

# TRAXIÓN: 3Q22 Results

Revenues increased substantially in the three business units, but profitability fell due to gasoline prices

TRAXION A	BUY
Target Price (MXN\$)	\$ 38.00
Current Price (MXN\$)	\$ 19.30
Min / Max (L12M - MXN\$)	17.34 - 38.19
Expected Dividend (MXN\$)	\$ 0.00
Total Return	96.9%
Mkt Cap (Mn of MXN)	10,489
Enterprise Value (Mn of MXN\$)	18,825
Shares Outstanding (Mn)	543.5
Float	43.5%
ADTV (MXN\$ Mn)	\$ 22.86

## Opinion and recommendation

TRAXIÓN reported neutral results that were in line with our expectations at the revenue and EBITDA level. Sales increased 24% due to a solid performance of the three businesses units, mainly in Logistics and Technology, which benefited from the acquisition of Medistick and V-Modal as well as a high demand for applications and logistics services. However, profitability at a consolidated level continued to be impacted by the gasoline and personnel cost, which translated into a 4% EBITDA growth. Net profits fell 45% due to a higher net financial cost.

Our recommendation remains BUY due to TRAXIÓN's favorable outlook. We continue to believe that the company will transfer the gasoline cost during the following quarters, which will improve its profitability. In addition, its shares' valuation is very attractive with a forward EV/EBITDA of 4.2x and a projected P/E of 7.9x. We adjusted our target price to MXN\$38.0/share, from MXN\$45.0/share, for reflect higher interest rates in our discounted cash flow model.

## Revenues

TRAXIÓN's consolidated revenues grew 24% YoY (vs. 23% E) to MXN\$5.4 billion. This performance was mainly attributed to an increase of 29% in Logistics and Technology, 27% in Mobility of Cargo and 19% in Mobility of Personnel.



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### **Profitability**

Total costs advanced 31% due to the impact of gasoline and labor costs. General expenses rose 19%. Consolidated EBITDA grew 3.5% (vs 2.7% E) to MXN\$934 million. The EBITDA margin contracted to 17.4% in 3Q22, compared to 20.9% in 3Q21.

Net income fell 45% to MXN\$153 million due to higher interest paid which related to higher debt levels.

### **Financial structure**

The net debt to EBITDA ratio was 2.29x in 3Q22, from 1.56x in 3Q21, mainly as a result of the acquisition of Medistik and V-Modal.

### **Logistics and Technology**

Revenues were up 29% YoY, due to the acquisitions of Medistik and V-Modal, as well as a high demand for applications and logistics services (average revenue per M2 grew 12% to P\$190). However, the EBITDA margin decreased 104 bps to 9.0% due to start-up costs and expenses of the pharmaceutical vertical.

### **Mobility of Cargo**

Sales increased 27% YoY as the company began to pass on higher gasoline prices and continued to benefit from its focus on specialized cargo, resulting in an 18% rise in the average revenue per kilometer MXN\$25.8 . However, profitability was lower due to gasoline prices.

### **Mobility of Personnel**

Revenues advanced 19%, supported by high demand from industrial customers, particularly in the north of the country, given the “nearshoring” trend. The EBITDA margin registered a 369 bps drop to 25.2% as a result of fuel costs.

### **ESG**

TRAXIÓN continued to advance in its ESG strategy as Redpack began testing “zero emission” electric vehicles, obtained recertification of ISO37001 and ISO 19600 standards, published its Corporate Governance Manual, published the Diversity and Inclusion Policy, and concluded the questionnaire CDP 2022 on Climate Change, among other measures.

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(Figures in Millions of MXN\$)	3Q22	3Q22E	Diff.	3Q21	YoY Chg.
Revenues	5,373	5,302	1.3%	4,321	24.3%
Operating Profit	431	481	-10.4%	506	-14.7%
<i>Operating Margin</i>	8.0%	9.1%		11.7%	
EBITDA	934	926	0.8%	902	3.5%
<i>EBITDA Margin</i>	17.4%	17.5%		20.9%	
Financial Gains	41	7	509.1%	45	-9.7%
Financial Cost	-262	-246	6.6%	-156	68.1%
Net Profit	153	170	-10.0%	277	-45.0%

## Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2023E	2024E	2025E	2026E	2027E	Perp.
OPERATING PROFIT	2,648	3,023	3,444	3,863	4,466	4,711
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-794	-907	-1,033	-1,159	-1,340	-1,413
NOPLAT	1,854	2,116	2,411	2,704	3,127	3,298
Depreciation	1,620	1,828	2,036	2,244	2,344	2,472
Working Capital Changes	-445	-67	-340	-364	-412	-435
CAPEX	-2,200	-2,600	-2,800	-3,000	-3,200	-3,375
FCFF	829	1,277	1,307	1,584	1,858	1,960
Perpetuity Growth Rate						5.5%
PV of Explicit Period (2023 - 2027E)						4,986
Perpetuity Value						40,800
PV of Perpetuity Value						25,012
Enterprise Value						29,998
Net Debt						9,348
Market Value						20,650
<i>Outstanding Shares</i>						543
Target Price						P\$ 38.00
Current Market Price						P\$ 19.72
Potential Return Incl. Dividends						92.7%
Forward EV/EBITDA						7.0x
Forward P/E						21.1x
Average Cost of Debt						11.5%
LT Tax Rate						30.0%
After-Tax Cost of Debt						8.1%
Cost of Equity						12.9%
Market Risk Premium						6.0%
Risk-Free Rate						10.0%
Beta						0.48
% Total Debt						46.5%
% Capital						53.5%
ESG Adjusted WACC						10.3%

**Sensitivity Analysis Table, EV/EBITDA vs. EBITDA**

	-10%	-5%	<i>Original</i>	+5%	+10%
<b>Projected EBITDA</b>	<b>3,841</b>	<b>4,055</b>	<b>4,268</b>	<b>4,481</b>	<b>4,695</b>
<b>Target EV/EBITDA</b>					
5.5x	21.89	24.05	26.22	28.38	30.55
6.0x	25.42	27.78	30.14	32.50	34.86
6.5x	28.95	31.51	34.07	36.63	39.18
<b>7.0x</b>	<b>32.49</b>	<b>35.24</b>	<b>38.00</b>	<b>40.75</b>	<b>43.50</b>
7.5x	36.02	38.97	41.92	44.87	47.82
8.0x	39.56	42.70	45.85	49.00	52.14

**Sensitivity Analysis Table, P/E vs. Net Profit**

	-10%	-5%	<i>Original</i>	+5%	+10%
<b>Projected Net Profit</b>	<b>880</b>	<b>928</b>	<b>977</b>	<b>1,026</b>	<b>1,075</b>
<b>Target P/E</b>					
18.1x	29.34	30.97	32.60	34.23	35.86
19.1x	30.96	32.68	34.40	36.12	37.84
20.1x	32.58	34.39	36.20	38.01	39.82
<b>21.1x</b>	<b>34.20</b>	<b>36.10</b>	<b>38.00</b>	<b>39.90</b>	<b>41.80</b>
22.1x	35.81	37.80	39.79	41.78	43.77
23.1x	37.43	39.51	41.59	43.67	45.75

<b>INCOME STATEMENT</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Revenues	17,086	20,271	22,762	24,940	27,332	29,978	32,855
Cost of Sales	-12,607	-15,955	-17,517	-19,142	-20,951	-22,943	-25,059
Gross Profit	4,479	4,315	5,245	5,799	6,381	7,035	7,796
<i>Gross Margin</i>	26.2%	21.3%	23.0%	23.3%	23.3%	23.5%	23.7%
General Expenses	-2,658	-2,524	-2,597	-2,776	-2,937	-3,172	-3,330
Operating Profit	1,918	1,789	2,648	3,023	3,444	3,863	4,466
<i>Operating Margin</i>	11.2%	8.8%	11.6%	12.1%	12.6%	12.9%	13.6%
Depreciation and Amortization	-1,484	-1,842	-1,620	-1,828	-2,036	-2,244	-2,344
EBITDA	3,402	3,630	4,268	4,851	5,480	6,107	6,810
<i>EBITDA Margin</i>	19.9%	17.9%	18.8%	19.4%	20.0%	20.4%	20.7%
Financial Gains	134	96	85	91	90	91	95
Financial Cost	-752	-1,013	-1,337	-1,403	-1,518	-1,630	-1,789
Pre-Tax Profit	1,300	872	1,396	1,711	2,015	2,324	2,773
Income Tax & Profit Sharing	-436	-223	-419	-513	-605	-697	-832
<i>Tax &amp; Profit Sharing Rate</i>	33.5%	25.6%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Profit	864	648	977	1,198	1,411	1,627	1,941
Outstanding Shares	543	543	543	543	543	543	543
EPS	P\$ 1.59	P\$ 1.19	P\$ 1.80	P\$ 2.20	P\$ 2.60	P\$ 2.99	P\$ 3.57
<b>BALANCE SHEET</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
TOTAL ASSETS	22,156	25,996	28,092	29,786	31,787	34,209	37,409
Current Assets	5,751	6,756	8,060	8,468	8,892	9,643	10,469
LT Assets	16,406	19,240	20,032	21,317	22,895	24,567	26,940
Other LT Assets	231	243	243	243	243	243	243
TOTAL LIABILITIES	10,866	14,809	15,602	16,698	17,889	19,285	21,143
ST Liabilities	3,711	5,280	5,074	5,670	5,860	6,756	8,114
LT Liabilities	7,155	9,529	10,529	11,029	12,029	12,529	13,029
TOTAL DEBT	6,814	10,079	10,712	11,602	12,572	13,717	15,311
NET DEBT	5,338	9,348	9,282	10,037	11,144	12,152	13,597
TOTAL CAPITAL	11,290	11,577	12,879	13,477	14,287	15,314	16,655
Stockholder's Equity	11,290	11,577	12,879	13,477	14,287	15,314	16,655
<b>CASH FLOW STATEMENT</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
PRE-TAX PROFIT	864	716	1,396	1,711	2,015	2,324	2,773
Inv. Related Activities	2,214	2,695	2,435	2,751	2,942	3,169	3,345
Pre-Tax Cash Flow	3,030	3,888	3,395	3,571	3,801	4,227	4,175
Working Capital Changes	-435	-623	-445	-67	-340	-364	-412
Operating Cash Flow	2,596	3,265	2,951	3,504	3,462	3,863	3,763
Investment Cash Flow	-1,635	-4,776	-2,074	-2,468	-2,669	-2,868	-3,064
Financing Cash Flow	-1,083	982	-177	-901	-930	-859	-550
Net Incr. (Decr.) in Cash & Temp. Inv.	-122	-530	700	135	-137	136	150
Beg. of Period Cash and Temp. Inv.	1,597	1,475	731	1,430	1,566	1,429	1,564
End of Period Cash and Temp. Inv.	1,475	731	1,430	1,566	1,429	1,564	1,714

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