

CHDRAUI

Quarterly Report

October 28, 2021

S&F acquisition progresses favorably

- **After the consolidation of Smart & Final (S&F), revenues were below our estimates, but the performance in Mexico and in profitability stood out positively**
- **Notwithstanding the higher leverage, we believe the figures confirm a favorable outlook given the efficiencies achieved, solid SSS levels and a valuation that remains attractive**

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Consumer

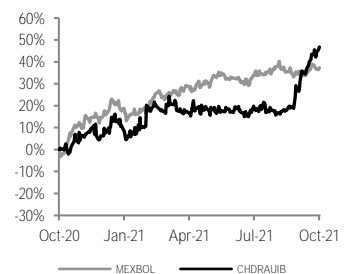
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Margin stability was a positive surprise. While in Mexico SSS grew 9.1% y/y, being the most prominent increase in the sector (ANTAD self-service +5.5%), revenues fell short vs. our estimates after the incorporation of Smart & Final. Sales increased 48.2% y/y to MXN 52.473 billion (Mexico +12.5%, US +92.5%, Real Estate +27.1% y/y), supported by the commercial strategy in Mexico, but impacted by an adverse FX effect in the US (+112.2% y/y in dollar terms)—which now takes on greater relevance as it represents 57.8% of revenues—, Excluding S&F numbers, total sales would have increased 3.9% year-over-year. On the other hand, the performance at the profitable level is outstanding, where EBITDA was up 46.5% y/y to MXN 3.923 billion, with a contraction of only 10bps in the margin to 7.5% (8.1% on a comparable base), where we expected S&F's lower margins (~4.1%) to represent a bigger drag on the company's profitability (anticipating a deterioration of 1.6pp). It is worth mentioning that this result incorporates extraordinary expenses (MXN 283 million) related to the acquisition, without which the EBITDA margin would have been 8.0%. Finally, net income reached MXN 887 million (+40.7% y/y), where a 61% higher CFC due to a higher cost of debt and leases after consolidation, implies challenges in leverage (4.6x ND/EBITDA vs. 2.5x in 2Q21). **A better outlook going forward.** Subject to incorporating the figures into our estimates, the results denote a strong operating capability, achieving significant efficiencies mainly in the US. This, coupled with a solid performance in Mexico (now the 2nd largest chain) and a valuation at 7.7x FV/EBITDA, below peers at 9.4x, lead us to reiterate our BUY rating.

BUY	
Current Price	\$39.68
PT	\$39.00
Upside Potential	-1.7%
Max – Min LTM (\$)	40.00 – 25.95
Market Cap (US\$m)	1,875.52
Shares Outstanding (m)	963,917
Float	100%
Daily Turnover US\$m	13.2
Valuation metrics LTM	
FV/EBITDA	7.7x
P/E	12.0x
MSCI ESG Rating*	N.A.

Relative performance to Mexbol LTM



Financial Statements

	2019	2020	2021E	2022E
Revenue	129,443	146,287	187,819	244,102
Operating Income	5,576	6,933	9,070	10,871
EBITDA	9,127	10,788	13,410	15,574
EBITDA Margin	7.1%	7.4%	7.1%	6.4%
Net Income	1,518	2,589	3,487	4,042
Net Margin	1.2%	1.8%	1.9%	1.7%
Total Assets	87,391	90,450	133,534	146,884
Cash	984	5,445	9,340	16,039
Total Liabilities	59,983	61,168	100,854	110,583
Debt	32,822	32,588	59,840	60,533
Common Equity	27,409	29,281	32,679	36,301

Valuation and Financial metrics

	2019	2020	2021E	2022E
FV/EBITDA	7.7x	6.1x	6.6x	5.3x
P/E	25.2x	14.8x	11.0x	9.5x
P/BV	1.4x	1.3x	1.2x	1.1x
ROE	5.3%	9.1%	11.3%	11.7%
ROA	1.7%	2.9%	2.6%	2.8%
EBITDA/ interest	4.5x	5.3x	4.8x	3.8x
Net Debt/EBITDA	3.5x	2.5x	3.8x	2.9x
Debt/Equity	1.2x	1.1x	1.8x	1.7x

Source: Banorte

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CHDRAUI – Results 3Q21

MXN, million

Concept	3Q20	3Q21	Var %	3Q21e	Diff% vs Estim.
Revenue	35,412	52,473	48.2%	57,061	-8.0%
Operating Income	1,694	2,521	48.8%	2,352	7.2%
Ebitda	2,677	3,923	46.5%	3,394	15.6%
Net Income	631	887	40.7%	939	-5.5%
Margins					
Operating Margin	4.8%	4.8%	0.0pp	4.1%	0.7pp
Ebitda Margin	7.6%	7.5%	-0.1pp	5.9%	1.5pp
Net Margin	1.8%	1.7%	-0.1pp	1.6%	0.0pp
EPS	\$0.65	\$0.92	40.7%	\$0.97	-5.5%

Income Statement (Million pesos)

Year	2020	2021	2021	Change	Change
Quarter	3	2	3	% y/y	% q/q
Net Revenue	35,412	35,749	52,473	48.2%	46.8%
Costs of goods sold	27,264	27,686	40,638	49.1%	46.8%
Gross profit	8,148	8,063	11,835	45.3%	46.8%
General expenses	6,408	6,119	9,333	45.6%	52.5%
Operating Income	1,694	1,922	2,521	48.8%	31.2%
Operating Margin	4.8%	5.4%	4.8%	0.0pp	(0.6pp)
Depreciation	984	880	1,402	42.6%	59.3%
EBITDA	2,677	2,802	3,923	46.5%	40.0%
EBITDA Margin	7.6%	7.8%	7.5%	(0.1pp)	(0.4pp)
Interest Income (Expense) net	(749)	(680)	(1,207)	61.1%	77.5%
Interest expense	462	465	871	88.3%	87.5%
Interest income	26	19	32	19.3%	65.6%
Other income (expense)	(313)	(254)	(371)	18.6%	46.0%
Foreign exchange gain (loss)	(0)	20	4	N.A.	-81.9%
Unconsolidated subsidiaries			29	N.A.	N.A.
Income before taxes	945	1,242	1,343	42.2%	8.2%
Income taxes	305	398	447	46.9%	12.5%
Discontinued operations					
Consolidated Net Income	640	844	896	40.0%	6.1%
Non-controlling interest	9	37	9	-7.2%	-76.6%
Net Income	631	808	887	40.7%	9.9%
Net Margin	1.8%	2.3%	1.7%	(0.1pp)	(0.6pp)
EPS	0.654	0.838	0.920	40.7%	9.9%

Balance Sheet (Million pesos)

Total Current Assets	18,576	19,558	28,320	52.5%	44.8%
Cash & Short Term Investments	2,305	4,209	4,964	115.4%	17.9%
Long Term Assets	71,661	69,204	102,432	42.9%	48.0%
Property, Plant & Equipment (Net)	33,420	32,827	39,287	17.6%	19.7%
Intangible Assets (Net)	2,583	2,281	5,033	94.8%	120.6%
Total Assets	90,236	88,762	130,752	44.9%	47.3%
Current Liabilities	23,715	25,977	34,496	45.5%	32.8%
Short Term Debt	2,723	4,666	4,498	65.2%	-3.6%
Accounts Payable	19,561	19,908	27,168	38.9%	36.5%
Long Term Liabilities	38,207	32,326	64,681	69.3%	100.1%
Long Term Debt	33,341	27,113	55,777	67.3%	105.7%
Total Liabilities	61,922	58,304	99,177	60.2%	70.1%
Stockholders' Equity	28,314	30,458	31,575	11.5%	3.7%
Non-controlling interest	(53)	45	116	N.A.	157.6%
Total Equity	28,367	30,413	31,459	10.9%	3.4%
Liabilities & Equity	90,236	88,762	130,752	44.9%	47.3%
Net Debt	33,759	27,570	55,311	63.8%	100.6%

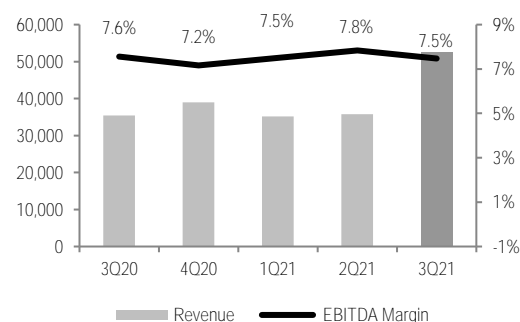
Cash Flow

CF from Operating Activities	3,776.2	2,440.6	3,809.1
CF from Investing Activities	(674.0)	(524.1)	(13,434.5)
CF from Financing Activities	(5,056.2)	(1,184.5)	10,360.7
FX effect on cash	7.6	(8.0)	19.7
Change in Cash Balance	(1,946.4)	724.0	755.0

Source: Banorte, MSE.

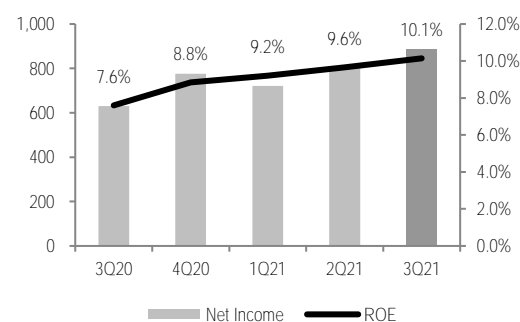
Revenue & EBITDA Margin

MXN, million



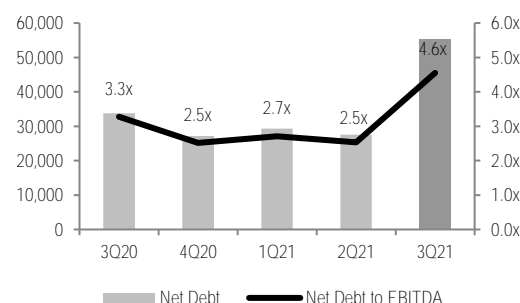
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA ratio

MXN, million



Certification of Analysts.

We, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Alik Daniel García Alvarez, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo 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
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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
CHDRAUI B	9/1/2020	Buy	\$39.00
CHDRAUI B	24/7/2019	Buy	\$39.00
CHDRAUI B	25/2/2019	Buy	\$49.00
CHDRAUI B	28/9/2018	Buy	\$52.00

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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