

ORBIA

Quarterly Report

July 29, 2020

Vestolit and Wavin with the greatest impacts

- 2Q20 results were weak, impacted by the effects of less economic dynamism due to COVID-19, particularly in Vestolit (Vinyl) and Wavin (Construction and Infrastructure)
- The outlook continues with headwinds ahead, but Orbia maintains its strategy on preserving liquidity and expenses reduction, while better conditions are starting to be observed to help retake growth

Weakness came in line with estimates, due to the pandemic effect. During 2Q20, results were affected by an environment of weak raw material prices and a global economic slowdown, due to the pandemic effects. Although all segments showed lower revenues, the most affected segments were Vestolit, Wavin, and Netafim (Precision Agriculture). Weakness in revenues led to profitability pressures, although excluding Dura-Line (Data Communications) whose operations posted a greater profitability that continues to be driven by a favorable mix shift towards higher-value added products and lower raw material costs. In that sense, in a consolidated basis, revenues posted a 23.2% y/y drop and a 29.2% fall in EBITDA, in line with our estimates. Thus, its respective margin posted a 1.6pp year-on-year setback to locate at 18.6%. At net level, the company registered an 87.9% y/y income downturn, mainly affected by a weak operating performance. With the results, ND/EBITDA ratio slightly increased from 2.9x in 1Q20 to 3.1x in 2Q20.

Focused on recovery. Challenges clearly continue, however, better conditions are observed in some businesses, hand in hand with the reactivation of activities, for which we believe we believe the coming quarters should be less adverse. In the meantime, the company maintains initiatives aimed at preserving liquidity, improving profitability and cost efficiency.

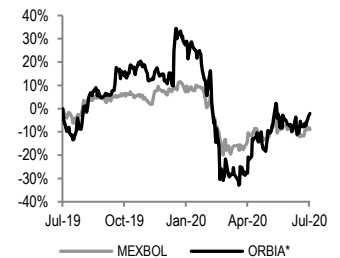
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BUY

Current Price	\$35.45
PT2020	\$56.00
Dividend 2020	
Dividend Yield (%)	
Upside Potential	57.9%
Max – Min LTM (\$)	51.24 - 23.80
Market Cap (US\$m)	3,380.9
Shares Outstanding (m)	2,100
Float	58.5%
Daily Turnover (\$ m)	108.7
Valuation metrics LTM	
FV/EBITDA	6.4x
P/E	26.2x

Relative performance to MEXBOL LTM



Financial Statements

USD, million	2018	2019	2020E	2021E
Revenue	7,198	6,987	5,634	5,473
Operating Income	935	823	563	731
EBITDA	1,397	1,365	1,073	1,088
EBITDA Margin	19.4%	19.5%	19.1%	19.9%
Net Income	355	497	40	178
Net Margin	4.9%	7.1%	0.7%	3.3%
Total Assets	10,061	10,057	9,807	9,218
Cash	700	586	1,172	605
Total Liabilities	6,891	6,963	6,717	5,805
Debt	4,352	4,461	5,078	4,337
Common Equity	3,170	3,094	3,090	3,413

Source: Banorte

Valuation and financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	5.6x	5.9x	7.6x	7.4x
P/E	5.2x	6.8x	84.0x	19.1x
P/BV	1.4x	1.4x	1.5x	1.4x
ROE	27.2%	20.9%	2.0%	7.0%
ROA	3.5%	4.9%	0.4%	1.9%
EBITDA/ Interest	8.1x	10.5x	2.9x	4.1x
Net Debt/EBITDA	2.6x	2.8x	3.6x	3.4x
Debt/Equity	1.4x	1.4x	1.6x	1.3x

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ORBIA –Results 2Q20

USD million

Concept	2Q19	2Q20	Var %	2Q20e	Diff% vs Estim.
Revenue	1,839	1,412	-23.2%	1,430	-1.2%
Operating Income	237	126	-46.7%	140	-9.9%
Ebitda	372	263	-29.2%	267	-1.3%
Net Income	84	10	-87.9%	2	413.3%
Margins					
Operating Margin	12.9%	8.9%	-3.9pp	9.8%	-0.9pp
Ebitda Margin	20.2%	18.6%	-1.6pp	18.7%	0.0pp
Net Margin	4.6%	2.8%	-1.8pp	0.1%	2.6pp
EPS	\$0.040	\$0.005	-87.9%	\$0.001	413.3%

Income Statement (Million)

Year	2019	2020	2020	Change	Change
Quarter	2	1	2	% y/y	% q/q
Net Revenue	1,838.9	1,626.4	1,412.4	-23.2%	-13.2%
Costs of goods sold	1,324.5	1,177.9	1,042.9	-21.3%	-11.5%
Gross profit	514.5	448.4	369.4	-28.2%	-17.6%
General expenses	277.9	276.6	243.4	-12.4%	-12.0%
Operating Income	236.5	171.9	126.1	-46.7%	-26.6%
Operating Margin	12.9%	10.6%	8.9%	(3.9pp)	(1.6pp)
Depreciation	135.3	137.6	137.3	1.5%	-0.2%
EBITDA	371.8	309.5	263.4	-29.2%	-14.9%
EBITDA Margin	20.2%	19.0%	18.6%	(1.6pp)	(0.4pp)
Interest Income (Expense) net	(78.6)	(85.0)	(64.0)	-18.6%	-24.7%
Interest expense	64.3	52.4	54.2	-15.7%	3.4%
Interest income	3.4	2.8	2.3	-30.4%	-17.3%
Other income (expense)	(14.0)	(12.4)	(3.9)	-72.1%	-68.5%
Foreign exchange gain (loss)	(3.7)	(23.0)	(8.2)	124.3%	-64.4%
Unconsolidated subsidiaries	2.0	(0.1)	1.0	-51.1%	N.A.
Income before taxes	160.0	86.8	63.1	-60.6%	-27.3%
Income taxes	47.0	9.6	15.4	-67.2%	60.6%
Discontinued operations	(0.3)	(0.1)	(5.3)		
Consolidated Net Income	113.0	77.2	42.4	-62.5%	-45.1%
Non-controlling interest	28.8	32.4	32.2	11.8%	-0.6%
Net Income	84.3	44.8	10.2	-87.9%	-77.3%
Net Margin	4.6%	2.8%	0.7%	(3.9pp)	(2.0pp)
EPS	0.040	0.021	0.005	-87.9%	-77.3%

Balance Sheet (Million pesos)

Total Current Assets	3,185.4	3,694.1	3,360.3	5.5%	-9.0%
Cash & Short Term Investments	591.5	1,451.8	1,238.2	109.3%	-14.7%
Long Term Assets	7,220.0	7,080.9	7,061.0	-2.2%	-0.3%
Property, Plant & Equipment (Net)	3,416.1	3,238.3	3,207.2	-6.1%	-1.0%
Intangible Assets (Net)	1,800.8	1,725.8	1,719.4	-4.5%	-0.4%
Total Assets	10,405.4	10,775.0	10,421.3	0.2%	-3.3%
Current Liabilities	2,762.4	2,507.0	2,074.8	-24.9%	-17.2%
Short Term Debt	1,142.7	971.8	695.9	-39.1%	-28.4%
Accounts Payable	1,499.1	1,355.2	1,196.5	-20.2%	-11.7%
Long Term Liabilities	4,332.5	5,273.8	5,338.3	23.2%	1.2%
Long Term Debt	3,458.9	4,374.5	4,439.2	28.3%	1.5%
Total Liabilities	7,094.9	7,780.8	7,413.0	4.5%	-4.7%
Common Stock	3,310.5	2,994.2	3,008.3	-9.1%	0.5%
Non-controlling interest	742.1	709.8	703.7	-5.2%	-0.9%
Total Equity	2,568.3	2,284.4	2,304.6	-10.3%	0.9%
Liabilities & Equity	10,405.4	10,775.0	10,421.3	0.2%	-3.3%
Net Debt	4,010.2	3,894.5	3,896.9	-2.8%	0.1%

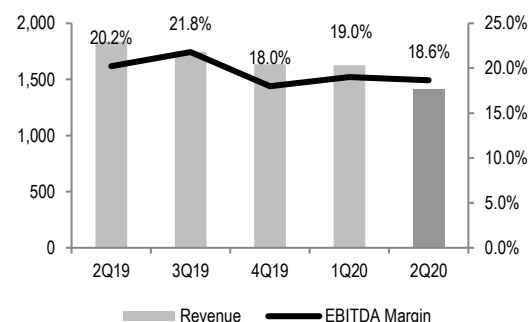
Cash Flow

CF from Operating Activities	429.7	348.7	557.4		
CF from Investing Activities	(100.9)	(42.3)	(114.8)		
CF from Financing Activities	(341.6)	646.3	375.0		
Change in Cash Balance	(119.2)	922.6	710.0		

Source: Banorte, MSE

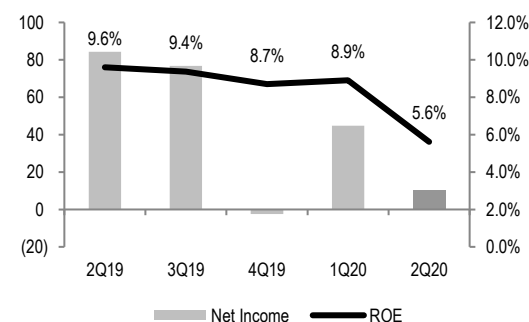
Revenue & EBITDA Margin

USD, million



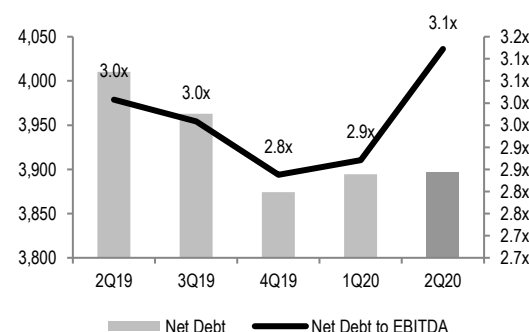
Net Income & ROE

USD, million



Net Debt & Net Debt to EBITDA ratio

USD, million



Report Details by business group

Vestolit (Polymer Solutions)

US\$ millions

	2Q19	Margin	1Q20	Margin	2Q20	Margin	% y/y	% q/q
Revenue	588	100.0%	658	100.0%	427	100.0%	-27.4%	-35.1%
EBITDA	112	19.0%	121	18.4%	64	15.0%	-42.9%	-47.1%

Source:Orbia

Wavin (Construction and Infrastructure)

US\$ millions

	2Q19	Margin	1Q20	Margin	2Q20	Margin	% y/y	% q/q
Revenue	596	100.0%	512	100.0%	409	100.0%	-31.4%	-20.1%
EBITDA	81	38.9%	51	10.0%	27	14.0%	-66.7%	-47.1%

Source:Orbia

Netafim (Precision Agriculture)

US\$ millions

	2Q19	Margin	1Q20	Margin	2Q20	Margin	% y/y	% q/q
Revenue	295	100.0%	232	100.0%	247	100.0%	-16.3%	6.5%
EBITDA	58	27.9%	37	7.2%	52	26.9%	-10.3%	40.5%

Source:Orbia

Dura-Line (Data Communications)

US\$ millions

	2Q19	Margin	1Q20	Margin	2Q20	Margin	% y/y	% q/q
Revenue	208	100.0%	170	100.0%	193	100.0%	-7.2%	13.5%
EBITDA	45	21.6%	29	17.1%	55	28.5%	22.2%	89.7%

Source:Orbia

Kuora (Fluor)

US\$ millions

	2Q19	Margin	1Q20	Margin	2Q20	Margin	% y/y	% q/q
Revenue	204	100.0%	187	100.0%	167	100.0%	-18.1%	-10.7%
EBITDA	75	36.8%	73	39.0%	66	39.5%	-12.0%	-9.6%

Source:Orbia

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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
ORBIA	February 26, 2020	BUY	\$56.00
ORBIA	January 13, 2020	Under Review	Under Review
ORBIA	July 24, 2019	BUY	\$50.00
ORBIA	January 25, 2019	BUY	\$64.00

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