

# WALMEX

Company Note

December 2, 2019

## Expect strong pick-up in November sales

- Walmex is due to report November sales on Thursday December 5th. Revenue growth should be driven by a positive calendar effect and the “*El Fin de Semana Irresistible*” campaign
- We are optimistic about Mexico, where SSS should have risen +5.7%e on the back of a pick-up in in both the ticket and store traffic yoy growth (+4.7% and +1.0%, respectively)
- CA should also deliver an improvement (LfL +0.9%e; TS +3.7%e). Nevertheless, a strong impact from foreign exchange conversion (-5.0%e) should translate into a 1.7% decrease in Mexican pesos

**Growth should have picked up.** The month of November should reflect a pick-up in Walmex’s sales growth, making current valuation (the stock is trading at 12.3x FV/EBITDA 2020E, after a recent share price correction on two straight months of missing sales estimates) an attractive entry point, in our view. Higher sales would be due to: (1) a positive calendar effect resulting from one Saturday more of sales; and (2) the company’s “*Fin de Semana Irresistible*” campaign, which began one day before El Buen Fin -Mexico’s equivalent of Black Friday-. We think this may have boosted demand for high-ticket items, which should have increased the average comp ticket in Mexico by 4.7pp, while the additional Saturday underpinned a 100bps increase in traffic. Thus SSS should be up 5.7% yoy in Mexico (vs. +2.3% in October), while new stores should add 1.3pp (TS +7.0%e). We also forecast a modest recovery in CA with LfL sales growth of 0.9% and TS growth of 3.7%, both in local currency. However, a strong forex conversion impact (-5.0%e) could imply a 1.3% yoy decrease for the region in MXN terms. Thus consolidated sales should amount to MXN 59.708 billion (+5.5%e yoy).

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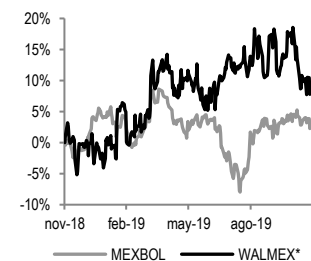
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### BUY

Current Price	MXN\$53.85
<b>PT 2020</b>	<b>MXN\$65.00</b>
Dividend	1.79
Dividend Yield (%)	3.3%
Upside Potential	24.0%
Max – Min LTM (P\$)	59.59 – 45.68
Market Cap (US\$m)	48,083.6
Shares Outstanding (m)	17,461.4
Float	30%
Daily Turnover (P\$ m)	932.1
<b>Valuation metrics TTM</b>	
EV/EBITDA	14.1x
P/E	24.5x

### Relative performance to Mexbol LTM



### Financial statements

MXN, million	2017	2018	2019E	2020E
Revenues	573,265	616,910	648,825	697,030
Operating Income	43,838	49,190	55,078	60,263
Adjusted EBITDA	55,482	61,747	72,121	78,607
EBITDA Margin	9.7%	10.0%	11.1%	11.3%
Net Income	39,865	36,753	38,883	41,300
Net margin	7.0%	6.0%	6.0%	5.9%
Total Assets	295,256	306,529	345,301	383,415
Cash	35,596	38,830	18,429	28,070
Total Liabilities	135,722	141,615	183,888	212,167
Debt	15,053	15,465	55,497	55,497
Common Equity	159,534	164,914	161,413	171,248

Source: Banorte

### Valuation and financial metrics

	2017	2018	2019E	2020E
EV/EBITDA	16.6x	14.8x	13.6x	12.3x
P/E	23.6x	25.6x	24.2x	22.8x
P/BV	5.9x	5.7x	5.8x	5.5x
ROE	24.4%	22.7%	23.8%	24.8%
ROA	13.5%	12.0%	11.3%	10.8%
EBITDA/ Interest exp	6.9x	6.9x	6.9x	6.9x
Net Debt/EBITDA	-0.4x	-0.4x	0.5x	0.3x
Debt/Equity	0.1x	0.1x	0.3x	0.3x

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Document for distribution among public

## WALMEX Financial Statements

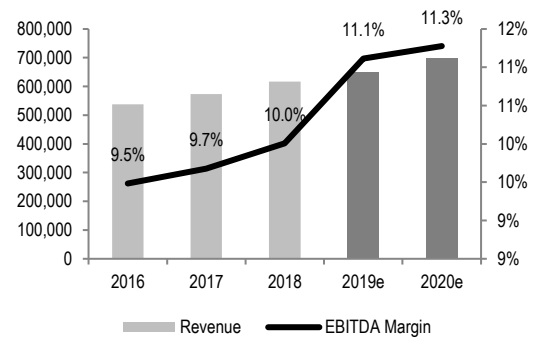
MXN, million

Income Statement					
Year	2017	2018	2019E	2020E	CAGR
<b>Net Revenue</b>	<b>573,265</b>	<b>616,910</b>	<b>648,825</b>	<b>697,030</b>	<b>6.7%</b>
Cost of goods sold	445,570	475,324	500,320	537,487	6.5%
Gross profit	127,695	141,587	148,505	159,544	7.7%
General expenses	83,684	92,598	93,719	99,551	6.0%
<b>Operating Income</b>	<b>43,838</b>	<b>49,190</b>	<b>55,078</b>	<b>60,263</b>	<b>11.2%</b>
Operating Margin	7.6%	8.0%	8.5%	8.6%	4.2%
Depreciation	11,645	12,558	17,044	18,344	16.4%
<b>EBITDA</b>	<b>55,482</b>	<b>61,747</b>	<b>72,121</b>	<b>78,607</b>	<b>12.3%</b>
EBITDA Margin	9.7%	10.0%	11.1%	11.3%	
<b>Interest income (expense) net</b>	<b>(548)</b>	<b>(330)</b>	<b>(4,770)</b>	<b>(5,369)</b>	<b>114.0%</b>
Interest expense					
Interest income	1,030	1,268	1,200	951	-2.6%
Other Financial Income (expenses)	(1,587)	(1,773)	(5,850)	(6,327)	58.6%
Exchange Income (loss)	9	175	(121)	7	-9.4%
Unconsolidated subsidiaries					
<b>Net Income before taxes</b>	<b>43,290</b>	<b>48,860</b>	<b>50,307</b>	<b>54,894</b>	<b>8.2%</b>
Provision for Income taxes	10,900	12,107	11,424	13,595	7.6%
Discontinued Operations	7,475				
<b>Consolidated Net Income</b>	<b>24,916</b>	<b>36,753</b>	<b>38,883</b>	<b>41,300</b>	<b>18.3%</b>
Minorities					
<b>Net Income</b>	<b>39,865</b>	<b>36,753</b>	<b>38,883</b>	<b>41,300</b>	<b>1.2%</b>
Net Margin	7.0%	6.0%	6.0%	5.9%	
<b>EPS</b>	<b>2.283</b>	<b>2.105</b>	<b>2.227</b>	<b>2.365</b>	<b>1.2%</b>
<b>Balance Sheet (MXN, million)</b>					
<b>Total Current Assets</b>	<b>106,876</b>	<b>115,615</b>	<b>104,400</b>	<b>133,230</b>	<b>7.6%</b>
Cash & Short Term Investments	35,596	38,830	18,429	28,070	-7.6%
<b>Long Term Assets</b>	<b>188,379</b>	<b>190,914</b>	<b>240,901</b>	<b>250,185</b>	<b>9.9%</b>
Property, Plant & Equipment (Net)	134,963	139,368	137,265	146,549	2.8%
Intangible Assets (Net)	1,995	2,009	1,864	1,864	-2.2%
<b>Total Assets</b>	<b>295,256</b>	<b>306,529</b>	<b>345,301</b>	<b>383,415</b>	<b>9.1%</b>
<b>Current Liabilities</b>	<b>107,828</b>	<b>114,165</b>	<b>120,107</b>	<b>148,385</b>	<b>11.2%</b>
Short Term Debt	449	335	3,031	3,031	89.0%
Accounts Payable	101,974	110,862	107,387	125,420	7.1%
<b>Long Term Liabilities</b>	<b>27,894</b>	<b>27,449</b>	<b>63,781</b>	<b>63,781</b>	<b>31.7%</b>
Long Term Debt	14,603	15,129	52,466	52,466	53.2%
<b>Total Liabilities</b>	<b>135,722</b>	<b>141,615</b>	<b>183,888</b>	<b>212,167</b>	<b>16.1%</b>
Common Stock	159,534	164,914	161,413	171,248	2.4%
Non-controlling interest					
<b>Total Equity</b>	<b>159,534</b>	<b>164,914</b>	<b>161,413</b>	<b>171,248</b>	<b>2.4%</b>
<b>Liabilities &amp; Equity</b>	<b>295,256</b>	<b>306,529</b>	<b>345,301</b>	<b>383,415</b>	<b>9.1%</b>
<b>Net Debt</b>	<b>(20,544)</b>	<b>(23,365)</b>	<b>37,068</b>	<b>27,427</b>	<b>-210.1%</b>
<b>Cash Flow (Million Pesos)</b>					
<b>Cash Flow from Operating Activities</b>	<b>49,084</b>	<b>47,535</b>	<b>44,922</b>	<b>67,703</b>	
Cash Flow from Investing Activities	3,923	(15,468)	(22,927)	(23,067)	
Cash Flow from Financing Activities	(44,366)	(27,139)	(42,027)	(34,995)	
FX conversion effects	(1,021)	(1,694)	(368)		
<b>Change in cash balance</b>	<b>7,621</b>	<b>3,233</b>	<b>(20,401)</b>	<b>9,641</b>	

Source: Banorte,MSE

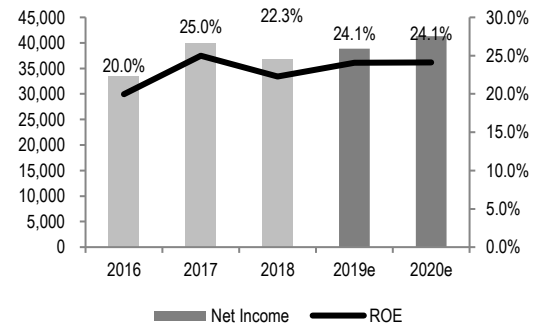
## Revenue & EBITDA Margin

MXN, million



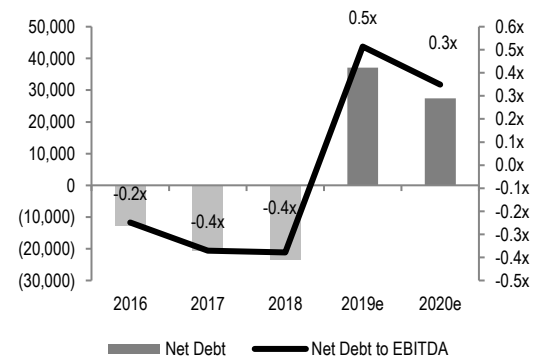
## Net Income & ROE

MXN, million



## Net Debt & Net Debt to EBITDA

MXN, million



## Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Luis Leopoldo López Salinas, Jorge Antonio Izquierdo Lobato, Eridani Ruibal Ortega and Leslie Thalia Orozco Vélez, 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
<b>BUY</b>	When the share expected performance is greater than the MEXBOL estimated performance.
<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	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
WALMEX	October 23, 2019	BUY	MXN\$65.00
WALMEX	May 28, 2019	BUY	MXN\$60.00
WALMEX	January 08, 2019	BUY	MXN\$58.00

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