

TRAXION: WE EXPECT A POSITIVE 1Q20

BUY

| | |
|--------------------------------|--------------|
| Target Price 2020E (MXN\$) | \$ 16.00 |
| Current Price (MXN\$) | \$ 10.40 |
| Min / Max (L12M - MXN\$) | 8.50 - 16.77 |
| Expected Dividend (MXN\$) | \$ 0.00 |
| Total Return | 53.8% |
| Mkt Cap (Mn of MXN) | 5,597 |
| Enterprise Value (Mn of MXN\$) | 11,173 |
| Shares Outstanding (Mn) | 538.2 |
| Float | 43.5% |
| ADTV (MXN\$ Mn) | \$ 9.92 |

Opinion and Recommendation

We expect TRAXIÓN to present a favorable 1Q20 with double-digit increases in the main operating indicators, and a minimal impact related to the measures against Covid-19.

We consider that the adjustment in TRAXIÓN's share price of the last few weeks is a clear investment opportunity due to the company's strong fundamentals. Furthermore, the valuation of its shares seems very attractive to us with a forward EV/EBITDA of only 4.0x and a projected P/E 2020E of 8.6x.

We are adjusting our target price from MXN\$21.00 to MXN\$16.00. We have lowered the target multiples to 4.5x (EV/EBITDA) and 9.5x (P/E), from an original level of 5.3x and 12.4x, respectively, to reflect current market conditions. The potential return is 53.8% compared to the current market price, which supports our BUY recommendation on TRAXIÓN.



1Q20 Preview

We estimate that revenues will be up 9.8% YoY to MXN\$3,114 million. In the cargo and logistics business, we project an 5.7% YoY sales growth to MXN\$1,807 million, mainly due to an increase of 5% YoY in kilometers traveled. In the student and personnel transportation business, we expect sales to advance 16.0% YoY, driven by an 8.0% YoY rise in kilometers traveled and a 7.5% YoY increase in average revenue per kilometer.

We expect TRAXIÓN's EBITDA to reach MXN\$630 million, up 10.2% YoY, supported by operating efficiencies. Despite the fact that the gasoline price fell in the quarter, the depreciation of the exchange rate offset this effect. This will result in an EBITDA margin of 20.2% in 1Q20, in line with that of 1Q19.

Net income will rise 33.1% YoY to MXN\$111 million due to a small foreign exchange gain and a lower tax rate, combined with the aforementioned solid operating performance.

We expect the net debt to EBITDA ratio to remain at 2.05x at the end of 1Q20. TRAXIÓN has used its available committed lines, which has tripled its cash reserves.

Measures Against Covid-19

We consider TRAXIÓN to be defensive in the current environment because the company participates in a sector considered essential by the Mexican authorities. In addition, the company

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has been able to offset the reduction in demand in the automotive and industrial sector with higher revenues from retail companies, both digital and brick and mortar, due to panic purchases and for basic needs. Likewise, the company has a diversified customer base, with a wide geographical presence, an immense fleet, and a great commercial force that allows it to channel its resources to the more profitability businesses. So far, TRAXIÓN has not experienced any supply problems and indicated that all its suppliers have informed that they will continue to deliver supplies in a timely manner. TRAXIÓN has low leverage with a net debt to EBITDA ratio of 2.05x at the end of 4Q20. In addition, 100% of its debt is denominated in Mexican pesos, and the company used the available credit lines.

The company has implemented sanitary measures that include its clients, collaborators and suppliers with training on the protocols. In addition, the company has carried out disinfections in offices, operating centers and facilities, to prevent the spread of Covid-19.

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