



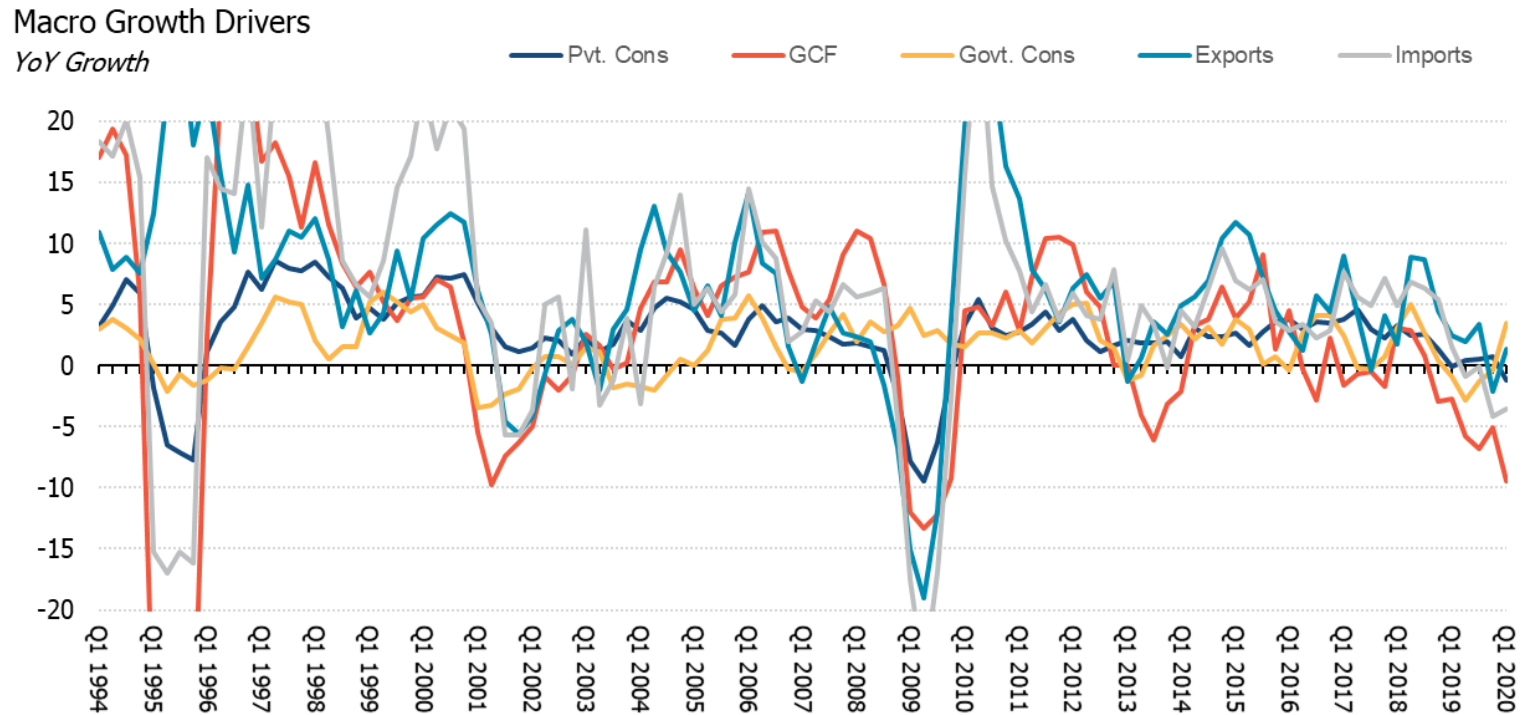
# 2020 TRADERFORUM LATAM Virtual Conference Mexico's Long Road Back

Virtual Conference – September 14, 2020

## Mexico's Long Road Back

- Mexico: LatAm's second largest economy and equity market
- Macro conditions and government macro policies
- Trading liquidity
- Innovation
- Corporate Governance
- Value and a possible road back to recovery

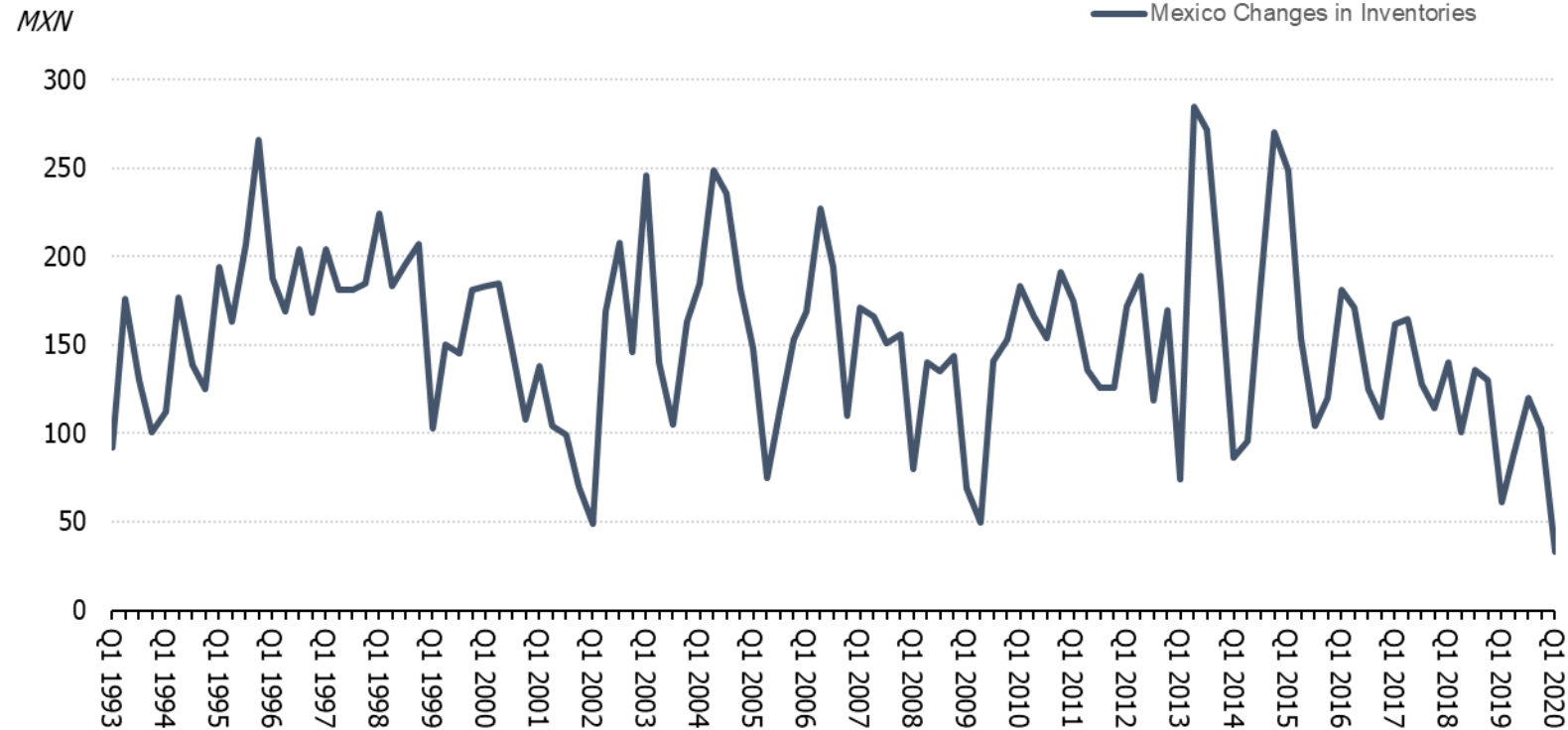
# Mexico – Macro



Source: Refinitiv, Aztlan

# Mexico – Macro

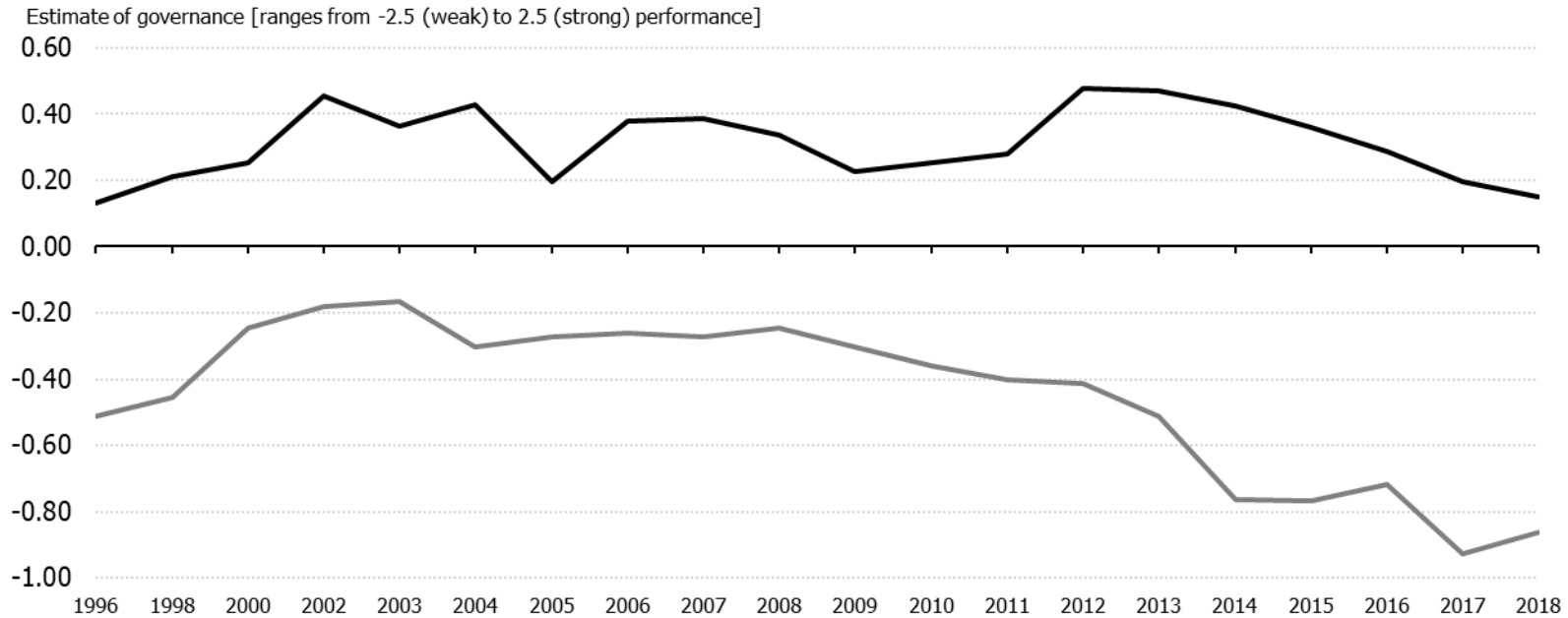
Re-stocking will help, as activity and confidence resumes



Source: Refinitiv, Aztlan | MXN, billions (2008 prices)

# Mexico – Governance

Governance Perceptions, leading upto Obrador election



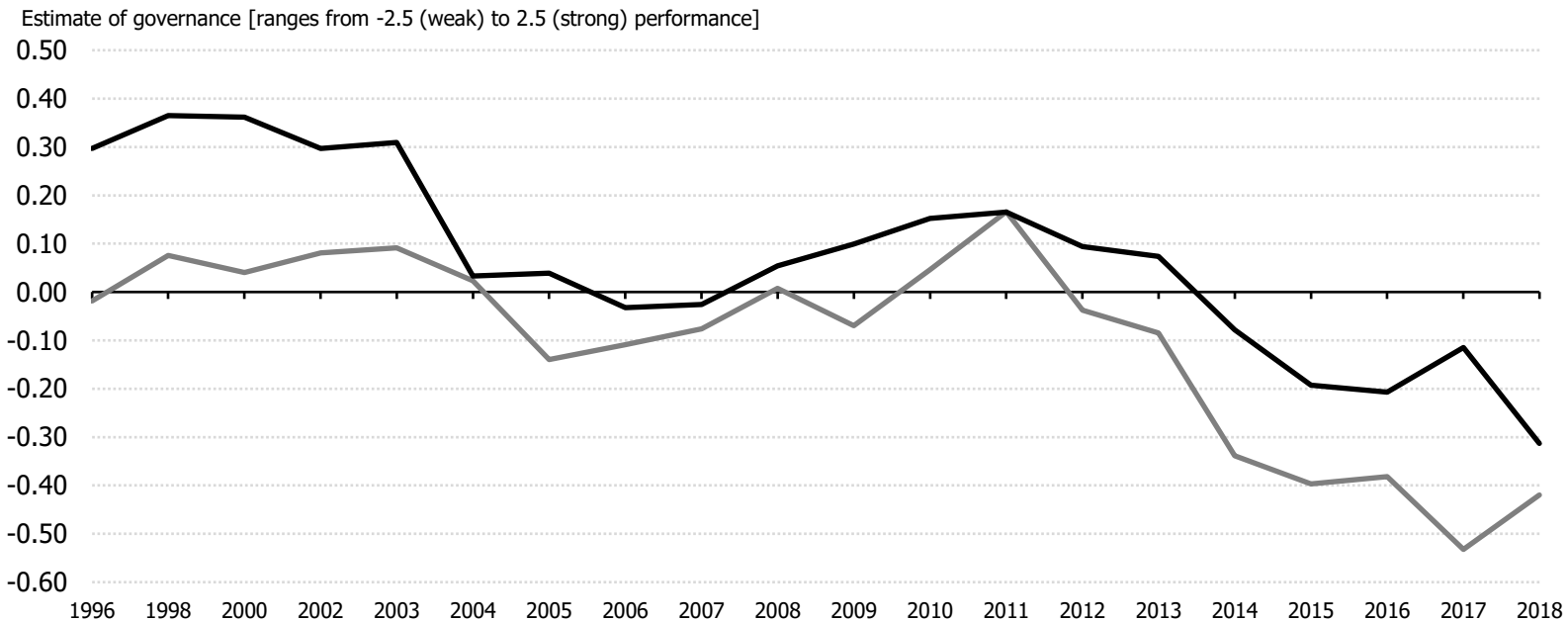
**Source:** World Bank Worldwide Governance Indicator| **Note:** Black - Regulatory Quality; Grey - Control of Corruption

Regulatory Quality: perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development

Control of Corruption: perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

# Mexico – Governance Regional Comparative

## Governance Perceptions, Brazil



**Source:** World Bank Worldwide Governance Indicator| **Note:** Black - Regulatory Quality; Grey - Control of Corruption

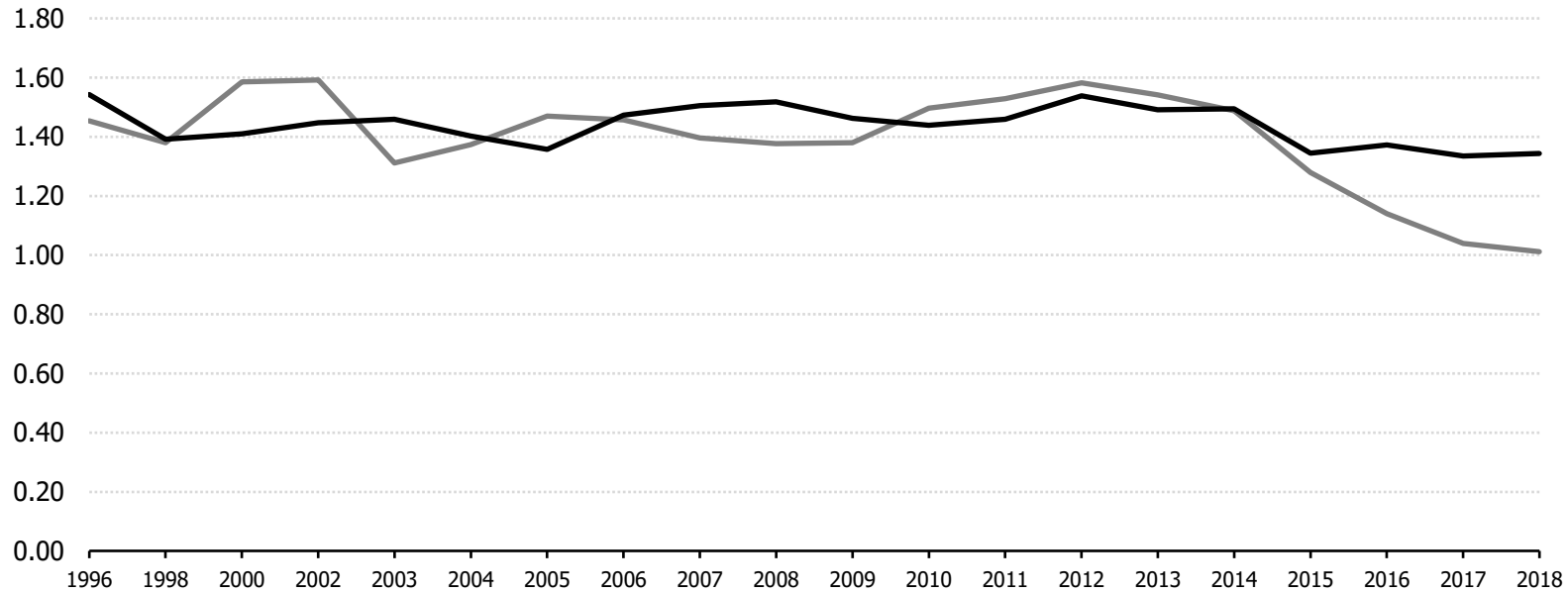
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# Mexico – Governance Regional Comparative

## Governance Perceptions, Chile

Estimate of governance [ranges from -2.5 (weak) to 2.5 (strong) performance]



**Source:** World Bank Worldwide Governance Indicator | Note: Black - Regulatory Quality; Grey - Control of Corruption

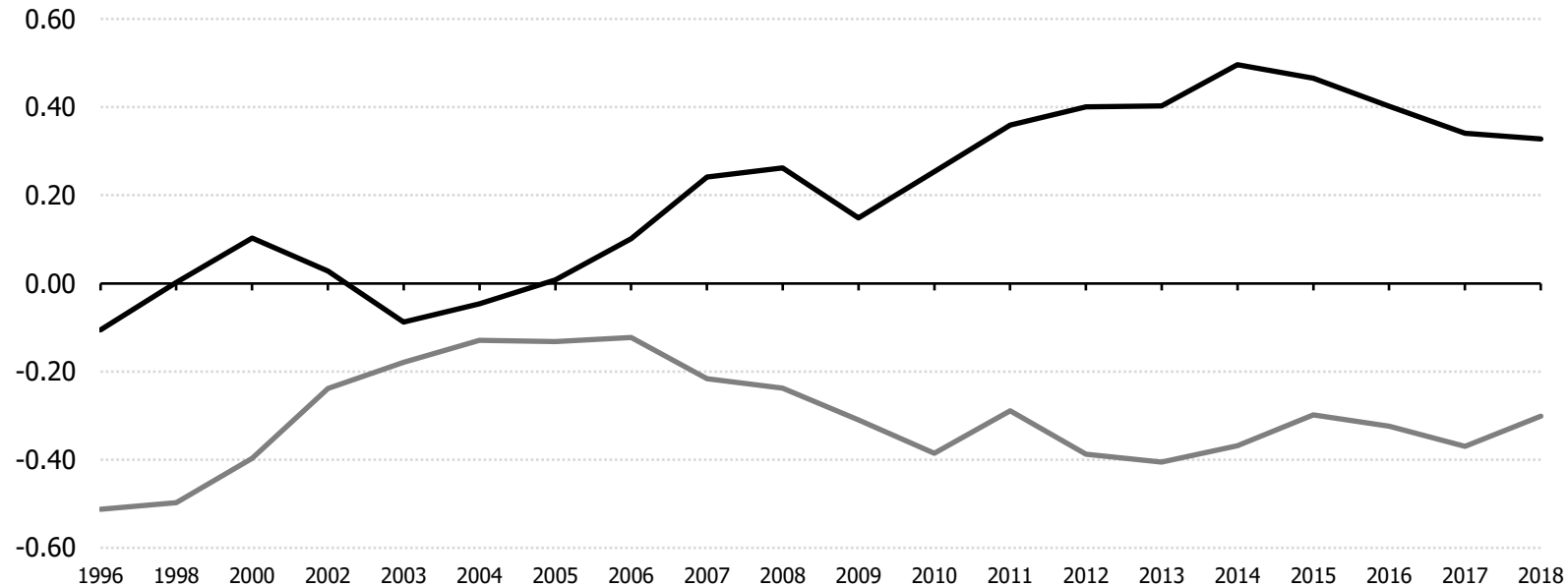
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# Mexico – Governance Regional Comparative

## Governance Perceptions, Colombia

Estimate of governance [ranges from -2.5 (weak) to 2.5 (strong) performance]



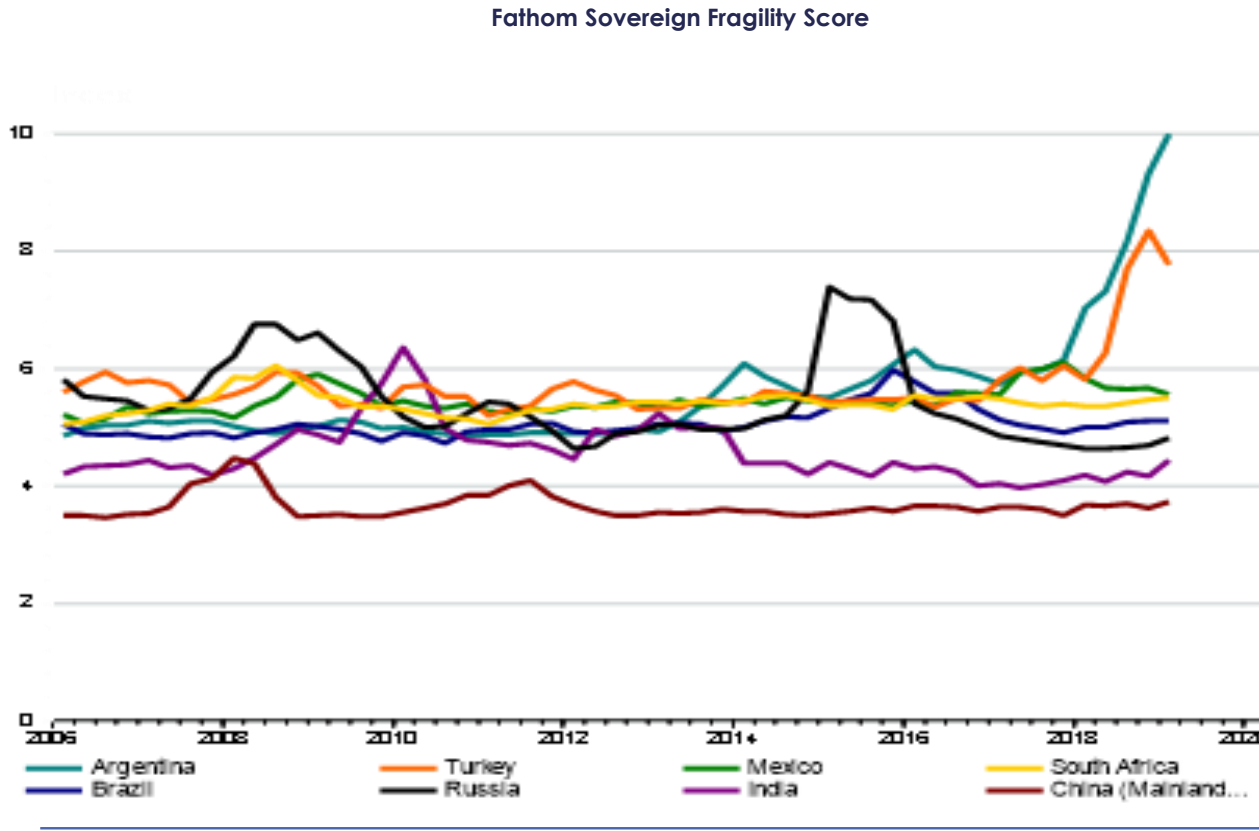
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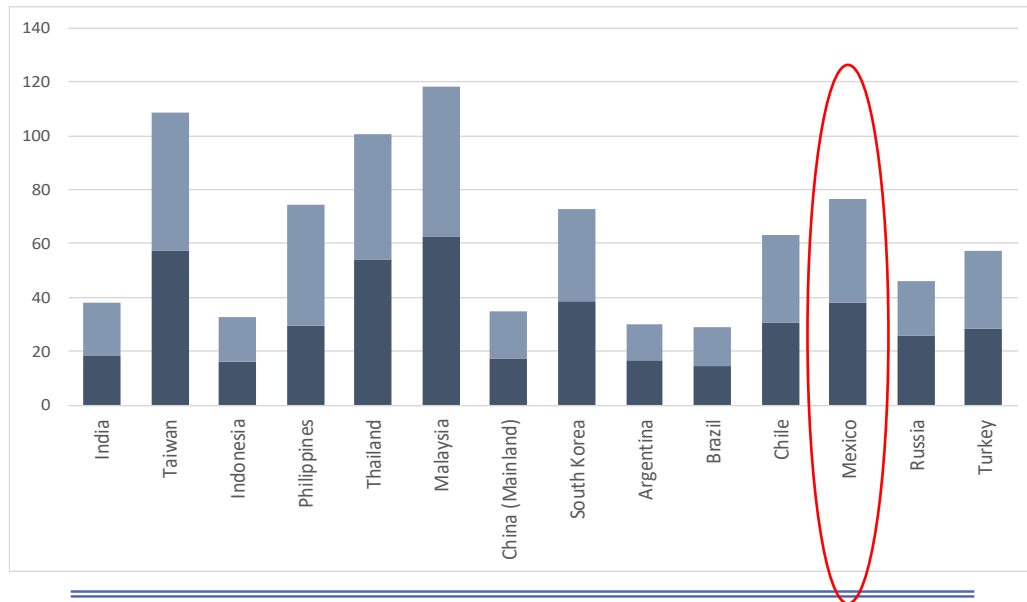
# Conditions Leading to Covid-19



Source: Refinitiv /Fathom Consulting Metric

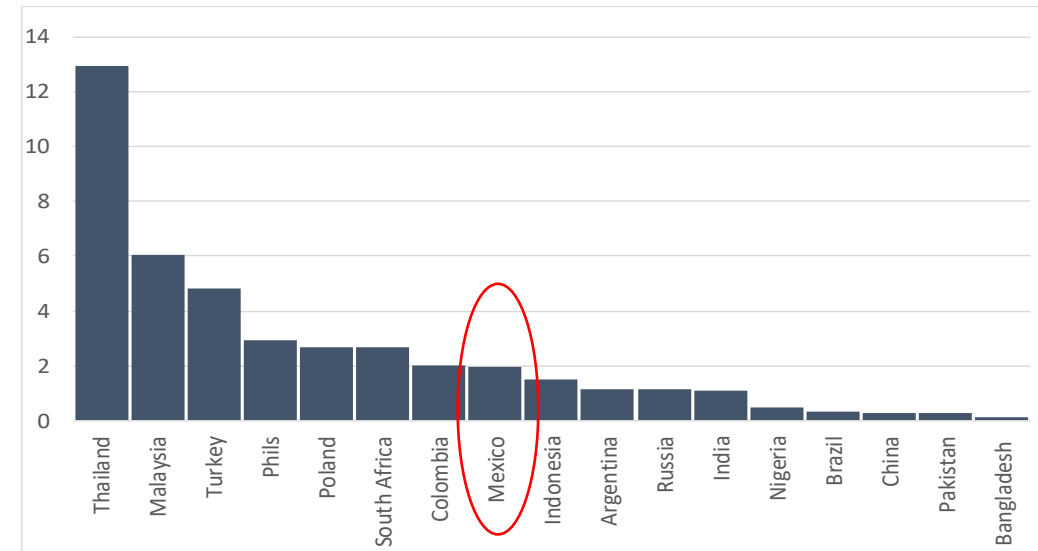
# Conditions Leading to Covid-19

EM Trade as a % of GDP



Source: Refinitiv  
Dark: Gross Exports as a % of GDP  
Light: Gross Imports as a % of GDP

Tourism as a % of GDP

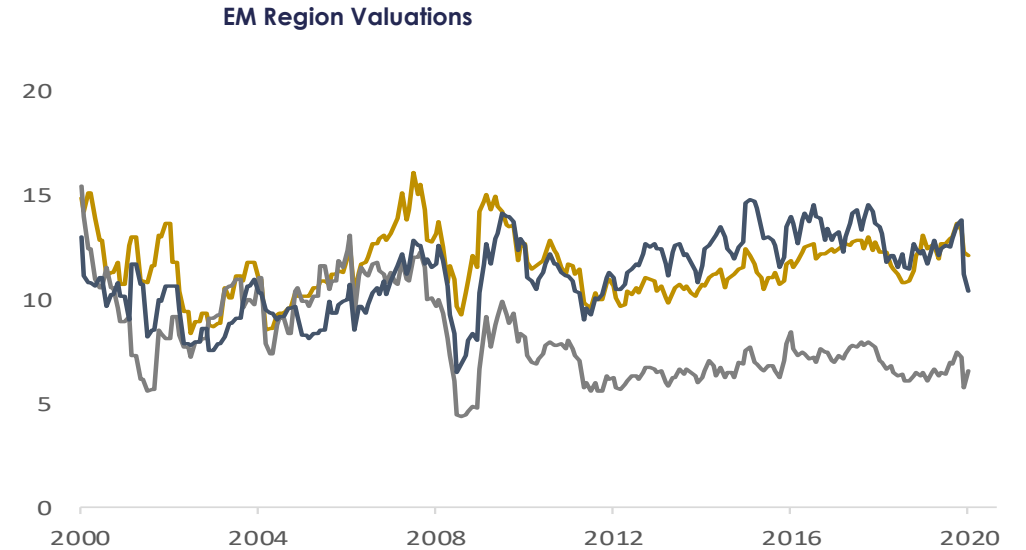


Source: Refinitiv  
Data from 2018.

# Conditions Leading to Covid-19



Source: MSCI EM, MSCI World data calculated by Refinitiv  
Gold: MSCI EM LT Earnings Growth Estimate (%), (lhs)  
Blue: Standard Deviation of 12M Fwd. EPS (rhs)



Source: MSCI EM data calculated by Refinitiv  
Gold: MSCI EM Asia 12M PE  
Black: MSCI EM LATAM 12M PE  
Grey: MSCI EM EUROPE 12M PE

# Conditions Leading to Covid-19

EM vs DM Valuations



Source: MSCI EM, MSCI World data calculated by Refinitiv  
Gold: MSCI DM Fwd. 12 PE  
Blue: MSCI EM Fwd. 12 PE

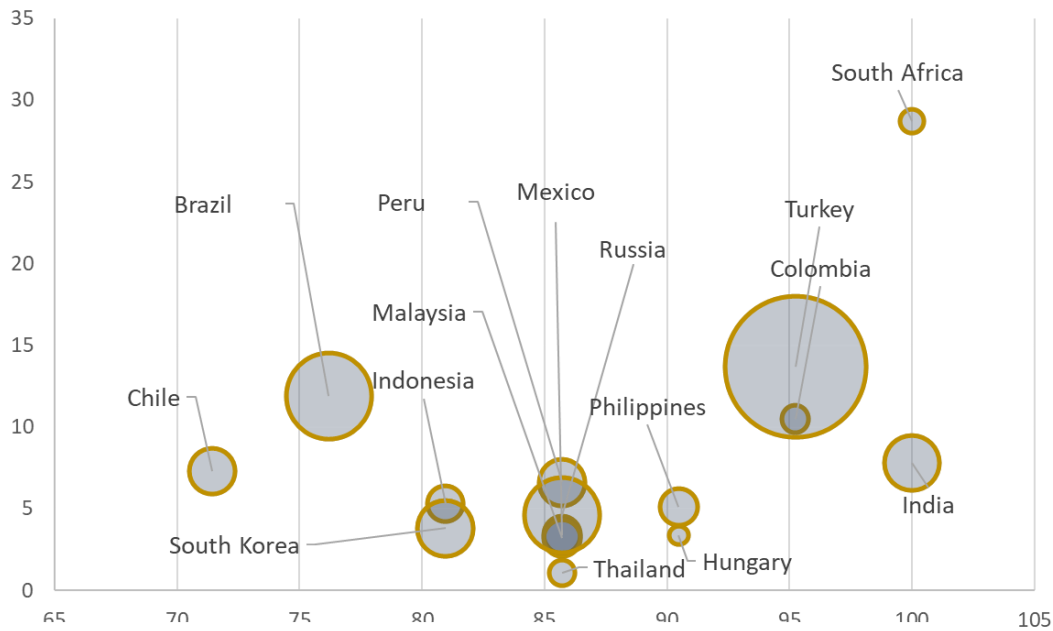
EM Premium/Discount



Source: MSCI EM, MSCI World data calculated by Refinitiv  
Grey Area denotes +/- 1 SD of Premium/Discount

# Covid Response

...End of Q1



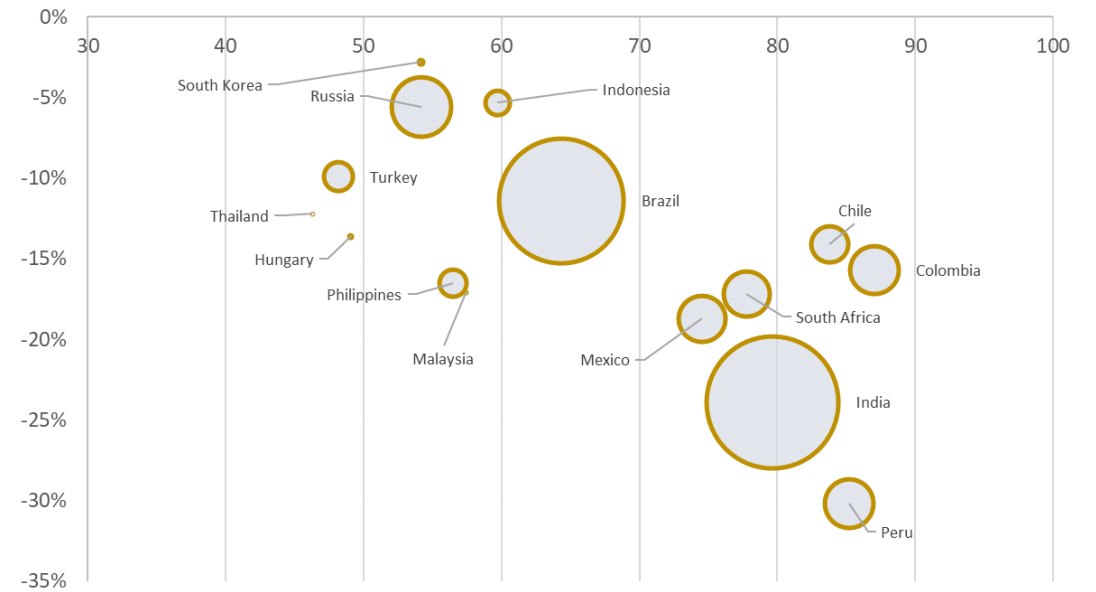
X Axis: Stringency Index [100 means most regulations, lockdowns and tightest response]

Y Axis: Latest Reported Unemployment Rate (%)

Bubble Size indicates total Covid cases

Data as of 14th April 2020

And Now...



X Axis: Stringency Index [100 means most regulations, lockdowns and tightest response]

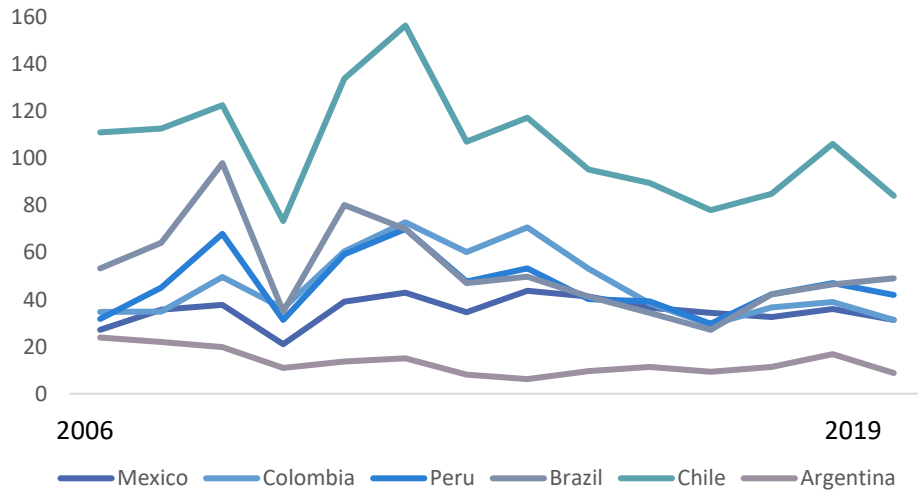
Y Axis: Q2 GDP Growth YoY (%)

Bubble Size indicates total Covid cases

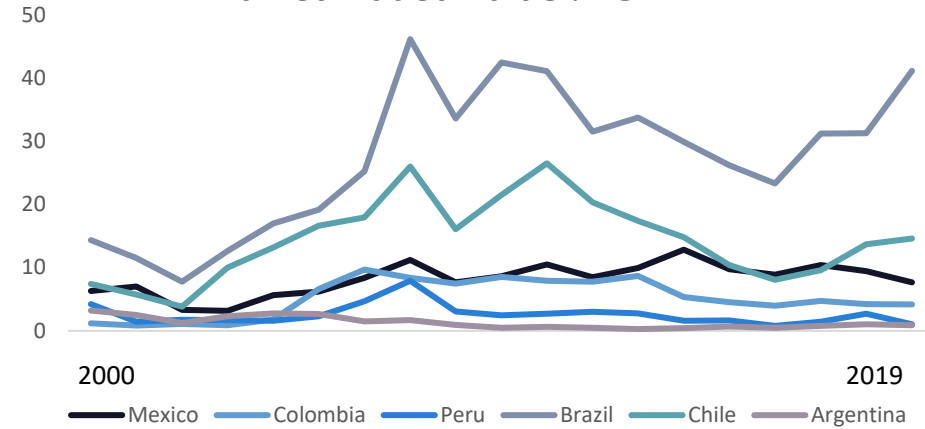
Data as of 13th September 2020

# The Mexican Equity Market (A Brief Recap)

Market Cap as % GDP



Market Traded Value % GDP

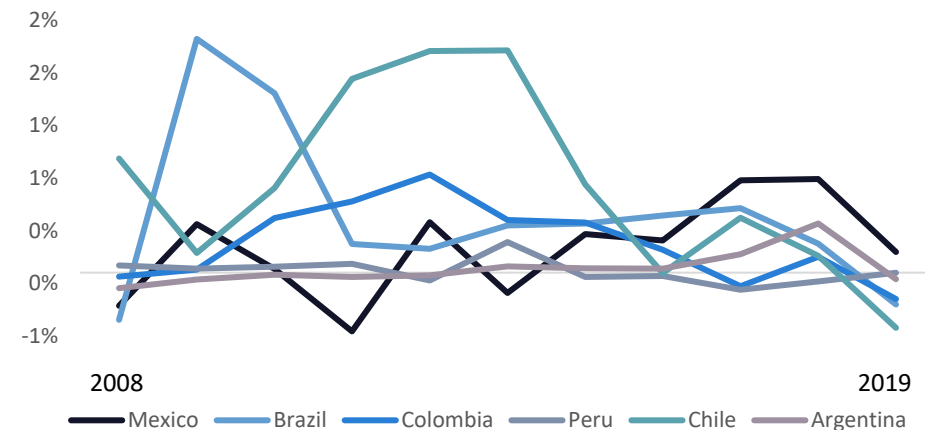


Domestic Listed Companies



\*Source: Thompson Reuters Sept 2020

Equity Net Inflows



## Mexico – Trading Liquidity conditions have worsened, limiting strategies

	ADTV (30D USD Mn.)	#
Highly Liquid	>5	14
Liquid	1-5	26
Partly Liquid	0.5 -1	12
Iliquid	<0.5	124+

	ADTV (52W USD Mn.)	#
Highly Liquid	>5	18
Liquid	1-5	36
Partly Liquid	0.5 -1	18
Iliquid	<0.5	116+

## Mexico – Not in a cyclical or innovation theme

MSCI Momentum Indices*	Mexico	Brazil	EM	USA	DM	MSCI Mexico
Consumer Staples	45.1%	10.2%	6.6%	3.1%	3.3%	36.1%
Communication Services**	21.6%	3.0%	19.2%	10.5%	10.1%	23.5%
Materials	19.3%	19.3%	11.4%	1.1%	3.8%	16.6%
Industrials	7.2%	17.1%	8.8%	1.2%	3.5%	9.5%
Financials	3.9%	11.2%	0.3%	3.3%	3.1%	10.3%
Utilities	1.7%	5.0%	0.3%	1.3%	2.5%	1.5%
Real Estate	1.2%		1.8%	3.8%	2.5%	2.4%
Consumer Discretionary		23.4%	25.8%	15.0%	12.8%	0.0%
Healthcare		8.9%	18.3%	28.2%	28.2%	0.0%
Information Technology			7.4%	32.5%	30.1%	0.0%
Energy		1.9%	0.1%	0.0%	0.2%	0.0%

Source: MSCI; as on End-Aug '20

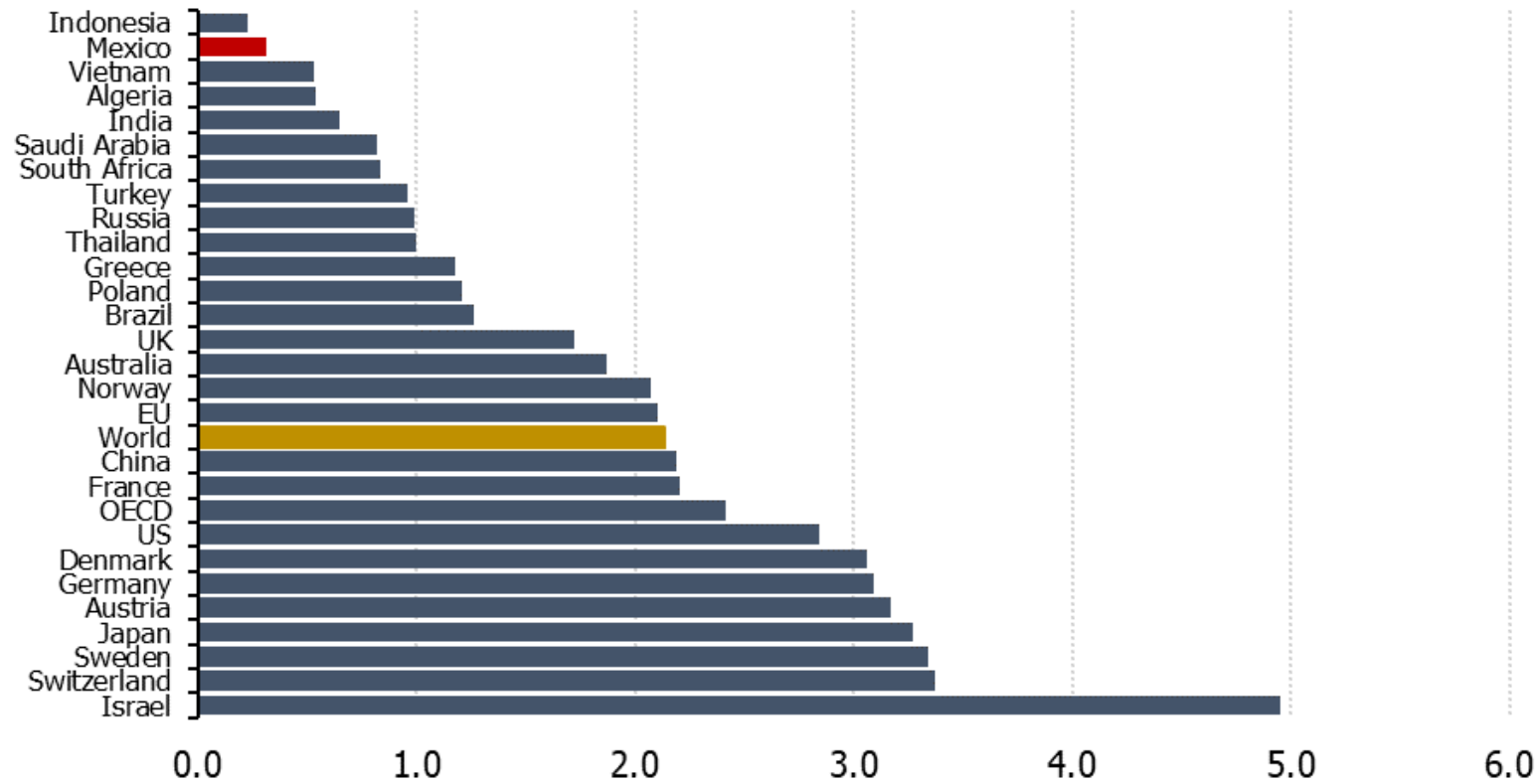
\*\* - Communication Services Ex America Movil: 1.76%

- Mexico driven by defensiveness as compared to innovation/growth
- Apparent lack of diversified investable options especially in healthcare
- Limited 'stock market' benefits from significant fiscal/monetary expansion [Relative to other EMs]
- Gains in financials, Real estate and Industrials (construction) may not be enough to offset demand fall from inflationary pressures felt by Staples/Telcos



## Mexico – Lackluster Drive towards Innovation

Mexico needs much more in R&D spends



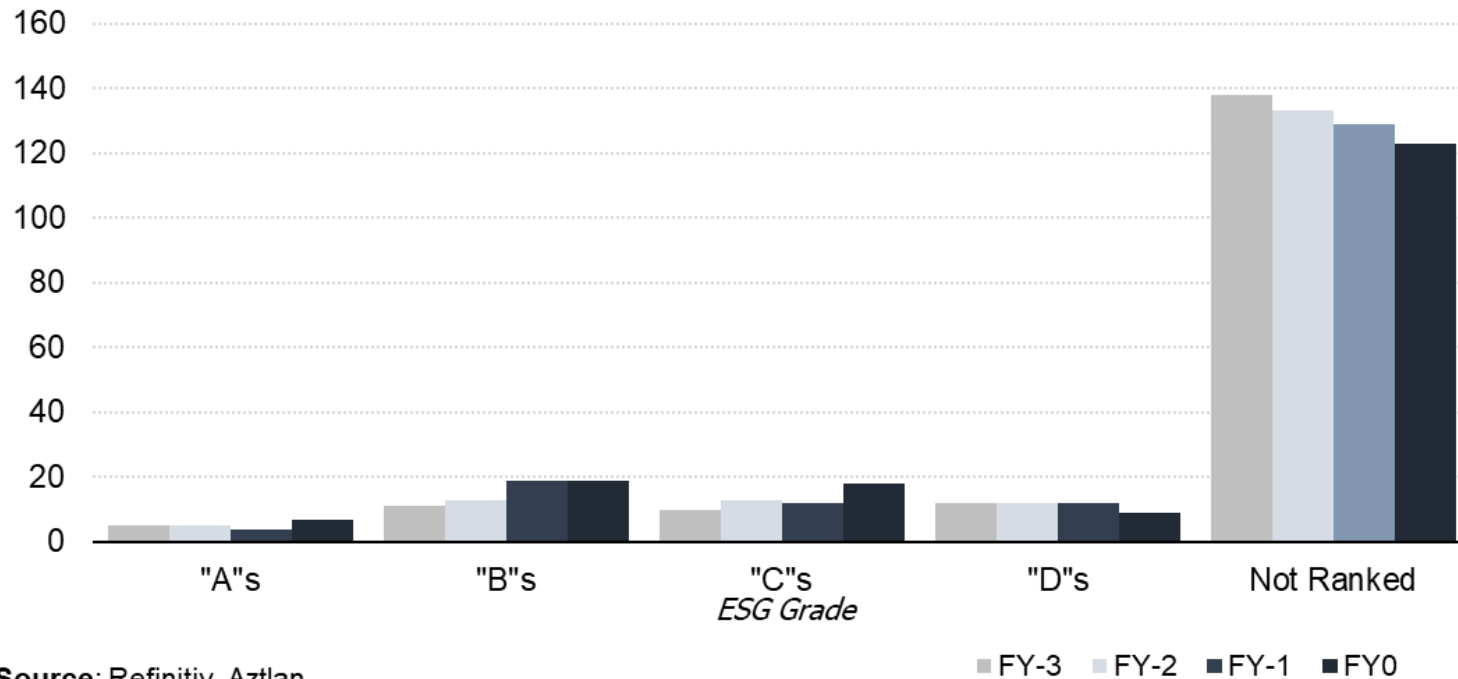
Source: Refinitiv | R&D as a % of GDP; data based on latest available

% of GDP

# Mexico – Governance

ESG reporting & standards have been improving, but pace leaves more to be desired

# of Companies



Source: Refinitiv, Aztlan.

	Social Pillar Score	Environment Pillar Score	Governance Pillar Score
A	88.7	87.6	79.2
A-	80.1	70.1	74.4
B	67.2	46.1	58.6
B-	59.0	40.8	55.0
B+	76.0	65.1	68.7
C	45.3	21.1	48.6
C-	28.6	21.2	43.0
C+	55.2	44.3	35.1
D	10.0	8.7	21.2
D-	2.1	3.2	7.6
	<b>51.5</b>	<b>40.2</b>	<b>48.3</b>

## Mexico CG: Moving in the Right Direction

June 2020

EMPRESA	CÓDIGO DE COTIZACIÓN
Alfa SA A	ALFA A
Alsea SA	ALSEA
Arca Continental, SAB de CV	AC
Banco Santander Mexico B	BSMX B
Cemex SA CPO	CEMEX CPO
Coca-Cola Femsa SAB de CV UBL	KOF UBL
Corporación Inmobiliaria Vesta, S.A.B. DE C.V.	VESTA
Crédito Real S.A.B. de C.V.	CREAL
Fibra Uno Administración S.A. de C.V.	FUNO 11
Fomento Económico Mexicano S.A.B. de C.V.	FEMSA UBD
Genomma Lab Internacional SA de CV	LAB B
Genera SAB de CV	GENER A
Grupo Aeroportuario del Centro Norte, S.A.B. de C.V.	OMA B
Grupo Aeroportuario del Pacífico, S.A.B. de C.V.	GAP B
Grupo Aeroportuario del Sureste SAB de CV B	ASUR B
Grupo Bimbo S.A.B.	BIMBO A
Grupo Financiero Banorte O	GFNORTE O
Grupo Herdez SA	HERDEZ
Grupo Rotoplás S.A.B. de C.V.	AGUA
Grupo Televisa SAB CPO	TLEVISA CPO
Industrias Penoles	PE&OLES
Infraestructura Energética Nova S.A.B. de C.V.	IENOVA
Kimberly Clark de Mexico S.A.B. de C.V. A	KIMBER A
Nemak S.A.B. de C.V.	NEMAK A
ORBIA ADVANCE CORPORATION SAB de CV	ORBIA
Prologis Property Mexico S.A. de C.V.	FIBRAPL 14
Qualitas Controladora S.A.B de C.V.	Q
Regional, S.A. de C.V.	RA
Walmart de México SAB de CV	WALMEX

- June 2020: S&PDJ and BMV launch the first ESG index in Mexico.
- Promote the adoption of higher CG standards across listed companies.
- Establish correlation between high ESG standards and value creation.

**S&P Dow Jones  
Indices**

A Division of S&P Global

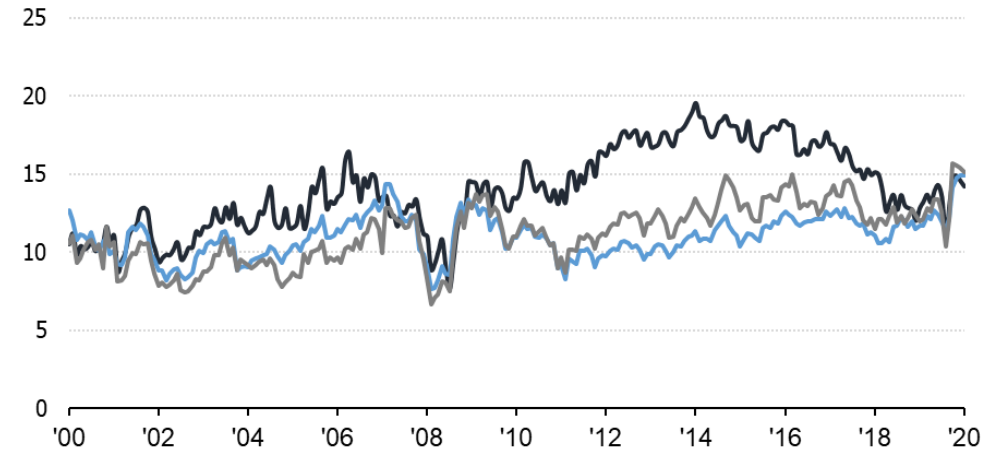


**Bolsa  
Mexicana**  
Grupo BMV

## Mexico – Multiples and Earnings Growth

Mexico has derated from a significant premium to a slight discount

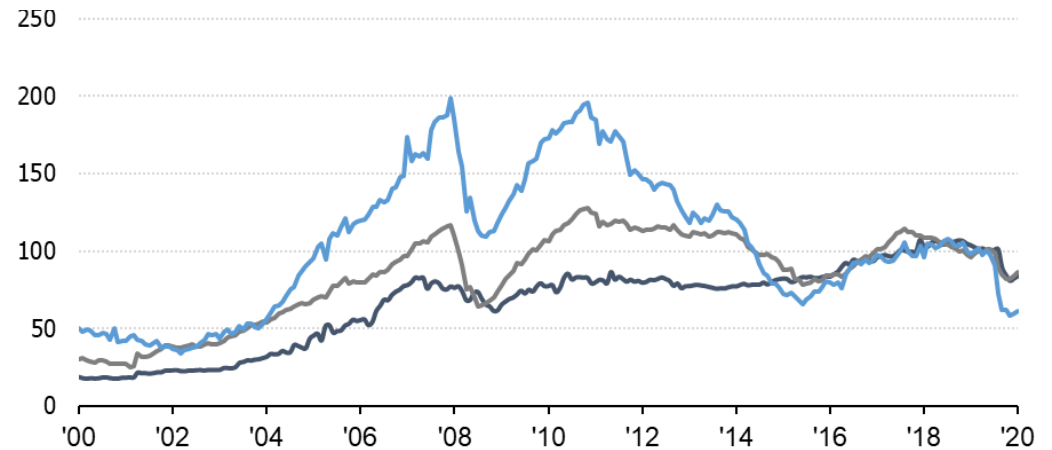
*Fwd. 12M P/E (x)*



Source: Refinitiv, MSCI | Note: Dark Blue Line - Mexico; Grey - EM; Light Blue - LatAm

...though earnings expectations have been fairly resilient

*Fwd. 12M EPSG (Indexed)*



Source: Refinitiv | Note: Dark Blue Line - Mexico; Grey - EM; Light Blue - LatAm | Forward 12M EPS rebased to 100 from 30th December 2019



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