

GMEXICO

Quarterly Report

October 29, 2020

Efficiencies and cost control exceeds expectations

- GMexico reported its 3Q20 results with a great profitability advance, above estimates, due to operating efficiencies and cost control, which were mainly driven by Mining
- The company's good performance stands out despite the complex environment and the financial solidity, which derived in announcing an attractive \$1.00 per share dividend (annualized yield of 6.4%)

Positive report that should be welcomed by the market. GMexico released its 3Q20 results with a 1.4% y/y sales increase to US\$2.8 billion, in line with estimates, but a strong rise in EBITDA of 19.6% to US\$1.5 billion, well above expectations, reflecting a 8.0pp jump in the respective margin to 52.7%. The latter, is due to the solid progress in Mining, whereby, although copper production and sales volumes declined 2.0% and 4.8%, respectively, higher copper prices (+12.1% y/y) boosted sales, which, coupled with efficiencies and cost control (net *cash cost* reduction to US\$0.81 from US\$1.09 in 3Q19), led to a great profitability expansion (+11.2pp to 53.7%). As for Transportation, [GMXT](#) showed annual drops but also higher profitability from efficiencies. The sequential improvement stood out as a result of the economic reopening. In Infrastructure, the decline in numbers derived from the reductions in Energy and in Mexico Compañía Constructora, partially offset by rises in PEMSA (oil division) and Engineering. On a net level, income rose 187.6% to US\$718 million, stemming from the operating performance and a capital gain on the company's treasury position vs. the strong losses in 3Q19.

Resilient on this difficult conjuncture. Despite a challenging outlook, GMexico's results in the year have been defensive, and particularly, this quarter surpassed estimates, managing to position as the best *cash cost* of copper worldwide. The above, coupled with a financial solidity (ND/EBITDA of 1.2x), allowed it to decree a \$1.00 dividend per share to be paid on November 27 (vs. \$0.80 in 2Q20), representing an attractive 6.4% annualized yield.

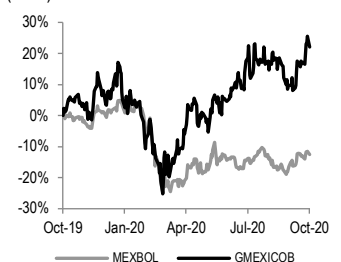
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HOLD	
Current Price	\$61.25
PT2020	\$63.00
Dividend 2020	\$1.00
Dividend (%)	1.6%
Upside Potential	4.5%
Max – Min LTM (\$)	63.33-37.21
Market Cap (US\$m)	22,720.6
Shares Outstanding (m)	7,785
Float	46.0%
Daily Turnover (\$m)	480.3
Valuation Metrics LTM *	
FV/EBITDA	6.4x
P/E	14.0x
MSCI ESG Rating*	CCC
<small>*Data from press release</small>	

Relative performance to MEXBOL (LTM)



Financial statements

USD, million	2018	2019	2020E	2021E
Revenues	10,495	10,683	10,464	10,149
Operating Income	3,590	3,491	3,240	3,370
Adjusted EBITDA	4,889	4,948	4,592	4,772
EBITDA Margin	46.6%	46.3%	45.6%	47.0%
Net Income	1,147	1,810	1,369	1,928
Net margin	10.9%	16.9%	10.7%	19.0%
Total Assets	25,909	27,461	27,419	28,195
Cash	1,674	2,608	2,222	2,547
Total Liabilities	12,301	13,162	12,649	12,113
Debt	8,384	9,377	8,732	8,732
Common Equity	13,609	14,300	14,770	16,082

Source: Banorte

Valuation and financial metrics

	2018	2019	2020E	2021E
EV/EBITDA	6.6x	6.4x	6.8x	6.5x
P/E	19.8x	12.6x	16.6x	11.8x
P/BV	2.0x	1.9x	1.8x	1.6x
ROE	10.0%	15.0%	10.8%	13.9%
ROA	4.4%	6.6%	5.0%	6.8%
EBITDA/ Interest expens	4.0x	8.3x	6.8x	5.0x
Net Debt/EBITDA	1.4x	1.4x	1.3x	1.3x
Debt/Equity	0.6x	0.7x	0.6x	0.5x

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Document for distribution among public

GMEXICO – 3Q20 Results

USD, million

Concept	3Q19	3Q20	Var %	3Q20e	Diff % vs. Estim.
Revenue	2,794	2,834	1.4%	2,834	0.0%
Operating Income	883	1,188	34.5%	893	33.0%
Ebitda	1,248	1,493	19.6%	1,230	21.4%
Net Income	250	718	187.6%	561	28.1%
Margins					
Operating Margin	31.6%	41.9%	10.3pp	31.5%	10.4pp
Ebitda Margin	44.7%	52.7%	8.0pp	43.4%	9.3pp
Net Margin	8.9%	25.3%	16.4pp	19.8%	5.6pp
EPS	\$0.03	\$0.09	187.6%	\$0.07	28.1%

Income Statement (Million)

Year	2019	2020	2020	Change	Change
Quarter	3	2	3	% y/y	% q/q
Net Revenue	2,793.9	2,408.4	2,834.0	1.4%	17.7%
Cost of goods sold	1,479.1	1,257.5	1,243.4	-15.9%	-1.1%
Gross profit	1,314.8	1,150.9	1,590.6	21.0%	38.2%
General expenses	82.5	74.6	68.0	-17.6%	-8.9%
Operating Income	883.2	748.2	1,187.7	34.5%	58.7%
Operating Margin	31.6%	31.1%	41.9%	10.3pp	10.8pp
Depreciation	349.1	328.0	334.9	-4.1%	2.1%
EBITDA	1,248.4	1,064.2	1,493.0	19.6%	40.3%
EBITDA Margin	44.7%	44.2%	52.7%	8.0pp	8.5pp
Interest income (expense) net	(284.4)	148.3	111.6	N.A.	-24.7%
Interest expense	137.5	132.4	134.2	-2.3%	1.4%
Interest income	11.1	7.3	5.4	-50.8%	-25.0%
Other financial income (expense)	(158.0)	273.4	240.4	N.A.	-12.0%
Exchange Income (loss)				N.A.	N.A.
Unconsolidated subsidiaries	0.1	3.5	2.2	>50%	-37.5%
Net Income before taxes	598.9	893.0	1,301.5	117.3%	45.7%
Provision for Income taxes	261.1	255.1	478.4	83.2%	87.5%
Discontinued Operations					
Consolidated Net Income	337.8	637.9	823.1	143.7%	29.0%
Minorities	88.1	77.1	105.1	19.3%	36.2%
Net Income	249.7	560.7	718.0	187.6%	28.1%
Net Margin	8.9%	23.3%	25.3%	16.4pp	2.1pp
EPS	0.032	0.072	0.092	187.6%	28.1%

Balance Sheet (MXN, million)

	2019	2020	2020	Change	Change
				% y/y	% q/q
Total Current Assets	5,827.9	5,533.7	6,241.3	7.1%	12.8%
Cash & Short Term Investments	2,446.9	2,512.5	2,965.7	21.2%	18.0%
Long Term Assets	21,216.2	20,292.3	20,416.3	-3.8%	0.6%
Property, Plant & Equipment (Net)	16,900.2	16,437.1	16,400.8	-3.0%	-0.2%
Intangible Assets (Net)	4,316.0	3,855.3	4,015.5	-7.0%	4.2%
Total Assets	27,044.1	25,826.0	26,657.6	-1.4%	3.2%
Current Liabilities	2,146.8	1,568.3	1,817.6	-15.3%	15.9%
Short Term Debt	592.5	245.3	208.7	-64.8%	-14.9%
Accounts Payable				N.A.	N.A.
Long Term Liabilities	10,995.2	10,423.5	10,539.5	-4.1%	1.1%
Long Term Debt	8,740.9	8,486.5	8,551.4	-2.2%	0.8%
Total Liabilities	13,142.0	11,991.8	12,357.1	-6.0%	3.0%
Common Stock	13,902.1	13,834.3	14,300.4	2.9%	3.4%
Minorities	2,154.3	2,053.2	2,084.8	-3.2%	1.5%
Total Equity	11,747.8	11,350.4	12,215.6	4.0%	7.6%
Liabilities & Equity	27,044.1	25,826.0	26,657.6	-1.4%	3.2%
Net Debt	6,886.5	6,219.3	5,794.4	-15.9%	-6.8%

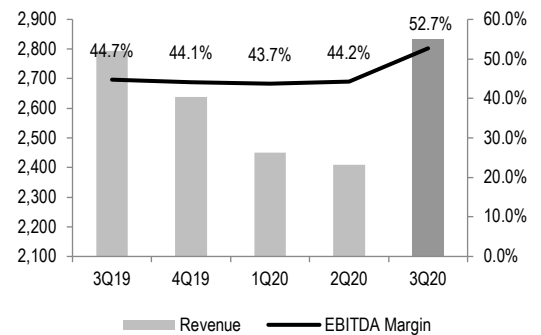
Cash Flow

Cash Flow from Operating Activities	814.2	589.9	973.9
Cash Flow from Investing Activities	(299.2)	(194.5)	(135.3)
Cash Flow from Financing Activities	569.5	(538.8)	(388.2)
Increase (decrease) in cash	1,083.0	(175.3)	419.8

Source: Banorte, MSE

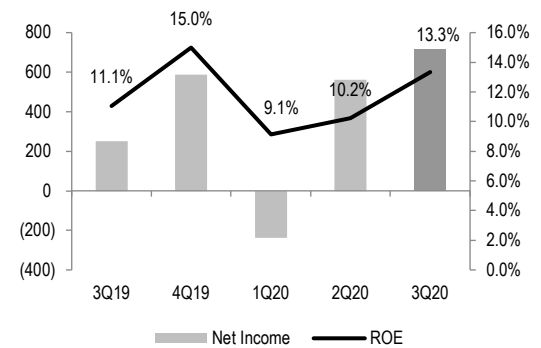
Revenue & EBITDA Margin

USD, million



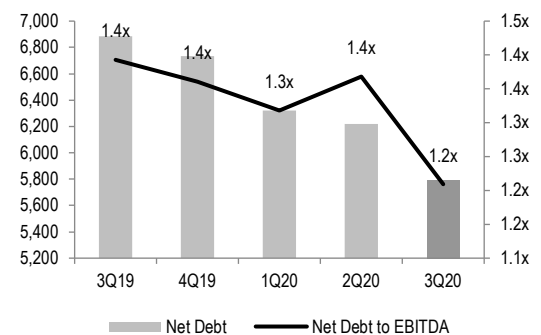
Net Income & ROE

USD, million



Net Debt & Net Debt to EBITDA

USD, million



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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Stock	Date	Recommendation	PT
GMEXICO	12/20/2019	BUY	\$63.00
GMEXICO	04/30/2019	BUY	\$61.00
GMEXICO	01/09/2019	BUY	\$53.00
GMEXICO	10/17/2017	BUY	\$70.80

MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD			AVERAGE		LEADER	

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

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