

# GMEXICO

Quarterly Report

May 02, 2019

## In line with expectations, profitability improves

- **1Q19 results were in line with our estimates in operating terms. Sales fell 5.1% yoy to US\$2.5 billion, but EBITDA dropped just 3.1% yoy to US\$1.2 billion**
- **A cash dividend payment of MXN\$0.80 per share was approved, similar to the previous payout, and represented a 1.4% yield over current prices. It shall be distributed as of May 30th**
- **After updating our sum of the parts model, we have upgraded our PT 2019 to MXN\$61.00, but downgraded rating to HOLD. Our PT represents a 6.9x 2019 FV/EBITDA multiple vs. the current 6.6x level**

**A quarter in line with expectations.** Gmexico's 1Q19 results were in line with our estimates in operating terms. Sales fell 5.1% yoy to a US\$2.5 billion, but EBITDA dropped just 3.1% yoy to US\$1.2 billion, as had been anticipated. Consequently, EBITDA margin expanded by 1.0pp to 48.2%. Such weak result is explained primarily by lower prices in metals, although efficiencies achieved across all business segments reflected on profitability improvements in all divisions. In terms of net profit, a 47.9% yoy increase was reported to US\$535.8 million, better than our estimate, given the effect of higher-than-expected capital gains on shares held in treasury. Considering 1Q19 results, the FV/EBITDA multiple remains stable at 6.6x. After updating our sum of the parts valuation model, and having incorporated the new MXN exchange rate, assumed at MXN\$20.30 by 2019 year-end, we have upgraded our price target to MXN\$61.00 (vs a previous MXN\$53.00) which would represent a 6.9x 2019 FV/EBITDA multiple vs. the current level of 6.6x. Although the outlook remains positive, we believe that some part is already reflected on the company's current valuation, thus we have downgraded our rating to HOLD.

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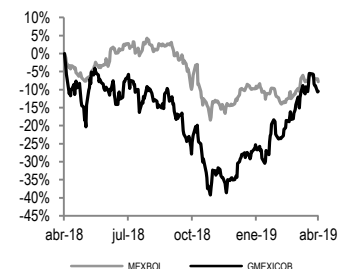
**Marissa Garza**

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**HOLD**

Current Price	MXN\$55.53
<b>PT2019</b>	<b>MXN\$61.00</b>
Dividend 2019	MXN\$2.40
Dividend (%)	4.3%
Upside Potential	14.2%
Max – Min LTM	62.00-36.75
Market Cap (US\$m)	22,708
Shares Outstanding (m)	7,785
Float	49.0%
Daily Turnover (MXN\$m)	342.0
<b>Valuation Metrics LTM *</b>	
FV/EBITDA	6.6x
P/E	17.2x

\*Data from press release

**Relative performance to MEXBOL (LTM)**

**Financial statements**

USD, million	2017	2018	2019E	2020E
Revenues	9,786	10,495	11,190	12,963
Operating Income	3,435	3,601	3,954	4,966
Adjusted EBITDA	4,545	4,892	5,155	6,219
EBITDA Margin	46.4%	46.6%	46.1%	48.0%
Net Income	1,394	1,149	1,437	1,841
Net margin	14.2%	10.9%	12.8%	14.2%
Total Assets	25,436	25,679	26,548	28,586
Cash	1,714	1,674	700	673
Total Liabilities	11,992	12,071	13,063	15,212
Debt	8,550	8,384	8,784	10,284
Common Equity	13,444	13,608	13,374	12,613

Source: Banorte

**Valuation and financial metrics**

	2017	2018	2019E	2020E
EV/EBITDA	7.0x	6.5x	6.5x	5.6x
P/E	19.2x	17.2x	15.8x	12.4x
P/BV	2.0x	1.9x	2.1x	2.3x
ROE	10.4%	11.3%	13.4%	18.5%
ROA	5.5%	4.5%	5.4%	6.4%
EBITDA/ Interest expen	26.3x	30.0x	16.0x	16.0x
Net Debt/EBITDA	1.5x	1.4x	1.6x	1.5x
Debt/Equity	0.6x	0.6x	0.7x	0.8x

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Document for distribution among public

## GMEXICO – 1Q19 Results

USD, million

Concept	1Q18	1Q19	Var %	1Q19e	Diff % vs. Estim.
Revenue	2,668	2,532	-5.1%	2,625	-3.5%
Operating Income	968	857	-11.4%	924	-7.2%
Ebitda	1,259	1,220	-3.1%	1,219	0.1%
Net Income	362	536	47.9%	359	49.2%
<b>Margins</b>					
Operating Margin	36.3%	33.9%	-2.4pp	35.2%	-1.3pp
Ebitda Margin	47.2%	48.2%	1.0pp	46.4%	1.7pp
Net Margin	13.6%	21.2%	7.6pp	13.7%	7.5pp
EPS	\$0.05	\$0.07	47.9%	\$0.05	49.2%

### Income Statement (Million)

Year	2018	2018	2019	Change	Change
Quarter	1	4	1	% YoY	% QoQ

<b>Net Revenue</b>	<b>2,667.7</b>	<b>2,567.0</b>	<b>2,532.3</b>	<b>-5.1%</b>	<b>-1.4%</b>
Cost of goods sold	1,359.0	1,367.3	1,282.4	-5.6%	-6.2%
Gross profit	1,308.8	1,199.7	1,249.9	-4.5%	4.2%
General expenses	63.2	77.2	64.8	2.5%	-16.1%
<b>Operating Income</b>	<b>967.8</b>	<b>809.5</b>	<b>857.4</b>	<b>-11.4%</b>	<b>5.9%</b>
Operating Margin	36.3%	31.5%	33.9%	(2.4pp)	2.3pp
Depreciation	277.8	312.9	328.5	18.2%	5.0%
<b>EBITDA</b>	<b>1,259.4</b>	<b>1,160.0</b>	<b>1,220.0</b>	<b>-3.1%</b>	<b>5.2%</b>
EBITDA Margin	47.2%	45.2%	48.2%	1.0pp	3.0pp
<b>Interest income (expense) net</b>	<b>(271.2)</b>	<b>(517.3)</b>	<b>78.7</b>	<b>N.A.</b>	<b>N.A.</b>
Interest expense	127.2	122.3	129.8	2.0%	6.1%
Interest income	6.9	14.2	9.0	29.6%	-36.9%
Other financial income (expense)	(150.9)	(409.3)	199.5	N.A.	N.A.
Exchange Income (loss)				N.A.	N.A.
Unconsolidated subsidiaries	4.6	4.6	1.2	-75.0%	-74.9%
<b>Net Income before taxes</b>	<b>696.6</b>	<b>292.2</b>	<b>937.3</b>	<b>34.6%</b>	<b>220.8%</b>
Provision for Income taxes	245.0	161.3	304.7	24.4%	89.0%
Discontinued Operations					
<b>Consolidated Net Income</b>	<b>456.2</b>	<b>135.5</b>	<b>632.5</b>	<b>38.6%</b>	<b>366.7%</b>
Minorities	94.1	60.8	96.8	2.9%	59.3%
<b>Net Income</b>	<b>362.2</b>	<b>74.8</b>	<b>535.8</b>	<b>47.9%</b>	<b>&gt;500%</b>
Net Margin	13.6%	2.9%	21.2%	7.6pp	18.2pp
EPS	0.047	0.010	0.069	47.9%	>500%

### Balance Sheet (MXN, million)

<b>Total Current Assets</b>	<b>5,091.1</b>	<b>4,772.3</b>	<b>4,741.4</b>	<b>-6.9%</b>	<b>-0.6%</b>
Cash & Short Term Investments	1,828.3	1,674.0	1,463.1	-20.0%	-12.6%
<b>Long Term Assets</b>	<b>20,633.3</b>	<b>20,907.1</b>	<b>21,436.7</b>	<b>3.9%</b>	<b>2.5%</b>
Property, Plant & Equipment (Net)	16,084.9	17,144.0	16,986.0	5.6%	-0.9%
Intangible Assets (Net)	4,548.4	3,763.1	4,450.7	-2.1%	18.3%
<b>Total Assets</b>	<b>25,724.5</b>	<b>25,679.4</b>	<b>26,178.2</b>	<b>1.8%</b>	<b>1.9%</b>
<b>Current Liabilities</b>	<b>1,902.7</b>	<b>1,823.6</b>	<b>1,768.6</b>	<b>-7.0%</b>	<b>-3.0%</b>
Short Term Debt	143.3	100.6	131.4	-8.3%	30.7%
Accounts Payable				N.A.	N.A.
<b>Long Term Liabilities</b>	<b>10,024.2</b>	<b>10,247.4</b>	<b>10,609.5</b>	<b>5.8%</b>	<b>3.5%</b>
Long Term Debt	8,362.9	8,283.3	8,282.0	-1.0%	0.0%
<b>Total Liabilities</b>	<b>11,926.9</b>	<b>12,071.0</b>	<b>12,378.1</b>	<b>3.8%</b>	<b>2.5%</b>
Common Stock	13,797.6	13,608.4	13,800.0	0.0%	1.4%
Minorities	2,036.7	2,096.7	2,116.5	3.9%	0.9%
<b>Total Equity</b>	<b>11,760.9</b>	<b>11,511.6</b>	<b>11,683.5</b>	<b>-0.7%</b>	<b>1.5%</b>
<b>Liabilities &amp; Equity</b>	<b>25,724.5</b>	<b>25,679.4</b>	<b>26,178.2</b>	<b>1.8%</b>	<b>1.9%</b>
<b>Net Debt</b>	<b>6,678.0</b>	<b>6,709.9</b>	<b>6,950.3</b>	<b>4.1%</b>	<b>3.6%</b>

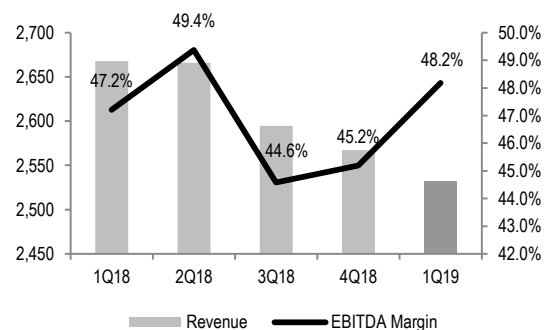
### Cash Flow

Cash Flow from Operating Activities	1,454.7	3,029.9	974.9
Cash Flow from Investing Activities	(456.9)	(1,688.3)	(783.1)
Cash Flow from Financing Activities	(567.0)	(2,001.6)	(560.3)
<b>Increase (decrease) in cash</b>	<b>564.8</b>	<b>(211.2)</b>	<b>(230.1)</b>

Source: Banorte, MSE

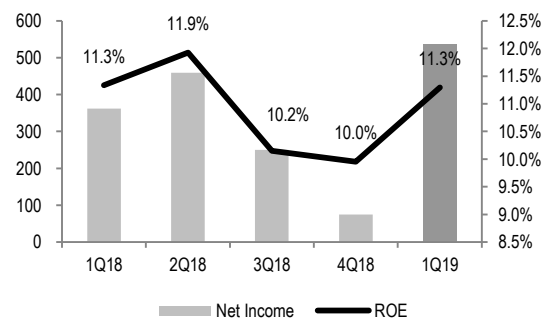
## Revenue & EBITDA Margin

USD, million



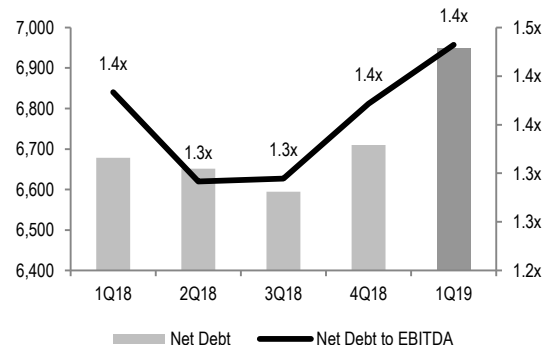
## Net Income & ROE

USD, million



## Net Debt & Net Debt to EBITDA

USD, million



**Weakness in prices outweighed by greater volumes.** The performance of the mining division, Americas Mining Corporation (AMC) was impacted by year-on-year declines in metal prices (copper -10.5%, molybdenum -3.6%, silver -7.0%, zinc -21.0% yoy) yet growth in volumes helped mitigate lower prices. In particular, the 12.8% yoy increase in copper production supported by operating improvements in Buenavista stands out, in addition to the implementation of Toquepala operations in Peru, and the favorable performance by operations in Mission, Arizona, which have already been reestablished. Accordingly, AMC revenue fell 8.3% and EBITDA underwent a contraction of only 6.1% yoy, supported by greater efficiencies, even despite higher costs in fuel, labor and maintenance materials. Thus, AMC's EBITDA margin expanded by 1.2pp to 47.6%.

**Positive year-start in GMXT, with greater efficiencies.** In the company's transportation division, GMXT, an annual 4.5% growth in dollars was reported in revenue, and 10.6% in EBITDA, in line with our estimates. Consequently, the EBITDA margin expanded by 2.4pp to 43.7%. Top performing segments in terms of growth were: Agricultural, Automotive and Industrial. *See report: [GMXT, 1Q19 Earnings: Positive year-start, with greater efficiencies](#)*

**Infrastructure with considerable improvement in profitability.** As for Infrastructure, this segment had a positive performance, with a 0.4% yoy increase in revenue and an 8.1% rise in EBITDA. The latter was driven by the sale of electrical energy in the wholesale electricity market, better results in the operation of the Salamanca-Leon Highway and in marine drilling platforms. The company continues to invest in energy projects and oil terminals, which should support growth, onwards. Currently, two storage terminals are under development, one in Guadalajara and another one in Monterrey, with a total investment of US\$1.0 billion. An additional US\$410 million investment in wind farms with capacity up to 270MW has already been approved.

**The balance sheet remains extremely solid.** Net debt by the end of 1Q19 stood at US\$6.9 billion, up barely 3.6% vs 4Q18. Hence, the net debt to EBITDA ratio remains stable at 1.4x.

**We have upgraded our PT 2019 to MXN\$61.00 but downgraded the recommendation to HOLD.** In view of this quarter's results, we have updated our sum of the parts valuation model and take this opportunity to include the new 2019 year-end FX rate estimate of P\$20.30.

In the case of Southern Copper (SCCO), where GMexico holds a share higher than 88.9%, we used an 8.5x 2019e FV/EBITDA multiple according to the Bloomberg consensus (previous 7.5x). For Asarco, we are assuming a 5.5x FV/EBITDA multiple, below that of GMexico, given lower profitability levels.

For GMXT, we used our MXN\$31.70 price target that we obtained through our DCF valuation model and which represents a 7.5x 2019e FV/EBITDA multiple, slightly above the current level (7.2x).

In the Infrastructure Division, we used a 4.0x multiple (previous 3.5x), in line with the average trading level of a sample of comparable industrial construction companies. In order to assess GMEXICO's current stake in GAP, we have used the expected market value for 2019 according to our area's estimates (PT 2019 MXN\$206.70).

Thus, based on our estimates and valuation model, we obtained a 2019 price target for GMEXICO shares of MXN\$61.00 (previous P\$53.00). At this price, GMEXICO's shares would be trading at a 6.9x 2019e FV/EBITDA multiple, slightly above the company's current 6.6x level. The average of comparable companies according to the Bloomberg consensus stands at 6.7x. It should be noted that we have reduced the holding discount from 25% to 20%, as we currently foresee less uncertainty amid relevant changes in relation to the mining industry, although the context continues to be extremely volatile.

The upside potential offered by our PT stands at 14.2%, including a 4.3% dividend yield. Therefore, we have downgraded our recommendation to HOLD. We should highlight that since we determined our previous 2019 PT (MXN\$53.00) on January 9<sup>th</sup>, 2019, the company's stock has awarded a return of 25.7%.

#### Sum of the Parts Valuation

	EBITDA 2019e	FV/EBITDA	Net Debt	MKT CAP	Share	TOTAL
SCCO	3,474	8.5x	5,010	24,519	88.9%	21,797
ASARCO	386	5.5x	19	2,104	100.0%	2,104
GMXT	940	7.5x	1,177	5,865	69.5%	4,077
INFRSTR	355	4.0x	901	519	100.0%	519
GAP				5,712	11.7%	668
<b>Sum of the Parts</b>						<b>29,166</b>
<b>Net Debt GMEXICO</b>						<b>37</b>
<b>GMEXICO Total</b>						<b>29,128</b>
<b>Shares Outstanding</b>						<b>7,785</b>
<b>Price US\$ per Share</b>						<b>3.74</b>
<b>Exchange Rate 2019e</b>						<b>20.30</b>
<b>PRICE GMEXICO</b>						<b>\$ 75.95</b>
<b>Holding Discount</b>						<b>20.0%</b>
<b>PT 2019e</b>						<b>\$ 60.76</b>

Source: Banorte estimates, Bloomberg

### Relative Valuation: Mining

ISSUER	PRICE	Market Cap (US\$MM)	Enterprise Value (US\$MM)	P/BV	P/E	P/E 2019E	P/E 2020E	FV/EBITDA	FV/EBITDA 2019E	FV/EBITDA 2020E	DIVIDEND YIELD
BHP GROUP LTD	AUD 37.40	127,351	99,911	2.8x		13.9x	13.2x	6.3x	6.0x	6.0x	6.3%
RIO TINTO PLC	£4,465.00	98,411	135,401	2.4x		9.9x	11.0x	4.8x	5.2x	5.7x	5.2%
VALE SA-PREF	R\$ 0.00	67,414	77,771					5.5x	4.4x	4.8x	
<b>SOUTHERN COPPER CORP</b>	<b>\$ 38.27</b>	<b>29,584</b>	<b>35,668</b>	<b>4.6x</b>	<b>20.2x</b>	<b>16.1x</b>	<b>14.7x</b>	<b>10.2x</b>	<b>9.1x</b>	<b>8.5x</b>	<b>4.2%</b>
ANGLO AMERICAN PLC	£1,981.40	33,374	54,737	1.6x		8.9x	10.1x	4.2x	4.6x	4.6x	
FREEMONT-MCMORAN INC	\$ 12.33	17,886	33,016			28.2x	14.4x	9.2x	7.0x	7.0x	
JIANGXI COPPER CO LTD-H	HKD 10.40	6,563	6,422	0.6x	13.0x	11.9x	11.4x	7.7x	7.4x	7.4x	2.2%
ANTOFAGASTA PLC	£908.00	6,871	11,005	1.6x	23.7x	16.7x	16.5x	6.8x	5.5x	5.5x	3.7%
CIA DE MINAS BUENAVENTUR-COM	\$ 53.00	4,407	1,493	1.4x				9.2x	8.7x	8.7x	
VEDANTA RESOURCES PLC	£0.00										3.8%
	<i>Promedio</i>	<i>43,540</i>	<i>50,603</i>	<i>2.1x</i>	<i>19.0x</i>	<i>15.1x</i>	<i>13.0x</i>	<i>6.7x</i>	<i>6.7x</i>	<i>6.5x</i>	<i>4.2%</i>
	<i>Mediana</i>	<i>29,584</i>	<i>35,668</i>	<i>1.6x</i>	<i>20.2x</i>	<i>13.9x</i>	<i>13.2x</i>	<i>6.3x</i>	<i>6.0x</i>	<i>6.0x</i>	<i>4.0%</i>
<b>GRUPO MEXICO SAB DE CV-SER B</b>	<b>Ps 55.84</b>	<b>22,879</b>	<b>1,630</b>	<b>2.2x</b>	<b>16.0x</b>	<b>11.5x</b>	<b>10.4x</b>	<b>7.0x</b>	<b>5.8x</b>	<b>5.4x</b>	<b>5.7%</b>

Source: Bloomberg

### Relative Valuation: Transportation

ISSUER	PRICE	Market Cap (US\$MM)	Enterprise Value (US\$MM)	P/BV	P/E	P/E 2019E	P/E 2020E	FV/EBITDA	FV/EBITDA 2019E	FV/EBITDA 2020E	DIVIDEND YIELD
<b>UNION PACIFIC CORP</b>	<b>\$ 175.72</b>	<b>124,381</b>	<b>150,454</b>		<b>21.6x</b>	<b>19.3x</b>	<b>17.0x</b>	<b>14.0x</b>	<b>13.1x</b>	<b>12.1x</b>	<b>2.0%</b>
CANADIAN NATL RAILWAY CO	CAD 123.79	66,849	76,917		22.0x	19.9x	17.8x	14.7x	13.4x	12.4x	1.7%
CSX CORP	\$ 79.25	64,122	78,397		20.0x	18.1x	16.5x	12.3x	11.9x	11.3x	1.2%
DAQIN RAILWAY CO LTD -A	CNY 8.52	18,808	18,970	1.2x	8.7x	8.5x	8.4x	5.2x	5.2x	5.2x	5.6%
CANADIAN PACIFIC RAILWAY LTD	CAD 300.01	31,242	37,913	6.3x	20.5x	18.3x	16.1x	14.5x	13.2x	12.1x	0.9%
NORFOLK SOUTHERN CORP	\$ 201.89	53,696	64,689		21.1x	18.6x	16.4x	12.4x	11.8x	10.9x	1.7%
<b>KANSAS CITY SOUTHERN</b>	<b>\$ 121.49</b>	<b>12,220</b>	<b>15,248</b>		<b>20.4x</b>	<b>17.7x</b>	<b>15.6x</b>	<b>11.9x</b>	<b>10.7x</b>	<b>9.8x</b>	<b>1.2%</b>
AURIZON HOLDINGS LTD	AUD 4.76	6,669	9,095	2.1x	21.5x	18.8x	18.8x	9.1x	9.7x	9.1x	6.6%
GENESEE & WYOMING INC-CL A	\$ 86.87	4,945	7,293	4.5x	22.4x	19.9x	17.3x	10.8x	10.0x	9.3x	
CHINA RAILWAY TIELONG CONT-A	CNY 8.00	1,551	1,605	1.9x	20.7x	18.2x	15.8x	9.8x	8.6x	8.6x	1.5%
	<i>Promedio</i>	<i>38,448</i>	<i>46,058</i>	<i>3.2x</i>	<i>19.7x</i>	<i>18.0x</i>	<i>16.0x</i>	<i>12.5x</i>	<i>10.9x</i>	<i>10.1x</i>	<i>2.5%</i>
	<i>Mediana</i>	<i>25,025</i>	<i>28,442</i>	<i>2.1x</i>	<i>20.7x</i>	<i>18.5x</i>	<i>16.5x</i>	<i>12.4x</i>	<i>11.3x</i>	<i>10.3x</i>	<i>1.7%</i>
<b>GMEXICO TRANSPORTES SAB DE C</b>	<b>Ps 23.20</b>	<b>5,007</b>	<b>6,783</b>	<b>2.1x</b>	<b>13.6x</b>	<b>12.6x</b>	<b>12.4x</b>	<b>7.2x</b>	<b>7.0x</b>	<b>6.4x</b>	<b>5.2%</b>
<b>GRUPO MEXICO SAB DE CV-SER B</b>	<b>Ps 55.84</b>	<b>22,879</b>	<b>1,630</b>	<b>2.2x</b>	<b>16.0x</b>	<b>11.5x</b>	<b>10.4x</b>	<b>7.0x</b>	<b>5.8x</b>	<b>5.4x</b>	<b>5.7%</b>

Source: Bloomberg

## Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldivar, 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, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato and Leslie Thalía 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.

## Relevant statements.

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*Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.*

## Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

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The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

## Guide for investment recommendations.

	<b>Reference</b>
<b>BUY</b>	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
<b>HOLD</b>	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
<b>SELL</b>	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

## Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

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## PT and recommendation history

Stock	Date	Recommendation	PT
GMEXICO	April 30, 2019	HOLD	MXN\$61.00
GMEXICO	January 9, 2019	BUY	MXN\$53.00
GMEXICO	October 17, 2017	BUY	MXN\$70.80
GMEXICO	July 27, 2017	BUY	MXN\$68.00

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