

GMEXICO

Quarterly Report

October 28, 2021

Profitability progress and attractive valuation stand out

- GMexico reported a positive 3Q21, with outstanding production levels, better-than-expected margins and a very interesting dividend (annualized return of 7.4%)
- The quarter confirms the favorable outlook, with significant financial strength, steady distributions to shareholders and an attractive valuation (4.9x FV/EBITDA), still not reflecting the strong fundamentals

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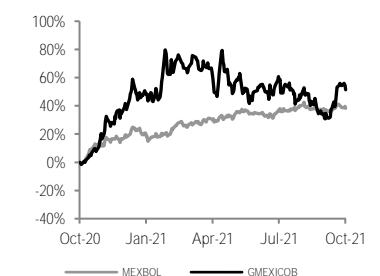
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Mining and Transportation drove the figures. GMexico's results showed year-over-year sales growth of 28.9% to \$3.652 billion and EBITDA increase of 46.1% y/y to \$2.181 billion, in line with estimates, but with a better-than-expected margin expansion of 7.0pp to 59.7%. The Mining division (AMC) stood out for its favorable performance, mainly due to higher copper prices (+46.3% y/y), although the sequential advance has already stopped, and despite production (-2.2% y/y) and sales volumes (-8.6% y/y) declines. Nevertheless, we highlight that it has been the best quarter of production in all metals so far this year. This, together with operating efficiencies and cost control (net cash cost reduction to \$0.77 vs. \$0.82 in 3Q20, the best at a global level), translated into an increase in profitability of 8.8pp to 62.5%. Meanwhile, [GMXT](#) recorded a significant improvement, supported by the economic and volume recovery, with higher profitability; while in Infrastructure, EBITDA decreased 6.0% y/y, due to the adjustment in Perforadora's quotas, mismatch in Constructora's projects and lower FX gains. This, coupled with the company's financial strength (ND/EBITDA of 0.3x), led it to declare a dividend of MXN 1.75 per share, payable on December 1 (annualized return of 7.4%). **The outlook remains positive.** The quarter's figures confirm our favorable view for GMexico. However, we will be attentive to any outlook update, given some global economic slowdown, as well as the evolution of the situation in Peru. In the meantime, we reiterate the company's solid fundamentals and highlight the very attractive valuation, showing an interesting reduction from 5.5x to 4.9x vs. 6.0x peer average.

BUY	
Current Price	\$94.60
PT	\$135.00
Dividend 2021	\$1.75
Dividend Yield (%)	1.8%
Upside Potential	44.6%
Max – Min LTM (\$)	110.52-59.8
Market Cap (US\$m)	36,429.4
Shares Outstanding (m)	7,785
Float	46.0%
Daily Turnover US\$m	540.1
Valuation metrics LTM	
FV/EBITDA	4.9x
P/E	9.6x
MSCI ESG Rating*	B

Relative performance to Mexbol LTM



Financial Statements

	2019	2020	2021E	2022E
Revenue	10,681	10,909	13,948	14,019
Operating Income	3,480	3,963	6,432	6,123
EBITDA	4,945	5,352	7,856	7,603
EBITDA Margin	46.3%	49.1%	56.3%	54.2%
Net Income	1,766	2,107	3,549	3,484
Net Margin	16.5%	19.3%	25.4%	24.9%
Total Assets	27,566	28,174	31,402	34,199
Cash	2,610	4,096	4,953	5,009
Total Liabilities	13,320	12,906	13,206	13,233
Debt	9,377	8,952	8,952	8,952
Common Equity	14,246	15,268	18,197	20,966

Source: Banorte

Valuation and Financial metrics

	2019	2020	2021E	2022E
FV/EBITDA	9.2x	8.2x	5.4x	5.7x
P/E	20.8x	17.4x	9.8x	10.1x
P/BV	3.1x	2.8x	2.3x	2.0x
ROE	14.7%	16.1%	22.8%	19.5%
ROA	6.4%	7.5%	11.3%	10.2%
EBITDA/ interest	9.0x	9.7x	14.5x	14.0x
Net Debt/EBITDA	1.4x	0.9x	0.5x	0.5x
Debt/Equity	0.7x	0.6x	0.5x	0.4x

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GMEXICO – Results 3Q21

USD, million

Concept	3Q20	3Q21	Var %	3Q21e	Diff% vs Estim.
Revenue	2,834	3,652	28.9%	3,831	-4.7%
Operating Income	1,188	1,851	55.8%	1,873	-1.2%
Ebitda	1,493	2,181	46.1%	2,219	-1.7%
Net Income	718	818	13.9%	1,088	-24.8%
Margins					
Operating Margin	41.9%	50.7%	8.8pp	48.9%	1.8pp
Ebitda Margin	52.7%	59.7%	7.0pp	57.9%	1.8pp
Net Margin	25.3%	22.4%	-2.9pp	28.4%	-6.0pp
EPS	\$0.09	\$0.11	13.9%	\$0.14	-24.8%

Income Statement (Million pesos)

Year	2020	2021	2021	Change	Change
Quarter	3	2	3	% y/y	% q/q
Net Revenue	2,834.0	3,913.7	3,651.8	28.9%	-6.7%
Costs of goods sold	1,243.4	1,428.9	1,373.7	10.5%	-3.9%
Gross profit	1,590.6	2,484.8	2,278.1	43.2%	-8.3%
General expenses	68.0	68.8	76.7	12.9%	11.5%
Operating Income	1,187.7	2,075.5	1,850.8	55.8%	-10.8%
Operating Margin	41.9%	53.0%	50.7%	8.8pp	(2.3pp)
Depreciation	334.9	340.5	350.6	4.7%	3.0%
EBITDA	1,493.0	2,416.2	2,181.3	46.1%	-9.7%
EBITDA Margin	52.7%	61.7%	59.7%	7.0pp	(2.0pp)
Interest Income (Expense) net	111.6	(228.0)	(336.1)	N.A.	47.4%
Interest expense	134.2	137.3	137.3	2.3%	0.0%
Interest income	5.4	3.2	11.8	116.3%	271.9%
Other income (expense)	240.4	(93.9)	(210.6)	N.A.	124.3%
Foreign exchange gain (loss)				N.A.	N.A.
Unconsolidated subsidiaries	(2.2)	(5.9)	(2.0)	-10.5%	-66.5%
Income before taxes	1,299.3	1,847.5	1,514.7	16.6%	-18.0%
Income taxes	478.4	802.5	574.9	20.2%	-28.4%
Discontinued operations					
Consolidated Net Income	823.1	1,050.9	941.7	14.4%	-10.4%
Non-controlling interest	105.1	145.1	123.8	17.8%	-14.7%
Net Income	718.0	905.8	818.0	13.9%	-9.7%
Net Margin	25.3%	23.1%	22.4%	(2.9pp)	(0.7pp)
EPS	0.092	0.116	0.105	13.9%	-9.7%

Balance Sheet (Million pesos)

Total Current Assets	6,241.3	9,408.7	10,081.1	61.5%	7.1%
Cash & Short Term Investments	2,965.7	5,697.7	6,294.1	112.2%	10.5%
Long Term Assets	20,416.3	20,091.1	19,833.5	-2.9%	-1.3%
Property, Plant & Equipment (Net)	16,400.8	16,979.3	16,895.7	3.0%	-0.5%
Intangible Assets (Net)	4,015.5	3,111.7	2,937.8	-26.8%	-5.6%
Total Assets	26,657.6	29,499.8	29,914.5	12.2%	1.4%
Current Liabilities	1,817.6	2,263.8	2,696.0	48.3%	19.1%
Short Term Debt	208.7	271.0	321.7	54.1%	18.7%
Accounts Payable				N.A.	N.A.
Long Term Liabilities	10,539.5	10,989.7	10,735.3	1.9%	-2.3%
Long Term Debt	8,551.4	8,802.6	8,686.7	1.6%	-1.3%
Total Liabilities	12,357.1	13,253.5	13,431.3	8.7%	1.3%
Stockholders' Equity	14,300.4	16,246.3	16,483.3	15.3%	1.5%
Non-controlling interest	2,084.8	2,283.9	2,292.2	9.9%	0.4%
Total Equity	12,215.6	13,962.4	14,191.1	16.2%	1.6%
Liabilities & Equity	26,657.6	29,499.8	29,914.5	12.2%	1.4%
Net Debt	5,794.4	3,375.9	2,714.3	-53.2%	-19.6%

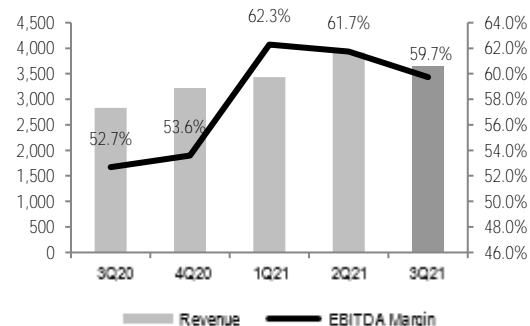
Cash Flow

CF from Operating Activities	981.7	1,487.4	1,610.6
CF from Investing Activities	(135.2)	(119.7)	(301.0)
CF from Financing Activities	(396.2)	(661.0)	(845.5)
FX effect on cash	419.8	805.5	589.4
Change in Cash Balance	981.7	1,487.4	1,610.6

Source: Banorte, MSE.

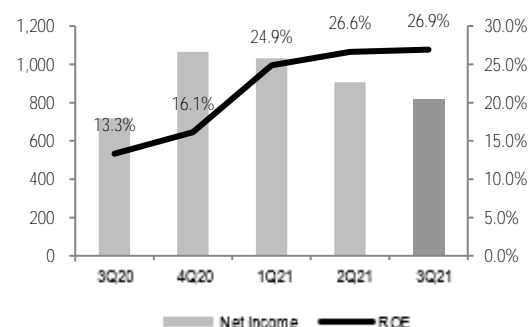
Revenue & EBITDA Margin

MXN, million



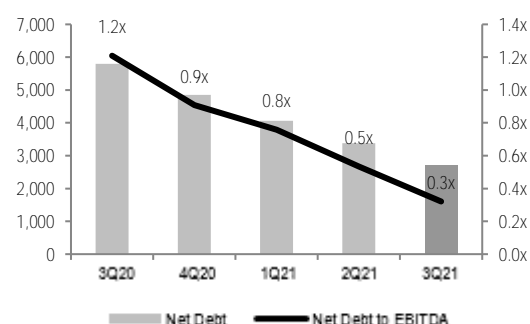
Net Income & ROE

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 Álvarez, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalia 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
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
GMEXICO	27/04/21	Buy	\$135.00
GMEXICO	07/01/21	Hold	\$101.00
GMEXICO	28/07/20	Hold	\$ 63.00
GMEXICO	29/12/19	Buy	\$ 63.00

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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