TS).

**Despite pressures from higher energy prices and e-commerce investments, expenses continued to leverage.** During this first quarter, operating expenses grew 10.5% yoy, standing below the performance by revenue, even despite pressures assumed by an increase in electrical energy prices, as well as by greater investments related to the "La Comer en tu Casa" electronic channel. The latter results from an improved operating leverage, related to SSS growth, to which we would have to add a better fixed cost uptake (corporate) due to the company's greater dimensions. Thus, La Comer reported MXN\$461 million in EBITDA, up an annual 24.9%, above the sales growth rhythm, and beating our 6.6% estimate. Hence, the company's EBITDA margin expanded by 80bp to stand at 9.4% in 1Q19, also the biggest profitability expansion from the retail sector in Mexico.

**A lower effective tax rate boosted the company's net profit by 59.1%.** The company topped our expectation, increasing its NET profit by 59.1% yoy (+37.5% vs our forecast) and placing it at MXN\$261 million. Such indicator was boosted not only by operating growth, but also by the positive effect of a lower effective tax rate (16.8% vs 25.8% anterior), which offset a lower Net Interest Expense gain.

**The effects of IFRS 16 on the Income Statement.** Resulting from the implementation of IFRS 16, on leasing, La Comer reported a MXN\$47 million gain in EBITDA given the reduction in operating expenses from the recognition shift of leasing expenses. Therefore, considering such accounting changes, the figure stands at MXN\$507 million with the corresponding margin at 10.3% (+90bps). 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 -0.8x ND/EBITDA from 1.5x in 4Q18. It should be indicated that such change is explained, primarily, by a MXN\$1.2 billion qoq increase in interest-bearing debt, corresponding to lease liabilities, which was partially offset by an MXN\$84 million sequential cash increase and a higher L12M EBITDA generation.

## 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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	<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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## History of PT and Ratings

Stock	Date	Rating	PT
LACOMER UBC	8/1/2019	Buy	\$25.00
LACOMER UBC	25/7/2018	Buy	\$23.00
LACOMER UBC	15/12/2017	Buy	\$22.00

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