

# FEMSA

## Quarterly Report

August 7, 2023

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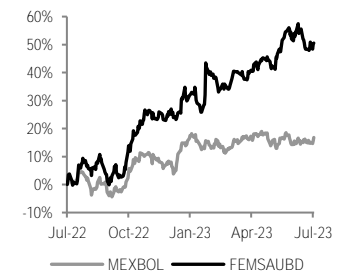
## Solid progress in all business lines

- **Significant growth in the Proximity segment. Oxxo's performance reflects continued resilience in consumer spending as commercial strategies could continue to drive expansion**
- **Positive outlook, while continuing to consolidate the digital business. Based on the good results, the FV/EBITDA valuation was lowered to 8.5x (vs. 9.7x previously). We reaffirm it as one of our [favorites](#)**

**Proximity continues to drive growth, while outlook remains positive as long-term strategies move forward.** The company reported operating figures in line with expectations, while earnings already included the divestment of Heineken. Revenues reached MXN 198.2 billion (+18.3% y/y), supported by the growth of the Proximity America division of +19.9% y/y (+15.3% in SSS), reflecting increases of +7.4% y/y in average ticket and traffic, as well as a strong performance of the *gathering occasions* category; in addition, the important opening of 444 units was recorded, consolidating a total of 22,059 Oxxo stores. Health remained practically unchanged at +0.6% y/y, while Fuels increased +9.3% y/y. EBITDA reached MXN 27.1 billion (+16.1% y/y) with a margin of 13.7% (-0.3pp), reflecting higher labor costs that resulted in a contraction of Proximity (-0.8pp) and Fuels (-0.4pp), while Health had an expansion (+0.5pp) and [Kof](#) had a marginal positive variation (+0.1pp). Finally, net income reached MXN 6.2 billion (+18.3% y/y), which is mainly explained by the following factors combined with the performance of the following divisions: (1) Non-operating income of MXN 9.4 billion arising from the divestiture of Jetro Restaurant Depot; (2) a foreign exchange loss of MXN 6.5 billion and; (3) a net loss from discontinued operations of MXN 3.9 billion due to the market value of the Heineken shares underlying Femsa's exchangeable bond. **Expansion should continue as margin pressures ease and business strategies consolidate.** We maintain favorable expectations given the potential of the digital business and the strong organic expansion of Proximity. Additionally, FV/EBITDA valuation remains attractive at 8.5x (vs. U3A average of 9.6x). Financial strength stands out with a ND/EBITDA at 1.2x vs. previous at 2.0x, opening the possibility of extraordinary dividends, share buybacks or acquisitions that could be interesting.

BUY	
Current Price	\$184.28
PT	\$212.00
Dividend	\$1.8
Dividend Yield (%)	1.0%
Upside Potential	16.0%
Max - Min LTM (\$)	194.6-121.4
Market Cap (US\$m)	39,179.4
Shares Outstanding (m)	3,578.2
Float	60%
Daily Turnover (\$m)	438.5
Valuation metrics LTM	
FV/EBITDA	8.5x
P/E	9.4x
MSCI ESG Rating*	A

Relative Performance to MEXBOL LTM



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



### Financial Statements

	2020	2021	2022	2023E
Revenues	555,517	673,202	790,246	865,296
Operating Income	51,983	59,416	63,348	67,556
EBITDA	82,342	92,812	103,507	112,284
EBITDA Margin	14.8%	13.8%	13.1%	13.0%
Net Income	28,492	24,757	74,403	35,408
Net Margin	5.1%	3.7%	9.4%	4.1%
Total Assets	737,500	798,621	901,549	914,027
Cash	97,407	83,439	144,255	150,880
Total Liabilities	402,383	459,965	512,792	488,123
Debt	255,628	280,639	271,966	271,966
Common Equity	335,117	338,656	388,757	425,904

Source: Banorte.

### Valuation and financial metrics

	2020	2021	2022	2023E
FV/EBITDA	10.8x	9.8x	7.9x	7.3x
P/E	N.A.	22.6x	9.3x	19.6x
P/BV	1.9x	1.9x	1.8x	1.6x
ROE	-1.2%	8.5%	19.1%	8.3%
ROA	-0.6%	3.9%	8.3%	3.9%
EBITDA/ Interes exp	4.7x	5.3x	10.6x	16.2x
Net Debt/EBITDA	1.8x	1.9x	1.2x	1.1x
Debt/Equity	0.8x	0.8x	0.7x	0.6x

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## FEMSA – Results 2023

MXN, million

Concept	2022	2023	Var %	2023e	Diff % vs Estim.
Revenue	167,504	198,220	18.3%	195,406	1.4%
Operating Income	15,355	16,581	8.0%	17,057	-2.8%
Ebitda	23,370	27,134	16.1%	26,948	0.7%
Net Income	5,208	6,164	18.3%	46,410	-86.7%
<b>Margins</b>					
Operating Margin	9.2%	8.4%	-0.8pp	8.7%	-0.4pp
Ebitda Margin	14.0%	13.7%	-0.3pp	13.8%	-0.1pp
Net Margin	3.1%	3.1%	0.0pp	23.8%	-20.6pp
EPS	\$1.46	\$1.72	18.3%	\$12.97	-86.7%

### Income Statement

Year	2022	2023	2023	Change	Variation
Quarter	2	1	2	% y/y	% q/q
Net Revenue	167,503.6	180,011.4	198,219.8	18.3%	10.1%
Cost of goods sold	105,407.9	112,997.5	123,649.7	17.3%	9.4%
Gross profit	62,095.8	67,013.8	74,570.1	20.1%	11.3%
General expenses	46,740.8	54,470.8	57,989.1	24.1%	6.5%
Operating Income	15,355.0	12,543.0	16,581.0	8.0%	32.2%
Operating Margin	9.2%	7.0%	8.4%	(0.8pp)	1.4pp
Depreciation	8,015.0	9,614.0	10,553.0	31.7%	9.8%
EBITDA	23,370.0	22,157.0	27,134.0	16.1%	22.5%
EBITDA Margin	14.0%	12.3%	13.7%	(0.3pp)	1.4pp
Interest income (expense) net	(2,821.7)	1,955.5	(7,263.6)	157.4%	N.A.
Interest expense	4,197.0	3,700.5	2,873.9	-31.5%	-22.3%
Interest income	787.1	8,522.8	1,762.7	124.0%	-79.3%
Other income (expenses)			303.8	N.A.	N.A.
Exchange Income (loss)	111.1	(2,552.9)	(6,456.2)	N.A.	152.9%
Unconsolidated subsidiaries	9.0	251.9	(230.0)	N.A.	N.A.
Income before taxes	12,299.3	14,246.6	18,727.0	52.3%	31.4%
Income taxes	4,667.6	4,328.0	5,618.0	20.4%	29.8%
Discontinued operations		40,605.8	(3,953.2)		
Consolidated Net Income	7,640.8	50,329.0	8,925.8	16.8%	-82.3%
Minorities	2,431.6	2,251.3	2,762.2	13.6%	22.7%
Net Income	5,208.2	48,077.7	6,163.6	18.3%	-87.2%
Net margin	3.1%	26.7%	3.1%	0.0pp	(23.6pp)
EPS	1.456	13.436	1.723	18.3%	-87.2%

### Balance Sheet (Million pesos)

Total Current Assets	230,812.1	334,115.3	314,094.3	36.1%	-6.0%
Cash & Short Term Investments	105,899.6	99,927.1	153,999.1	45.4%	54.1%
Long Term Assets	502,832.8	476,576.4	466,907.3	-7.1%	-2.0%
Property, Plant & Equipment (Net)	118,314.3	131,500.8	133,475.9	12.8%	1.5%
Intangible Assets (Net)	111,374.1	101,388.1	104,622.8	-6.1%	3.2%
Total Assets	733,644.9	810,691.6	781,001.6	6.5%	-3.7%
Current Liabilities	163,924.0	190,260.1	174,876.5	6.7%	-8.1%
Short Term Debt	49,174.4	66,830.5	44,319.4	-9.9%	-33.7%
Accounts Payable	99,507.8	103,818.3	108,650.0	9.2%	4.7%
Long Term Liabilities	248,879.1	259,292.1	244,417.8	-1.8%	-5.7%
Long Term Debt	225,434.0	226,767.1	224,770.4	-0.3%	-0.9%
Total Liabilities	412,803.1	449,552.2	419,294.3	1.6%	-6.7%
Common Stock	320,841.8	361,139.4	361,707.3	12.7%	0.2%
Preferred Stock	70,573.7	69,259.9	70,690.6	0.2%	2.1%
Total Equity	250,268.1	291,879.5	291,016.7	16.3%	-0.3%
Liabilities & Equity	733,644.9	810,691.6	781,001.6	6.5%	-3.7%
Net Debt	168,708.8	193,670.5	115,090.7	-31.8%	-40.6%

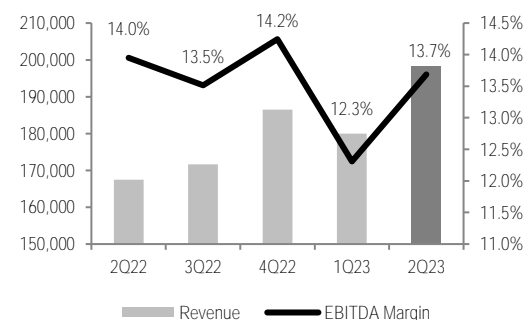
### Cash Flow (Million pesos)

Cash Flow from Operating Activities	45,001.9	9,295.0	40,696.0		
Cash Flow from Investing Activities	2,469.0	38,079.0	115,236.0		
Cash Flow from Financing Activities	(22,507.0)	(24,802.1)	(50,802.0)		
Change in Cash Balance	12,627.9	20,024.9	87,015.0		

Source: Banorte, MSE.

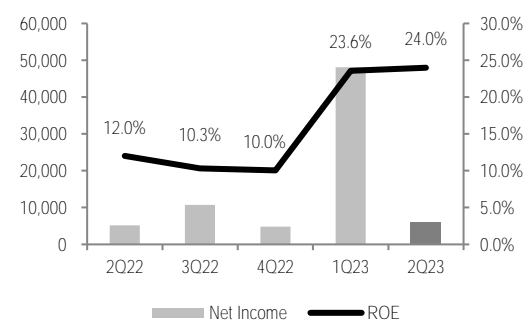
## Revenue & EBITDA Margin

MXN, million



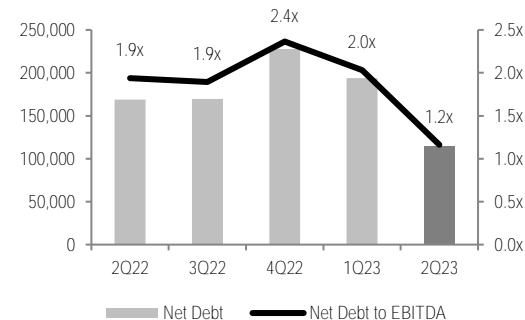
## Net Income & ROE

MXN, million



## Net Debt & Net debt to EBITDA ratio

MXN, million



## Performance by business unit

### Proximity Division

	2022	1Q23	2Q23	% YoY	% QoQ
Ticket	50.0	52.1	53.7	7.4%	3.1%
Traffic	18.1	17.2	19.4	7.2%	12.8%
SSS	904	896	1,043	15.3%	16.4%
Revenue	60,136	60,871	72,099	19.9%	18.4%
EBITDA	9,172	7,660	10,473	14.2%	36.7%
Margin EBITDA	15.3%	12.6%	14.5%	-0.8pp	1.9pp

Fuente: FEMSA

### Health Division

	2022	1Q23	2Q23	% YoY	% QoQ
SSS	1,212	1,220	1,167	-3.7%	-4.3%
Revenue	18,844	18,574	18,962	0.6%	2.1%
EBITDA	1,834	2,028	1,934	5.5%	-4.6%
Margin EBITDA	9.7%	10.9%	10.2%	0.5pp	-0.7pp

Source: FEMSA

### Fuel Division

	2022	1Q23	2Q23	% YoY	% QoQ
Price	20.2	20.5	20.7	2.5%	1.0%
Volume	358.2	346.9	360.4	0.6%	3.9%
SSS	7,227	7,110	7,458	3.2%	4.9%
Revenue	13,220	13,141	14,455	9.3%	10.0%
EBITDA	842	819	861	2.3%	5.1%
Margin EBITDA	6.4%	6.2%	6.0%	-0.4pp	-0.2pp

Fuente: FEMSA

### Coca-Cola Femsa

	2022	1Q23	2Q23	% YoY	% QoQ
Volume	952.4	939.6	1,018.9	7.0%	8.4%
Revenue	57,311	57,357	61,428	7.2%	7.1%
EBITDA	10,607	10,522	11,439	7.8%	8.7%
Margin EBITDA	18.5%	18.3%	18.6%	0.1pp	0.3pp

### Strategic Businesses Division

	2022	1Q23	2Q23	% YoY	% QoQ
Revenue	10,949	13,467	13,482	23.1%	0.1%
EBITDA	896	931	1,220	36.2%	31.0%
Margin EBITDA	8.2%	6.9%	9.0%	0.9pp	2.1pp

Fuente: FEMSA

### Consolidated

	2022	1Q23	2Q23	% YoY	% QoQ
Revenue	167,504	180,011	198,220	18.3%	110.1%
EBITDA	23,370	22,157	27,134	16.1%	122.5%
Margin EBITDA	14.0%	12.3%	13.7%	-0.3pp	1.4pp

Source: FEMSA. \*MXN, million, except Ticket (pesos), Traffic (thousands of transactions), SSS (thousands of pesos), Volume (thousands of lt.) y Price (average of lt.)

## 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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	Reference
<b>BUY</b>	When the share expected performance is greater than the MEXBOL estimated performance.
<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	When the share expected performance is lower than the MEXBOL estimated performance.

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## History of PT and ratings

Stock	Date	Recommendation	PT
FEMSA UBD	04/28/2023	Buy	\$212.00
FEMSA UBD	01/18/2021	Buy	\$190.00
FEMSA UBD	07/27/2020	Buy	\$164.00

## 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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