

TRAXIÓN (BUY, T.P. MXN\$29.0)

Highlights of TRAXIÓN Day

TRAXIÓN Day's reinforced our positive point view on the company, we thus reiterate our BUY recommendation with a MXN29.0/share target price. These were the main highlights:

- 2021 Guidance.** TRAXIÓN confirmed its guidance for the year which includes a 10% revenue and EBITDA growth which will be primarily driven by the significant expansion of the "Asset Light" business, fueled by e-commerce, and also by a decent performance in the traditional cargo and personnel and student transportation business. Management took a conservative approach in its guidance for this year due to the prevailing health situation. This means that there is upside potential in these forecasts, in our view. Capex will amount to MXN\$2bn of which MXN\$600 million will be for maintenance, and the rest for growth.
- Asset Light Business (TRAXIÓN logistics, Traxporta and Redpack).** Management expects revenues in this business unit to reach US\$200 million in 2021 (from US\$150 million in 2020 and US\$100 million in 2019) with an EBITDA margin of 10%. The main driver of the last mile business will be the continued growth of e-commerce in Mexico, which represented only 9% of total retail sales. Redpack's e-commerce related revenues only represented 2% of sales when it was acquired, compared to around 70% currently. The main driver of growth in the logistics business will be a higher penetration of outsourced logistics as such services are used by only 14% of Mexican companies. TRAXIÓN is one of Mexico's largest providers of 3PL storage services with capacity of 535,855 square meters. It has gained market share in logistics by cross selling and by having created a strong sales team, which will likely continue to support its performance in the future. Worth mentioning that the return on investment is higher in the asset light business than in the other units as it requires lower investments, which more than offsets its low margin. The company will start to report results of the asset light segment independently, which is very good news, in our view.
- Traditional Businesses.** In cargo, TRAXIÓN expects to gain market share as some of its competitors lost some ground during the pandemic. In addition, the company will continue to take advantage of its leadership in cross-border crossings. In personnel and student transportation it is also the market leader. Higher gasoline costs will be passed on to the final customers.
- Conservative Financial Approach.** TRAXIÓN expects to maintain a low leverage (current net debt to EBITDA of only 1.6x) during the rest of the year. This will be below its internal long-term target of 2.5x. The company announced yesterday that it obtained a MXN\$3.5 billion committed line of credit which will be used to refinance the syndicated loan that matures this month. This will allow the TRAXIÓN to extend its maturity profile and reduce the average cost of debt by around 60 bps.

Eduardo Miller

+5255-2696-9797

eduardo.miller@miranda-gr.com

Martin Lara

+5255-6413-8563

martin.lara@miranda-gr.com

March 11, 2021

-
- **Favorable Long-Term Outlook.** Management expects revenues to grow faster than GDP during the following years also fueled by the “Asset Light” business and, to a lesser extent, by cargo and transportation. Each segment will likely contribute with around 1/3rd of total sales. The consolidated EBITDA margin will likely remain around 20-21% as the 10% EBITDA margin in the “Asset Light” business is more than offset by a high profitability in the traditional cargo and personnel and student transportation.
 - **M&A Activity.** TRAXIÓN is not currently looking to acquire any company as it is focused on growing the “Asset Light” business. However, it is open to analyze strategic opportunities. We believe that the company has the required financial structure, cash flow generation and management team to undertake more acquisitions going forward.
 - **Sustainability.** TRAXIÓN’s sustainability strategy is based on governance, people, the planet, and growth. The company will launch its 2d materiality report soon.
-

DISCLAIMER

The current report was prepared by Miranda Global Research ("Miranda GR") for Vector Casa de Bolsa, S.A. de C.V. The information is presented in summarized form and is not meant to be complete. There are no declarations or guarantees, expressed or implicit, in respect to the accuracy, impartiality or integrity of the information.

Miranda GR, in accordance to applicable legislation, has made sure that the presented personalized recommendation is reasonable to the client, as it has verified congruency between the client's profile and the profile of the financial product. Under no circumstance should it be understood that the fulfillment of the previously mentioned recommendation, guarantees the result or the success of the proposed strategies in the presented document.

The information included in this presentation was obtained from public and/or private sources. Projections or previsions included in this presentation, are a generalized recommendation and are based on subjective assumptions and estimations about events and circumstances that have not yet happened and are subjected to significant variations. Therefore, it is not possible to guarantee that any of the results included in the current report will happen in the future, in other words, it does not guarantee the result or the success of the posed strategies.

This report has been prepared solely with informational purposes. No declarations are made in respects to precision, sufficiency, veracity or accuracy of the information and opinions hereby included. Miranda GR will not answer (either because of negligence or for any other reason) for any damage or detriment derived or related to the use of this report or its content, or any connection to the report. Miranda GR is not responsible for the use or association with this report, including but not limited to, any declaration, expressed or implicit or guarantees or omissions included in this information.

This report is based on facts and/or events that have happened up to this date, consequently any future facts and/or events can impair the conclusions hereby expressed. Miranda GR does not assume any responsibility to update, review, rectify or invalidate this report based on any future occurrence.

The opinions related to this report eventually expressed by Miranda GR, should be considered only as suggestions/recommendations to better operate various topics related to the presentation.

This report and its contents are property of Miranda GR and cannot be reproduced or broadcast in part or in its entirety without the previous written consent of Miranda GR.

Miranda Global Research receives fees from Grupo Traxión, S.A.B. de C.V for independent analyst services.
