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LAB (BUY, PT\$24.00)

Flash: Lab Day. Strategies focused on core brands and productivity

- Genomma's new phase is just about to begin and will help detonate greater value by focusing on core brands, divesting non-strategic assets, and supporting productivity
- Despite a weak [4Q22](#), outlook is solid, and investments will begin to generate benefits. Based on the above, we reaffirm the company in our [Top-Picks](#)

Higher sales and margins are expected for the next few years, which will be supported on plant efficiencies and core brands development. Investor day remained largely in line with expectations, with sales growth close to our forecasts, but with an accelerated increase in profitability for the coming years. Among the highlights, LAB maintains the following targets from 2024 to 2025: (1) net sales exceeding MXN 20 billion (vs MXN 16.86 million in 2022 and vs MXN 18.26 million in 2023e) and (2) an EBITDA margin for the period between 24% and 25% (vs 20.6% in 2022 and vs 21.3% in 2023e). In this sense, expansion plan is based on 4 pillars: (1) integrated work system for manufacturing, where they plan to have zero waste and 100% labor utilization; (2) formats expansion, mainly focused on semi-solid products; (3) accelerate the transfer of external maquiladoras to internal manufacturing, and (4) dimension expansion, supported by innovation processes and greater competitiveness in exports. In addition, the company identifies five important catalysts on which it will be focusing its efforts: driving sales growth, improving margins by focusing on cost reduction, asset efficiencies, organizational optimization, and solid fundamentals.

Updated outlook for 2023. LAB established a double-digit growth expectation for all markets (including Mexico) in local currency, while on a consolidated basis, the company forecasts a mid-single-digit growth in Mexican pesos (8.3%e y/y), which would depend on the Mexican peso performance. Meanwhile, for EBITDA (12.2%e y/y), an expansion guide was established in which it should increase throughout the current year but accelerating mostly starting next year.

(1) driving brand revenues in the medium term. The company maintains a clear strategy to support sales volume of its main products, with the aim of increasing its market share from the current level: Personal care creams (8% to 10%), Analgesics (5% to 7%), Tío Nacho (3% to 5%), and Suerox (2% to 6%). To achieve these goals, three major tactical variables are considered: (1) consumer communication, representing the information channels available; (2) geographic positioning, i.e., leveraging brands presence in all regions; and (3) information processing to optimize business decisions. Considering that the plan contemplates focusing efforts on core brands, Lab could be carrying out potential divestitures or spin-offs to channel growth efforts more efficiently through

BUY	
Current Price	\$15.61
PT	\$24.00
Dividend	\$0.76
Dividend Yield (%)e	4.9%
Upside Potential	58.6%
Max – Min LTM (\$)	22.96-12.73
Market Cap (US\$m)	910.2
Shares Outstanding (m)	1,048.0
Float	71.0%
Daily Turnover (\$ m)	57.8
Valuation metrics LTM	
FV/EBITDA	6.0x
P/E	11.3x
MSCI ESG Rating*	N.A.

Relative performance to MEXBOL LTM



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innovation, resources, and production. Based on the above, revenues are expected to contribute an additional MXN 10 billion between 2024 and 2025.

(2) Operating efficiencies targeted over the next 3 years. Increased productivity remains one of the main lines of action, where a benefit of MXN 1.8 billion is expected from the implementation of the following measures: (1) MXN 600 million derived from Toluca's plant; (2) MXN 100 million from the consolidation of vertical integration; (3) MXN 300 million obtained from scale negotiations and reengineering, both in product formulas and packaging; (4) administration expenses, reflecting administrative savings; and (5) MXN 400 million associated with a better product mix and communication platforms.

Toluca's plant as an important catalyst for growth and profitability. San Cayetano manufacturing currently produces 5% of all products, which has as an initial goal reaching 10% by 2023, but to expand its share to 30% in the medium term and end up at target levels of 60%. Considering the above, this would boost the company's vertical integration and further limit the risks caused by third-party maquila, as well as triggering the expected value for sales and profitability. Therefore, the factory is one of the most relevant expansion enablers for the next few years. It is worth mentioning that COFEPRIS approval is still pending for the oral liquids, topical liquids, and coated tablets lines. Once the operating licenses for these processes are granted, the company will begin the process of obtaining its Good Manufacturing Practices (GMP) certificate for Mexico. Subsequently, the company will seek such certification for export markets. In this context, the company expects to have most of its lines operational during this year, favoring expansion.

Despite the short-term risks, we believe the company's strategies are positive. We believe that the various measures aimed at increasing brands' market share, coupled with the full release of permits, would trigger higher value. Among the risks we are contemplating is the continued strength of the Mexican peso against most currencies, as well as a delay in obtaining the necessary certificates to operate all production lines. However, even with our conservative approach with an EBITDA margin advance of 0.75pp that we forecast in our Price Target update; the action plan is favorably positioned to face the challenges of the environment with a long-term view. We reiterate our BUY recommendation.

Certification of Analysts.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, 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, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar 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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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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History of PT and Ratings

Stock	Date	Rating	PT
LAB	22/02/2023	BUY	\$24.00
LAB	26/10/2022	BUY	\$23.53
LAB	27/07/2022	BUY	\$25.80

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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