

AMX

Quarterly Report

October 17, 2019

ARPU and profitability expansion

- Amx 3Q19 results beat our estimates. The company reported expansion in profitability resulting from the change in accounting standards and effective control on costs as well as reduced subsidies
- Mobile postpaid and fixed – broadband services maintain the dynamism observed in previous quarters, which is directly reflected in the average revenue per user and in revenue stability
- After incorporating these results, Amx's FV/EBITDA multiple fell from 5.8x to 5.6x, while the ND/EBITDA ratio improved marginally to 2.3x. We reiterate our BUY recommendation

Demand for data services raises ARPU in Latin America. Despite the global economic slowdown, population demand for faster internet connections remains dynamic, reflecting in additions to the postpaid subscriber base, improved consumption indicators per subscriber, and in revenue growth from value-added services. We consider AMX's results are positive as they managed to dampen the negative FX effect in revenue and outperform expected profitability. It should be noted that a substantial part of margin expansion is due to the adoption of the IFRS 16 accounting standard. AMX reported annual variations of 0.2% in revenue and 9.2% in EBITDA, which translated into a 2.6pp margin expansion, to stand at 31.7%. The depreciation impact of Latin American currencies and the recording of lease expenses as financial expenditures led to a 31.3% decline in net profit. We consider that the current valuation reflects most local and international risks in addition to a lower growth environment, thus we reiterate BUY. Further on we will publish our 2020 expectations.

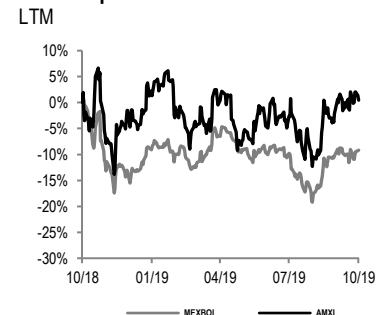
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BUY

Current Price	\$14.69
PT 2019	\$17.00
Dividend 2019e	0.17
Dividend Yield (%)	1.2%
Upside Potential	16.9%
ADR current price	US\$15.16
PO2019 ADR	US\$16.50
# Shares each ADR	20
Max – Min LTM (P\$)	15.56 – 12.57
Market Cap (US\$m)	50,310
Shares Outstanding (m)	66,015
Float	49%
Daily Turnover US\$m	621
Valuation metrics TTM	
EV/EBITDA	5.6x
P/E	17.0x

Relative performance to Mexbol



Financial Statements

	2017	2018	2019E	2020E
Revenue	1,021,634	1,020,727	999,262	1,044,239
Operating Income	100,143	137,502	146,092	162,549
EBITDA	258,755	289,497	308,124	322,439
EBITDA Margin	25.3%	28.4%	30.8%	30.9%
Net Income	29,326	48,129	57,139	64,180
Net Margin	2.9%	4.7%	5.7%	6.1%
Total Assets	1,486,212	1,413,891	1,511,591	1,539,428
Cash	91,429	70,677	72,711	80,133
Total Liabilities	1,225,578	1,183,696	1,314,851	1,342,682
Debt	712,244	663,076	769,693	795,140
Common Equity	260,634	230,195	196,740	196,746

Source: Banorte

Valuation and Financial metrics

	2017	2018	2019E	2020E
EV/EBITDA	6.4x	5.6x	5.5x	5.3x
P/E	33.1x	20.0x	17.0x	15.1x
P/BV	5.0x	5.4x	6.2x	6.2x
ROE	11.3%	21.1%	29.0%	32.6%
ROA	2.0%	3.4%	3.8%	4.2%
EBITDA/ Interest	8.5x	8.5x	9.1x	8.8x
Net Debt/EBITDA	2.4x	2.0x	2.3x	2.2x
Debt/Equity	2.7x	2.9x	3.9x	4.0x

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Document for distribution among public

AMX – Results 3Q19

MXN, million

Concept	3Q18	3Q19	Var %	3Q19e	Diff% vs Estim.
Revenue	248,071	248,426	0.1%	238,296	4.3%
Operating Income	35,697	38,065	6.6%	33,275	14.4%
Ebitda	72,158	78,806	9.2%	74,657	5.6%
Net Income	18,956	13,028	-31.3%	8,517	53.0%
Margins					
Operating Margin	14.4%	15.3%	0.9pp	14.0%	1.4pp
Ebitda Margin	29.1%	31.7%	2.6pp	31.3%	0.4pp
Net Margin	7.6%	5.2%	-2.4pp	3.6%	1.7pp
EPS	\$0.29	\$0.20	-31.2%	\$0.13	53.0%

Income Statement (Million pesos)

Year	2018	2019	2019	Change	Change
Quarter	3	2	3	% YoY	% QoQ
Net Revenue	248,071	250,083	248,426	0.1%	-0.7%
Costs of goods sold	159,475	157,341	157,001	-1.6%	-0.2%
Gross profit	88,596	92,742	91,425	3.2%	-1.4%
General expenses	49,033	54,795	52,018	6.1%	-5.1%
Operating Income	35,697	36,766	38,065	6.6%	3.5%
Operating Margin	14.4%	14.7%	15.3%	0.9pp	0.6pp
Depreciation	36,462	41,387	40,740	11.7%	-1.6%
EBITDA	72,158	78,153	78,806	9.2%	0.8%
EBITDA Margin	29.1%	31.3%	31.7%	2.6pp	0.5pp
Interest Income (Expense) net	3,231	(11,885)	(12,358)	N.A.	4.0%
Interest expense	7,130	10,167	9,394	31.8%	-7.6%
Interest income	2,203	939	963	-56.3%	2.5%
Other income (expense)	(10,617)	(4,824)	2,951	N.A.	N.A.
Foreign exchange gain (loss)	18,775	2,167	(6,877)	N.A.	N.A.
Unconsolidated subsidiaries	(17)	(2)	(7)	-60.7%	246.6%
Income before taxes	38,910	24,880	25,701	-33.9%	3.3%
Income taxes	18,918	10,280	11,431	-39.6%	11.2%
Discontinued operations					
Consolidated Net Income	19,993	14,600	14,270	-28.6%	-2.3%
Non-controlling interest	1,037	535	1,242	19.8%	132.3%
Net Income	18,956	14,065	13,028	-31.3%	-7.4%
Net Margin	7.6%	5.6%	5.2%	(2.4pp)	(0.4pp)
EPS	0.29	0.21	0.20	-31.2%	-7.4%

Balance Sheet (Million pesos)

Total Current Assets	329,290	368,377	353,375	7.3%	-4.1%
Cash & Short Term Investments	69,069	81,588	67,025	-3.0%	-17.8%
Long Term Assets	1,025,731	1,188,832	1,143,563	11.5%	-3.8%
Property, Plant & Equipment (Net)	591,270	637,893	620,311	4.9%	-2.8%
Intangible Assets (Net)	114,174	122,222	115,806	1.4%	-5.2%
Total Assets	1,355,021	1,557,209	1,496,939	10.5%	-3.9%
Current Liabilities	422,672	560,706	517,335	22.4%	-7.7%
Short Term Debt	92,440	198,482	174,223	88.5%	-12.2%
Accounts Payable	225,352	263,193	252,429	12.0%	-4.1%
Long Term Liabilities	736,899	747,179	740,788	0.5%	-0.9%
Long Term Debt	578,606	585,383	581,078	0.4%	-0.7%
Total Liabilities	1,159,571	1,307,886	1,258,123	8.5%	-3.8%
Stockholders' Equity	195,450	249,323	238,815	22.2%	-4.2%
Non-controlling interest	49,615	48,858	49,625	0.0%	1.6%
Total Equity	145,835	200,465	189,190	29.7%	-5.6%
Liabilities & Equity	1,355,021	1,557,209	1,496,939	10.5%	-3.9%
Net Debt	601,978	702,277	688,276	14.3%	-2.0%

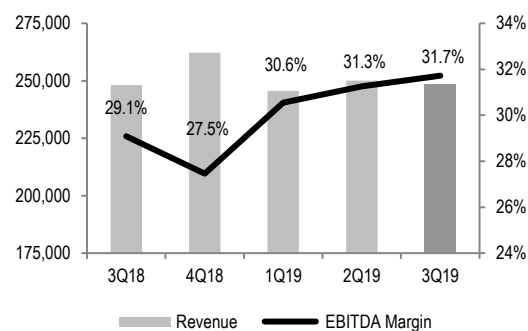
Cash Flow

CF from Operating Activities	53,013	65,268	67,712
CF from Investing Activities	(33,292)	(37,327)	(32,543)
CF from Financing Activities	(24,146)	(12,496)	(50,515)
FX effect on cash	(585)	26	(1,211)
Change in Cash Balance	(5,010)	15,471	(16,556)

Source: Banorte, MSE. Figures in line with IFRS 16.

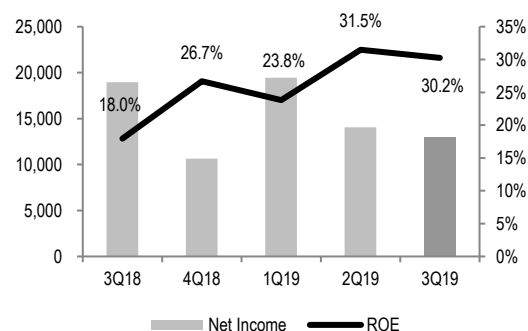
Revenue & EBITDA Margin

MXN, million



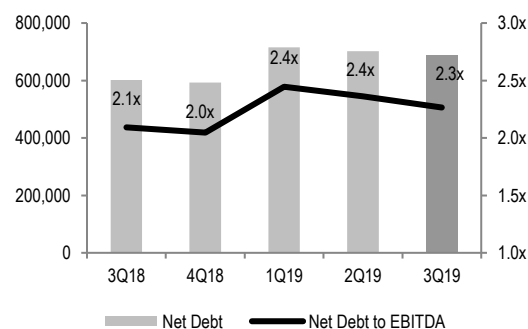
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA ratio

MXN, million



Marginal growth in the Revenue Generating Units (RGU) base. América Móvil concluded the quarter with a 363.0 million RGU base, marginally higher (+0.1% yoy) than that reported in 3Q18. During this period, the company registered 798,000 net additions to the cellular subscriber base, to close at 278.7 million (-0.2% vs 3Q18) while the fixed-access base ended with 231,000 net disconnections, to stand at 84.3 million (+1.2% yoy). As we had previously mentioned, population demand for value-added telecommunication services coupled with attractive rate plans and effective advertising campaigns continue to promote the migration of plans from a prepaid to a postpaid system. Breaking down the cellular subscriber base, postpaid clients rose 7.9% yoy to 85 million, representing 30.5% of the total vs 28.2% in 3Q18. In contrast, the prepaid base fell 3.7% vs 3Q18 to 187.6 million.

Another quarter with expansion in the average revenue per user (ARPU). We consider that the integration of more users to social media, increasingly frequent use of different applications (including games and videos) in combination with greater connectivity of mobile phones and higher cellular network speed are the main drivers that are boosting ARPU. This can be observed in different regions where the company operates. During the period, Amx reported ARPU increments in Brazil (+15.7%), Mexico (+6.5%), Central America (+5.7%), United States (+3.8%) and Europe (+2.7%).

Accounting policies, control on costs and reduced telephone subsidies. During the quarter, the implementation of International Financial Reporting Standards represented an amount of MXN 7.8 billion in EBITDA (3.2% over sales). In addition, the procurement of operating efficiencies and reduced subsidies in the sale of cellular telephones supported, to some extent, profitability expansion. According to the company, excluding the acquisitions and at constant exchange rates, EBITDA surged 3.0% yoy. Furthermore, if it excludes the extraordinary item obtained in Brazil from a court ruling in 3Q18 and early retirement charges from Telekom Austria employees, during this period, EBITDA would increase 7.2%.

Depreciation of Latin American currencies against the USD negatively influenced financial expenses. AMX reported MXN 12.3 billion in comprehensive financing cost mainly due to an FX loss of MXN 6.8 billion and, to a lesser extent, to a financial expense from leases totaling MXN 2.0 billion. The latter compares unfavorably with 3Q18's MXN 3.2 billion financial gain in comprehensive financing cost derived from an MXN 18.7 billion FX gain. The financial structure does not present significant changes, the ND/EBITDA ratio fell slightly from 2.4x to 2.3x.

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We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, 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, Luis Leopoldo López Salinas, Jorge Antonio Izquierdo Lobato and Leslie Thalia 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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	Reference
BUY	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
SELL	<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	Recommendation	PT
Amx L	8/01/2019	Buy	\$17.00
Amx L	17/01/2018	Buy	\$19.50
Amx L	24/10/2017	Hold	\$19.50
Amx L	18/07/2017	Buy	\$16.50

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