Mexico Equity Research: Opportunities amid the noise

MX Equity Research

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Antonio Hernandez, CFA | Sr. Analyst
ahernandezv@actinver.com.mx Ext. 1672
Ramon Ortiz | Sr. Analyst
rortiz@actinver.com.mx Ext. 0938
Actinver: (+52) 55 1103 6600

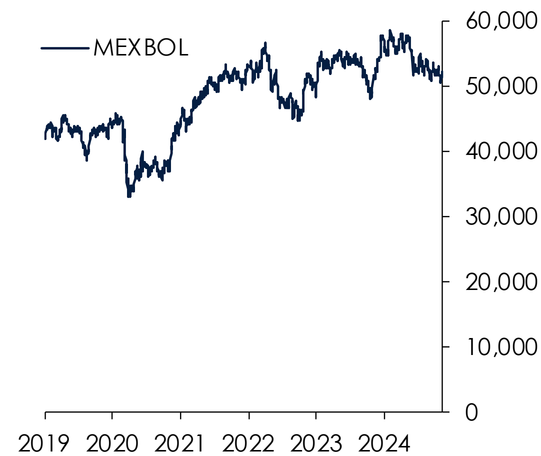
We are reviewing our outlook given recent headlines, along with a summary of 3Q24 results

We review our current coverage given recent headlines, including potential FX depreciation, trade moves and migration changes. Within **Consumer**, we see most of our covered companies as solidly positioned, as most of these companies have at least a third of their revenues originated in the U.S., with mostly minimal export-import relationship. In **Cement**, our covered companies are also well positioned, supported by their exposure to the U.S. market, with a significant portion of their EBITDA generated in this country. Within the **air transport** sector, the companies' diversification to international passenger traffic leads to more defensive players, depending on company-specific performance.

We also briefly review 3Q24 results, in Consumer a deceleration in SSS and volume performance was expected, although in some cases (e.g., Walmex and FEMSA's OXXOs) below our expectations. On the other hand, price was able to offset weak volume performance (partially due by weather headwinds), along with sales mix, which has also helped improve gross margins. As expected, FX tailwinds also benefitted some of our covered companies. SG&A was mostly pressured, although higher gross margins in some cases mostly offset this headwind at the EBIT and EBITDA levels. Overall, we continue to see most of our covered Consumer companies solidly positioned after an atypical 1H24, preparing to the upcoming holiday season and operating with different FX levels vs last year and the beginning of the year. We remain Outperform on bev companies AC, KOF, FEMSA and Becle, along with Chedraui. (Full Consumer 3Q24 Review report here).

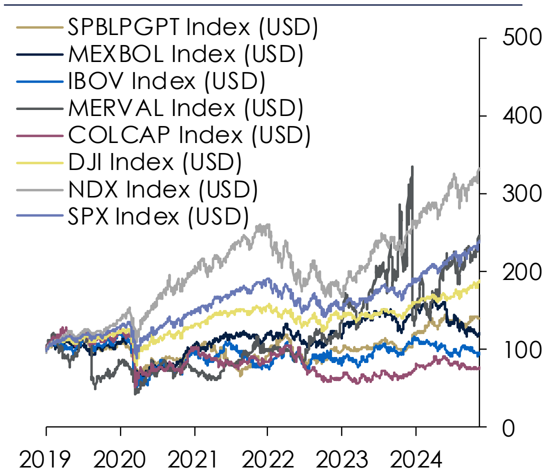
In Cement, although the environment was challenging, with bad weather conditions and volume contraction, quarterly results came in line with our estimates. Higher costs were partially compensated by companies' efficiencies; however, this was not enough to compensate for the sector's margin contraction. We reiterate our positive outlook for the sector since current prices offer an attractive potential upside for long-term investors supported by appealing valuations. (Full Cement 3Q24 Review report here). On the other hand, in **Transportation,** the companies' efforts to contain costs and better tariff environment compared to 3Q23 resulted in margin expansions. VOLAR reported the most robust results at the operating level, beating our estimates. (Full Air Transport 3Q24 Review report here). Lastly, the **housing** covered companies posted positive top-line results in 3Q24. However, at the EBITDA level, margins contracted due to a change in sales mix. We anticipate solid 4Q24 results supported by seasonality and improvements in the average selling price. (Full Housing 3Q24 Review report here)

Figure 1: MEXBOL performance
(P$, 11/11/24)



Source: Bloomberg, Actinver Research.

Figure 2: Relative indexes performance
(Jan 19=100, 11/11/24)



Source: Bloomberg, Actinver Research.

Actinver Research Coverage

Ticker	Rating	Analyst	Mkt. Cap. (US$m)	Price 08/nov	Price Target (Mxn) Price Tgt	Upside (%)	Div yld	Total (%)	Performance (%) YTD	12M	EV/EBITDA (x) 12M	2024E	P/E (x) 12M	2024E
IPC				**51,845.2**					**(9.7%)**	**1.2%**	**5.4**		**14.9**	
Transport Sector														
ASUR	Outperform	RO	7,937.5	533	660	23.9%	5.4%	29.3%	7.1%	31.8%	8.6	8.1	12.6	12.0
GAP	Market Perform	RO	9,073.0	362	380	5.1%	5.2%	10.3%	22.0%	58.4%	12.3	11.8	20.9	17.4
OMA	Market Perform	RO	3,252.0	168	185	10.2%	3.6%	13.8%	(6.6%)	16.8%	8.6	8.4	13.0	12.6
Airlines														
VOLAR	Speculative Buy	RO	880.3	15	25	64.5%	-	64.5%	(5.0%)	28.6%	3.9	3.2	4.5	11.2
Land Transportation - Logistics														
TRAXION	Restricted	RO	585.2	21	NA	NA	NA	NA	(40.0%)	(30.3%)	4.8	NA	18.4	NA
Cement														
CEMEX	Outperform	RO	8,584.8	12	15	21.5%	1.0%	22.5%	(9.8%)	(0.3%)	5.4	4.3	31.2	6.9
GCC	Outperform	RO	3,163.8	189	210	11.2%	1.0%	12.2%	(5.6%)	11.2%	5.7	4.7	9.5	8.7
Housing														
ARA	Outperform	RO	204.1	3	4	15.7%	-	15.7%	(8.2%)	0.9%	5.5	3.1	6.4	6.0
CADU	Speculative Buy	RO	55.5	4	5	28.6%	-	28.6%	23.7%	17.5%	5.4	4.1	5.8	4.8
VINTE	Outperform	RO	371.7	33	42	27.3%	2.3%	29.6%	6.7%	6.5%	15.4	10.6	16.8	15.9
Food & Bev														
AC	Outperform	AH	14,585.4	173	205	18.6%	3.3%	21.9%	(6.7%)	4.0%	7.4	7.3	15.7	15.0
KOF	Outperform	AH	17,392.5	167	197	18.2%	3.3%	21.5%	3.6%	15.5%	7.7	7.4	16.1	14.8
FEMSA	Outperform	AH	30,938.6	195	230	17.8%	2.6%	20.5%	(11.7%)	(7.5%)	8.4	7.4	23.6	21.1
BECLE	Outperform	AH	4,746.4	27	33	24.0%	1.1%	25.1%	(20.0%)	(19.0%)	13.2	12.4	21.9	22.2
BIMBO	Market Perform	AH	14,312.6	67	71	6.7%	1.3%	8.0%	(22.6%)	(17.6%)	7.8	6.7	23.0	20.7
GRUMA	Market Perform	AH	6,477.7	360	377	4.8%	0.1%	4.9%	15.7%	12.6%	7.1	6.4	13.2	12.5
Health & Personal Care														
LAB	Restricted	AH	1,356.7	27	NA	NA	NA	NA	89.1%	82.8%	8.2	NA	17.4	NA
KIMBER	Market Perform	AH	4,348.5	29	33	14.7%	5.8%	20.5%	(24.6%)	(16.4%)	6.6	6.2	11.1	11.1
Supermarkets														
CHDRAUI	Outperform	AH	6,127.6	128	165	28.6%	0.6%	29.2%	25.1%	26.6%	7.5	5.0	15.8	14.3
LACOMER	Market Perform	AH	1,463.2	36	40	9.8%	0.7%	10.5%	(16.7%)	(0.7%)	6.5	6.1	16.8	16.2
WALMEX	Market Perform	AH	48,561.2	56	63	12.4%	3.4%	15.9%	(21.7%)	(15.3%)	10.2	9.2	18.2	18.0

Source: Company reports, Bloomberg, Actinver Research. RO = Ramon Ortiz; AH = Antonio Hernandez.

Post U.S. elections: A familiar face

Given recent U.S. elections and volatility in the market, we provide more color on the potential impact from Trump's policies, with some companies and sectors better positioned in our view:

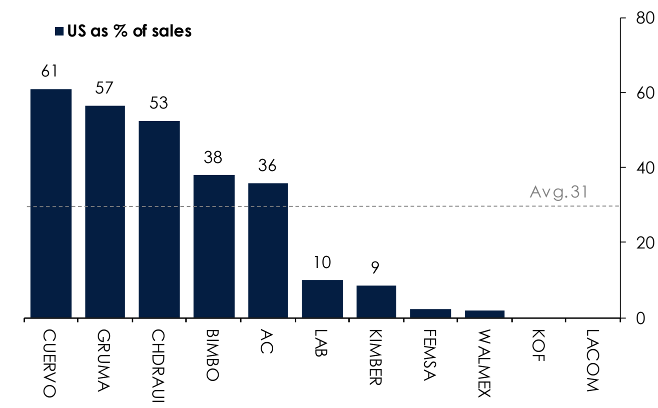
Figure 3: Overall potential impact from Trump's Presidency
(%, 3Q24)

FX	Migration policies	Supply chain	Nearshoring deceleration
ASUR	CEMEX	Becle	AC
Becle	Walmex		ARA
Gruma			CADU
AC			GAP
Chedraui			GCC
FEMSA			OMA
Volar			VINTE
Bimbo			
CEMEX			
KCM			

Source: Company reports, Actinver Research.

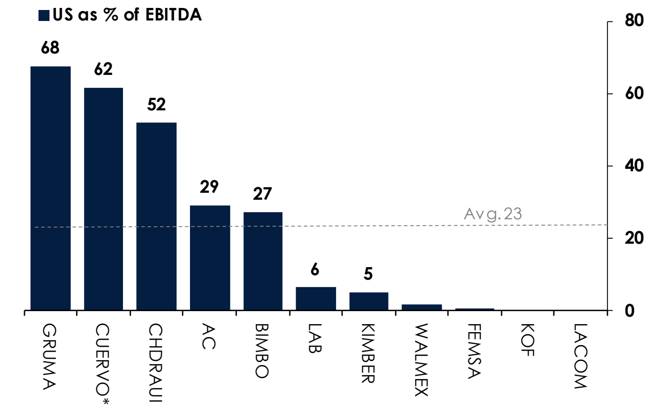
- **FX impact.** Our Economics Research team recently published an updated USDMXN estimate of P$20.00 for year end, and P$20.30 for 2025E (link to report). A relevant proportion of our covered companies have a direct or indirect exposure to the USD, either via sales, costs, or both.
  - Within **Consumer**, 3 of our covered companies generate more sales in the U.S. than in the rest of the operating regions, and 5 generate more than a third of consolidated sales in this country. For Gruma, Cuervo, and Chedraui, U.S. operations generate margins in line or better than consolidated, and thus MXN depreciation benefits them the most from a sales perspective. Other covered companies, on the other hand, have lower margins in the U.S., reflected in the average 22% U.S. EBITDA exposure (as a % of consolidated EBITDA), vs the average proportion of 31% for sales. Nonetheless, cost structure also plays a relevant role, as most raw materials (e.g., sweeteners, corn, wheat, and pulp, among others) are denominated in USD, with Becle better positioned given its agave costs fully denominated in MXN. Hedging strategies followed by Arca Continental, KOF, Gruma and Bimbo —for FX and raw materials needs—, could soften the USD impact at the COGS level. **In this context, we see Becle, Gruma and Chedraui as the best positioned companies amid the MXN depreciation —benefitted from U.S. sales and profitability, solid margins in the U.S. vs consolidated, and the former from MXN-denominated costs—, while we view Kimberly-Clark de Mexico as the most impacted —given its fairly low USD-denominated sales yet relevant (c.60%) proportion of USD-denominated costs.** From a leverage perspective, most companies match their USD exposure in sales and debt, yet some companies such as KOF, FEMSA, Becle, and Kimberly-Clark de Mexico, have a higher proportion of debt in USD vs their sales.

Figure 4: U.S. sales exposure — Consumer
(%, 2024E)



Source: Company reports, Actinver Research.

Figure 5: U.S. EBITDA exposure — Consumer
(%, 2024E)

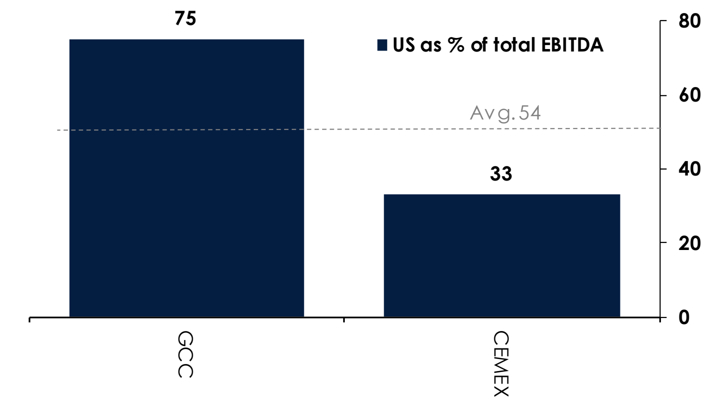


Source: Company reports, Actinver Research. *3-year average EBIT for Cuervo, and estimate for Kimber.

- In **Cement**, GCC is the best-positioned company amid the MXN depreciation, benefiting from its geographical concentration in the U.S., which accounts for close to 75% of its total EBITDA (while most of the SG&A expenses are in MXN). In contrast, although the U.S. represents close to 33% of total EBITDA generated by CEMEX, Mexican operations represent c 45%, and as the company reports results in USD, MXN depreciation leads to FX headwinds, as reflected in the last quarter. According to our estimates, in Mexico's EBITDA, the implicit contraction in the quarterly EBITDA is close to US$18 million for each unit of peso depreciation.

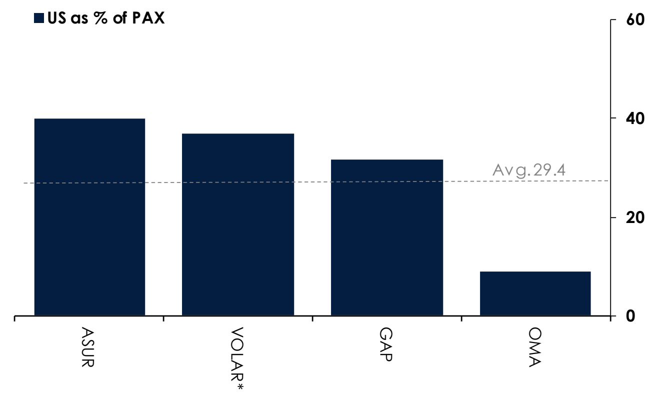
- In **Transportation**, the most defensive player is ASUR, given its network diversification oriented to international passengers (PAX), mainly Cancun airport and Puerto Rico's operations, representing close to 40% of total PAX. In addition, ASUR's commercial revenue mix, which has a higher exposure to USD -denominated revenues, will further be benefitted by FX tailwinds, partially compensated by its Mexican and Colombian operations. In GAP, the company's exposure to U.S. traffic —and thus to USD-denominated revenues— is close to 32% of total revenues. For OMA, the implicit traffic coming from the U.S. is close to 9% of the total, the airport with the lowest diversification in traffic. On the other hand, for VOLAR we anticipate a neutral to positive impact, supported by the company's exposure to international traffic, as its operations in the U.S. and Central and South America account for close to 37% of total revenues. Please note that most of the costs and expenses in the sector are MXN-denominated.

Figure 6: U.S. EBITDA exposure — Cement
(%, 3Q24)



Source: Company reports, Actinver Research.

Figure 7: U.S. PAX exposure — Transport
(%, 2023)



Source: Company reports, Actinver Research.

- **Tariffs.** A potential 10-20% import tariff in the U.S. could impact our covered companies that export to this country.; the majority of our covered companies have operations in the U.S. and thus do not have to import products from Mexico or other countries.
  - Within **Consumer**, we highlight the **potential negative impact to Becle,** given that most of its products sold in the U.S. are imported from other countries —e.g., tequila from Mexico, and whiskey from Canada and Ireland, among others—. Given their more discretionary nature and currently lackluster performance, tequila and other spirits could face a longer recovery towards positive volume figures if a tariff in these imported products is imposed. These tariffs would also impact peers nonetheless, and thus we foresee a hit across the whole industry and lost competitiveness vs other beverages.
  - In **Cement**, both CEMEX and GCC export cement to the U.S. For GCC, exports represent close to 40% of total cement sales. On the other hand, for CEMEX, close to 10% of total cement volume is exported to the U.S. from Mexico. However, since these companies currently have operations in the U.S., we see a limited implication, as higher prices could be passed through in the whole industry.
- **Migration measures.** A potential deportation of non-authorized immigrants could lead to a massive migration to Mexico; according to Pew Research Center, there are c.4mn non-authorized Mexican in the U.S. Besides the social impact, reduced remittances —which reached a record high of US$64bn LTM as of October 2024—, could impact some companies, although MXN depreciation could partially offset this headwind. We also highlight that remittances have remained solid despite migration measures in the past.
  - In **Consumer,** we highlight Walmex amid its high exposure to the low-end segment Bodega Aurrera, which accounts for 80% of its total units. Nonetheless, other consumer companies could also be impacted, especially the ones exposed to more discretionary consumption such as electronics (Walmex) and spirits (Becle).
  - In **Cement**, lower remittances may negatively impact bagged cement sales to individuals (self-construction), which will follow a similar trend in the retail

sector. For CEMEX, bagged cement represents close to 55% to 60% of total sales in Mexico, the highest exposure to migration measures.

- In **Transportation**, the visiting friends and relatives (VFR) market could be negatively impacted if potential deportation of non-authorized immigrants occurs during the coming months. VOLAR is the company with the highest exposure to the VFR market, and GAP and OMA are airport groups with operations in airports where the VFR market has significant participation (close to 40% and 25% of total PAX, respectively).

- **Nearshoring.** Amid a potential move from President elect Trump to increase manufacturing in the U.S., there could be a slowdown in investment in Mexico, and thus the nearshoring tailwind could be reduced.
  - In **Consumer**, Arca Continental has a higher exposure to the North of Mexico vs other consumer companies. Nonetheless, given that the company also operates in the South of the U.S., mostly in Texas, we see AC as well positioned if some of the investment is transferred to this region in the U.S. Additionally, the region benefits from high per capita consumption of carbonated soft drinks and bottled water, and thus consumption is expected to remain solid independent of foreign investment trends.
  - In **Cement**, a potential contraction in FDI will result in lower industrial and logistic parks, which could negatively impact the cement demand linked to the construction of these projects. However, since CEMEX and GCC have a solid presence in the U.S., the companies are well-positioned to capture new investments. As a result, we anticipate a neutral-to-slightly-negative impact in the cement sector.
  - In **Transportation**, a reduction in new investments and lower dynamism in Mexico, linked to nearshoring, will negatively impact passengers who are business travelers (OMA is the company with the highest exposure to this market). Furthermore, a contraction in cargo volumes could be expected, negatively impacting GAP.

3Q24 Results Review Summary

Within **Consumer,** our **Food & bev** covered companies posted mixed top-line growth, with AC, KOF and FEMSA posting sales growth in the high-single-digit-to-double-digit range, supported by their operating markets performing mostly solidly, and FX tailwinds. At the margin level, results were mostly mixed, with Gruma and Becle benefitting from FX tailwinds. We highlight KOF's and Gruma's results given their outperformance vs our estimates and Bloomberg consensus.

In **Health & Personal Care**, Kimberly-Clark de Mexico outperformed our more cautious estimates, yet was mostly below consensus, while Genomma Lab posted solid results on all fronts, surprising to the upside vs our estimates and consensus.

In **Supermarkets**, Chedraui underperformed our margin estimates and consensus amid the one-time costs related to the new distribution center, which are expected to continue weighing on results until 2Q25. Sales on the other hand outperformed our estimates and consensus, aided by FX tailwinds as SSS performed in line with our estimates. La Comer posted leading SSS, yet these, along with margins, were in line with our estimates. Walmex, meanwhile, posted mostly weaker-than-expected results (vs consensus), although SSS, sales and EBITDA margin were in line with our estimates. (Full Consumer 3Q24 Review report here).

In **Cement**, although we were anticipating a weak quarterly result, the performance of CEMEX was slightly lower than our estimates, while GCC results came better than our projection at the EBITDA level. Total revenues in 3Q24 for the sector dropped 6%, while total EBITDA was down 11% YoY (vs. our -10% expectation). In that context, CEMEX posted the highest EBITDA drop (-13% YoY), while GCC's EBITDA performance accounted for a 2% YoY gain. It is worth noting that the implicit margin expansion in GCC was a positive surprise, reflecting the company's operating leverage and favorable price environment. (Full Cement 3Q24 Review report here).

In the **Air transport**, total revenues in the sector gained 9% YoY, which came in line with our expectation. On the other hand, total EBITDA was up 22% YoY, beating our projection. This was mainly explained by better than expected results in Volaris, with a solid 52% YoY gain at the EBITDAR level, while OMA's EBITDA performance was better than expected resulting in a lower contraction rate vs. our estimate. Please note that ASUR and GAP, delivered attractive growth rates at the top-line, while at the EBITDA level we observed a margin contraction, mainly explained by higher costs (employee, maintenance, security among others). (Full Air Transport 3Q24 Review report here).

In the **Housing sector**, total revenues gained 4% YoY, which came below our +8% YoY expectation. On the other hand, total EBITDA was down 1% YoY, also below our +3% YoY estimate. This was mainly explained by lower EBITDA generation coming from VINTE, which will be recovered during 4Q24. Please note that CADU delivered the most robust results in the sector, supported by solid volume recovery (mainly in the affordable segment), which drove housing revenues to gain 28% YoY and represent close to 98% of total sales. (Full Housing 3Q24 Review report here).