

TRAXIÓN: 2Q22 Results

Sales continued to rise in a significant way due to applications and traditional businesses, but margins impacted by higher gasoline prices; in line

TRAXION A	BUY
Target Price (MXN\$)	\$ 45.00
Current Price (MXN\$)	\$ 26.15
Min / Max (L12M - MXN\$)	24.51 - 38.20
Expected Dividend (MXN\$)	\$ 0.00
Total Return	72.1%
Mkt Cap (Mn of MXN)	14,212
Enterprise Value (Mn of MXN\$)	20,603
Shares Outstanding (Mn)	543.5
Float	43.5%
ADTV (MXN\$ Mn)	\$ 24.20

Opinion and recommendation

TRAXIÓN reported neutral 2Q22 results that were pretty much in line with our estimates in terms of sales, EBITDA and net profits. Revenues were up 17.1% due to the significant 21.4% growth in Logistics and Technology, which benefited from a 61.7% increase in technological applications. In addition, Mobility of Cargo and Mobility of Personnel continued to rise at a double-digit rate.

However, profitability was temporarily affected by gasoline prices, and higher personnel and subcontracting costs. EBITDA grew 1.1% as a result. The company confirmed in its report that it plans to transfer higher fuel prices during the coming quarters.

We continue with a BUY recommendation on TRAXIÓN and a MXN\$45.0/share. We recommend taking advantage of the current price level as we expect revenue to continue to grow significantly and profitability to improve. In addition, we believe that the acquisition of MEDISTIK will be completed during the rest of the year.

Revenues

TRAXIÓN's revenues advanced 17.1% YoY to MXN\$4,944 million (slightly above our MXN\$4,893 million projection) due to the significant 21.4% growth in Logistics and Technology, which benefited from a 61.7% increase in technological applications. For their part, Mobility of Cargo and Mobility of Personnel revenues advanced 14.4% and 16.9%, respectively.



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Profitability

Total costs rose 27.9% due to higher fuel prices and labor costs related to the natural expansion of the company's operations and start-up costs for new businesses such as 3PL logistics services in the pharmaceutical sector and in Mobility of Personnel. This was partially offset by a 10.0% reduction in general expenses. The expenses to sales ratio improved by 350 bps. EBITDA thus grew 1.1% YoY to MXN\$859 million (vs. MXN\$849 million E), which translated into a consolidated EBITDA margin of 17.4% (in line).

Net financial expenses were MXN\$213 million, from MXN\$138 million the previous year. This happened as a result of the impact of higher interest rates on the debt portion with a variable interest rate. In addition, the company recorded lower FX gains.

Net profit suffered a 43.6% reduction to MXN\$137 million, due to higher financial expenses.

Operating cash flow / Capex

The operating flow was up 33.2%, reaching MXN\$939 million. Capex amounted to MXN\$908 million in the quarter, of which 52% were for Cargo Mobility, 46% for People Mobility and the remaining 2% for Logistics and Technology. This reflects the "asset" light characteristics of the latter business.

Financial structure

The net debt to EBITDA ratio increased slightly to 1.85x, from 1.71x in 1Q22 and 1.54x in 2Q21. This was attributed to a 26.6% YoY net debt increase.

Logistics and Technology

Revenues were 21.4% higher. Applications were the main driver of the quarter with an increase of 61.7% given the prevailing high demand. Revenues from 3PL services rose by MXN\$114 million and last mile services by 8.3%. Average last mile fleet and warehouse space were up marginally. However, the average warehouse revenue per M2 was 6.0% higher. The EBITDA margin expanded 100 bps to 12.4%, we believe due to the change in the revenue mix.

Mobility of Cargo

TRAXIÓN continued to gain market share in specialized services, particularly in refrigerated cargo, which is more profitable. This resulted in a 14.4% increase in revenue. We believe that the company began to adjust prices in this business as the average revenue per kilometer rose 10.4%, while kilometers traveled remained practically unchanged. The average fleet expanded 2.0%, so it is likely that the company will maintain the same strategy in the future. The EBITDA margin was 14.7%, from 21.2% in the same period of the previous year, due to the gasoline price.

Mobility of Personnel

The high demand remained in the quarter, which, together with the fleet optimization strategy, led to a 16.9% improvement in revenues from this business. The average fleet expanded 11.9% to 6,266 units, while kilometers traveled increased 10.6%. Average revenue per kilometer was 5.7% higher. In this case, the EBITDA margin was also temporarily impacted by the gasoline cost, contracting to 23.5%, from 27.2%.

ESG

Four TRAXIÓN cargo subsidiaries participated in SEMARNAT's Clean Transportation voluntary program, and obtained the "Good Environmental Performance" and "Excellent Environmental Performance" awards, for having reduced more than 105,000 tons of CO₂, equivalent to 20% of the company's total emissions in 2021. TRAXIÓN won the silver medal in the EcoVadis evaluation for being among the best companies in the sector in terms of the environment, ethics, labor practices and human rights. In addition, TRAXIÓN shares were once again included in the S&P Total México ESG index.

(Figures in Millions of MXN\$)	2Q22	2Q22E	Diff.	2Q21	YoY Chg.
Revenues	4,944	4,893	1.1%	4,222	17.1%
Operating Profit	400	451	-11.3%	481	-16.8%
<i>Operating Margin</i>	8.1%	9.2%		11.4%	
EBITDA	859	849	1.2%	850	1.1%
<i>EBITDA Margin</i>	17.4%	17.4%		20.1%	
Financial Gains	22	9	152.7%	49	-55.4%
Financial Cost	-234	-231	1.1%	-187	25.4%
Net Profit	137	144	-4.6%	243	-43.5%

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2023E	2024E	2025E	2026E	2027E	Perp.
OPERATING PROFIT	2,895	3,322	3,769	4,242	4,871	5,057
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-869	-997	-1,131	-1,273	-1,461	-1,517
NOPLAT	2,027	2,326	2,638	2,969	3,410	3,540
Depreciation	1,620	1,828	2,036	2,244	2,344	2,433
Working Capital Changes	-447	-309	-342	-378	-417	-433
CAPEX	-2,200	-2,600	-2,800	-3,000	-3,200	-3,322
FCFF	999	1,244	1,532	1,835	2,137	2,218
Perpetuity Growth Rate						3.8%
PV of Explicit Period (2023 - 2027E)						5,803
Perpetuity Value						41,228
PV of Perpetuity Value						26,559
Enterprise Value						32,362
Net Debt						7,906
Market Value						24,456
Outstanding Shares						543
Target Price						P\$ 45.00
Current Market Price						P\$ 26.15
Potential Return Incl. Dividends						72.1%
Forward EV/EBITDA						7.2x
Forward P/E						19.2x
Average Cost of Debt						10.7%
LT Tax Rate						30.0%
After-Tax Cost of Debt						7.5%
Cost of Equity						11.1%
Market Risk Premium						6.0%
Risk-Free Rate						8.5%
Beta						0.43
% Total Debt						43.7%
% Capital						56.3%
ESG Adjusted WACC						9.2%

Sensitivity Analysis Table, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	4,064	4,289	4,515	4,741	4,967
Target EV/EBITDA					
5.7x	27.76	30.15	32.54	34.93	37.31
6.2x	31.50	34.10	36.69	39.29	41.88
6.7x	35.24	38.04	40.85	43.65	46.45
7.2x	38.98	41.99	45.00	48.01	51.02
7.7x	42.72	45.94	49.15	52.37	55.59
8.2x	46.46	49.88	53.31	56.73	60.16

Sensitivity Analysis Table, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	1,146	1,210	1,274	1,337	1,401
Target P/E					
16.2x	34.17	36.07	37.97	39.87	41.77
17.2x	36.28	38.30	40.31	42.33	44.35
18.2x	38.39	40.52	42.66	44.79	46.92
19.2x	40.50	42.75	45.00	47.25	49.50
20.2x	42.61	44.98	47.34	49.71	52.08
21.2x	44.72	47.20	49.69	52.17	54.66

(Figures in Millions of MXN\$)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Revenues	17,086	19,395	21,248	23,320	25,596	28,111	30,865
Cost of Sales	-12,607	-15,221	-16,006	-17,493	-19,161	-20,969	-22,905
Gross Profit	4,479	4,174	5,242	5,827	6,435	7,142	7,960
<i>Gross Margin</i>	26.2%	21.5%	24.7%	25.0%	25.1%	25.4%	25.8%
General Expenses	-2,658	-2,267	-2,346	-2,505	-2,666	-2,900	-3,089
Operating Profit	1,918	1,894	2,895	3,322	3,769	4,242	4,871
<i>Operating Margin</i>	11.2%	9.8%	13.6%	14.2%	14.7%	15.1%	15.8%
Depreciation and Amortization	-1,484	-1,742	-1,620	-1,828	-2,036	-2,244	-2,344
EBITDA	3,402	3,636	4,515	5,150	5,805	6,486	7,215
<i>EBITDA Margin</i>	19.9%	18.7%	21.2%	22.1%	22.7%	23.1%	23.4%
Financial Gains	134	48	31	35	39	42	44
Financial Cost	-752	-927	-1,106	-1,163	-1,239	-1,304	-1,388
Pre-Tax Profit	1,300	1,016	1,819	2,194	2,569	2,980	3,528
Income Tax & Profit Sharing	-436	-272	-546	-658	-771	-894	-1,058
<i>Tax & Profit Sharing Rate</i>	33.5%	26.8%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Profit	864	744	1,274	1,536	1,798	2,086	2,470
Outstanding Shares	543	543	543	543	543	543	543
EPS	P\$ 1.59	P\$ 1.37	P\$ 2.34	P\$ 2.83	P\$ 3.31	P\$ 3.84	P\$ 4.54
BALANCE SHEET	2021	2022E	2023E	2024E	2025E	2026E	2027E
TOTAL ASSETS	22,156	24,411	26,266	28,212	30,370	32,782	35,941
Current Assets	5,751	6,715	7,777	8,437	9,215	9,954	10,738
Cash & Temp. Inv.	1,475	872	1,340	1,470	1,665	1,767	1,843
LT Assets	16,406	17,696	18,489	19,775	21,155	22,828	25,203
P, P & E	9,252	11,573	12,353	13,625	14,989	16,645	19,001
Other LT Assets	231	237	237	237	237	237	237
TOTAL LIABILITIES	10,866	13,417	14,391	15,402	16,362	17,288	18,577
ST Liabilities	3,711	5,908	5,883	6,394	6,353	6,779	7,569
LT Liabilities	7,155	7,508	8,508	9,008	10,008	10,508	11,008
TOTAL DEBT	6,814	8,778	9,607	10,396	11,115	11,782	12,780
NET DEBT	5,338	7,906	8,267	8,926	9,450	10,015	10,938
TOTAL CAPITAL	11,290	11,315	12,194	13,130	14,328	15,815	17,684
Stockholder's Equity	11,290	11,315	12,194	13,130	14,328	15,815	17,684
CASH FLOW STATEMENT	2021	2022E	2023E	2024E	2025E	2026E	2027E
PRE-TAX PROFIT	864	918	1,819	2,194	2,569	2,980	3,528
Inv. Related Activities	2,214	2,446	2,279	2,562	2,852	3,110	3,245
Pre-Tax Cash Flow	3,030	3,616	3,609	3,823	4,258	4,511	4,466
Working Capital Changes	-435	-421	-447	-309	-342	-378	-417
Operating Cash Flow	2,596	3,196	3,161	3,514	3,916	4,133	4,048
Investment Cash Flow	-1,635	-3,476	-2,232	-2,628	-2,823	-3,020	-3,218
Financing Cash Flow	-1,083	-108	-461	-757	-898	-1,011	-754
Net Incr. (Decr.) in Cash & Temp. Inv.	-122	-389	469	129	196	102	76
Beg. of Period Cash and Temp. Inv.	1,597	1,475	872	1,340	1,470	1,665	1,767
End of Period Cash and Temp. Inv.	1,475	872	1,340	1,470	1,665	1,767	1,843

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