Still Seeing Upside
Equity Research | Monthly Note

August 4, 2021

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In July, the Mexican stock market continued delivering gains. Following a positive Q2 2021 earnings season, we still see upside over the coming months.

- **Mexbol gained 1.2% in July for a +15.4% YTD.** Despite the rebound in COVID cases, the continued recovery in corporate earnings has supported positive sentiment. In addition, global interest rates remaining at low levels, and indirectly helped by stimulus programs in developed countries.

- **The Q2 2021 earnings season ended with a positive note** (p. 4). 85% of the companies under coverage posted favorable results, and 52% exceeded our expectations.

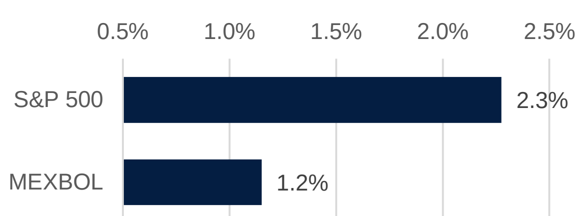
- **Introducing our 2022YE target level for the IPC (MEXBOL index) at 54,900 points**. We are reviewing our valuation: i) considering the recent upward adjustments in the macroeconomic expectations and ii) incorporating the Q2 2021 earnings results into our forecasts.

- **Our take:** We maintain a 'neutral' stance on the local stock market. At current levels, we continue to view the IPC valuation as fairly valued. Equity Portfolio sample changes: we added ORBIA, increased our exposure to AC, BBAJIO, BIMBO, CEMEX, FEMSA, and GMEXICO, reducing our position in AMX, CHDRAUI, GRUMA, LAB and lowered our exposure to REITs.

1) Mexico's stock market continued posting gains in July

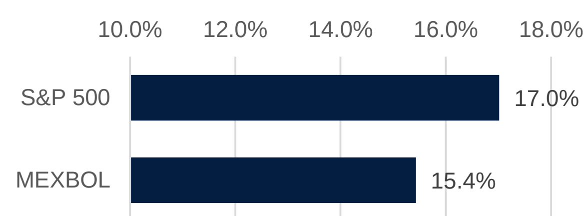
In line with the optimism of the U.S. stock markets, the IPC gained 1.2% in July, +15% YTD.

July returns | Exhibit1



Source: Actinver with data from Bloomberg.

2021 YTD returns | Exhibit2

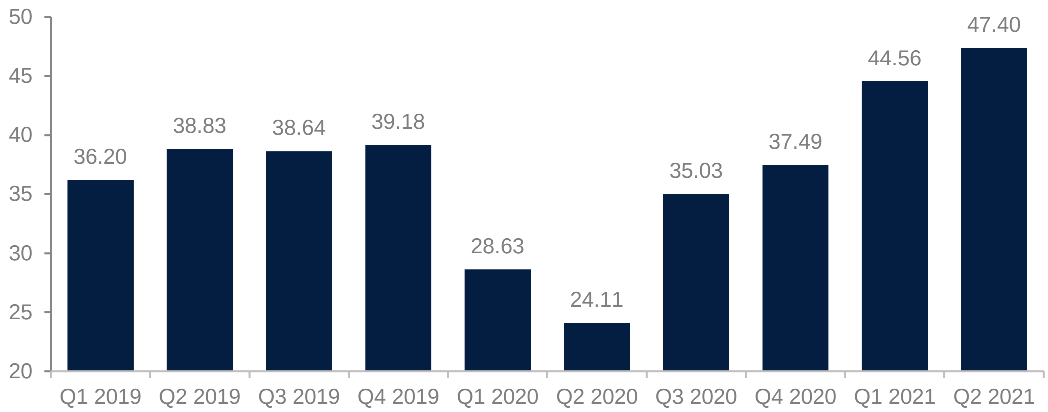


Source: Actinver with date from Bloomberg.

The continued recovery in corporate earnings has supported positive sentiment. In addition, global interest rates remained relatively low, along with stimulus programs in developed countries, and gradual progress in vaccination programs which have led to lower mortality levels related to the COVID-19.

In the U.S., S&P 500 earnings, so far, have grown 97% YoY in Q2 2021, tying the first two consecutive quarters of growth since the pandemic began.

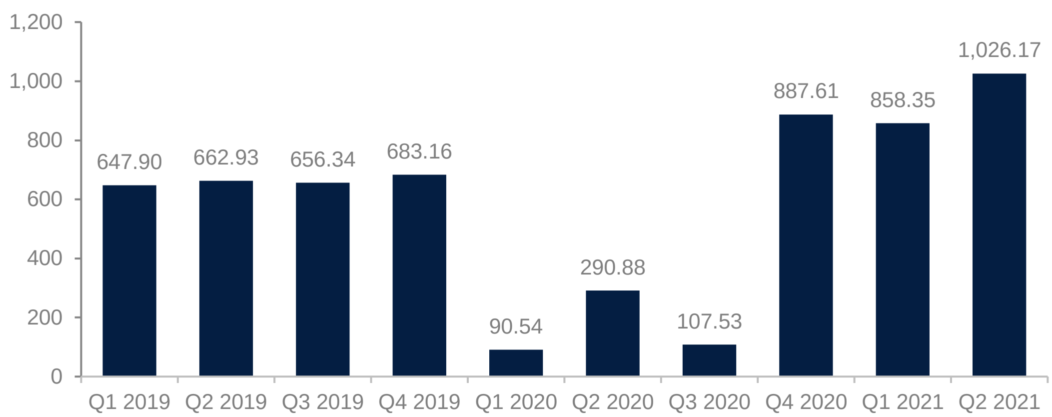
S&P500 weighted earnings | Exhibit3
US$ Bn.



Source: Actinver with data from Bloomberg.

In Mexico, the Q2 2021 reports season ended last week. Earnings continued recovering in the face of a lower base of comparison and continued to post three consecutive quarters of growth since the pandemic began.

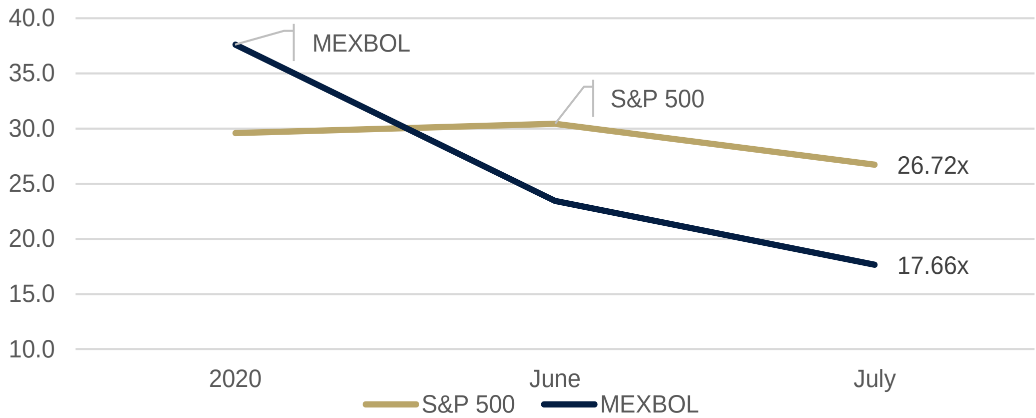
IPC (Mexbol) | weighted earnings | Exhibit4
P$ Bn.



Source: Actinver.

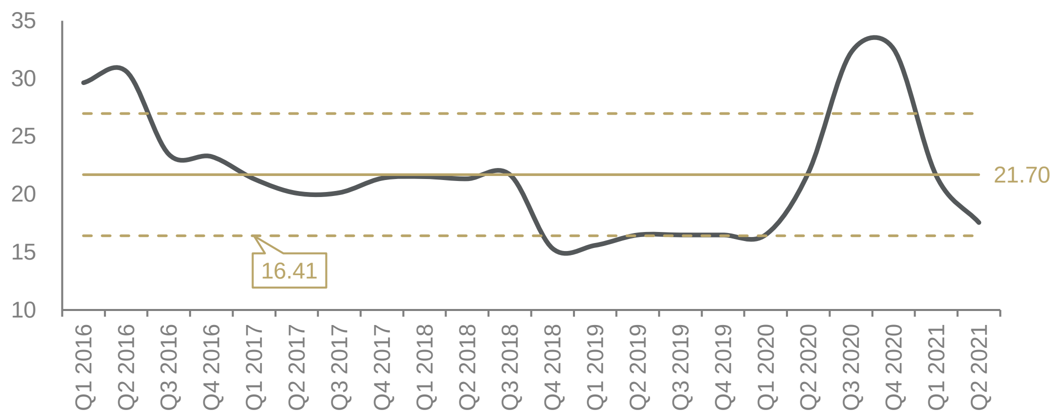
The recovery and subsequent growth in corporate earnings in the U.S. and Mexico have allowed stock valuations to return to more reasonable levels. More appealing valuation levels, combined with an enhanced macroeconomic framework for recovery and low-interest rates, lead us to believe that the positive momentum may continue over the coming months. However, as we mentioned in the second section, the outlook is not free from risks.

P/E valuation of the IPC and the S&P 500 | Exhibit5
Price/Earnings multiple (times).



Source: Actinver with data from Bloomberg and other vendors.

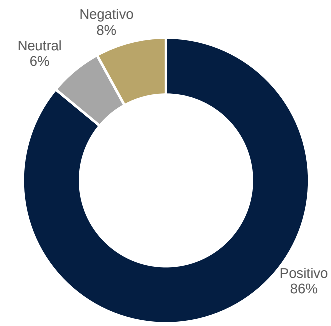
MEXBOL's P/E valuation | Recent evolution & historical average | Exhibit 6



Source: Actinver

2) Drivers for the positive results

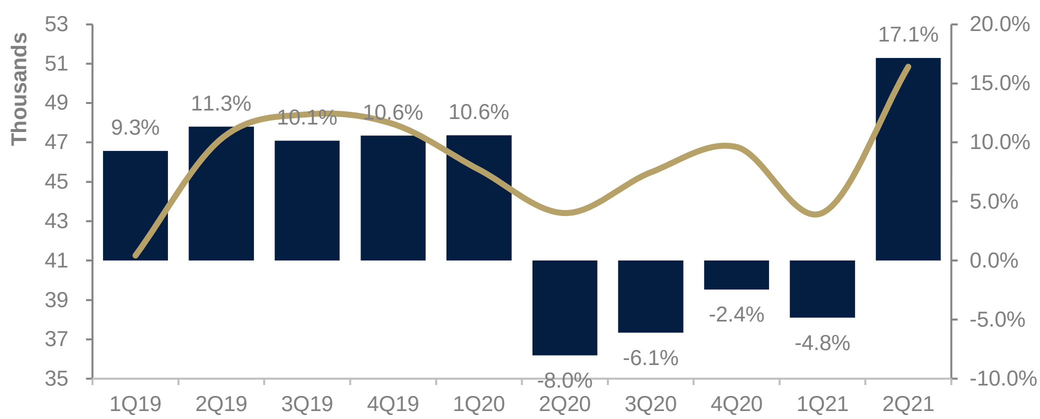
- In Q2 2021, 86% of the companies under coverage reported a positive quarterly report, 6% were neutral, and only 8% reported a negative quarterly report. 52% of the companies covered exceeded our expectations, 40% were in line with estimates and only 8% reported below estimates. 25% of the companies under coverage increased their guidance for 2021. 65% showed expansion in profitability.
- Concessions, convenience stores, consumer discretionary, petrochemicals and industrials stood out for their solid recovery.



Towards the end of the first quarter, mobility restrictions began to ease, which led to a significant rebound in Mexico's Services Sector, boosting sales of Consumer Goods, Transportation and Wellness. Real Estate companies also benefited from the increase in logistics activity.

OXXO's Revenues (FEMSA | Proximity Division) | Exhibit7

P$ Bn and y-oy growth (right axis)

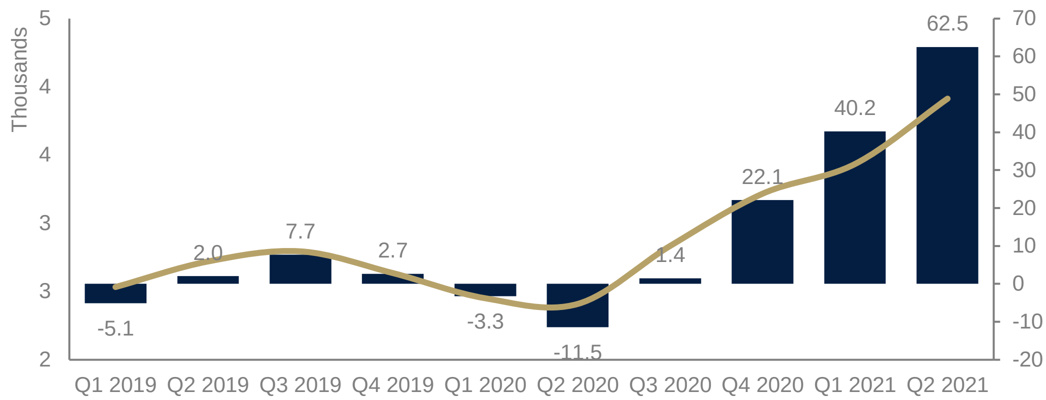


Source: Actinver.

On the other hand, international demand for manufactured products in Mexico remained at high levels, also benefiting Real Estate issuers that deal with exporting clients. The Metals and Mining sector benefited from generalized increases in metal prices. In Industrials, we saw higher-than-anticipated volumes in the automotive sector, improved profit margins in petrochemical companies, and a substantial increase in infrastructure projects.

GMEXICO's Revenues | Exhibit8

US$ Bn and y-oy growth (right axis)

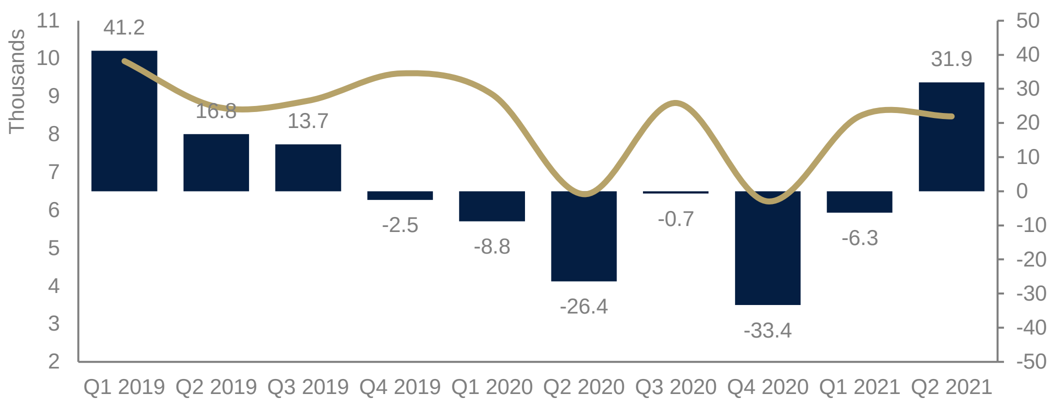


Source: Actinver.

Financial Sector companies were able to increase profits once the effect of the bank customer support programs ended, where banks now had to make fewer provisions for bad loans.

GFNORTE's earnings | Exhibit9

P$ Bn and y-oy growth (right axis)



Source: Actinver.

In the Construction sector, although investment in Mexico remains at low levels, cement companies benefited from the strength in the U.S. residential sector, but also because Mexico is beginning to recover in terms of volumes and prices. The housing sector in Mexico continued its sequential improvement, with market share expansion, also driven by government social programs and increased remittances.

3) Anticipating growth to continue over the 2H21

We anticipate a strong second half of 2021, albeit at a slower pace. In Q2 2021 the services sector benefited from reduced mobility restrictions in Mexico, which began in March, but activity began to moderate in April. Nevertheless, the trend points to continued growth in the coming months, based on a gradual economic reopening, supported by the positive evolution of remittances and stimulus measures in the United States.

On the other hand, industrial, mineral and construction companies should benefit from continued growth in the global economy. **Amidst current backdrop, we still see potential for attractive returns in cyclical companies, benefiting from the economic reopening, in financial companies, which will benefit from higher interest rates, but also in companies in defensive sectors that are still trading at a discount.**

However, the environment is not risk-free. For the time being, the pandemic-related vaccination process is expected to help maintain reasonable levels of hospitalizations and deaths, so that authorities can avoid a new day of mobility restrictions. However, we cannot rule out the possibility that if the number of infections continues to rise, authorities may be forced to impose new restrictions on activity, especially in emerging countries.

Finally, we believe it is important to emphasize that for Mexican companies to develop their full potential, it will be necessary for investment rates to recover, for employment to increase significantly, and for education to normalize, which is essential for raising future productivity levels.

4) Introducing our 2022E IPC target level at 54,900 pts

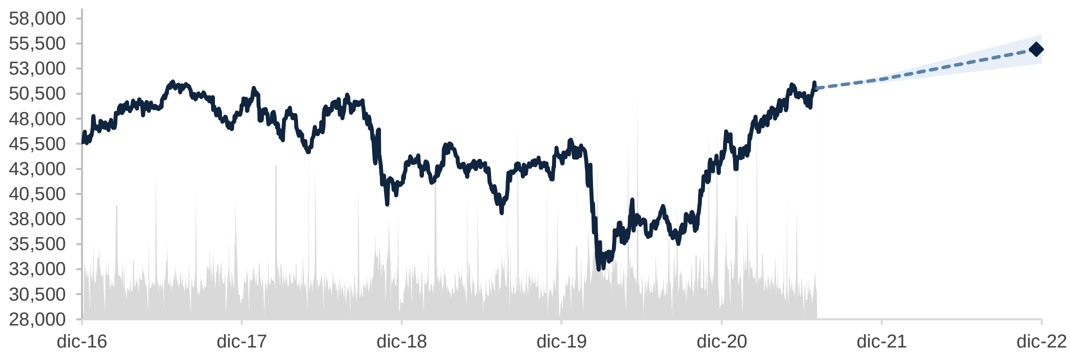
Our year-end 2022E target level for the IPC considers: i) changes in our expectations for growth, inflation, interest rates and interest rates.; ii) we incorporate the Q2 2021 quarterly earnings results into our forecasts; iii) introduced our expected level for 2022 in order to provide our clients with an investment horizon more in line with their requirements.

Actinver Macro Estimates

	2021E	2022E
GDP	6.20%	3.00%
Inflation	6.30%	3.50%
Core infl	4.60%	3.50%
Policy rate	5.00%	5.75%
10y gov b	6.60%	6.80%
USDMXN	20.15	20.70

2022E Target. Our IPC target for year-end 2022 is 54,900 points. Our target was determined by using a target P/E multiple of 19.7x, to which we applied our estimated earnings for 2022.

IPC, trends and target 2022E | Exhibit10



Source: Actinver

Valuation Methodology. The Yardeni model states that the market earnings rate, known as earnings yield, should be equal to the "A" rated corporate bond rate (CBY) adjusted for the companies' expected 5-year earnings growth (LTEG).

G \ P/U	17.7x	18.2x	18.7x	19.2x	19.7x	20.2x	20.7x	21.2x	21.7x
1.9%	53,237	54,744	56,251	57,757	**59,264**	60,771	62,278	63,784	65,291
P/U FWD	*18.7x*	*19.2x*	*19.8x*	*20.3x*	*20.8x*	*21.4x*	*21.9x*	*22.4x*	*23.0x*
-0.6%	51,930	53,400	54,870	56,340	**57,810**	59,279	60,749	62,219	63,689
P/U FWD	*18.3x*	*18.8x*	*19.3x*	*19.8x*	*20.3x*	*20.8x*	*21.4x*	*21.9x*	*22.4x*
-3.1%	50,624	52,057	53,490	**54,922**	**56,355**	**57,788**	59,221	60,654	62,086
P/U FWD	*17.8x*	*18.3x*	*18.8x*	*19.3x*	*19.8x*	*20.3x*	*20.8x*	*21.3x*	*21.8x*
-5.6%	**49,317**	**50,713**	**52,109**	**53,505**	**54,901**	**56,297**	**57,692**	**59,088**	**60,484**
P/U FWD	*17.3x*	*17.8x*	*18.3x*	*18.8x*	*19.3x*	*19.8x*	*20.3x*	*20.8x*	*21.3x*
-8.1%	48,011	49,370	50,729	**52,087**	**53,446**	**54,805**	56,164	57,523	58,882
P/U FWD	*16.9x*	*17.4x*	*17.8x*	*18.3x*	*18.8x*	*19.3x*	*19.7x*	*20.2x*	*20.7x*
-10.6%	46,704	48,026	49,348	50,670	**51,992**	53,314	54,636	55,957	57,279
P/U FWD	*16.4x*	*16.9x*	*17.3x*	*17.8x*	*18.3x*	*18.7x*	*19.2x*	*19.7x*	*20.1x*
-13.1%	45,398	46,683	47,968	49,253	**50,537**	51,822	53,107	54,392	55,677
P/U FWD	*16.0x*	*16.4x*	*16.9x*	*17.3x*	*17.8x*	*18.2x*	*18.7x*	*19.1x*	*19.6x*

4) Equity strategy

Our take: we maintain a short-term 'neutral' position on the local stock market. At current levels, we continue to see a fair valuation for the IPC, so we recommend maintaining a conservative position. We see as a short-term risk a greater rebound of Covid-19 infections in Mexico, which could lead to a setback in the process of reopening the local economy.

Attractive valuations with short-term catalysts: Given the rebound of the IPC and its fair valuation, we remain cautious, favoring those companies that are currently lagging in terms of valuation and that have some short-term catalyst, including possible improvements in their guidance, extraordinary dividends, and purchase/sale of additive assets, among others.

Changes to the Portfolio Sample

Considering Q2 2021 results, as well as expectations for the second half of the year and current valuations, we have decided to make the following changes to our sample:

- We increased our position in FEMSA to 12%, being our 'top-pick' among consumer companies, we have an overweight compared to the IPC; we expect the recovery of OXXO stores to continue, as well as solid results in the pharmacy and logistics division.
- We are increasing our position in BIMBO to 4%, making it one of our 'Top 5' and also maintaining an overweight compared to the IPC.
- GMEXICO now has a 9% weighting, raising our exposure slightly, since we believe that after the week's adjustment, the political risks in Peru are now discounted.
- We maintain our conviction in CEMEX, increasing the weight in the portfolio to 4.5%, as we believe that the approval of the infrastructure plan in the US could act as a catalyst for the share price.
- We slightly increased our position in AC, due to the solid consumption dynamics of Coca-Cola's more profitable Coca-Cola products and improved cost control.
- We are adding ORBIA to our 'Favorites' sample, due to its attractive valuation, continued improvement in profitability and solid balance sheet.
- Given the expectation of additional increases by Banxico for the reference rate, we are increasing our position in BBAJIO, which is characterized by its high sensitivity to rate movements, and in the same line, we are slightly lowering our exposure to REITs.
- On the other hand, in light of AMX's recent rally, we decided to take some profit taking, lowering our exposure to 7.5%, as well as lowering our weight in GRUMA, due to its weak results and strong cost pressures, and in CHDRAUI and LAB.

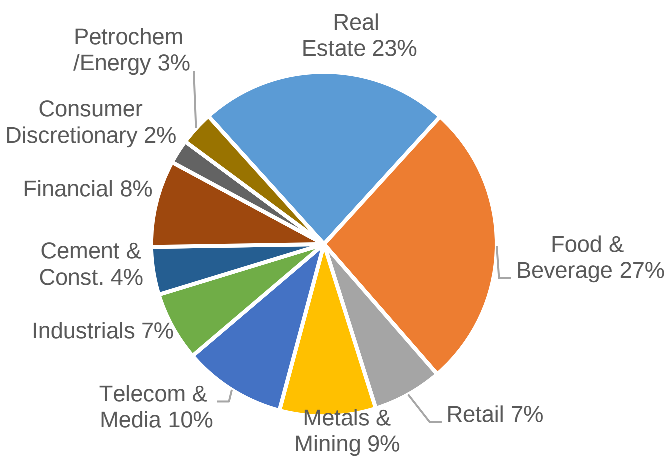
Equity Model Portfolio: We see attractive long-term investment opportunities in: FEMSA, FUNO, ALFA, BIMBO and BBAJIO.

Equity Research Portfolio

	Ticker	Industry	Price (P$)	Mkt cap (P$ M)	Daily T (P$ M)	Weight (%)
1	FEMSA	Food & Beverage	173.7	553,916	436	12.0%
2	FUNO	Real Estate	21.7	85,703	182	9.4%
3	ALFA	Industrials	15.2	74,424	151	6.5%
4	BIMBO	Food & Beverage	45.9	205,435	110	3.9%
5	BBAJIO	Financial	35.6	42,409	56	2.7%
6	GMEXICO	Metals & Mining	91.2	710,070	706	9.0%
7	FIBRAMQ	Real Estate	24.3	18,499	32	7.9%
8	AMX	Telecom & Media	16.7	1,094,638	656	7.5%
9	CEMEX	Cement & Construction	16.2	238,865	385	4.5%
10	HCITY	Real Estate	6.9	2,542	5	4.2%
11	GRUMA	Food & Beverage	215.4	84,374	208	4.0%
12	GFNORTE	Financial	129.1	372,110	778	3.6%
13	KOF	Food & Beverage	112.9	237,079	84	3.5%
14	AC	Food & Beverage	120.5	212,526	159	3.5%
15	LAB	Retail	19.3	20,268	39	3.3%
16	CHEDRAUI	Retail	31.7	30,263	17	3.3%
17	SPORTS	Consumer Discretionary	7.1	635	0	2.3%
18	MEGA	Telecom & Media	69.8	60,075	78	2.1%
19	TERRA	Real Estate	31.5	24,880	25	2.0%
20	ALPEK	Petrochemical /Energy	24.7	52,181	31	2.0%
21	RA	Financial	122.7	40,240	65	1.8%
22	ORBIA	Petrochemical /Energy	54.3	113,925	125	1.2%

Source: Actinver

Sector Diversification | Exhibit 10

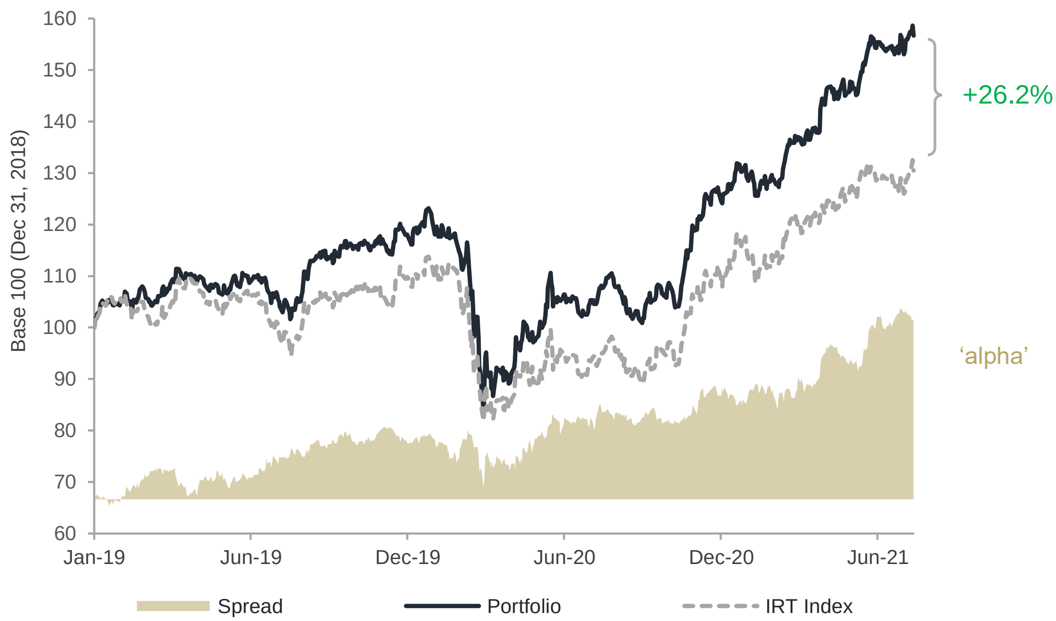


Source: Actinver

Historical Performance:

At close of Jul-30-21, Activer's portfolio has delivered a gross total return (RT) (including dividends) of +63.7% since 2018 (+51.0% vs. IRT index) and +56.7% since 2019 (+26.2% vs. IRT). This is according to a back-testing exercise from Jan-1-18 to Jul-12-19. Year to date, RT has been +23.5% (+6.5% vs. IRT); last 12 months of +49.8% (+9.3% vs. IRT). RT for the previous week (July 26-30) was +0.5% (-0.7% vs. IRT).

Equity Research Portfolio vs. IRT | Exhibit 11



Performance since 2019.

IRT is the BMV Total Return index; equivalent to the IPC including dividends.

Source: Actinver

5) Q2 2021 Report Highlights by Sector:

Food & Beverages: In line with expectations, AC and KOF benefited from higher consumption of Coca-Cola products that have smaller packaging and individual water bottles, where the average price per unit box was higher. However, we were positively surprised that both managed to have better cost control, and therefore their profits exceeded our expectations. On the other hand, as expected, FEMSA received more traffic to its OXXO stores as people began to return to the office, schools, and public events. However, the impact on revenues exceeded our forecasts, and the effect on earnings was even greater. BIMBO was one of the issuers that surprised us the most on the upside. Despite a very difficult comparison base, it managed to increase its revenues in local currency. Its sales already exceeded those obtained in the same period of 2019 by 16%; both due to growth in sales volumes, as well as because the product mix now has higher prices. Although higher wheat prices impacted costs, the effect was more than offset by productivity strategies.

Consumer Goods: In the particular case of Mexican supermarkets, throughout the month we were able to observe a positive overall performance, pointing out the recovery across regions with touristic exposure (e.g., Quintana Roo, Baja California Sur) that had been highly disrupted by the mobility restrictions. Also, Mexico's central and metropolitan areas (where the industry has its highest presence) delivered healthy consumption dynamics. We highlight CHDRAUI's 2Q-2021 report, which posted the sharpest results among the sector. Moreover, companies dedicated to preserving health and personal care once again showed the advantages of its large and flexible offer, being the personal care categories the ones with the sharpest performance due to the increase in social activities. Also, OTC (over-the-counter) categories displayed high resilience despite a still low presence of diseases such as flu and influenza on the back of the still strict hygiene measures.

Health and personal care companies once again showed the advantages of having a wide and flexible supply, with personal care categories being the best performers due to the increase in social activities. On the other hand, OTC (over-the-counter) categories showed resilience despite a continued low presence of diseases such as flu or influenza, due to strict hygiene measures.

Consumer Discretionary: Easing mobility restrictions, on the back of the positively biased epidemiological traffic light, and appropriate corporate strategies for adapting operations into the 'new normality' and tackling the still challenging backdrop, drove a sound recovery, ahead of expectations. With no doubt, the best report was delivered by ALSEA, whose sales reached

86% of the pre-pandemic levels as a result of a continuous monthly recovery that still is going on, regardless of the 'third wave' of contagions in Mexico, while SG&A efficiencies bolstered margins and lowered leverage impressively.

As for the wellness sector: SPORT, posted a mild sequential recovery in active members, albeit prospects are positive, on the back of the vaccination roll-out. In regard to the lodging sector, both FINN and HCITY posted sound sequential growths, as their respective occupancies continued rebounding, and expense control supported positive earnings at operating level while getting closer to finally reaching financial break even.

Real Estate: In general terms, the real estate sector posted positive results. The industrial space kept outperforming in US$ terms, on the back of favorable demand dynamics in key metropolitan sub-markets, driven by nearshoring trends and buoyant demand from the e-commerce and logistics sectors that are facing a structural transformation. The positive note also came from the commercial space, showing a faster than expected turnaround, and better prospects on the office space. Amidst current backdrop, in our view, FUNO delivered the best set of results as the industrial segment maintained its strong momentum and retail showed a relevant recovery, offsetting a softer performance in office. The latter bolstered AFFOPS towards a level that implies an annualized 10.5% yield that should fully translate into dividend yield, once the phase recovery is left behind and company resumes its 100% payout policy, meaning a very attractive dividend yield ahead, indeed. Among the industrial Fibras, we highlight FIBRAMQ which reiterated its DPS guidance of P$1.90 /CBFI (7.8% yield), while quarterly distribution of P$0.4750 represents a 7.7% annualized dividend yield, albeit AFFOPS amounted a sound 9.9% annualized yield. FIBRAPL also delivered positive results, in line with expectations, and with a bright outlook ahead on the back of what managements referred to as "the best year for Mexico logistics real estate". Meanwhile, TERRA's report was neutral. Although its fundamentals certainly remain strong, and its new 3-Year growth strategy should translate into CBFI value creation over the long-term, for the time being we believe it would also lower the trust's relative dividend yield attractiveness. In this regard, the Fibra lowered its DPS guidance by -18.3% to US$0.083-0.084 implying of 5.5% vs 7.2%e previously. Finally, FMTY took important steps towards its mid-term recovery, while La Perla office acquisition should be DPS accretive for over P$0.05 and the office portfolio is poised for recovery by 1Q22e, sooner than expected. That said, Q2 2021 could be an inflection, and therefore we see upside risk to the trust's DPS guidance.

Financial Sector: Showed a significant recovery in net income during Q2 2021, in line with our estimates. This recovery was mainly driven by lower provisions compared to the extraordinary provisions generated during the same period last year in response to the Coronavirus outbreak in Mexico. The normalization of risk indicators was much more noticeable during this quarter, as the effect of the asset quality support programs is now fully integrated into banks' results. We even observed issuers increasing their earnings guidance for the year as a consequence of a positive first half. We highlight the reports from BBAJIO and REGIONAL, which managed to outperform the system during this quarter, showing greater expansions in both their loan portfolios and profits. In addition, we believe that they will benefit the most from the upward trend in the reference rate due to their greater exposure to variable rate loans. Finally, it is important to mention that there is the possibility of a second dividend distribution during the second half of the year.

Industrials & Petrochemicals: In line with our expectations, we saw a solid recovery in the industrials and petrochemicals sectors, benefiting on several fronts, from a weak comparative, to higher-than-anticipated volumes in the automotive sector, solid benchmark margins for petrochemicals, substantial increases in infrastructure projects and government programs, and a clear focus on cost reduction and efficiencies. This led all of the companies in our sample to increase their guidance for 2021. ALFA, during Q2 2021 the company was able to obtain the necessary approvals to expand the maximum percentage of foreign investment through the Nafinsa Trust to 75%, which together with the possible sale of the infrastructure part of Axtel, represent important short-term catalysts. Additionally, solid demand and favorable pricing dynamics boosted the results of ORBIA and ALPEK, which presented strong margin expansions and substantial improvements in their financial position. Finally, NEMAK was characterized by a clear recovery trend, where the company continues to improve its product mix, growing the segment for electric vehicles and structural applications, which combined with higher operating efficiencies more than offset the effects of the global semiconductor shortage.

Telecommunications & Media: Reports were positive, in most cases exceeding expectations. The most relevant was: i) in the wireline segment, the slowdown in subscriber growth continues to materialize, as we anticipated, although in some cases, such as TLEVISA, this effect was a little stronger. Nevertheless, growth continues, mainly driven by internet services; ii) the mobile segment continues to grow solidly, benefiting from the normalization of economic activity; and iii) we identified a more accelerated recovery than we anticipated for advertising sales, driven by greater dynamism in the private sector. We highlight that the best report of the season was from AMX.

Metals & Mining: Among the sectors with the best performing quarterly reports in Q2 2021 was the metals and mining sector. These were very positive reports, showing high growth rates and even slightly higher than the optimistic estimates. The results were mainly driven by generalized increases in metal prices vs. levels seen during 2Q20, especially in industrial metals. Copper prices increased 82% year-over-year, aluminum 59%, zinc 48%, molybdenum 69%, and steel 205%; and for precious metals, silver increased 62% YoY and gold 6%. On the other hand, we identified some declines in production levels for some companies, although these were in line with what we anticipated. In the particular case of GMEXICO, the decline in production was less than the guidance given at the beginning of the year, so this guidance was reviewed slightly upwards for copper production in 2021. In general, we saw companies resuming investments after having postponed projects during 2020 as precautionary measures in the context of Covid-19. We highlight that the best report of the season was from GMEXICO.

Transportation: Overall, the transportation sector's quarterly results were positive. GAP presented the best report within the airport groups, recovering pre-pandemic (2019) levels in total revenues and EBITDA. ASUR and OMA presented solid year-over-year (YoY) growth rates, however, their financial figures are still below 2019 levels. Air transportation has been one of the sectors most affected by the Covid-19 pandemic. The emergence of new, more infectious strains, result in additional travel restrictions, which could quickly reverse the positive demand for air travel in some countries. TRAXION continues to show double-digit growth in its results, mainly explained by a recovery trend in the personal transportation division and continued demand in cargo/logistics.

Cement and Construction: During Q2 2021, financial results were positive and better than expected, maintaining a sequential recovery. Monetary and fiscal stimulus in developed markets, as well as economic recovery, drove the results. CEMEX had the strongest report, driven by a higher volume and price environment, mainly in Mexico and the United States. Although the second half of 2021 (2H21) will have a challenging basis for comparison, we anticipate positive results, supported mainly by a positive GDP outlook in several economies. Quarterly housing sector results in Mexico were also positive and above our expectations. It is worth mentioning that the second quarter of 2020 (2Q20) was the weakest quarter and had a low comparative base; however, sequential improvement continues to improve results versus the first quarter of 2021 (1Q21) in volumes and prices. Government social programs, home improvement activity, increased remittances, attractive mortgage products, and the housing deficit are supporting demand.