

AC

Quarterly Report

July 28, 2020

Defensive despite pandemic's onslaught

- Arca reported in line with our expectations at operating level. Despite a strong impact in South America from the pandemic, resilience in Mexico and US results nearly offset such effect
- Gradual reopening of the economies is reflecting in sequential performance improvements already, while hedges and a favorable commodities' prices should continue supporting profitability

EBITDA margin virtually stable. AC figures reflected the impact of mobility restrictions, especially on the traditional channel in South America, yet highlighting the resilience of Mexico and the US. Consolidated volume fell 9.2% y/y to 527.1 million case units (Mexico: -4.0%; US: -4.2%; South America: -28.0%). However, revenues grew 2.3% y/y to MXN 42.945 billion, driven by a favorable FX conversion effect in the US (-7.4% by excluding that effect) and pricing initiatives. Meanwhile, EBITDA grew annually 1.8% to MXN 8.235 billion and the margin contracted 10bps to 19.2% (Mexico: +240bps; USA: +80bps; South America: -650bps), after lower PET costs, operating efficiencies in Mexico, and the capture of synergies in the U.S. nearly offset an increase in concentrate cost, strong operational deleveraging in South America, and extraordinary expenses related to the sanitary crisis. Net income fell 17.1% y/y to MXN 2.335 billion, affected by FX losses and a higher effective tax rate.

Well positioned for recovery. Following the report, valuation remained virtually stable at 8.3x FV/EBITDA. AC noted that it has observed a sequential recovery on its volumes and that Mexico and US margins should continue to strengthen in the remainder of the year, while it will continue focused on its affordability strategy for facing the [challenging macroeconomic outlook](#).

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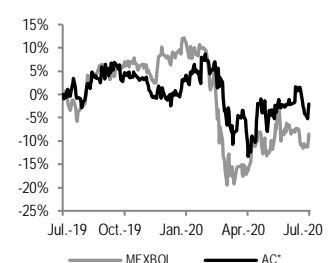
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BUY

Current Price	\$108.60
PT 2020	\$129.00
Dividend 2020e	
Dividend Yield (%)	
Upside Potential	18.8%
Max - Min LTM (\$)	111.80 - 86.33
Market Cap (US\$m)	8,571.3
Shares Outstanding (m)	1,764.3
Float	22%
Daily Turnover US\$m	156.2
Valuation metrics TTM	
FV/EBITDA	8.3x
P/E	19.1x

Relative performance to Mexbol LTM



Financial Statements

	2018	2019	2020E	2021E
Revenue	158,953	162,728	175,280	178,827
Operating Income	18,571	20,200	21,991	24,970
EBITDA	27,467	30,403	32,351	34,431
EBITDA Margin	17.3%	18.7%	18.5%	19.3%
Net Income	8,703	9,548	11,314	12,570
Net Margin	5.5%	5.9%	6.5%	7.0%
Total Assets	237,879	238,895	276,018	281,093
Cash	15,941	22,038	28,470	28,450
Total Liabilities	98,350	97,615	106,332	105,170
Debt	55,827	54,444	59,467	58,021
Common Equity	139,530	141,281	169,685	175,923

Source: Banorte

Valuation and Financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	9.4x	8.3x	8.0x	7.5x
P/E	22.0x	20.1x	16.9x	15.2x
P/BV	1.7x	1.7x	1.4x	1.4x
ROE	6.2%	6.8%	7.3%	7.3%
ROA	3.7%	4.0%	4.1%	4.5%
EBITDA/ Interest	7.0x	8.5x	9.6x	9.7x
Net Deb/EBITDA	1.5x	1.1x	1.0x	0.9x
Deb/Equity	0.4x	0.4x	0.4x	0.3x

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AC – Results 2Q20

MXN, million

Concept	2Q19	2Q20	Var %	2Q20e	Diff% vs Estim.
Revenue	41,982	42,945	2.3%	41,141	4.4%
Operating Income	5,710	5,487	-3.9%	5,882	-6.7%
Ebitda	8,091	8,235	1.8%	7,945	3.6%
Net Income	2,818	2,335	-17.1%	3,045	-23.3%
Margins					
Operating Margin	13.6%	12.8%	-0.8pp	14.3%	-1.5pp
Ebitda Margin	19.3%	19.2%	-0.1pp	19.3%	-0.1pp
Net Margin	6.7%	5.4%	-1.3pp	7.4%	-2.0pp
EPS	\$1.60	\$1.32	-17.1%	\$1.73	-23.3%

Income Statement (Million pesos)

Year	2019	2020	2020	Change	Change
Quarter	2	1	2	% y/y	% q/q
Net Revenue	41,982	38,893	42,945	2.3%	10.4%
Costs of goods sold	23,200	21,458	23,595	1.7%	10.0%
Gross profit	18,782	17,435	19,349	3.0%	11.0%
General expenses	13,131	13,319	13,825	5.3%	3.8%
Operating Income	5,710	3,934	5,487	-3.9%	39.5%
Operating Margin	13.6%	10.1%	12.8%	(0.8pp)	2.7pp
Depreciation	2,219	2,371	2,556	15.2%	7.8%
EBITDA	8,091	6,638	8,235	1.8%	24.1%
EBITDA Margin	19.3%	17.1%	19.2%	(0.1pp)	2.1pp
Interest Income (Expense) net	(925)	482	(1,326)	43.3%	N.A.
Interest expense	911	866	909	-0.2%	4.9%
Interest income	179	204	138	-23.0%	-32.3%
Other income (expense)	(186)	(208)	(185)	-0.5%	-11.2%
Foreign exchange gain (loss)	(8)	1,352	(370)	>500%	N.A.
Unconsolidated subsidiaries	4	23	7	53.3%	-70.8%
Income before taxes	4,784	4,439	4,161	-13.0%	-6.3%
Income taxes	1,287	1,317	1,252	-2.7%	-4.9%
Discontinued operations					
Consolidated Net Income	3,502	3,122	2,916	-16.7%	-6.6%
Non-controlling interest	685	444	581	-15.2%	30.7%
Net Income	2,818	2,678	2,335	-17.1%	-12.8%
Net Margin	6.7%	6.9%	5.4%	(1.3pp)	(1.4pp)
EPS	1.597	1.518	1.324	-17.1%	-12.8%

Balance Sheet (Million pesos)

Total Current Assets	36,793	53,123	51,780	40.7%	-2.5%
Cash & Short Term Investments	16,047	29,589	30,554	90.4%	3.3%
Long Term Assets	198,655	235,184	223,788	12.7%	-4.8%
Property, Plant & Equipment (Net)	72,368	83,567	79,123	9.3%	-5.3%
Intangible Assets (Net)	60,344	72,025	67,920	12.6%	-5.7%
Total Assets	235,447	288,307	275,568	17.0%	-4.4%
Current Liabilities	23,856	33,380	31,344	31.4%	-6.1%
Short Term Debt	4,776	8,105	7,818	63.7%	-3.5%
Accounts Payable	18,595	23,306	21,469	15.5%	-7.9%
Long Term Liabilities	72,075	80,295	78,396	8.8%	-2.4%
Long Term Debt	51,171	54,202	53,084	3.7%	-2.1%
Total Liabilities	95,931	113,674	109,740	14.4%	-3.5%
Stockholders' Equity	139,516	174,633	165,828	18.9%	-5.0%
Non-controlling interest	28,209	35,073	34,154	21.1%	-2.6%
Total Equity	111,307	139,560	131,674	18.3%	-5.7%
Liabilities & Equity	235,447	288,307	275,568	17.0%	-4.4%
Net Debt	39,899	32,717	30,347	-23.9%	-7.2%

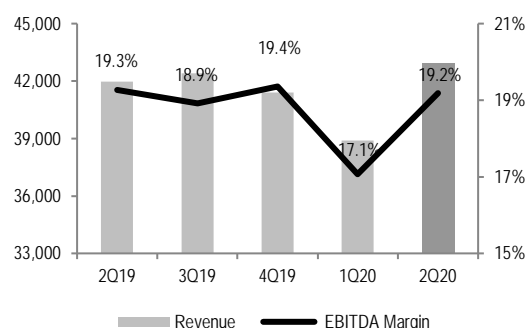
Cash Flow

CF from Operating Activities	7,164.5	5,454.5	8,196.6
CF from Investing Activities	(2,540.0)	(1,250.9)	(1,034.1)
CF from Financing Activities	(5,522.9)	(1,745.7)	(4,797.0)
FX effect on cash	(49.6)	5,080.2	(1,400.6)
Change in Cash Balance	(948.1)	7,538.1	965.0

Source: Banorte, MSE.

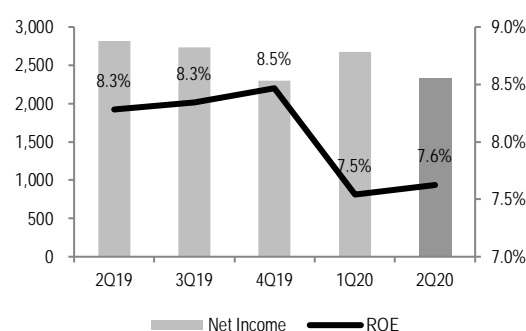
Revenue & EBITDA Margin

MXN, million



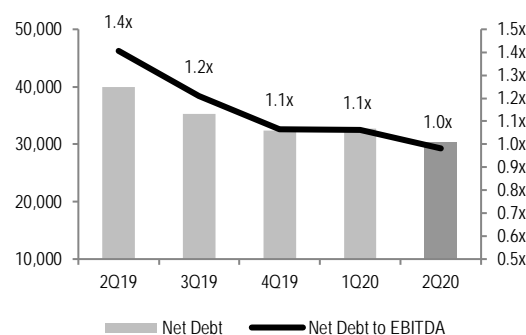
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA ratio

MXN, million



Performance tables by region

Mexico					
	2Q19	1Q20	2Q20	% a/a	% t/t
Volume	340.3	273.4	326.7	-4.0%	19.5%
Price*	\$ 61.09	\$ 64.20	\$ 63.50	3.9%	-1.1%
Revenue	\$ 18,054	\$ 15,133	\$ 17,938	-0.6%	18.5%
EBITDA	\$ 4,493	\$ 3,110	\$ 4,891	8.9%	57.3%
EBITDA Margin	24.9%	20.6%	27.3%	2.4pp	6.7pp

United States					
	2Q19	1Q20	2Q20	% a/a	% t/t
Volume	115.4	102.0	110.6	-4.2%	8.4%
Revenue	\$ 15,261	\$ 14,465	\$ 18,142	18.9%	25.4%
EBITDA	\$ 1,996	\$ 1,626	\$ 2,519	26.2%	54.9%
EBITDA Margin	13.1%	11.2%	13.9%	0.8pp	2.6pp

South America					
	2Q19	1Q20	2Q20	% a/a	% t/t
Volume	124.8	136.4	89.8	-28.0%	-34.2%
Revenue	\$ 8,667	\$ 9,295	\$ 6,865	-20.8%	-26.1%
EBITDA	\$ 1,603	\$ 1,902	\$ 825	-48.5%	-56.6%
EBITDA Margin	18.5%	20.5%	12.0%	-6.5pp	-8.4pp

Consolidated					
	2Q19	1Q20	2Q20	% a/a	% t/t
Volume	580.5	511.8	527.1	-9.2%	3.0%
Revenue	\$ 41,982	\$ 38,893	\$ 42,945	2.3%	10.4%
EBITDA	\$ 8,092	\$ 6,638	\$ 8,235	1.8%	24.1%
EBITDA Margin	19.3%	17.1%	19.2%	-0.1pp	2.1pp

* Average Price per unit case

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 Thalia 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	Recommendation	PT
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