

ALSEA

Quarterly Report

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Resilience in the domestic market

- **Growth in regions remained in line with our estimates. Sequential margin growth in Mexico and Europe, a report that should be well received by the market**
- **Commercial and digital strategies seem appropriate, while the prospect of lower cost pressures should support profitability. ND/EBITDA declines from 3.0x to 2.8x**
- **Incorporating the quarter's figures, we set a PT at \$67.00, which would represent a 2023e FV/EBITDA of 6.8x vs. 6.2x current, albeit below the USA average of 7.9x. We reiterate BUY**

Mexico drives growth, while margin pressures remain in Europe. Alsea reported figures in line with our estimates, posting revenue growth of 11.9% y/y to MXN 19.1 billion (+18.6% y/y in SSS). Revenue growth was mainly explained by a +17.6% y/y increase in Mexico (+14.1% y/y in SSS) due to menu architecture strategies and digital innovations; followed by a 9.4% y/y increase in South America (+49.0% y/y in SSS) and a 4.4% y/y increase in Europe (+11.5% in SSS). EBITDA reached MXN 3.8 billion (+5.8% y/y) with a margin of 20.3% (-1.2pp). The year-over-year contraction in profitability is explained by the following factors: (1) a decrease in Europe's margin (-2.8pp) due to the continued impact of higher raw material costs, higher energy prices and higher labor costs; (2) a drop in Mexico's margin (-0.4pp) and stability in South America. However, the sequential gains in Europe (+1.8pp q/q) and Mexico (+1.3pp q/q) were significant, while South America experienced a contraction (-1.0pp q/q). Finally, net income reached MXN 0.4 billion (+109.9% y/y), due to higher interest income (+400% y/y) and a reduction in foreign exchange losses (-60.5% y/y). **Favorable outlook for profitability.** Although we will continue to monitor margin developments, particularly in Europe, we believe that the turning point has already been reached. In the meantime, we see a cheapening in valuation with a current FV/EBITDA of 6.2x vs. 6.6x previously. We reaffirm our BUY recommendation.

BUY	
Current Price	\$57.79
PT	\$67.00
Upside Potential	15.9%
Max - Min LTM (\$)	60.4-34.72
Market Cap (US\$m)	2,795.4
Shares Outstanding (m)	838.6
Float	48.6%
Daily Turnover (\$m)	78.7
Valuation metrics LTM	
FV/EBITDA	6.2x
P/E	25.1x
MSCI ESG Rating*	N.A.



Winners of the 2023 award for the best economic forecasters in Mexico, awarded by Focus Economics.



Financial Statements

	2021	2022	2023E	2024E
Revenues	53,379	68,831	76,286	84,781
Operating Income	4,133	6,341	7,373	9,391
EBITDA	12,311	14,050	15,528	18,149
EBITDA Margin	23.1%	20.4%	20.4%	21.4%
Net Income	949	1,632	2,367	2,921
Net Margin	1.8%	2.4%	3.1%	3.4%
Total Assets	82,195	79,793	80,397	86,602
Cash	6,893	6,100	6,258	10,387
Total Liabilities	74,303	78,320	74,662	75,795
Debt	55,492	55,492	55,492	55,492
Common Equity	9,156	9,154	9,154	9,154

Source: Banorte.

Valuation and financial metrics

	2021	2022	2023E	2024E
FV/EBITDA	7.8x	6.9x	6.2x	5.1x
P/E	49.4x	29.6x	19.2x	15.7x
P/BV	5.4x	5.5x	4.5x	4.3x
ROE	10.4%	17.8%	25.9%	31.9%
ROA	1.2%	2.0%	2.9%	3.4%
EBITDA/ Interes exp	-3.4x	-3.3x	-3.1x	-3.5x
Net Deb/EBITDA	3.9x	3.5x	3.2x	2.5x
Debt/Equity	6.1x	6.1x	6.1x	6.1x

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ALSEA – Results 2Q23

MXN, million

Concept	2Q22	2Q23	Var %	2Q23e	Diff % vs Estim.
Revenue	16,939	18,949	11.9%	18,954	0.0%
Operating Income	1,680	1,745	3.9%	1,894	-7.9%
Ebitda	3,627	3,839	5.8%	3,877	-1.0%
Net Income	211	444	109.9%	480	-7.5%
Margins					
Operating Margin	9.9%	9.2%	-0.7pp	10.0%	-0.8pp
Ebitda Margin	21.4%	20.3%	-1.2pp	20.5%	-0.2pp
Net Margin	1.2%	2.3%	1.1pp	2.5%	-0.2pp
EPS	\$0.25	\$0.53	109.9%	\$0.57	-7.5%

Income Statement					
Year	2022	2023	2023	Change	Variation
Quarter	2	1	2	% y/y	% q/q
Net Revenue	16,939.1	17,665.6	18,948.7	11.9%	7.3%
Cost of goods sold	5,545.6	5,855.2	6,285.5	13.3%	7.4%
Gross profit	11,393.6	11,810.5	12,663.2	11.1%	7.2%
General expenses	9,714.0	10,173.9	10,918.4	12.4%	7.3%
Operating Income	1,679.6	1,636.5	1,744.9	3.9%	6.6%
Operating Margin	9.9%	9.3%	9.2%	(0.7pp)	(0.1pp)
Depreciation	1,947.9	2,047.9	2,094.6	7.5%	2.3%
EBITDA	3,627.5	3,684.4	3,839.5	5.8%	4.2%
EBITDA Margin	21.4%	20.9%	20.3%	(1.2pp)	(0.6pp)
Interest income (expense) net	(1,337.4)	(682.6)	(1,001.1)	-25.1%	46.7%
Interest expense	950.4	1,167.4	863.1	-9.2%	-26.1%
Interest income	37.2	132.3	186.0	400.0%	40.6%
Other income (expenses)			(156.4)	N.A.	N.A.
Exchange Income (loss)	(424.3)	352.5	(167.6)	-60.5%	N.A.
Unconsolidated subsidiaries			3.4	N.A.	N.A.
Income before taxes	342.2	953.9	747.2	118.4%	-21.7%
Income taxes	105.3	347.7	257.0	144.1%	-26.1%
Discontinued operations					
Consolidated Net Income	236.9	606.2	490.1	106.9%	-19.2%
Minorities	25.4	18.0	46.3	82.1%	157.1%
Net Income	211.4	588.2	443.8	109.9%	-24.6%
Net margin	1.2%	3.3%	2.3%	1.1pp	(1.0pp)
EPS	0.252	0.701	0.529	109.9%	-24.6%

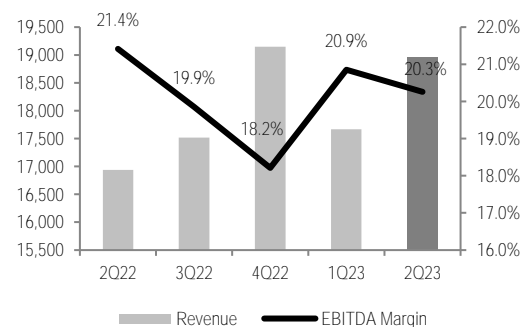
Balance Sheet (Million pesos)					
Total Current Assets	10,973.7	10,910.0	11,268.8	2.7%	3.3%
Cash & Short Term Investments	5,042.8	4,469.0	4,349.7	-13.7%	-2.7%
Long Term Assets	68,757.4	65,720.2	61,121.9	-11.1%	-7.0%
Property, Plant & Equipment (Net)	15,371.7	14,933.6	14,732.1	-4.2%	-1.3%
Intangible Assets (Net)	14,119.1	13,802.2	13,152.4	-6.8%	-4.7%
Total Assets	79,731.1	76,630.1	72,390.7	-9.2%	-5.5%
Current Liabilities	20,089.5	19,571.8	21,949.7	9.3%	12.1%
Short Term Debt	5,459.1	4,924.6	7,216.5	32.2%	46.5%
Accounts Payable	9,163.1	10,084.7	10,105.9	10.3%	0.2%
Long Term Liabilities	50,605.2	48,530.3	42,077.4	-16.9%	-13.3%
Long Term Debt	45,977.6	41,782.0	37,843.7	-17.7%	-9.4%
Total Liabilities	70,694.7	68,102.1	64,027.1	-9.4%	-6.0%
Common Stock	9,036.4	8,528.0	8,363.6	-7.4%	-1.9%
Preferred Stock	1,018.6	957.4	956.8	-6.1%	-0.1%
Total Equity	8,017.8	7,570.5	7,406.7	-7.6%	-2.2%
Liabilities & Equity	79,731.1	76,630.1	72,390.7	-9.2%	-5.5%
Net Debt	46,393.9	42,237.7	40,710.5	-12.3%	-3.6%

Cash Flow (Million pesos)					
Cash Flow from Operating Activities	6,322.6	2,991.8	5,740.4		
Cash Flow from Investing Activities	(1,478.2)	(470.1)	(1,389.4)		
Cash Flow from Financing Activities	(6,774.9)	(2,537.1)	(4,044.4)		
Change in Cash Balance	(1,930.6)	(15.4)	306.6		

Source: Banorte, MSE.

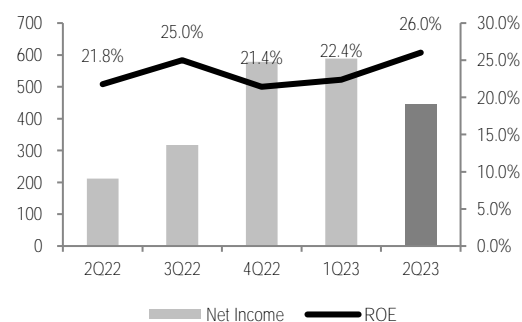
Revenue & EBITDA Margin

MXN, million



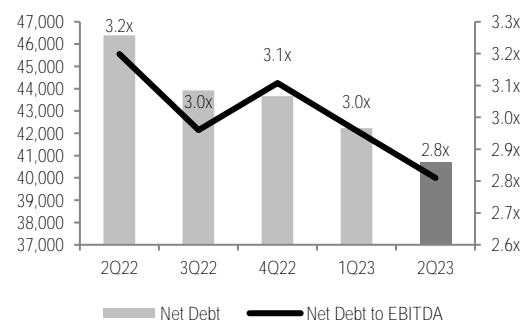
Net Income & ROE

MXN, million



Net Debt & Net debt to EBITDA ratio

MXN, million



Positive organic growth dynamics, as well as a more positive cost environment, contribute to an improved outlook for the company. The first half of the year has proven to be a period of solid growth, supported by continued resilient demand in all operating regions: Mexico (53% of revenues in 2Q23), Europe (30% in 2Q23) and South America (17% in 2Q23). In addition, the inflection point for cost pressures appears to have already occurred, favoring the possibility of sequential improvements in profitability. Although [downside risks remain latent](#), the outlook for this year remains positive due to the good dynamism that consumption has maintained. In this context, expectations for the performance of the business divisions remain positive, as organic expansion advances and cost pressures seem to be diminishing after the inflection point in the first quarter of the year.

Update Estimates

After incorporating the latest results for the quarter, we update our estimates. Anticipating a favorable trend in all regions, coupled with a recovery in the margins of the business divisions, while continuing to consolidate positive results from commercial strategies that include home delivery, with a 17.1% share of Alsea's consolidated sales as of 2Q23, we expect revenues for the year to reach MXN 76.3 billion vs. MXN 73.5 billion previously, reflecting a 10.8% y/y increase (consolidated SSS +13.9% y/y vs. +5.0%e previously). In particular, we forecast Mexico's sales to advance 11.8% y/y (consolidated SSS +12.0% vs. +4.9% y/y previously), supported by the resilience of domestic consumption. In Europe, we project a 9.1% y/y growth (consolidated SSS +9.3% y/y vs. +3.4% y/y previously) and in South America an 11.1% y/y expansion (consolidated SSS +17.0% y/y vs. 5.0% y/y previously). Based on the good performance in all business lines, we anticipate EBITDA to increase to MXN 15.5 billion (+10.5% y/y) vs. MXN 16.0 billion previously, representing margin stability at 20.4% (unchanged vs. 2022) vs. a margin of 21.8%e previously, as pressures have remained particularly in Europe during the first half of the year. By regions, we consider the following gross margin levels: Mexico at 63.8% (-0.3pp), South America at 62.5% (-1.0pp) and Europe (-3.8pp), reflecting higher inflation during the first half of the year, but a more positive environment for the second half. On the other hand, we estimate financial income at MXN 4.2 billion (+20.1% y/y), taking into account higher financial expenses due to higher interest rates throughout 2023. Finally, we forecast net income at MXN 1.6 billion (+38.3% y/y).

On the other hand, for 2024 and considering a less dynamic start to the year, where profitability pressures should be easing, we forecast total revenues to reach MXN 84.8 billion, representing an increase of +11.1% y/y (+6.7% y/y in SSS), which will also be driven by our organic growth strategy. By region, we anticipate growth of +8.7% y/y in Mexico, +12.0% y/y in Europe and +16.0% in South America. Derived from the above and with a better outlook, we forecast EBITDA at MXN 18.1 billion with a margin of 21.4% (+1.1pp y/y). For Mexico and South America, we anticipate gross margins to show stability after the integration of higher costs in 2023, at 63.8% and 62.5%, respectively. On the other hand, Europe is where we see a higher benefit from lower

production costs, resulting in a margin of 69.1% (+2.0pp). On the other hand, we project net interest income to reach MXN 4.7 billion (+12.1% y/y), reflecting a decrease in interest expense starting in the second quarter of the year. Finally, we forecast net income at MXN 2.9 billion (+23.4% y/y), supported by a stronger recovery in profitability in Europe and progress in organic operations.

By region in 2023... For Mexico operations, we consider the opening of 85 stores, particularly 39 new stores of Domino's Pizza and 35 Starbucks.

For Europe, we forecast the opening of 56 stores, including 17 Domino's Pizza and 38 Starbucks stores. In South America, we set a target of 48 new stores for the year, including 13 Domino's Pizza and 34 Starbucks.

The capital structure. Currently, Alsea has total debt of MXN 49.8 billion with an average cost of 9.0%, while the most important maturities are in 2026 (MXN 11.8 billion) and 2027 (MXN 7.8 billion), representing a share of projected EBITDA in 2024 of 64.9% and 42.7%, respectively. Regarding the leverage indicator, we forecast that by the end of 2023 the company will have a Net Debt/EBITDA ratio of 3.2x (vs. 2.8x in 2Q23) and 2.5x in 2024. Finally, we estimate total Capex for 2023 at \$5.2 billion (6.8% of sales), similar to the company's forecast of MXN 5.5 billion and representing the opening of 189 stores.

Strategic elements for the coming years

[Alsea identifies 4 key strategies](#) to be developed over the next few years, which are summarized as follows. (1) personnel capabilities, involving the attraction, retention, and development of talent; (2) digital capabilities, which, in turn, integrates loyalty programs, information processing and analysis, Omnichannel development and personalized marketing; (3) operational capabilities, reflecting the search to improve customer experiences; and (4) capabilities management, which seeks to increase profitability. In particular, the company expects that, with the second measure previously mentioned, which contemplates price optimization, elasticity analysis, product, and channel segmentation, as well as pricing studies and sales maximization, would represent an opportunity for annual EBITDA between 1.0% and 1.5%. In turn, they estimate that Starbucks' digital transformation will drive national market penetration from 35.4% in 2022 to 39% in 2023, as well as an expected level of 56% in 2027, driven by rewards programs and new stores.

Valuation and PT of \$67.00, with a BUY recommendation.

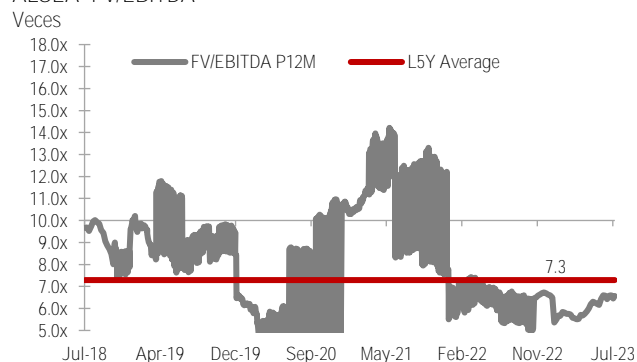
We assume lower cost pressures in the coming quarters with some stability in growth, even though some challenges prevail in the environment, particularly in consumption. To calculate the theoretical value of Alsea's shares, we used a discounted cash flow (DCF) valuation model, obtaining a PT of MXN 67.00 vs. MXN 53.00 previously. At that level, Alsea would trade at 6.8x FV/EBITDA 2023e (vs. 6.2x current), below the U5A average of 7.9x, as well as below the average of restaurant operators of 10.6x and franchisees of 18.4x (global average of 14.9x).

In our DCF model we used a WACC of 10%, which was calculated with a Beta of 0.8, Risk Free Rate of 8.9% (Mexican 10-year bond estimate) and market premium of 6.0%. The residual value was calculated with an exit FV/EBITDA multiple of 6.5x, slightly higher than the current one. In our view, the attractive valuation and positive economic outlook, as well as the potential PT yield of 15.9%, lead us to reiterate our BUY recommendation. Further revaluation could occur as the lower rate environment opens the possibility of paying higher multiples towards 2024.

DISCOUNTED CASH FLOW MODEL							
	2021e	2022e	2023e	2024e	2025e	2026e	Perp.
(+) EBITDA	15,528	18,149	18,748	19,367	19,754	20,149	
(-) Working Capital	1,677	1,796	1,875	1,937	1,975	2,015	
(-) Fixed Capital Investment	(5,200)	(5,503)	(7,264)	(9,589)	(12,274)	(15,711)	
(-) Taxes	(1,399)	(1,440)	(5,625)	(5,810)	(5,926)	(6,045)	
(=) Cash Flow	10,606	13,002	7,734	5,905	3,530	409	
(+) Perpetuity	0	0	0	0	0	0	135,294
(=) FCFF	10,606	13,002	7,734	5,905	3,530	409	135,294
Risk-free Rate	8.9%						(+)FCFs Present Value 25,312
Market Risk	6.0%						(+) Perpetuity Present Value 76,366
Beta	0.8						= Enterprise Value 101,677
CAPM	13.8%						(-) Net Debt (45,527)
							(-) Minority Interest 0
Cost of Debt	9.0%						
Tax Rate	30.0%						(=) Equity Value 56,150
Net Cost of Debt	6.3%						Shares Outstanding 839
Debt/Capital	51%						
WACC	10.0%						Target Price \$ 66.96
EBITDA Multiple	6.5x						Current Price 57.79
							Upside Potential 15.9%

Source: Banorte

ALSEA- FV/EBITDA



Source: Bloomberg, Banorte

RELATIVE VALUATION									
STOCK	P/B	P/E	P/E 2023E	P/E 2024E	FV/EBITDA	FV/EBITDA 2023E	FV/EBITDA 2024E	DIVIDEND YIELD	
PLENUS CO LTD									
CAFE DE CORAL HOLDINGS LTD	2.1x		18.8x	13.7x	5.4x	9.6x	8.1x	3.8%	
DARDEN RESTAURANTS INC	9.3x	21.3x	19.4x	17.5x	13.2x	14.7x	13.7x	3.1%	
CMR SAB DE CV	4.0x								
BRINKER INTERNATIONAL INC		15.5x	14.2x	11.8x	8.2x	11.1x	9.7x		
BLOOMIN' BRANDS INC	7.6x		9.5x	9.1x	6.4x	7.9x	7.7x		
ARCOS DORADOS HOLDINGS INC-A	6.7x		14.7x	12.0x	9.2x	8.4x	7.7x		
INTERNATIONAL MEAL COMPANY A	0.7x								
DINE BRANDS GLOBAL INC		10.6x	9.4x	8.8x	13.0x	9.7x	9.3x		
FIESTA RESTAURANT GROUP	1.4x								
EL POLLO LOCO HOLDINGS INC	1.4x	15.8x	14.7x	12.4x	8.6x	11.3x	10.1x		
AMREST HOLDINGS SE	4.2x					7.5x	6.4x		
DOMINO'S PIZZA GROUP PLC		18.2x	20.5x	17.4x	15.7x	15.1x	13.5x		
	4.7x	16.3x	15.1x	12.8x	10.0x	10.6x	9.6x	3.5%	
Restaurant Managers	4.0x	15.8x	14.7x	12.2x	8.9x	9.7x	9.3x	3.5%	
MCDONALD'S CORP		26.6x	26.3x	24.0x	22.6x	19.4x	18.0x	2.1%	
STARBUCKS CORP		32.3x	29.8x	24.9x	17.0x	19.4x	16.9x	2.1%	
RESTAURANT BRANDS INTERN	9.3x	32.6x	24.5x	22.6x	22.8x	19.3x	18.0x	2.9%	
YUM! BRANDS INC		31.2x	26.8x	23.3x	21.6x	19.9x	18.1x	1.8%	
DOMINO'S PIZZA INC		31.3x	29.5x	25.8x	20.8x	21.4x	19.7x	1.2%	
DUNKIN' BRANDS GROUP INC			32.9x	33.2x					
WENDY'S CO/THE	10.9x	24.7x	22.0x	19.3x	13.8x	15.1x	14.1x	4.6%	
JACK IN THE BOX INC		23.2x	15.8x	14.2x	13.6x	15.0x	14.7x	1.8%	
CHEESECAKE FACTORY INC/THE	6.4x		14.0x	11.3x	14.9x	14.1x	12.4x		
PAPA JOHN'S INTL INC		32.2x	31.1x	27.1x	18.3x	17.0x	15.8x	2.0%	
SHAKE SHACK INC - CLASS A	8.3x		476.2x	264.7x	35.5x	31.2x	26.3x		
RED ROBIN GOURMET BURGERS	49.2x					11.2x	9.0x		
	16.8x	29.3x	66.7x	44.6x	20.1x	18.4x	16.6x	2.3%	
Franchises	9.3x	31.3x	26.8x	24.0x	19.5x	19.3x	16.9x	2.0%	
	8.7x	24.3x	45.0x	31.2x	15.6x	14.9x	13.5x	2.5%	
Global	6.6x	24.7x	20.5x	17.5x	14.4x	14.8x	13.6x	2.1%	
ALSEA SAB DE CV	6.5x	25.1x	19.2x	15.7x	6.2x	6.2x	5.1x		
Premium/Discount vs Median	-30.1%	1.7%	-6.2%	-10.3%	-56.8%	-58.2%	-62.6%		
Source: Banorte, Bloomberg									

Certification of Analysts.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldivar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmin Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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Last-twelve-month activities of the business areas.

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Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

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Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

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For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

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History of PT and ratings

Stock	Date	Recommendation	PT
ALSEA	07/26/2023	BUY	\$67.00
ALSEA	10/27/2022	BUY	\$53.00
ALSEA	07/28/2022	BUY	\$53.29

MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD	AVERAGE			LEADER		

*The MSCI ESG Rating is an indicator that evaluates companies in Environment, Society and Governance (ESG) metrics.

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