

TRAXIÓN: Initiation of Coverage

Mexico's Leading Mobility and Logistics Company

BUY	
Target Price 2020E (MXN\$)	\$ 21.00
Current Price (MXN\$)	\$ 15.87
Min / Max (L12M - MXN\$)	11.91 - 15.87
Expected Dividend (MXN\$)	\$ 0.00
Total Return	32.3%
Mkt Cap (Mn of MXN)	8,541
Enterprise Value (Mn of MXN\$)	14,317
Shares Outstanding (Mn)	538.2
Float	43.5%
ADTV (MXN\$ Mn)	\$ 4.19

We are initiating coverage on GRUPO TRAXIÓN, S.A.B. DE C.V. ("TRAXIÓN") with a BUY recommendation and year-end 2020 target price of MXN\$21.0 per share with a potential 32.3% return in local currency. Our recommendation is based on the company's solid fundamentals, its attractive growth potential and the low valuation of its shares.

Investment Thesis

Solid Fundamentals. This includes TRAXIÓN's position as Mexico's leading mobility and logistics company; its high profitability; superior execution capacity; its business model focused on efficiency and profitability; its attractive growth potential; its high free cash flow generation and solid finances; the fact that the company is one of the industry's consolidators; and the management team with a well-known track record of value creation.

Favorable Outlook. We believe that TRAXIÓN's prospects for the next few years are favorable since we expect its revenues, EBITDA and net profits to increase at an average annual rate of 15%, 18% and 24%, respectively, during the 2019-2024 period. In addition, we expect the company to reduce its leverage supported on a strong free cash flow generation while its return on investment will likely improve due to a higher growth in the asset-light logistics business. We believe that our projections are conservative since they do not include additional acquisitions of companies in related businesses.

Valuation

TRAXIÓN's shares are currently trading at a projected EV/EBITDA of 5.1x, an estimated P/E of 14.0x and a current P/BV of 0.8x. These multiples compare against the averages of 12.5x, 23.1x and 3.8x, respectively of similar



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emerging market companies; and against the averages of 8.1x, 15.0x and 3.2x, respectively, of the counterparts in developed markets.

We set a year-end 2020 target price of MXN\$21.0 per share through a discounted flow model which includes a 3.4% rate of growth in perpetuity in nominal terms and a 7.9% WACC. To calculate the WACC, we used a 7.7% cost of equity, a 0.144 Beta, an 11.7% pre-tax cost of debt and a 39% debt to capital ratio for the end of this year.

Main Risks

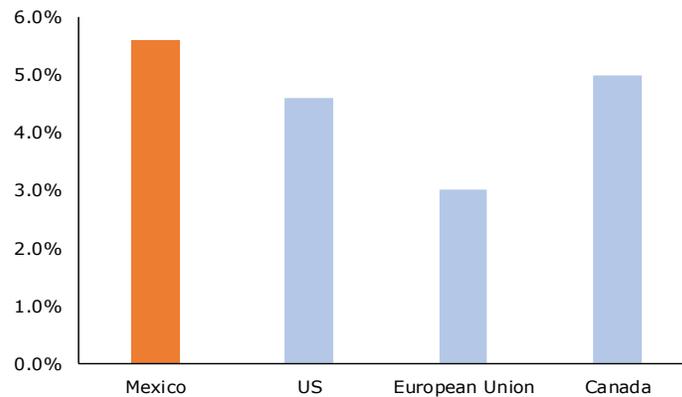
TRAXIÓN's main risks include: i) macroeconomic volatility; ii) intense competition in the sector; iii) insecurity in certain regions; iv) adverse changes in logistics or fiscal regulations; v) changes in the management team; vi) higher fuel or insurance premium prices; vii) a large acquisition; and, viii) medium capitalization of the company and medium liquidity of its shares.

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THE MEXICAN TRANSPORT INDUSTRY

The freight and passenger transportation sector represents 5.6% of Mexico's total GDP. This figure is higher than in other countries, such as the United States (4.6%), the European Union (3.0%) and Canada (5.0%). We believe that this difference is mainly due to the fact that the airline industries of such countries are more developed and, hence, contributed with a much higher proportion to total GDP.

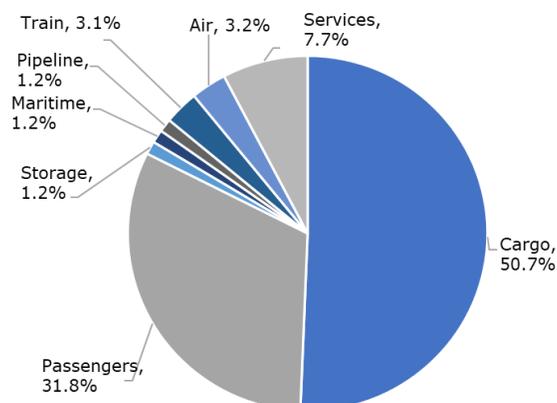
Graph 1.- Contribution of Transport GDP to Total GDP by Country



Source: TRAXIÓN

The most relevant segments of this industry are freight transportation and passenger transportation since combined they represent more than 82% of the sector's revenues. The other segments include transportation services, air transportation, maritime transportation, pipeline transportation, and storage and refrigeration.

Graph 2.- Revenue Breakdown of the Mexican Transport Industry



Source: TRAXIÓN

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Highway transportation is very relevant in the country, since it represented 56% of total cargo and 96% of the people transported. The main routes are: CDMX-Nuevo Laredo, CDMX-Nogales and Veracruz - Monterrey with branch to Matamoros and CDMX-Tuxpan.

Graph 3.- Mexico's Main Highways and Corridors



Source: CANACAR

Freight and Logistics

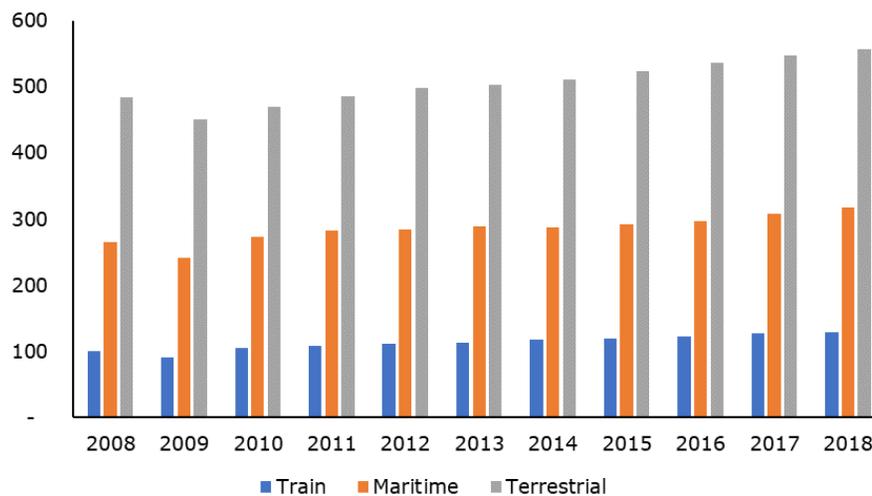
Mexico's terrestrial freight transportation sector is a fragmented sector with more than 152,000 companies, according to the National Chamber of Freight Transportation (CANACAR). Independent operators (1-5 units) accounted for 81% of the companies in operation but 24% of the units, while large companies (100 or more units) accounted for 0.7% of existing companies, but 30% of the units.

Revenues from this segment grew at a 4.7% average annual rate in real terms during the 2010-2018 period, according to CANACAR. Currently, this business represents 3.2% of Mexico's total GDP.

Freight transportation moved 556.4 million tons in 2018, with an average annual growth of 2.4% since 2009, according to the Communications Ministry (SCT). From 2020, we project that the number of transported tons will increase at an average annual rate of 3.0%.

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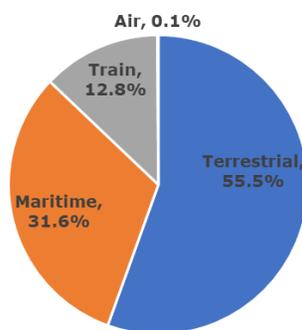
Graph 4.- Historical Breakdown of Transported Tons (2008-2018; Figures in Million Tons)



Source: SCT

Competing means of transportation include maritime, rail and air, which registered average annual growth rates of 3.0%, 4.0%, and 6.6%, respectively, during the 2009-2018 period.

Graph 5.- Breakdown of Transported Tons (2018)



Source: SCT

The industry’s cargo fleet showed a 4.5% average annual growth during the 2010-2018 period, reaching 982,856 units, which included 496,057 motor units with an age of 18.1 years and 486,335 trailing units with an age of 17.8 years. The units used in general cargo services accounted for 86% of the total, while those of specialized cargo the remaining 14%. The incidence of criminal-theft to carriers was 6,016 claims in the first half of 2019, with a 3.0% annual growth.

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Currently, Mexican export companies allocate around 13% of their sales to solve logistics issues, according to Mexico's National Association of Importers and Exporters (ANIERM). However, this cost can decrease between 25% and 35% with an adequate logistics infrastructure.

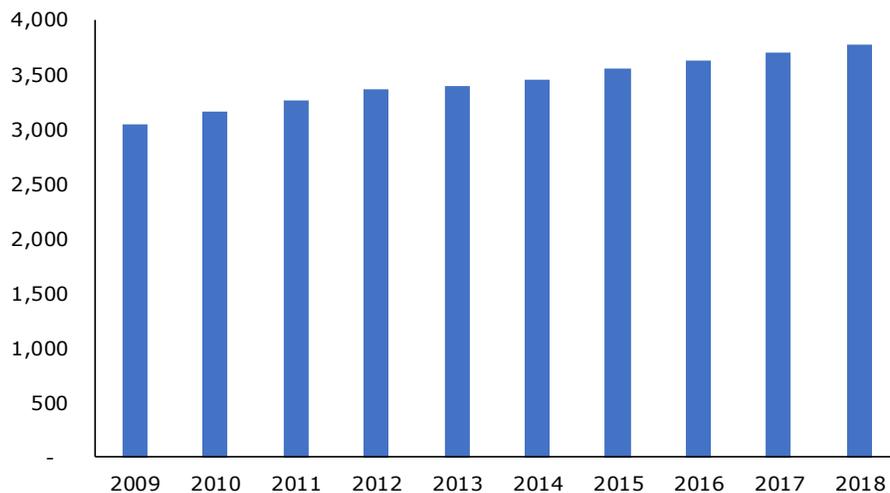
Student and Personnel Transportation

The number of passengers transported by buses was 3.77 million at the end of 2018, with an average annual growth of 2.4% since 2009, according to the SCT. From 2020, we expect it to rise at an average annual rate of 2.5%.

The number of passenger buses was 440,448 units at the end of October 2019, with an annual growth of 2.9% according to INEGI. This included 191,911 units of the public sector (+ 2.9% YoY) and 248,537 of the private sector (+ 2.9% YoY).

The constant increase in the number of school students and the expansion of the business sector are the main drivers this business segment.

Graph 6.- Bus Passengers in Mexico (2009-2018; Figures in Thousands)



Source: SCT

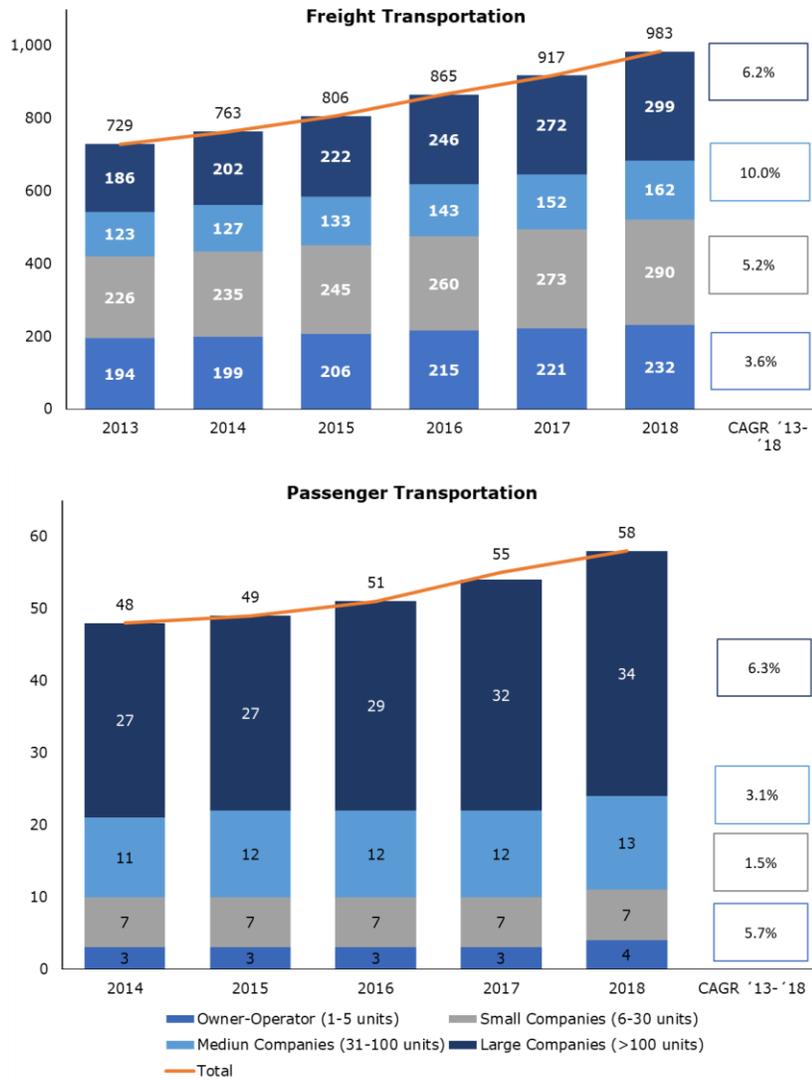
Large Companies Taking Market Share

The main buyers of mobility and transportation services have become increasingly sophisticated. This has boosted the largest companies in the sector, both in the freight and passenger transportation segments, as they can generate economies of scale more easily and also have a stronger technology.

As a result, large companies have taken market share from small companies in recent years. We believe that this process will continue in the future, benefiting companies such as TRAXIÓN, which is the industry leader.

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Graph 7- Large Companies Taking Market Share



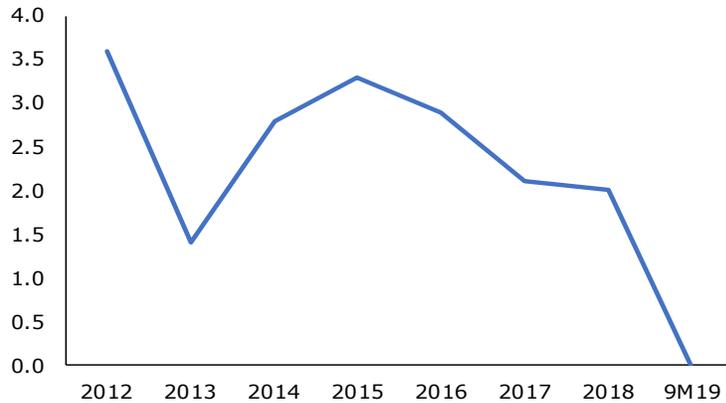
Source: TRAXIÓN

The Sector Has Solid Growth Prospects from 2020

We believe that the Mexican transportation sector will offer interesting long-term growth opportunities, once the Mexican economy recovers. For this year, GDP growth is expected at 0.04% and for next year it will likely be 1.08%, according to Banco de Mexico’s Survey of Expectations of Private Sector Specialists. We expect GDP to grow at an average annual rate of at least 2.0-2.5% during the following years.

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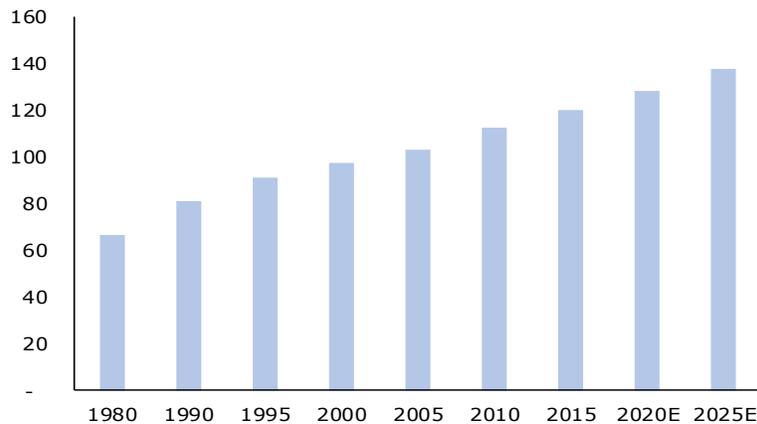
Graph 8.- Real GDP Growth (2012, 9M19)



Source: INEGI

The Mexican population was 120 million at the end of 2015, which represented a 1.7% CAGR during the 1980-2015 period, according to the latest INEGI census. In the future, we anticipate a 1.4% average annual growth, with which the population will reach 138 million in 2025. This will support the growth of the passenger transport segment.

Graph 9.- Mexico's Population (1980- 2025E)



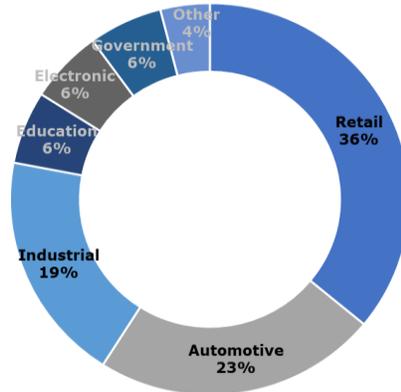
Source: INEGI, Miranda Global Research

TRAXIÓN Customers

TRAXIÓN's main clients are distributed in the retail, automobiles, industrial, education, electronics, government sectors. Overall, we believe that these sectors' outlook is favorable.

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Graph 10.- Client Breakdown by Sector



Source: TRAXIÓN

Commercial Sector. During the first nine months of 2019, wholesale trade contracted 1.8% YoY due to the prevailing macroeconomic situation, while retail trade rose 2.5% YoY. From 2020, we project that the GDP of the wholesale and retail trade sector will grow at an average annual rate of 4.0% and 3.0%, respectively.

Graph 11.- GDP of the Wholesale and Retail Sectors

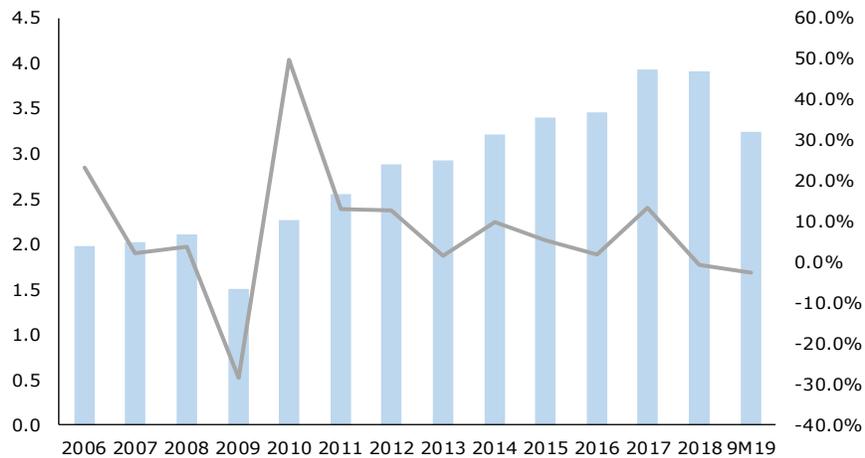


Source: INEGI

Automotive Sector. Light car production decreased 2.6% YoY to 3.2 million units during the first ten months of 2019. This was due to a 1.7% YoY drop in export sales to 2.8 million units, and a 7.7% YoY contraction in domestic sales to 1.062 million. From 2020, we expect a recovery in this industry, with production growing at an average annual rate of 4.0%, which will include a 3.0% increase in domestic sales and a 5.0% rise in export sales.

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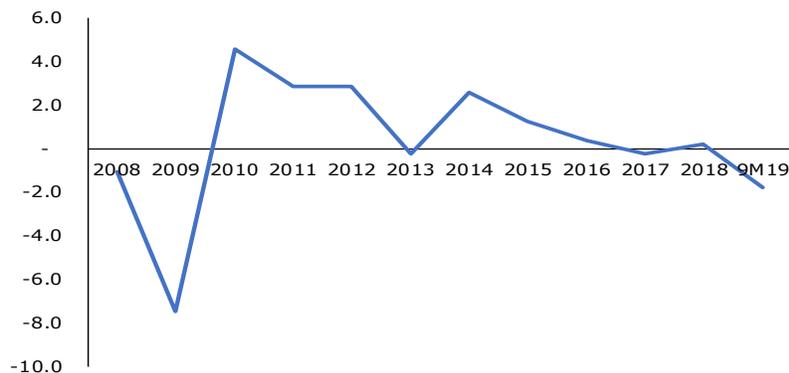
Graph 12.- Mexico’s Car Production (2006 – 9M19; Figures in Millions)



Source: AMIA

Industrial Sector. Mexico's industrial production decreased 1.8% YoY during the first 10 months of 2019. This was mainly due to a 6.1% YoY reduction in mining and a 5.2% YoY decline in the construction sector. This was partially offset by a 1.8% YoY increase in the generation, transmission and distribution of electricity and water and gas supply by pipelines to the final consumer, in addition to a 0.7% YoY rise in manufacturing production. We expect the industrial production to grow at a 3.0-3.5% average annual rate over the next few years due to a stronger macroeconomic performance in both Mexico and the United States.

Graph 13.- Mexico’s Industrial Production



Source: INEGI

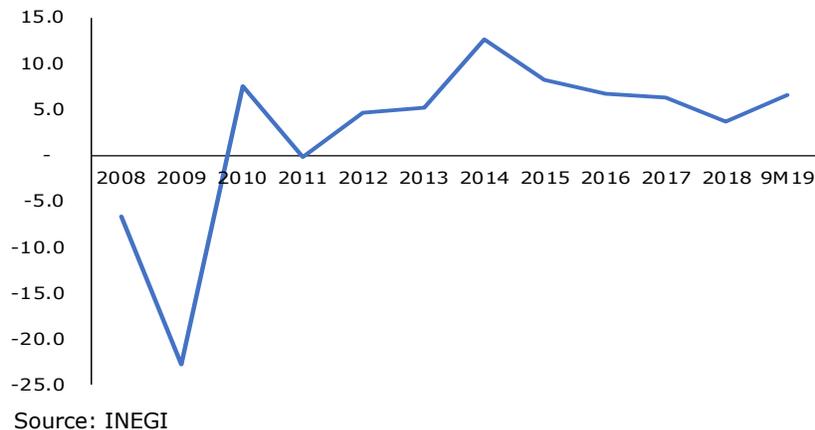
Education. We believe that this sector’s long-term growth prospects are favorable because its contribution to GDP was only 4.6% in 2016, according to World Bank data. This figure was well

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below similar countries such as Brazil (6.2%), Argentina (5.5%), Chile (5.4%), Ecuador (5.0%) and Uruguay (4.9%).

Electronics. The electronics sector registered a 6.6% YoY growth in the nine months of 2019, mainly driven by the production of audio and video equipment and the production of electronic components. We believe that the outlook for this sector is very favorable since Mexico has become a world-class manufacturer of various types of products such as wireless phone components and television screens, among many others. For this reason, we anticipate that this sector will expand at an average annual rate of 6% during the next few years.

Graph 14.- GDP of the Electronics Sector



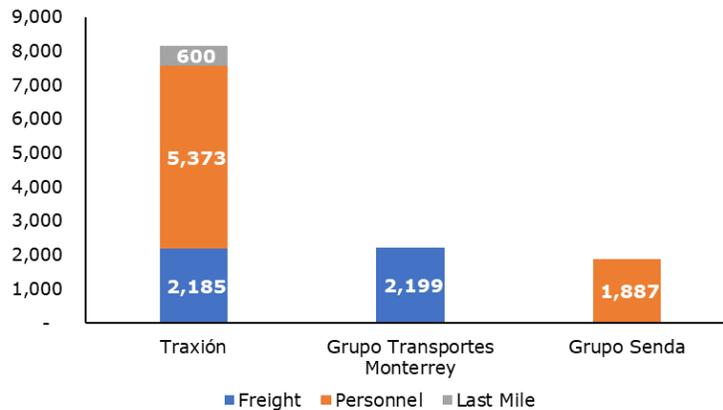
TRAXIÓN'S COMPETITIVE MAIN ADVANTAGES

Leader in the Mobility and Logistics Industry

TRAXIÓN is Mexico's largest mobility and logistics company as it has a fleet of 8,158 fully diverse and flexible motor units in 3Q19, which is approximately 2.5x larger than that of its closest competitor. In addition, it operates more than 427,000 M2 of space for 3PL logistics. TRAXIÓN's size allows it to generate substantial operating synergies compared to its main competitors.

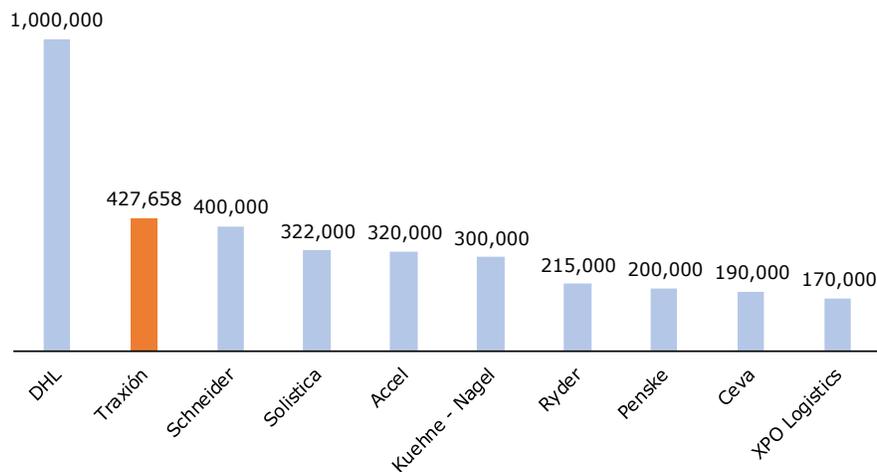
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Graph 15.- TRAXIÓN's Fleet vs. Competitors' Fleet



Source: TRAXIÓN

Graph 16.- Storage Capacity (M2)



Source: TRAXIÓN

High Profitability

There are important barriers to entry in the Mexican mobility and logistics industry such as the size of the companies, the technology, the type of services and the heavy investments required. This enables TRAXIÓN to generate a 22% EBITDA margin, which is higher than the average of 17% for similar emerging market companies, and 13% for developed market companies.

In addition, TRAXIÓN carries out a strict investment selection process and continuous monitoring of such investments, which guarantees its profitability at any time. The capex allocation process includes the following: i) compliance with pre-established and clear parameters for the quotation

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of new clients and commercial opportunities; ii) the approval of capex through the Profitability Committee subject to a 20% internal rate of return and a 14% return on invested capital (ROIC).

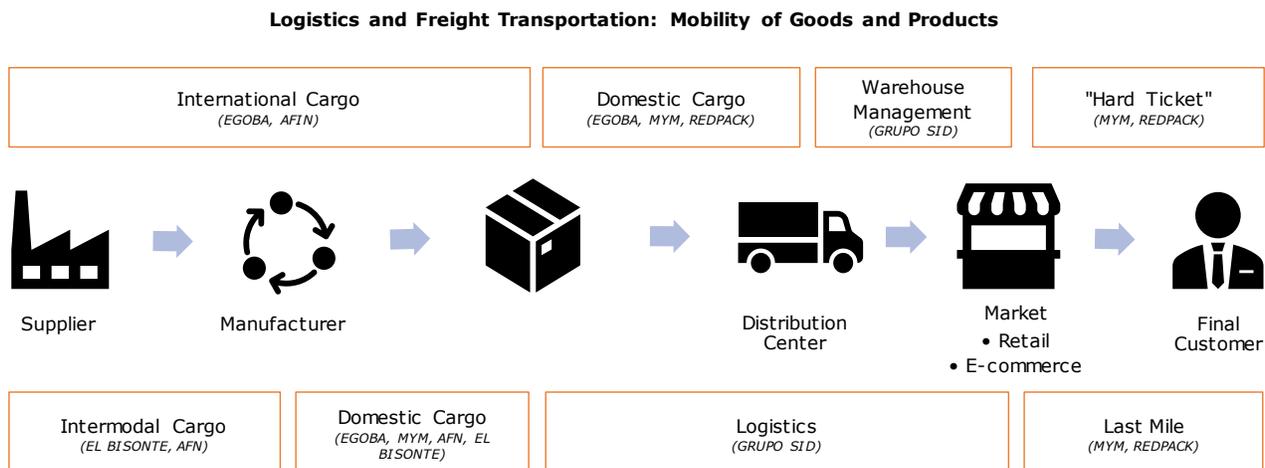
Subsequently, the company monitors the performance of the approved capex through key metrics such as revenue, EBITDA, ROIC and IRR. If the capex assigned to a customer does not meet the required profitability parameters, then this capex is reassigned to the most profitable customers. For example, in 2018, the company carried out a reassignment of 50 clients whose profitability did not meet the required standards.

TRAXIÓN also has a shared services center with which it carries out the centralization of the back-office, which ensures the best supply conditions. It has shared infrastructure in offices, terminals, yards and maintenance centers which generates a substantial cross selling potential between subsidiaries and services. This center guarantees the generation of synergies in the long term.

Matchless Execution

In the freight and logistics business, TRAXIÓN operates with a fleet of 2,185 cargo trucks, 600 last-mile units and more than 4,000 trailers (dry boxes, refrigerated boxes, hoppers and platforms). The company provides the largest portfolio of integrated services including domestic cargo, international cargo and transfers, intermodal cargo, consolidated cargo, refrigerated cargo, specialized cargo, 3PL logistics, last mile, courier and parcel, moving and relocation. In addition, it is the only provider of integral solutions in Mexico's entire transportation and logistics chain.

Graph 17.- Integral Solutions in the Freight and Logistics Chain



Source: TRAXIÓN

In school and personnel transportation, TRAXIÓN is the leading domestic and regional player with 5,373 mobile units. The company provides transportation services for corporates, industries, schools and universities, as well as private tourism charters. The company has more than 65 years of experience through different brands and transports more than 500,000 people per day. It has

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pioneered and transformed the Mexican personnel transport market. In this segment, its main clients are corporate offices, industrial parks and manufacturing centers, hotels, resorts and neighborhoods, schools and universities, as well as private excursions.

Technology and Innovation

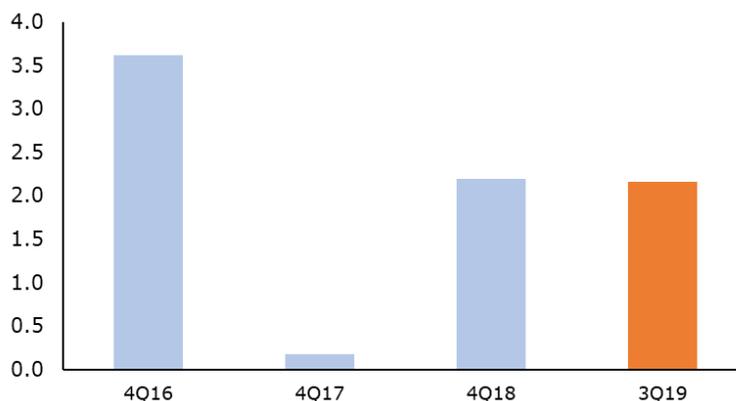
TRAXIÓN has state-of-the-art technology which includes tailor-made last generation systems (SAP, Oracle, WMS, Ubiqo, Fleetco, QlikView, TMS) and internally developed systems which include 24/7 monitoring and tracking of units; telemetry and information systems for continuous improvement and training; business intelligence; operational intelligence; and optimal fleet maintenance. In our opinion, these systems ensure that the company operates efficiently and profitably.

Very soon, the transportation sector will see the emergence of new technologies such as the internet of things, "machine learning", encryption systems and connectivity between applications. We believe that this will be an opportunity for the sector to reduce its operating costs, increase its profit margins and expand its business model towards administrative-operational logistics management.

Solid Financial Structure

TRAXIÓN has historically maintained a solid financial structure, despite having carried out several acquisitions of logistics and mobility companies. At the end of 3Q19, the company reported a net debt to EBITDA ratio of only 2.2 x, which we believe will help it continue to grow through new acquisitions. The company's long-term target is to have a leverage below 2.5x.

Graph 18.- Net Debt / EBITDA Ratio



Source: TRAXIÓN

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Industry Consolidator

TRAXIÓN's management team has carried out 12 acquisitions and integrations of companies in the last 21 years, which includes 7 purchases made through TRAXIÓN.

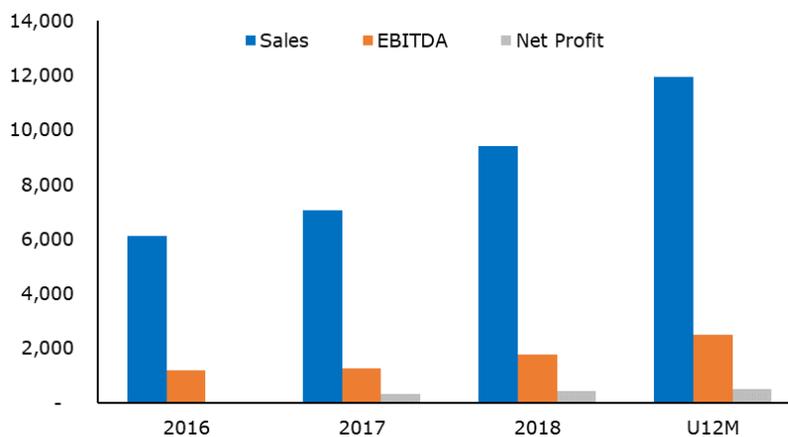
The Mexican transportation industry is highly fragmented and many of the companies have a family structure. TRAXIÓN has taken advantage of this environment to carry out several acquisitions in recent years, which include:

- Transportes Egoba in 2011 (300 units)
- MyM in June 2013 (428 units)
- Grupo SID in May 2016 (580 units)
- AFN in June 2016 and January 2017 (222 units)
- Transportes LIPU in October 2016 (3,399 units)
- REDPACK in May 2018 (543 last-mile units)
- Autotransportes El Bisonte in October 2018 (485 units).
- Roncalli-Lolek in October 2018 (76 units)

Management Team with a Solid Track Record of Value Creation

TRAXIÓN's management team has a solid track record of value creation since it has grown the company's revenues, EBITDA, and net income at a compound annual rate of 18.3%, 20.3% and 95.7%, respectively, during the 2016-L12M period.

Graph 19.- Revenues, EBITDA and Net Profits (2016-L12M; MXN\$ Mn)



Source: TRAXIÓN

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TRAXIÓN's main executives are:

- Aby Lijtsain, Executive President, has 21 years of experience. He was the founder of Transportes LIPU in 1998 and TRAXIÓN in 2011. He led the Discovery Americas and Nexxus Capital investment processes. He holds a Public Accounting degree from the ITAM;
- Rodolfo Mercado, CEO, who has a career of more than 20 years in the sector. He previously was the COO of SETTEPI, LIPU and TRAXIÓN. He holds a Public Accounting degree from the ITESM and has a Senior Management Diploma from the ITESM;
- Wolf Silverstein, CFO, has 12 years of experience. He was the CFO of Transportes LIPU since 2013. He was responsible for implementing the LIPU Shared Services Center. He actively participated in the Discovery Americas and Nexxus Capital capitalization processes. He holds a Business Administration degree from the Universidad Iberoamericana. He also holds a Masters in Finance from the ITESM.

Table 1.- Main Executives

Name	Position
Aby Lijtsain Chernizky	Executive Presoident
Rodolfo Mercado Franco	CEO
Wolf Silverstein Sandler	CFO
Adolfo Salame Mussali	Legal Counsel and M&A Director
Antonio Tejedo Obregón	VP of Investor Relations
Héctor González López	Internal Audit
Víctor Ordaz Leyva	Corporate Comptroller
Ana Gabriela Gómez Magaña	Director of Treasury

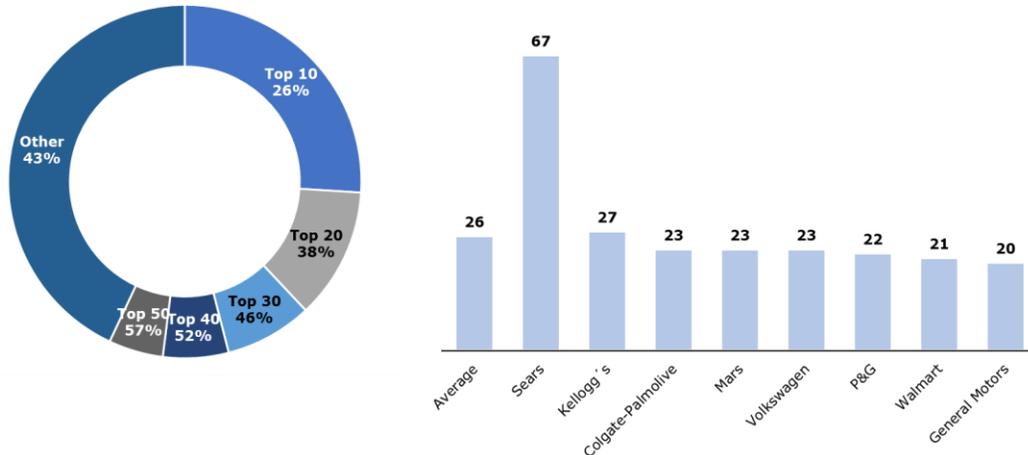
Source: TRAXIÓN

Diversified and Defensive Business Model

TRAXIÓN has more than 1,000 clients in several sectors of the Mexican economy, including retail, auto parts, industrial, education, electronics and government. The company can target any new high-growth sector in a quick and efficient way due to its national coverage and gigantic fleet.

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Graph 20.- Main Client’s Contribution and Average Contract Length



Source: TRAXIÓN

Solid Corporate Governance with Institutional Investors

We believe that TRAXIÓN's corporate governance is very solid since the company exceeds the requirements of the Securities Market Law which establishes that public companies must have at least 25% of independent directors and two Committees, Audit and Corporate Practices. TRAXIÓN’s Board of Directors has 15 members, of which 10 are independent. In addition, the company has the following Committees: Audit, Corporate Practices, Nominations and Compensations, and Executive.

Table 2.- Board of Directors

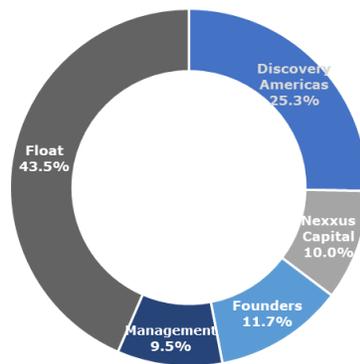
Name	Position
Bernardo Lijtszain Bimstein	President
Aby Lijtszain Chernizky	Proprietary Director
Rodolfo Mercado Franco	Proprietary Director
Abel Puszkas Kessel	Proprietary Director
Jorge Vargas Diez-Barroso	Independent Director
Alberto Moreno Ruiz Esparza	Independent Director
Carlos Miguel Mendoza Valencia	Independent Director
Harry Frederick Krensky	Independent Director
José Ramón Suárez Rotter	Proprietary Director
Juan Mauricio Wurmser Cobos	Independent Director
Arturo José Saval Pérez	Independent Director
Roberto Langenauer Neuman	Independent Director
Juan Pablo Visoso Lomelín	Independent Director
Aarón Dychter Poltolarek	Independent Director
Marcos Metta Cohen	Independent Director

Source: TRAXIÓN

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TRAXIÓN is a highly institutionalized company in which Discovery Americas and Nexxus, two of the country's leading private equity funds, participate. These funds appoint 5 Directors to the Board including Carlos Miguel Mendoza Valencia, Chairman of Discovery Americas II's Investment Committee; Harry Fredrick Krensky, Discovery Americas founder and managing partner; Arturo José Saval Pérez, Nexxus Capital's Senior Managing Partner; Roberto Langenauer Neuman, Managing Partner and Director of Administration and Finance at Nexxus Capital; and Juan Pablo Visoso Lomelín, Managing Partner and Legal Director at Nexxus Capital.

Graph 21.- Ownership Structure



Source: TRAXIÓN

TRAXIÓN'S FAVORABLE OUTLOOK

We believe that TRAXIÓN's prospects are favorable since we expect its revenues, EBITDA and net income to grow at an average annual rate of 15%, 18% and 24%, respectively, during the 2019-2024 period. In addition, we expect the company to reduce its leverage while its return investment will likely improve due to the growth of the asset-light logistics business. Our projections are based on the following assumptions:

- In the Cargo and Logistics business, we believe that revenues will increase at an average annual rate of 16% supported by the acquisitions that the company carried out the previous year and the growth of the logistics business. Kilometers traveled will rise at a 14% average annual rate while the average revenue per kilometer will increase slightly below the expected inflation. We also estimate that the company's storage capacity will rise at an average annual rate of 9%, and that the average revenue per square meter will decrease 1% due to greater competition. The EBITDA margin will expand from 19.3% in 2019 to 20.9 in 2024;
- In the School and Personnel Transportation business, we expect a 14% average annual revenue growth driven by a combination of higher kilometers traveled (+10% annual average) and a revenue per kilometer in line with inflation. We expect the EBITDA margin to remain slightly above 24.0%.

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We anticipate that TRAXIÓN's net profits will grow faster than its revenues and EBITDA due mainly to economies of scale. We also believe that the tax rate will remain at 30.0% going forward.

We expect the Capex to Sales ratio to fall from 16% in 2019 to 12% in 2024 as the company grows more its asset-light logistics business, which requires less investments than the traditional transportation business. This will also boost the company's ROE and ROIC from 5% currently in both cases to 11% and 9, respectively, by 2024.

We believe that TRAXIÓN's financial structure will improve during the next few years supported on a high free cash flow generation. The net debt to EBITDA ratio will likely reach 1.5x in 2024, below the current level of 2.2x.

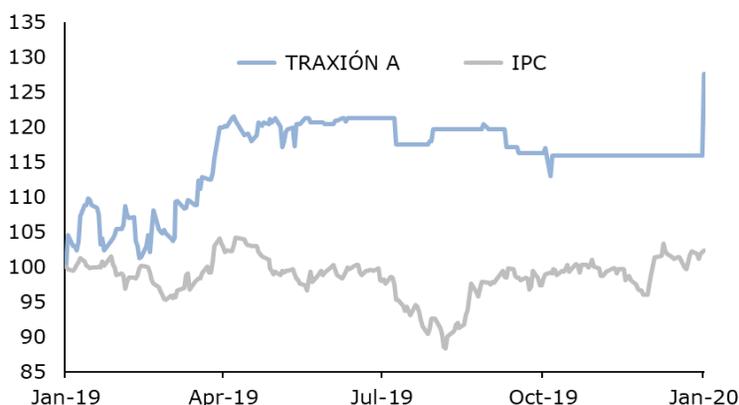
It is important to mention that our projections do not incorporate new acquisitions that the company could eventually carry out with the objective of consolidating its position as Mexico's largest mobility and logistics company.

VALUATION

Performance vs. IPC Index

TRAXIÓN shares have outperformed the IPC Index during the last 12 months. We expect them to continue outperforming due to their low valuation as well as the company's solid fundamentals and growth prospects.

Graph 22.- TRAXIÓN* vs. IPC



Source: Bloomberg

International Comps

TRAXIÓN's shares are currently trading at a projected EV/EBITDA of 5.1x, an estimated P/E of 14.0x and a current P/BV of 0.8x. These multiples compare against the averages of 12.5x, 23.1x

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and 3.8x, respectively of similar emerging market companies; and against the averages of 8.1x, 15.0x and 3.2x, respectively, of the counterparts in developed markets.

Table 3.- Global Valuation Table of the Transportation and Logistics Sector

Company	Country	Price (USD)		Mkt Cap (USD Mn)	EV/EBITDA			P/E			Net Debt		EBITDA Margin		Div. Yield
		21-Jan-20			L12M	2019E	2020E	L12M	2019E	2020E	P/BV	/ EBITDA	ROE	3Q19	
<i>Emerging Markets</i>															
Traxión	Mexico	\$	0.85	461	5.7x	5.5x	5.1x	16.6x	18.6x	14.0x	0.8	2.2x	5.1	22.2	n.d.
SF Holdings Co	China	\$	5.64	24,958	n.d.	15.4x	12.9x	29.4x	30.9x	26.0x	4.5	1.1x	15.0	9.4	0.5
ZTO Express	China	\$	23.91	18,696	18.5x	17.7x	14.0x	27.8x	25.5x	21.4x	3.7	(2.6x)	13.3	29.4	n.d.
YTO Express Group	China	\$	2.06	5,857	n.d.	10.4x	8.8x	19.9x	19.1x	16.4x	3.2	(0.6x)	18.0	10.6	1.1
Santos Brasil Participações	Brasil	\$	1.94	1,300	25.0x	24.8x	19.0x	573.2x	275.3x	86.8x	4.0	(0.0x)	0.7	20.8	0.1
GD Express Carrier	Malasia	\$	0.07	388	29.6x	26.8x	23.5x	52.3x	64.4x	55.9x	3.4	(5.2x)	6.5	14.4	0.9
Total / Average Emerging Markets				51,660	46.8x	15.2x	12.5x	27.9x	27.4x	23.1x	3.8	(0.8x)	9.8	17.4	0.6
<i>Developed Markets</i>															
UPS	US	\$	117.39	100,700	11.8x	11.3x	10.7x	20.1x	15.4x	14.5x	18.1	2.1x	115.5	14.2	3.3
FedEx	US	\$	157.53	41,134	8.4x	8.0x	7.3x	548.5x	14.6x	12.5x	2.2	3.1x	0.4	12.4	1.7
Deutsche Post	Germany	\$	37.58	46,516	7.4x	7.2x	6.5x	16.0x	15.8x	13.5x	3.4	2.0x	20.7	11.9	3.4
AP Moller - Maersk	Denmark	\$	1,274.04	25,842	7.9x	6.8x	6.2x	516.8x	37.9x	22.7x	0.9	2.5x	0.2	12.4	1.7
JB Hunt	US	\$	115.86	12,348	10.8x	9.8x	8.9x	23.9x	20.7x	18.2x	5.4	1.0x	23.6	13.8	0.9
CH Robinson Worldwide	US	\$	80.20	10,847	11.3x	12.4x	12.6x	16.3x	17.8x	18.6x	6.5	1.1x	41.1	6.8	2.5
XPO Logistics	US	\$	92.54	8,541	7.9x	8.1x	7.6x	21.2x	21.1x	18.3x	2.9	3.2x	11.0	11.8	n.d.
Knight Swift Transportation	US	\$	37.22	6,351	6.8x	7.7x	7.6x	16.1x	17.4x	18.0x	1.1	1.0x	7.2	21.5	0.6
Landstar System	US	\$	115.44	4,556	11.9x	12.6x	12.5x	18.5x	19.5x	19.8x	6.0	(0.4x)	33.2	8.6	0.6
Schneider National	US	\$	23.30	4,127	7.3x	6.8x	6.7x	23.5x	17.9x	17.9x	1.9	0.0x	8.3	11.6	1.0
TFI International	Canada	\$	34.77	2,836	7.1x	7.0x	6.4x	12.1x	11.1x	11.2x	2.5	2.6x	20.6	16.3	2.3
Covenant Transport	US	\$	13.64	252	4.4x	n.d.	n.d.	10.6x	21.8x	16.8x	0.7	2.4x	7.1	14.3	n.d.
Total / Average Developed Markets				264,050	9.1x	8.7x	8.1x	24.7x	16.8x	15.0x	3.2	1.7x	24.1	13.0	1.8

Source: Bloomberg

Discounted Cash Flow Model

We set a year-end 2020 target price of MXN\$21.0 per share through a discounted flow model which includes a 3.4% rate of growth in perpetuity in nominal terms and a 7.9% WACC. To calculate the WACC, we used a 7.7% cost of equity, a 0.144 Beta, an 11.7% pre-tax cost of debt and a 39% debt to capital ratio for the end of this year.

TRAXIÓN: Initiation of Coverage

Table 4.- Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2021E	2022E	2023E	2024E	2025E	Perp.
OPERATING PROFIT	1,849	2,049	2,559	2,945	3,044	3,147
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-555	-615	-768	-884	-913	-944
NOPLAT	1,294	1,434	1,791	2,062	2,131	2,203
Depreciation	1,680	1,832	1,964	2,088	2,030	2,098
Working Capital Changes	-273	-67	-171	-82	-85	-87
CAPEX	-2,200	-2,400	-2,680	-3,000	-3,101	-3,205
FCFF	501	799	904	1,068	976	1,008
Perpetuity Growth Rate						3.4%
PV of Explicit Period (2021 - 2025E)						3,328
Perpetuity Value						22,353
PV of Perpetuity Value						14,190
Enterprise Value						17,518
Net Debt						6,218
Market Value						11,299
<i>Outstanding Shares</i>						538
Target Price						MXN\$ 21.00
Current Market Price						MXN\$ 15.87
Potential Return Incl. Dividends						32.3%
Forward EV/EBITDA						5.3x
Forward P/E						12.4x
Average Cost of Debt						11.7%
LT Tax Rate						30.0%
After-Tax Cost of Debt						8.2%
Cost of Equity						7.7%
Market Risk Premium						6.0%
Risk-Free Rate						6.8%
Beta						0.14
% Total Debt						39.1%
% Capital						60.9%
WACC						7.9%

Source: Miranda Global Research

Sensitivity Analysis

We carried out a sensitivity analysis of TRAXIÓN target price based on different levels of EBITDA, net profit and target multiples. We believe that our target price of MXN\$21.0/share is conservative, since it implies that TRAXIÓN's shares will trade at a projected EV/EBITDA of 5.4x and an estimated P/E of 12.4x at the end of 2020, which compare against the averages of 5.6x and 15.8x, respectively, since the 2017 initial public offering.

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Table 5.- Sensitivity Analysis, EBITDA vs. EV/EBITDA

Projected EBITDA	-10%	-5%	Original	+5%	+10%
	3,093	3,265	3,437	3,608	3,780
Target EV/EBITDA					
3.8x	8.98	10.20	11.42	12.64	13.86
4.3x	11.86	13.24	14.61	15.99	17.37
4.8x	14.73	16.27	17.81	19.35	20.88
5.3x	17.61	19.30	21.00	22.70	24.40
5.8x	20.48	22.34	24.20	26.05	27.91
6.3x	23.36	25.37	27.39	29.41	31.42

Source: Miranda Global Research

Table 6.- Sensitivity Analysis, Net Profit vs. P/E

Projected Net Profit	-10%	-5%	Original	+5%	+10%
	819	865	910	956	1,002
P/U Objetivo					
9.4x	14.33	15.13	15.92	16.72	17.52
10.4x	15.86	16.74	17.62	18.50	19.38
11.4x	17.38	18.34	19.31	20.27	21.24
12.4x	18.90	19.95	21.00	22.05	23.10
13.4x	20.42	21.56	22.69	23.83	24.96
14.4x	21.95	23.17	24.39	25.61	26.83

Source: Miranda Global Research

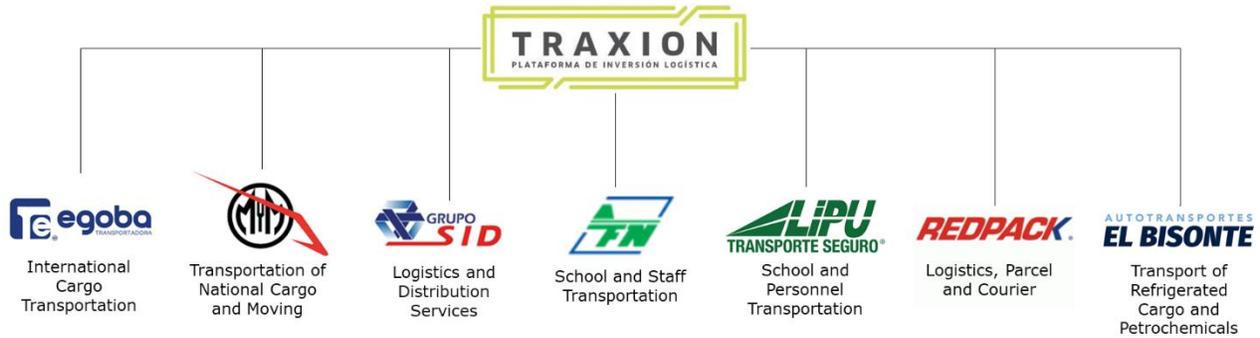
COMPANY DESCRIPTION

TRAXIÓN has its origins 66 years ago, with the foundation of “Muebles y Mudanzas” (“MyM”), a freight and logistics transport company, by the Lijtszain family. In 2006, they partnered with a group of investors including Discovery Americas to expand and develop the business. In 2011, Discovery Americas and a group of investors headed by Aby Lijtszain Bimstein and Aby Lijtszain Cherniszky formed Fondo de Transporte México, S.A.P.I. from C.V. In 2016, Nexxus Capital became a shareholder. In 2017, the company changed its name to Grupo Traxión, S.A.B de C.V. The Initial Public Offering took place in September of such year.

TRAXIÓN is a holding company with 7 divisions and 41 operating subsidiaries dedicated to freight transportation, logistics, as well as school and personnel transportation service. The group had an average fleet of 8,158 units in 3Q19 with a 16.6% YoY growth. This included 2,185 cargo units, 5,373 school and personnel transportation vehicles and 600 last mile units.

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Graph 23.- TRAXIÓN's Corporate Structure

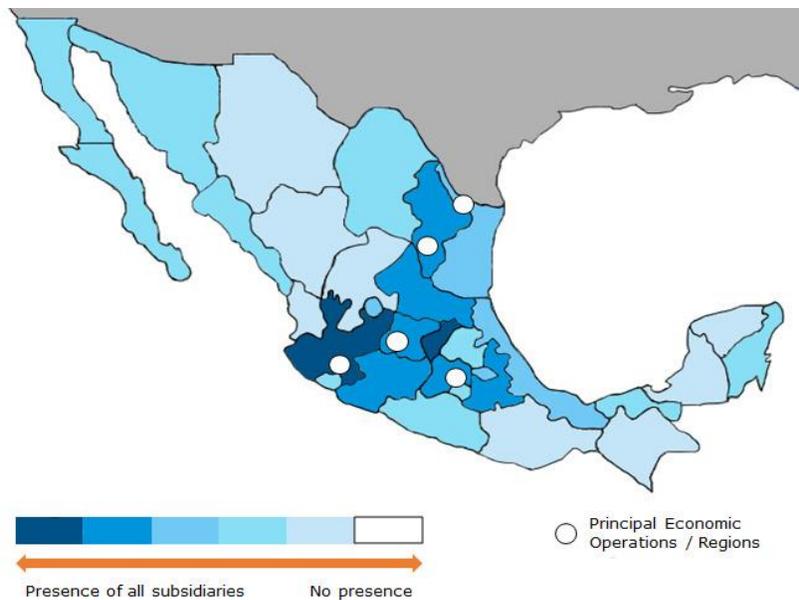


Source: TRAXIÓN

Nationwide Coverage

TRAXIÓN operates in 19 states with 50 offices throughout the regions with greater economic activity such as Mexico City's metropolitan area, Monterrey, Guadalajara, the Bajío and border crossings to the United States.

Graph 24.- TRAXIÓN's Footprint



Source: TRAXIÓN

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Cargo and Logistics

In this business, TRAXIÓN owns an average fleet of 2,185 motor units and 600 last-mile units with an average age of 4.2 years as of 3Q19 (compared to the industry average of 18.2 years). In addition, the company has 427,658 M2 of storage capacity. Cargo and logistics accounted for 58% of total revenues.

TRAXIÓN's main competitors are Grupo Alianza Trayecto (Grupo Transportes Monterrey and Grupo Transportes LarMex), Grupo TUM, Freight Transport Three Wars, Transport Beavers, Freight Mexico, Transport Marva, and Transport Monroy Schiavon.

School and Personnel Transportation

TRAXIÓN had an average fleet of 5,373 motor units with an average age of 3.9 years as of 3Q19. This business represented 42% of average revenue. TRAXIÓN's main competitor is Grupo Senda with 1,887 units at the end of 3Q19.

3Q19 Results

TRAXIÓN presented excellent 3Q19 results in 3Q19, driven by last year's acquisitions and a solid organic growth. Consolidated revenues grew 29.8% YoY, reaching MXN\$3,134 million. This performance was mainly due to a strong 31.3% YoY increase in Cargo and Logistics, and a 27.8% YoY rise in School and Personnel Transportation.

The kilometers traveled were up 26.4% YoY to 140.1 million in the current quarter, which was driven by a 36.9% YoY increase in Cargo and Logistics and a 19.3% rise in in School and Personnel Transportation. On the other hand, the average revenue per kilometer was up 10.6% YoY in Freight and Logistics and 9.0% YoY in School and Personnel Transportation.

Total costs and expenses advanced 29.2% YoY to MXN\$2,167 million in 3Q19. This included an 35.9% YoY increase in fuel and gasoline, +18.4% YoY in labor cost, +30.5% YoY in tolls, +25.0% YoY in fleet maintenance, +17.5% YoY in facilities, services and supplies and +100.0% YoY in depreciation and amortization. Total costs and expenses represented 69.2% of consolidated revenues in 3Q19, from 69.5% the previous year. The average cost per kilometer advanced only 1.9% YoY in Cargo and Logistics as a result of economies of scale, and rose 7.3% YoY in School and Personnel Transportation.

EBITDA experienced a significant 40.5% YoY growth due to a stronger costs and expenses structure, standing at MXN\$696 million in 3Q19. The EBITDA margin expanded to 22.2% in 3Q19, from 20.5% in 3Q18.

Net income was up 14.7% YoY because the excellent operating performance was partially offset by a higher depreciation and amortization level, as well as higher interests paid due to the debt the company raised to finance the previous year's acquisitions.

TRAXIÓN maintained a solid financial structure with a 2.2x net debt to EBITDA ratio at the end of 3Q19, compared with 1.4x in 3Q18.

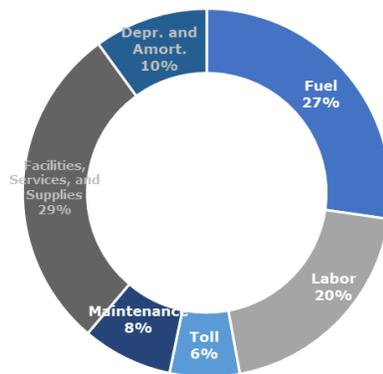
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Cost Breakdown

The cost of facilities, services and supply, and the fuel (diesel, gasoline) are TRAXIÓN's main costs since they represented 29% and 27% of total costs in 3Q19. The other important cost is the labor cost since it represented 20% of total.

The sale price of the "Magna" type gasoline has experienced a high volatility in the past. In 2016, the price averaged MXN\$13.39 per liter, according to data provided by PEMEX. However, it rose to MXN\$18.82/liter on average in 2017 as a result of "the price liberalization" and to MXN\$19.35/liter in 2018. In 2019, it averaged MXN\$18.29/liter during the first eleven months of the year. On the contrary, the diesel price has fallen during the last years. While in 2016 it averaged MXN\$14.63 per liter, it was MXN\$12.41/liter in 2017, MXN\$13.10/liter in 2018 and MXN\$11.46/liter as of November 2019.

Graph 25.- Breakdown of TRAXIÓN's Main Costs and Expenses



Source: TRAXIÓN

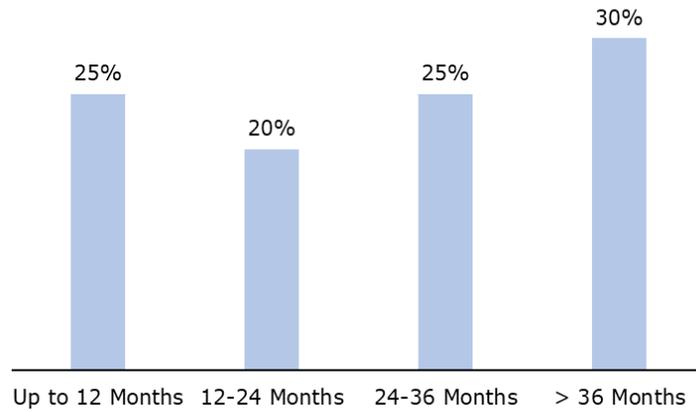
Debt / Maturity Profile

TRAXIÓN's total debt amounted to MXN\$5,978 million at the end of 3Q19, of which 100% is denominated in pesos. In addition, 65% of the debt carries a floating rate and 35% a fixed rate. The company's cash reserves were MXN\$579 million, which translated into a 2.2x net debt/EBITDA ratio at the end of 3Q19, compared with 1.4x at the end of 3Q18.

TRAXIÓN faces significant maturities over the next 12 months which represent 25% of total debt. However, we do not see any problem for the company to refinance this amount of debt given its strong financial structure and attractive growth.

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Graph 26.- Maturity Profile



Source: TRAXIÓN

MAIN RISKS

Macroeconomic Volatility. The performance of the freight and personnel transportation industry, as well as the logistics sector, are directly linked to the Mexican economy and specifically to the manufacturing sector. Demand for services may be affected by volatility in the exchange rate, interest rates and / or the inflation rate, signature of the USMCA, tariffs, etc.

Greater competition. TRAXIÓN faces significant competition in the two segments in which it participates.

Insecurity. Some regions of Mexico currently experience, or have experienced in the past, high levels of insecurity.

Changes in the Management Team. Any change in the management team, in particular the CEO, the CFO or the VP of Investor Relations, could have an adverse effect on the price of TRAXIÓN shares.

Adverse Regulatory Changes. TRAXIÓN operations are subject to various federal, state and municipal regulations. Any change in these regulations could impact the company's operating performance. However, we believe that the regulatory risk for the industry is limited.

Volatility in the Price of Fuels and / or Insurance Premiums. The price of fuels (diesel and gasoline) that TRAXIÓN uses in its operations has experienced high volatility in the past.

Large Acquisitions. The purchase of a large company can put TRAXIÓN's finances at risk.

Medium Capitalization and Average Liquidity of its Shares. TRAXIÓN has a market value of around MXN\$461 million while the average daily amount of its shares has been MXN\$4.19 million during the last 6 months, which we believe may pose some risks to certain institutional investors, particularly the large ones.

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FINANCIAL PROJECTIONS – TRAXIÓN

(Figures in Millions of Pesos)

INCOME STATEMENT	2018	2019E	2020E	2021E	2022E	2023E	2024E	2018	2019E	2020E	2021E	2022E	2023E	2024E
Revenues	9,403	12,158	13,432	16,048	17,591	20,018	22,180	33%	29%	10%	19%	10%	14%	11%
Cost of Sales	-6,587	-8,606	-9,657	-11,746	-12,937	-14,686	-16,280	31%	31%	12%	22%	10%	14%	11%
Gross Profit	2,816	3,552	3,775	4,302	4,654	5,332	5,900	38%	26%	6%	14%	8%	15%	11%
Gross Margin	30.0%	29.2%	28.1%	26.8%	26.5%	26.6%	26.6%							
General Expenses	-1,904	-2,301	-2,401	-2,546	-2,702	-2,874	-3,059	35%	21%	4%	6%	6%	6%	6%
Operating Profit	986	1,312	1,462	1,849	2,049	2,559	2,945	26%	33%	11%	26%	11%	25%	15%
Operating Margin	10.5%	10.8%	10.9%	11.5%	11.6%	12.8%	13.3%							
Depreciation and Amortization	-702	-1,239	-1,520	-1,680	-1,832	-1,964	-2,088	47%	76%	23%	11%	9%	7%	6%
EBITDA	1,785	2,576	2,894	3,437	3,785	4,423	4,929	42%	44%	12%	19%	10%	17%	11%
EBITDA Margin	19.0%	21.2%	21.5%	21.4%	21.5%	22.1%	22.2%							
Financial Gains	147	140	30	31	32	33	34	-22%	-5%	-79%	3%	3%	3%	3%
Financial Cost	-581	-788	-620	-579	-578	-612	-628	26%	36%	-21%	-7%	-0%	6%	2%
Pre-Tax Profit	553	664	873	1,301	1,502	1,979	2,352	9%	20%	31%	49%	15%	32%	19%
Income Tax & Profit Sharing	-110	-206	-262	-390	-451	-594	-706	-35%	87%	27%	49%	15%	32%	19%
Tax & Profit Sharing Rate	20.0%	31.0%	30.0%	30.0%	30.0%	30.0%	30.0%							
Net Profit	442	458	611	910	1,052	1,385	1,646	31%	4%	33%	49%	15%	32%	19%
Outstanding Shares	543	538	538	538	538	538	538	0%	-1%	0%	0%	0%	0%	0%
EPS	P\$ 0.81	P\$ 0.85	P\$ 1.14	P\$ 1.69	P\$ 1.95	P\$ 2.57	P\$ 3.06	-55%	4%	34%	49%	15%	32%	19%
BALANCE SHEET	2018	2019E	2020E	2021E	2022E	2023E	2024E	2018	2019E	2020E	2021E	2022E	2023E	2024E
TOTAL ASSETS	17,670	19,461	20,516	22,220	23,511	25,119	26,816	19%	10%	5%	8%	6%	7%	7%
Current Assets	3,675	4,682	4,757	5,292	5,515	5,907	6,191	-33%	27%	2%	11%	4%	7%	5%
Cash & Temp. Inv.	501	580	600	620	640	660	680	-85%	16%	3%	3%	3%	3%	3%
LT Assets	13,996	14,779	15,759	16,929	17,997	19,213	20,625	49%	6%	7%	7%	6%	7%	7%
P, P & E	7,925	8,716	9,696	10,716	11,784	13,000	14,412	71%	10%	11%	11%	10%	10%	11%
Other LT Assets	168	108	108	258	258	258	258	86%	-36%	0%	139%	0%	0%	0%
TOTAL LIABILITIES	7,621	9,315	9,976	10,986	11,442	11,880	12,147	45%	22%	7%	10%	4%	4%	2%
ST Liabilities	2,717	3,387	3,148	3,758	3,714	3,353	3,619	75%	25%	-7%	19%	-1%	-10%	8%
LT Liabilities	4,904	5,928	6,828	7,228	7,728	8,528	8,528	32%	21%	15%	6%	7%	10%	0%
TOTAL DEBT	4,858	6,290	6,818	7,588	7,907	8,145	8,229	39%	29%	8%	11%	4%	3%	1%
NET DEBT	4,357	5,710	6,218	6,968	7,267	7,485	7,549	1,843%	31%	9%	12%	4%	3%	1%
TOTAL CAPITAL	10,049	10,223	10,617	11,312	12,147	13,316	14,746	4%	2%	4%	7%	7%	10%	11%
Stockholder's Equity	10,049	10,223	10,617	11,312	12,147	13,316	14,746	4%	2%	4%	7%	7%	10%	11%
CASH FLOW STATEMENT	2018	2019E	2020E	2021E	2022E	2023E	2024E	2018	2019E	2020E	2021E	2022E	2023E	2024E
PRE-TAX PROFIT	442	528	873	1,301	1,502	1,979	2,352	31%	19%	65%	49%	15%	32%	19%
Inv. Related Activities	874	1,615	1,492	1,658	1,816	1,954	2,084	26%	85%	-8%	11%	10%	8%	7%
Pre-Tax Cash Flow	1,505	2,293	2,178	2,445	2,888	3,375	3,769	57%	52%	-5%	12%	18%	17%	12%
Working Capital Changes	-441	-442	77	-273	-67	-171	-82	-16%	0%	-117%	-457%	-76%	156%	-52%
Operating Cash Flow	1,064	1,851	2,255	2,172	2,821	3,204	3,687	145%	74%	22%	-4%	30%	14%	15%
Investment Cash Flow	-4,287	-1,124	-1,970	-2,169	-2,368	-2,647	-2,966	306%	-74%	75%	10%	9%	12%	12%
Financing Cash Flow	453	-649	-264	17	-433	-537	-701	-86%	-243%	-59%	-106%	-2,633%	24%	31%
Net Incr. (Decr.) in Cash & Temp. Inv.	-2,771	79	20	20	20	20	20	-199%	-103%	-75%	0%	0%	0%	0%
Beg. of Period Cash and Temp. Inv.	3,272	501	580	600	620	640	660	1,404%	-85%	16%	3%	3%	3%	3%
End of Period Cash and Temp. Inv.	501	580	600	620	640	660	680	-85%	16%	3%	3%	3%	3%	3%

Source: TRAXIÓN, Miranda Global Research

TRAXIÓN: Initiation of Coverage

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