

TRAXIÓN: 2Q23 Results

High growth in Technology and Logistics and Mobility of Personnel; profitability improved in a significant way

TRAXION A	BUY
Target Price (MXN\$)	\$ 51.00
Current Price (MXN\$)	\$ 34.00
Min / Max (L12M - MXN\$)	17.34 - 40.00
Expected Dividend (MXN\$)	\$ 0.00
Total Return	50.0%
Mkt Cap (Mn of MXN)	18,478
Enterprise Value (Mn of MXN\$)	28,276
Shares Outstanding (Mn)	543.5
Float	43.5%
ADTV (MXN\$ Mn)	\$ 20.55



Opinion and recommendation

We believe that TRAXIÓN's quarterly results were positive, with high revenue growth, which was practically in line with our expectations, and higher-than-expected profitability. We expect a short-term favorable reaction in the stock price. We reiterate our BUY recommendation with a MXN\$51.0/share target price after having updated our model. We believe that TRAXIÓN is very well positioned to continue benefiting from the nearshoring trend.

Consolidated

TRAXIÓN revenues increased 21.0% to MXN\$5.980 billion, marginally above our MXN\$5.910 billion estimate, mainly driven by the Logistics and Technology and Mobility of Personnel divisions. The average fleet rose 9.0% to 10,275 units, which included around 1,000 new units in Mobility of Personnel.

Profitability improved in a significant way due to the reduction in gasoline cost and the normalization of the expenses to sales ratio. The EBITDA margin expanded 200 bps to 19.4% (vs. 18.4% E) in 2Q23. EBITDA experienced a sizeable 35.3% growth to MXN\$1.162 billion, exceeding our MXN\$1.085 billion expectation.

However, net profits decreased 18.2% to MXN\$112 million (vs. MXN\$108 million E) due to higher interest expenses and depreciation.

The net debt to EBITDA ratio rose to 2.41x at the end of 2Q23, from 1.85x in 2Q22 due to the acquisitions that the company carried out.

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Logistics and Technology

Logistics and Technology revenues were up 47.5% (vs. 43% E), due to high demand for 3PL logistics services supported by the nearshoring trend (with an expansion of 148 thousand M2 in the warehouse area and a 22.1% increase in average revenue per M2 in the last twelve months), and growth of the pharmaceutical and intermodal logistics businesses. In June, TRAXIÓN acquired BBA Logistics, a cargo brokerage and cross-border services company in the US, which represents its entry into the North American cargo market. The division's EBITDA margin was 8.6% (vs. 8.2% E), from 12.4%, due to the expansion of the business and the start-up of the US operation.

Mobility of Personnel

In Mobility of Personnel, sales increased 20.0% (in line) due to the nearshoring trend that included 300 new units for new clients in the quarter. The margin improved to 26.2% (vs. 25.1% E), from 23.5%, due to lower fuel costs which offset pre-operating expenses related to business expansion.

Mobility of Cargo

In Mobility of Cargo, revenues advanced 2.8% (vs. 0% E) due to the fleet renewal program and the expansion of international and specialized cargo operations. The 18.8% rise in the average revenue per kilometer was partially offset by a 12.0% drop in the number of kilometers driven. Higher productivity and lower fuel cost boosted the EBITDA margin to 21.2% (vs. 20.6% E), from 14.7%.

ESG

During 2Q23, the company concluded the analysis of climate change risks and opportunities, including the quantification of risks and an analysis of temperature change scenarios, under the Task Force on Climate-related Financial Disclosures (TCFD) methodology.

(Figures in Millions of MXN\$)	2Q23	2Q23E	Diff.	2Q22	YoY Chg.
Revenues	5,980	5,910	1.2%	4,944	21.0%
Operating Profit	571	547	4.4%	400	42.8%
<i>Operating Margin</i>	<i>9.6%</i>	<i>9.3%</i>		<i>8.1%</i>	
EBITDA	1,162	1,085	7.1%	859	35.3%
<i>EBITDA Margin</i>	<i>19.4%</i>	<i>18.4%</i>		<i>17.4%</i>	
Financial Gains	48	12	317.7%	22	122.1%
Financial Cost	-457	-404	13.1%	-234	95.2%
Net Profit	112	108	3.3%	137	-18.2%

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	3,187	3,865	4,562	5,532	6,704	6,825
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-956	-1,160	-1,369	-1,660	-2,011	-2,047
NOPLAT	2,231	2,706	3,193	3,872	4,693	4,777
Depreciation	2,312	2,540	2,768	2,912	2,956	3,009
Working Capital Changes	-489	-484	-518	-597	-659	-671
CAPEX	-2,404	-2,608	-2,812	-3,016	-3,224	-3,282
FCFF	1,650	2,154	2,631	3,172	3,766	3,833
Perpetuity Growth Rate						1.8%
PV of Explicit Period (2024 - 2028E)						9,913
Perpetuity Value						49,956
PV of Perpetuity Value						29,021
Enterprise Value						38,934
Net Debt						11,217
Market Value						27,716
Outstanding Shares						543
Target Price						P\$ 51.00
Current Market Price						P\$ 34.25
Potential Return Incl. Dividends						48.9%
Forward EV/EBITDA						7.2x
Forward P/E						26.9x
Average Cost of Debt						10.8%
LT Tax Rate						30.0%
After-Tax Cost of Debt						7.6%
Cost of Equity						12.2%
Market Risk Premium						6.0%
Risk-Free Rate						9.3%
Beta						0.47
% Total Debt						52.2%
% Capital						47.8%
ESG Adjusted WACC						9.5%

Sensitivity Analysis Table, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	4,949	5,224	5,499	5,774	6,049
Target EV/EBITDA					
5.7x	30.05	32.94	35.82	38.70	41.59
6.2x	34.61	37.74	40.88	44.02	47.15
6.7x	39.16	42.55	45.94	49.33	52.72
7.2x	43.71	47.36	51.00	54.64	58.28
7.7x	48.27	52.16	56.06	59.95	63.85
8.2x	52.82	56.97	61.12	65.26	69.41

Sensitivity Analysis Table, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	927	979	1,030	1,082	1,133
Target P/E					
23.9x	40.78	43.05	45.31	47.58	49.84
24.9x	42.49	44.85	47.21	49.57	51.93
25.9x	44.19	46.65	49.10	51.56	54.01
26.9x	45.90	48.45	51.00	53.55	56.10
27.9x	47.60	50.25	52.89	55.54	58.18
28.9x	49.31	52.05	54.79	57.53	60.27

(Figures in Millions of MXN\$)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	20,325	24,294	27,902	31,474	35,309	39,614	44,336
Cost of Sales	-16,064	-18,717	-21,538	-24,256	-27,139	-30,298	-33,706
Gross Profit	4,261	5,577	6,364	7,218	8,171	9,316	10,630
<i>Gross Margin</i>	21.0%	23.0%	22.8%	22.9%	23.1%	23.5%	24.0%
General Expenses	-2,741	-3,313	-3,177	-3,353	-3,609	-3,784	-3,926
Operating Profit	1,686	2,285	3,187	3,865	4,562	5,532	6,704
<i>Operating Margin</i>	8.3%	9.4%	11.4%	12.3%	12.9%	14.0%	15.1%
Depreciation and Amortization	-1,913	-2,314	-2,312	-2,540	-2,768	-2,912	-2,956
EBITDA	3,600	4,598	5,499	6,405	7,330	8,444	9,660
<i>EBITDA Margin</i>	17.7%	18.9%	19.7%	20.4%	20.8%	21.3%	21.8%
Financial Gains	119	159	117	131	147	163	181
Financial Cost	-1,057	-1,742	-1,832	-1,936	-1,988	-2,033	-2,051
Pre-Tax Profit	748	701	1,472	2,060	2,720	3,662	4,834
Income Tax & Profit Sharing	-244	-207	-441	-618	-816	-1,099	-1,450
Net Profit	504	494	1,030	1,442	1,904	2,563	3,384
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	26,809	29,153	30,826	32,738	34,803	37,654	40,789
Current Assets	6,055	8,139	9,215	10,255	11,371	12,612	13,973
Cash & Temp. Inv.	996	1,023	1,178	1,329	1,491	1,672	1,870
LT Assets	20,754	21,014	21,610	22,483	23,432	25,041	26,815
P, P & E	11,798	12,992	13,584	14,452	15,396	17,000	18,768
Other LT Assets	160	160	160	160	160	160	160
TOTAL LIABILITIES	15,644	18,466	19,709	20,779	21,540	22,427	22,778
ST Liabilities	5,449	7,201	7,443	7,514	7,775	8,162	8,513
LT Liabilities	10,195	11,265	12,265	13,265	13,765	14,265	14,265
TOTAL DEBT	9,936	12,240	13,050	13,716	14,041	14,465	14,313
NET DEBT	8,940	11,217	11,873	12,387	12,550	12,793	12,442
TOTAL CAPITAL	11,165	11,191	11,621	12,464	13,768	15,731	18,515
Stockholder's Equity	11,165	11,191	11,621	12,464	13,768	15,731	18,515
CASH FLOW STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Net Profit	504	494	1,030	1,442	1,904	2,563	3,384
Inv. Related Activities	2,987	3,864	4,158	4,576	5,006	5,375	5,667
Pre-Tax Cash Flow	3,421	4,768	4,506	4,933	5,561	5,795	6,665
Working Capital Changes	9	-1,300	-489	-484	-518	-597	-659
Operating Cash Flow	3,430	3,468	4,018	4,449	5,043	5,198	6,006
Investment Cash Flow	-4,965	-2,440	-2,378	-2,571	-2,764	-2,956	-3,150
Financing Cash Flow	1,272	-995	-1,479	-1,721	-2,111	-2,057	-2,652
Net Incr. (Decr.) in Cash & Temp. Inv.	-265	29	160	157	168	186	204
Beg. of Period Cash and Temp. Inv.	1,475	996	1,023	1,178	1,329	1,491	1,672
End of Period Cash and Temp. Inv.	996	1,023	1,178	1,329	1,491	1,672	1,870

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