AXTEL

Quarterly Report

February 12, 2021

A weaker close of the year in both divisions

- **Axtel's report was below our estimates, reflecting double-digit declines, as greater than expected weakness in Infrastructure and Government IT impacted results**
- **Meanwhile, the company is moving towards the separation into two entities, whilst it has resumed conversations with potential investors in Axtel Networks to finalize its sale**

Results recorded a double-digit decline. Axtel's consolidated sales decreased 8.9% y/y to MXN 3.077 billion, as a result of the divestiture of the data centers that were sold, a 17.0% y/y contraction in Axtel Networks' net revenues due to a drop in dark fiber prepaid contracts, and while Alestra's net revenues contracted 6.7% y/y. Regarding the latter, the major weakness in Services was seen in Government after falling 18.1%, impacted by a 30.1% contraction in IT as some cloud and cybersecurity solutions contracts were terminated, while in Enterprise a solid performance in IT (+31.5%) partially offset the continued decline in Telecom (-8.5%). Meanwhile, despite efficiencies from digitalization, EBITDA fell 11.4% year-over-year to MXN 1.052 billion due to gross margin pressures in Telecom services, increases in personnel expenses in both divisions, related to extraordinary provisions for organizational restructuring, and lower operating leverage in Infrastructure. Accordingly, the consolidated margin contracted 90 bps to 34.2%. Finally, the company reported a net loss of MXN 207 million, affected by an unusually high effective tax rate (120%), related to provisions for prior years' deductions and FX gains.

We remain optimistic in Infrastructure. The current price reflects that the market is either not assigning any value to Alestra or implies a discount of close to 41% in Axtel Networks, which in our opinion does not make sense; although the recognition of such value will certainly depend on whether the sale can be completed.

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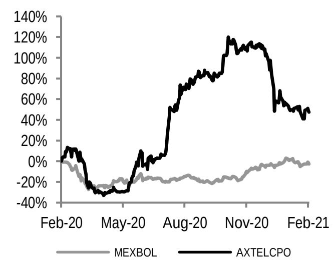
BUY	
Current Price	$5.66
PT	$10.00
Dividend 2021	
Dividend Yield (%)	
Upside Potential	77.7%
Max – Mín LTM ($)	8.67 – 2.47
Market Cap (US$m)	806.4
Shares Outstanding (m)	2,842.0
Float	22%
Daily Turnover US$m	9.0
Valuation metrics LTM	
FV/EBITDA	4.5x
P/E	44.4x
MSCI ESG Rating*	N.A.

Relative performance to Mexbol LTM



Financial Statements

	2019	2020	2021E	2022E
Revenue	12,784	12,356	12,891	13,546
Operating Income	774	2,772	1,254	1,496
EBITDA	4,465	6,326	4,544	4,787
EBITDA Margin	34.9%	51.2%	35.2%	35.3%
Net Income	-14	361	56	-76
Net Margin	-0.1%	2.9%	0.4%	-0.6%
Total Assets	24,331	23,704	22,016	21,402
Cash	858	3,124	3,357	4,378
Total Liabilities	20,920	20,209	18,465	17,927
Debt	14,886	15,425	14,172	14,111
Common Equity	3,411	3,495	3,551	3,475

Source: Banorte

Valuation and Financial metrics

	2019	2020	2021E	2022E
FV/EBITDA	6.8x	4.5x	5.9x	5.4x
P/E	-1,163.9x	44.4x	286.3x	-211.3x
P/BV	4.8x	4.6x	4.5x	4.6x
ROE	-0.4%	10.5%	1.6%	-2.2%
ROA	-0.1%	1.5%	0.3%	-0.4%
EBITDA/ interest	3.3x	4.9x	4.4x	4.5x
Net Debt/EBITDA	3.1x	1.9x	2.4x	2.0x
Debt/Equity	4.4x	4.4x	4.0x	4.1x

AXTEL – Results 4Q20
MXN, million

Concept	4Q19	4Q20	Var %	4Q20e	Diff% vs Estim.
Revenue	3,378	3,077	-8.9%	3,435	-10.4%
Operating Income	276	179	-35.0%	254	-29.4%
Ebitda	1,187	1,052	-11.4%	1,120	-6.1%
Net Income	6	-207	N.A.	499	N.A.
Margins					
Operating Margin	8.2%	5.8%	-2.3pp	7.4%	-1.6pp
Ebitda Margin	35.1%	34.2%	-0.9pp	32.6%	1.6pp
Net Margin	0.2%	-6.7%	-6.9pp	14.5%	-21.3pp
EPS	$0.00	-$0.07	N.A.	$0.18	N.A.

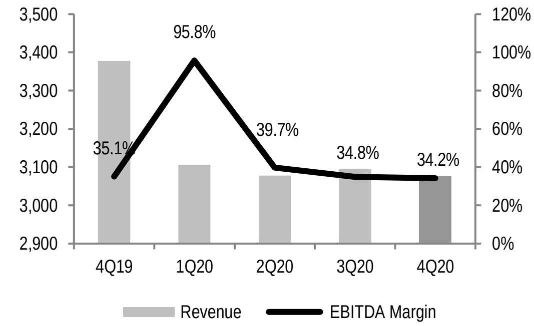
Income Statement (Million pesos)					
Year	2019	2020	2020	Change	Change
Quarter	4	3	4	% y/y	% q/q
Net Revenue	3,378	3,095	3,077	-8.9%	-0.6%
Costs of goods sold	1,650	1,549	1,557	-5.6%	0.5%
Gross profit	1,728	1,545	1,520	-12.0%	-1.6%
General expenses	1,443	1,346	1,338	-7.3%	-0.6%
Operating Income	276	203	179	-35.0%	-11.7%
Operating Margin	8.2%	6.6%	5.8%	(2.3pp)	(0.7pp)
Depreciation	879	849	845	-3.8%	-0.4%
EBITDA	1,187	1,078	1,052	-11.4%	-2.4%
EBITDA Margin	35.1%	34.8%	34.2%	(0.9pp)	(0.6pp)
Interest Income (Expense) net	87	(25)	855	>500%	N.A.
Interest expense	326	318	262	-19.5%	-17.7%
Interest income	9	10	6	-37.7%	-45.6%
Other income (expense)	(18)	61	(14)	-21.2%	N.A.
Foreign exchange gain (loss)	421	222	1,125	167.3%	407.1%
Unconsolidated subsidiaries				N.A.	N.A.
Income before taxes	363	179	1,035	184.9%	479.2%
Income taxes	228	352	1,242	444.8%	252.5%
Discontinued operations	(130)				
Consolidated Net Income	265	(174)	(207)	N.A.	19.2%
Non-controlling interest				N.A.	N.A.
Net Income	6	(174)	(207)	N.A.	19.2%
Net Margin	0.2%	-5.6%	-6.7%	(6.9pp)	(1.1pp)
EPS	0.002	(0.061)	(0.073)	N.A.	19.2%

Balance Sheet (Million pesos)					
Total Current Assets	6,035	8,167	7,079	17.3%	-13.3%
Cash & Short Term Investments	858	3,361	3,124	264.2%	-7.1%
Long Term Assets	18,296	17,655	16,624	-9.1%	-5.8%
Property, Plant & Equipment (Net)	12,964	11,756	11,578	-10.7%	-1.5%
Intangible Assets (Net)	633	905	938	48.2%	3.6%
Total Assets	24,331	25,822	23,704	-2.6%	-8.2%
Current Liabilities	5,178	6,583	6,044	16.7%	-8.2%
Short Term Debt	635	2,413	2,058	224.0%	-14.7%
Accounts Payable	3,701	3,411	2,952	-20.2%	-13.5%
Long Term Liabilities	15,742	15,532	14,165	-10.0%	-8.8%
Long Term Debt	14,251	14,625	13,367	-6.2%	-8.6%
Total Liabilities	20,920	22,115	20,209	-3.4%	-8.6%
Stockholders' Equity	3,411	3,707	3,495	2.5%	-5.7%
Non-controlling interest				N.A.	N.A.
Total Equity	3,411	3,707	3,495	2.5%	-5.7%
Liabilities & Equity	24,331	25,822	23,704	-2.6%	-8.2%
Net Debt	14,028	13,677	12,301	-12.3%	-10.1%

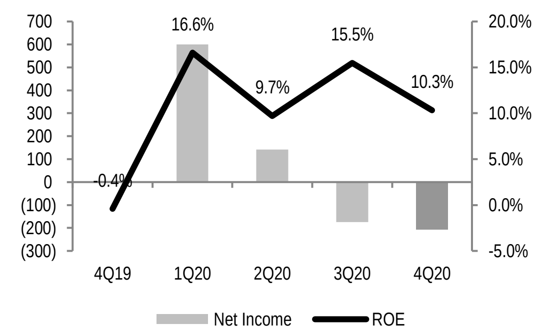
Cash Flow			
CF from Operating Activities	1,322.9	1,034.8	1,382.3
CF from Investing Activities	(562.4)	(389.3)	(651.5)
CF from Financing Activities	(668.4)	(540.3)	(708.0)
FX effect on cash	(2.7)	(58.3)	(260.0)
Change in Cash Balance	89.4	46.9	(237.1)

Source: Banorte, MSE.

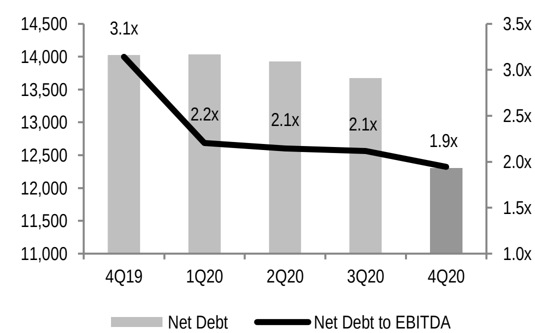
Revenue & EBITDA Margin
MXN, million



Net Income & ROE
MXN, million



Net Debt & Net Debt to EBITDA ratio
MXN, million



4Q20 Summary of revenue performance by segment
Post-Functional Separation

	Voice	Data	Networks	Telecom	IT	Total	% y/y Voice	% y/y Data	% y/y Networks	% y/y Telecom	% y/y IT	% y/y Total
Enterprise	262	665	641	1,568	367	1,935	-36.4%	-4.3%	5.6%	-8.5%	31.5%	-2.9%
Government	24	89	146	259	280	538	-25.0%	-13.6%	19.7%	0.8%	-30.0%	-18.1%
Services	286	754	787	1,827	647	2,473	-35.6%	-5.5%	8.0%	-7.3%	-4.7%	-6.7%
Infrastructure						1,218						-8.6%
- Alestra						-614						1.7%
Total						3,077						-8.9%

Source: Axtel, Banorte

4Q20 Summary of revenue performance by segment
Post-Functional Separation

	Infrastructure	Services	% y/y Infrastructure	% y/y Services
Revenue	604	2,473	-17.03%	-6.7%
EBITDA	540	512	-19.76%	-0.4%
Margin	89.4%	20.7%	-3.0pp	1.3pp

Source: Axtel, Banorte

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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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
BUY	*When the share expected performance is greater than the MEXBOL estimated performance.*
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
Axtel CPO	21/12/2020	Compra	$10.00
Axtel CPO	11/08/2020	Compra	$9.00
Axtel CPO	15/01/2020	Compra	$4.50
Axtel CPO	17/04/2019	Compra	$3.15

MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD		AVERAGE			LEADER	

*MSCI ESG Rating is an indicator that evaluates companies in Environment, Social and Governance (ESG) metrics.

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