

TRAXIÓN: 1Q21 Results

Excellent Results, Above our Expectations

| BUY | |
|--------------------------------|---------------|
| Target Price (MXN\$) | \$ 39.00 |
| Current Price (MXN\$) | \$ 33.25 |
| Min / Max (L12M - MXN\$) | 10.23 - 34.45 |
| Expected Dividend (MXN\$) | \$ 0.00 |
| Total Return | 17.3% |
| Mkt Cap (Mn of MXN) | 18,071 |
| Enterprise Value (Mn of MXN\$) | 23,590 |
| Shares Outstanding (Mn) | 543.5 |
| Float | 43.5% |
| ADTV (MXN\$ Mn) | \$ 21.60 |

Opinion and Recommendation

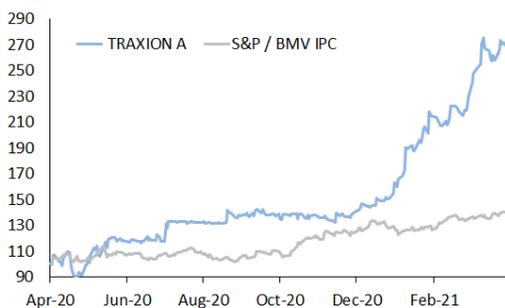
TRAXIÓN reported very positive 1Q21 results with a significant growth of 25.4% YoY in revenues and 24.7% in EBITDA, as well as an impressive 52.1% increase in net profits, slightly exceeding our expectations. The company continued to benefit from a high demand in the Logistics and Technology business and, to a lesser extent, in Personnel Mobility. In addition, it closed the quarter with a net debt to EBITDA ratio of only 1.49x, down from 1.93x the previous year. TRAXIÓN obtained a MXN\$3.5 billion committed line of credit with which it refinanced its syndicated loan.

The company began reporting its three business units independently, which we believe will highlight the importance of the Logistics and Technology business, which is its main growth driver. We believe this will help to improve the stock's valuation. It also started providing its main ESG indicators.

We reiterate our BUY recommendation. We are revising upwards our target price to MXN\$39.0/share, from MXN\$29.0/share previously. We calculated our new target price with a DCF model which includes a 7.3% WACC and a 5.4% perpetuity growth rate.

Revenues

TRAXIÓN recorded revenues of MXN\$3,993 million in 1Q21, up 25.4% YoY (slightly higher than our + 22.0% expectation). This favorable performance was due to the increases of 116.2% in Logistics and Technology and 18.3% in Personnel Mobility, which were partially offset by the stability in the Mobility of Cargo business.



April 27, 2021

Martin Lara
+5255-6413-8563
martin.lara@miranda-gr.com

Total costs advanced 24.8% YoY. The main drivers were the costs of facilities, services and utilities (+ 53.3%), and fleet maintenance (+ 52.1%). This was partially offset by a 5.0% drop in fuel costs. The cost to revenues ratio was 70.9% in the quarter, with a 30 bps reduction. EBITDA grew 24.7% YoY, reaching MXN\$801 million (vs. MXN\$784 million E). The EBITDA margin was 20.1% in 1Q21, similar to 20.2% in 1Q20. The significant expansion in the margin in Personnel Mobility offset the high growth of Logistics and Technology, which generates a lower margin than the other divisions.

Net profits were up 52.1% YoY to MXN\$197 million (in line with our MXN\$194 million projection) mainly as a result of a strong operating performance.

Logistics and Technology

This business' sales rose 116.2% YoY, exceeding MXN\$1 billion. 71% of the growth came from last mile services and solutions thanks to the expansion of the e-commerce sector. Another 22% was generated by technology businesses and applications such as 4PL and brokerage. The remainder was due to 3PL warehousing services given the expansion of 107,000 M2 of warehouse space deriving from a greater demand for logistics services in addition to new clients. The EBITDA margin was 9.8% in the current quarter, compared to 8.7% in the prior year.

Personnel Mobility

Revenues advanced 18.3% YoY due to a higher demand for transportation to industrial parks thanks to the prevailing health situation, as well as new customers. The EBITDA margin expanded 389 bps to 26.8% due to operating efficiencies.

Mobility of Cargo

Mobility of Cargo revenues remained stable as the growth occurred mainly in the TRAXPORTA platform, which is included in Logistics and Technology. The EBITDA margin expanded 40 bps to 22.6%.

Financial Structure

As a result of the favorable operating performance and a 5.4% YoY net debt reduction, TRAXIÓN closed the quarter with a net debt to EBITDA ratio of only 1.49x, down from 1.93x the previous year. During the quarter, the company obtained a MXN\$3.5 billion committed line of credit with which it refinanced its syndicated loan. This new line included a MXN\$3.0 billion credit with increasing amortizations and maturity in 2026, and a MXN\$500 million revolving line. The company extended its maturity profile as the short-term debt now represents 9% of total debt, down from 18% before the refinancing.

ESG

TRAXIÓN presented its main ESG indicators. The metrics that are most relevant to the company are fuel consumption and its emissions. It has also aligned its Integrated Report to the leading international standards in terms of ESG information disclosure.

Conference Call Highlights

2021 guidance. Despite the strong quarterly results, TRAXIÓN's guidance for this year remained unchanged as a result of uncertainty at the macro level. The company still expects a 10% revenue and EBITDA growth.

Logistics and Technology. The company expects sales of around US\$200 million this year. The margin will likely remain at 10% going forward. The strong growth in this business unit is sustainable over the long term. This is because 17% of sales relate to e-commerce.

Personnel Mobility. The EBITDA margin in the Personnel Mobility business should remain at the same level (between 25-29%) when schools open.

Traditional cargo. The company believes that the growth in the traditional cargo business will be conservative in the future. Most of the growth will take place through the TRAXPORTA platform (which consolidated in Logistics and Technology) as it does not require significant investments. Margins in traditional cargo will likely stay above 20% in the future.

New outsourcing law. The company does not foresee any impact from the reforms to this law.

ESG. The company will start to include more indicators as soon as they have them ready.

| (Figures in Millions of MXN\$) | 1Q21 | 1Q21E | Diff. | 1Q20 | YoY Chg. |
|--------------------------------|--------------|--------------|--------|--------------|----------|
| Revenues | 3,993 | 3,885 | 2.8% | 3,184 | 25.4% |
| Operating Profit | 467 | 402 | 16.0% | 314 | 48.6% |
| <i>Operating Margin</i> | <i>11.7%</i> | <i>10.4%</i> | | <i>9.9%</i> | |
| EBITDA | 801 | 784 | 2.1% | 642 | 24.8% |
| <i>EBITDA Margin</i> | <i>20.1%</i> | <i>20.2%</i> | | <i>20.2%</i> | |
| Financial Gains | 29 | 11 | 167.0% | 64 | -54.0% |
| Financial Cost | -179 | -125 | 43.8% | -166 | 7.9% |
| Pre-Tax Profit | 317 | 289 | 9.8% | 212 | 49.5% |
| Net Profit | 197 | 194 | 1.9% | 130 | 52.1% |

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