HSBC Global Research

Mexico Equity Insights

When the going gets tough...focus on the local market

- **With the slowdown abroad, time to focus on sectors exposed to the local market, which has strong fundamentals**
- **Our focus stocks are Banorte, Chedraui, Coca-Cola Femsa, Empresas ICA, FEMSA, Genomma Lab, Gruma, Grupo Carso, Mexichem, URBI, and Walmex**
- **We continue to believe there could be upside potential for domestic consumption in 2H 2011 and into 2012**

A beacon in stormy times

Our focus stock list includes Coca-Cola Femsa, Empresas ICA, FEMSA, Genomma Lab Internacional, Gruma, Grupo Carso, Grupo Comercial Chedraui, Grupo Financiero Banorte, Mexichem, URBI Desarrollos Urbanos, and Wal-Mart de Mexico. We maintain our bottom-up approach, as opposed to top-down, due to the Bolsa's high valuation.

The Mexican market remains at a premium to its peers. The Bolsa is trading at a 13.1x PE for 2012e, premiums of 44% vs. Latam, 46% vs. GEMs, and 66% vs. Brazil. These premiums have widened recently due to Mexico's better relative performance.

Mexico has been more defensive than other stock markets recently. Most stock markets have plunged since 22 July. Mexico's 9% decline in USD through 24 August compares well to the MSCI World's and DM's -13%, EM's -15.2%, and Brazil's -14%. Mexico has also outperformed YTD in relative terms.

HSBC economist Sergio Martin expects domestic consumption to grow faster than the economy as a whole. Despite recent reductions to GDP growth estimates for 2001 and 2012, an attractive gap still favors consumption. He expects Mexican GDP to grow 3.7 in 2011 and 3.9% in 2012 but he sees domestic consumption growing faster, at 5.1% in 2011 and 5.7% in 2012, a presidential election year. **On the corporate side, consensus estimates for 2011 show strong growth expectations** of 11% in sales, 12% in EBITDA, and 20% in net income, which we believe is achievable.

30 August 2011

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Focus stocks: Valuation as of 24 August 2011

Ticket	Market cap (USDm)	Price Aug-24	Target price*	Potential return (%)	EBITDA growth (%) 2011e	EBITDA growth (%) 2012e	Net income growth (%) 2011e	Net income growth (%) 2012e	PE 2011e	PE 2012e	EV/EBITDA 2011e	EV/EBITDA 2012e
KOF.N	11,922	96.7	108.0	11.6	13.0	10.4	15.4	14.6	19.6	17.1	6.7	5.9
CHDRAUIB.MX	2,551	33.9	45.0	32.9	14.4	20.0	14.9	31.7	19.2	14.6	8.6	7.4
ICA.MX	1,882	18.6	38.0	104.3	8.0	11.0	72.8	-43.6	4.6	8.1	10.1	8.6
FMX.N	20,553	68.3	78.0	14.2	8.0	11.6	20.4	20.1	17.6	14.7	7.4	6.1
LABB.MX	2,043	25.0	40.0	59.9	28.5	28.7	39.3	29.8	17.1	13.2	10.8	8.2
GCARSOA1.MX	5,289	28.5	43.0	50.8	13.3	14.1	-25.2	-3.0	14.8	15.3	8.8	7.5
GFNORTE.MX	7,934	42.7	64.0	49.8	N.A.	N.A.	36.3	31.0	14.8	13.0	N.A.	N.A.
GRUMAB.MX	989	22.8	33.5	47.0	8.2	6.4	106.2	17.9	7.4	6.3	5.1	4.6
MEXCHEM.MX	6,599	46.5	60.0	28.9	31.2	14.8	27.3	24.5	17.4	14.0	8.8	7.6
URBI.MX	1,764	22.7	32.0	41.0	21.4	10.2	30.2	10.6	7.7	7.0	4.6	4.1
WALMEXV.MX	46,403	32.9	41.0	24.7	10.2	21.0	12.3	24.2	26.3	21.0	15.4	12.5

* Target prices: KOF and FMX in USD; all others in MXN.
Source: HSBC estimates

Mexico. Economic forecasts

	2009	2010	2011e	2012e
Gross domestic product (% y-o-y)	-6.1	5.4	3.7	3.9
Private consumption (% y-o-y)	-7.1	5.0	5.0	5.1
Gross fixed investment (% y-o-y)	-11.3	2.3	7.0	6.1
Industrial production (% y-o-y)	-7.6	6.0	3.3	4.2
Unemployment rate (average %)	5.5	5.4	4.9	4.4
Consumer price inflation (% Dec/Dec)	3.6	4.4	3.5	3.5
Consumer price inflation (%)	5.3	4.2	3.5	3.5
Total fiscal balance (%GDP)	-2.3	-2.8	-2.5	-2.0
Primary balance (in % of GDP)	-0.1	-0.9	-0.4	0.3
Trade balance (USDbn)	-4.7	-3.0	-2.4	-3.9
Current account balance (USDbn)	-6.4	-5.6	-6.1	-12.1
Current account balance (% GDP)	-0.7	-0.5	-0.5	-0.9
Remittances (USDbn)	21.2	21.3	22.4	24.1
Foreign direct investment (USDbn)	15.3	18.7	24.5	29.5
Foreign direct investment (% GDP)	1.7	1.8	2.0	2.2
External debt (year-end USDbn)	163.8	190.1	205.2	215.0
Monetary policy rate	4.5	4.5	4.5	5.0
Foreign currency reserves	90.8	113.6	138.1	156.4
Local currency/USD (year-end)	13.1	12.4	11.3	11.7

Source: HSBC Mexico Economics Research

HSBC Mexico focus stocks

- Our focus stock list includes Coca-Cola Femsa, Empresas ICA, FEMSA, Genomma Lab Internacional, Gruma, Grupo Carso, Grupo Comercial Chedraui, Grupo Financiero Banorte, Mexichem, URBI Desarrollos Urbanos, and Wal-Mart de Mexico
- We highlight companies with exposure to the domestic market and services; we believe there could be additional upside potential for domestic consumption in 2H11 and in 2012
- We focus on companies that we believe have strong fundamentals and attractive prospects

Highlights of our focus stocks

We believe the Mexican stock market has attractive investment stories. We maintain our focus on industries that have exposure to domestic consumption and services. In our view, there could be additional upside potential for domestic consumption in 2H11 and in 2012. HSBC Economics' estimates include stronger growth for consumption than for overall GDP. HSBC Mexico chief economist Sergio Martin and his team expect consumption to grow 5.0% and 5.4% in 2011 and 2012, respectively, outpacing their overall GDP growth forecasts of 3.7% for 2011 and 3.9% for 2012.

Following are our focus stocks and our views on them:

Coca-Cola FEMSA

Overweight rating, USD108 target price

- Strong brand portfolio can drive top-line growth even during a weak economy.
- Targeted marketplace investments should help mitigate volatile industry conditions.
- Brand and territorial expansion opportunities remain to be tapped. We estimate a 14% EPS CAGR for 2011-2013.

Empresas ICA

Overweight (V) rating, MXN38 target price

- Extraordinary gains related to the sale of the Corredor Sur toll road in Panama and a debt issuance of USD500m provide ICA plenty of financial flexibility, as these could fuel additional nondilutive growth.

- Concessions' share of total revenues should increase, contributing to a more profitable and stable sales mix.
- A solid backlog and better sales mix should help maintain sound momentum. Backlog quality has improved, paving the way for margin expansion. The company expects to maintain its backlog at MXN35-40bn.
- ICA is well-positioned to capture more contracts before the Mexican presidential election in 2012. It expects several small and midsize projects to be tendered during the rest of the current administration.

FEMSA

Overweight rating, USD78 target price

- FEMSA appears well-equipped to manage through market pressure on each division.
- It has good reinvestment opportunities through Coca-Cola FEMSA and Oxxo convenience-store operations.
- The sale of its beer business to Heineken positions FEMSA to benefit from the global beer industry.

Genomma Lab Internacional

Overweight (V) rating, MXN40 target price

- We regard Genomma as an attractive way to participate in the growth of household products in Mexico.
- The company's portfolio of over-the-counter products is popular with consumers in Latin America and the US.
- Brand-building efforts through marketing drive the top line.
- Current valuation does not reflect growth opportunities, in our view

Gruma

Overweight rating, MXN33.50 target price

- With its newly cleaned balance sheet, Gruma is growing again, organically and via acquisitions in the US and Europe.
- 2Q11 was positive, with sales improving and margins expanding mainly from price increases.
- Gruma should post positive operating results for 2H11 as a result of price increases and positive hedges, despite high input costs.
- Gruma trades at a 4.7x 2012 EV/EBITDA versus a peer average of 8.0x; very compelling valuation presents an opportunity.

Grupo Carso

Overweight rating, MXN43 target price

- Mostly a retail play now, c50% of EBITDA comes from retail division.
- The company should benefit from a recovery in domestic consumption. We forecast attractive EBITDA growth of 16% for 2011 and 14% for 2012.
- The stock is down c30% from its April high; we see an attractive entry point, backed by strong fundamentals.

Grupo Comercial Chedraui

Overweight rating, MXN45 target price

- We see Chedraui as "best in class" on market share gains and revenue growth, reinforcing our view that it is the best alternative to Walmex.
- Acceleration of new store openings should boost sales growth.
- Valuations are at historical lows, making the stock attractive, in our view.

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Grupo Financiero Banorte

Overweight rating, MXN64 target price

- We see faster loan growth and healthy post-merger synergies.
- We believe that concerns about state government credit quality are overdone.
- Premium growth and ROE recovery warrant a higher PE multiple, in our view.

Mexichem

Overweight rating, MXN60 target price

- The company has hard-to-replicate competitive advantages in PVC resins and pipes and fluorine markets.
- It has exposure to fast-growing emerging markets and entry to new markets with few participants such as refrigerants.
- New investments in Japan and Korea should strengthen the company's global leadership in fluorine and reduce dependence on Chinese raw materials.
- Vertical integration strategy and synergies achieved from several acquisitions are a plus.
- Mexichem has a pragmatic and approachable management and effective communication with the market.

URBI Desarrollos Urbanos

- The company's addressing of key structural trends in a new Mexican housing industry environment earlier than rivals underpins our view on the stock.
- The company has a cash flow-oriented strategy, above-average margins, and a sound financial profile.
- We believe management is a plus. We view URBI as the most institutionalized company among the Mexican homebuilders we cover.

Wal-Mart de Mexico (Walmex)

- Economic recovery in Mexico and penetration in Central America point to solid 2011-12 results.
- Additional expansion through M&A is possible, we believe.
- Walmex's premium valuation has declined and made the shares more attractive, in our view.

HSBC Mexican coverage universe

Company	Ticker	Industry	Analyst	Rating	Market cap (USDm)	Target price	Currency
Grupo Televisa	TV.N	Media	Enrique Gomez	Neutral	11,960	25.50	USD
Megacable Holdings SAB	MEGACPO.MX	Media	Enrique Gomez	Underweight	555	27.50	MXN
TV Azteca	AZTECACPO.MX	Media	Enrique Gomez	Neutral	1,764	9.00	MXN
Alsea Sab de CV	ALSEA.MX	Hotels Restaurants & Leisure	Francisco Chevez	Neutral (V)	544	15.00	MXN
Genomma LAB Internacional	LABB.MX	Household Products	Francisco Chevez	Overweight (V)	2,043	40.00	MXN
Grupo Comercial Chedraui	CHDRAUIB.MX	Food & Staples Retailing	Francisco Chevez	Overweight	2,551	45.00	MXN
Organizacion Soriana	SORIANAB.MX	Food & Staples Retailing	Francisco Chevez	Neutral	4,338	39.00	MXN
Wal-Mart de Mexico	WALMEXV.MX	Food & Staples Retailing	Francisco Chevez	Overweight	46,403	41.00	MXN
Aeroportuario del Centro	OMAB.OQ	Transport Infrastructure	Francisco Suarez	Neutral (V)	591	17.00	USD
Aeroportuario del Pacifico	PAC.N	Transport Infrastructure	Francisco Suarez	Neutral (V)	1,804	42.10	USD
Aeroportuario del Sureste	ASR.N	Transport Infrastructure	Francisco Suarez	Neutral (V)	1,604	60.80	USD
Carso Infraestructura	CICSAB1.MX	Construction & Engineering	Francisco Suarez	Overweight (V)	1,537	9.10	MXN
Cemex	CX.N	Construction Materials	Francisco Suarez	Neutral (V)	5,167	8.20	USD
Consorcio Ara	ARA.MX	Household Durables	Francisco Suarez	Overweight (V)	542	8.00	MXN
Corporacion Geo	GEOB.MX	Household Durables	Francisco Suarez	Overweight	1,040	33.00	MXN
Desarrolladora Homex	HOMEX.MX	Household Durables	Francisco Suarez	Overweight (V)	1,091	56.00	MXN
Empresas ICA	ICA.MX	Construction & Engineering	Francisco Suarez	Overweight (V)	1,882	38.00	MXN
Sare Holding SAB de CV	SAREB.MX	Construction Materials	Francisco Suarez	Neutral (V)	99	3.30	MXN
URBI Desarrollos Urbanos	URBI.MX	Household Durables	Francisco Suarez	Overweight	1,764	32.00	MXN
ALFA, S.A. de C.V.	ALFAA.MX	Conglomerates	Juan C. Mateos	Neutral	6,451	183.00	MXN
Grupo Carso	GCARSOA1.MX	Conglomerates	Juan C. Mateos	Neutral	5,289	43.00	MXN
Grupo Kuo	KUOB.MX	Conglomerates	Juan C. Mateos	Overweight (V)	287	26.00	MXN
Mexichem SAB de CV	MEXCHEM.MX	Conglomerates	Juan C. Mateos	Overweight	6,599	60.00	MXN
Coca-Cola Femsa	KOF.N	Beverages	Lauren Torres	Overweight	11,922	108.00	USD
FEMSA	FMX.N	Beverages	Lauren Torres	Overweight	20,553	78.00	USD
Grupo Modelo	GMODELOC.MX	Beverages	Lauren Torres	Neutral	17,940	78.00	MXN
Gruma SAB	GRUMAB.MX	Food Products	Pedro Herrera	Overweight	989	33.50	MXN
Grupo Bimbo SAB	BIMBOA.MX	Food Products	Pedro Herrera	Neutral	9,385	29.25	MXN
America Movil	AMX.N	Diversified Telecoms	Richard Dineen	Neutral	95,355	28.50	USD
Telmex	TMX.N	Diversified Telecoms	Richard Dineen	Overweight	15,471	22.00	USD
Compartamos	COMPARC.MX	Commercial Banks	Victor Galliano	Overweight	2,512	27.00	MXN
Financiera Independencia	FINDEP.MX	Diversified Financial Services	Victor Galliano	Neutral	471	11.00	MXN
Grupo Financiero Banorte	GFNORTEO.MX	Commercial Banks	Victor Galliano	Overweight	7,934	64.00	MXN

HSBC ratings: V = Volatile.
Source: HSBC

Mexico stock market overview

- Risk aversion climbs amid a global slowdown and fiscal crises in developed countries
- In this turbulent environment, Mexico seems to be relatively more defensive than other emerging markets
- We focus on companies with exposure to the domestic market in light of our expectation of a recovery in consumption

When it resembled just a ‘soft patch’…

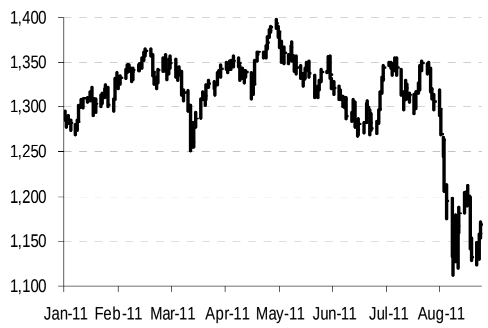
After having registered their highest readings this year in late April, international stock markets began to retreat in May and June on initial evidence of softening economic activity and then tended to move sideways in response to mixed economic news and strong earnings reports for 2Q11. In Europe, attention was focused on the Greek sovereign debt crisis.

…the US and Europe raised the slowdown alert…

But global investor sentiment soured near the end of July. On 29 July, the US Commerce Department reported that US economic growth was weaker in the first half of 2011 than had been anticipated, 0.8% as opposed to a median market forecast of 2.0%. The news sparked a cascade of downward growth revisions, as it implied a dynamic of greatly weakened growth.

Meanwhile, the US Congress was struggling to reach agreement on the federal debt ceiling and on how to manage the fiscal deficit. At the same time, Italy became the latest European Union country to become the target of fiscal concerns.

MSCI World



Source: Bloomberg

…and debt concerns only made it worse

When Standard & Poor’s on 5 August lowered its triple-A rating on US sovereign debt to double-A-plus, markets accelerated their fall (see the graph above), as they were confronted by the prospect of reduced global growth, greater fiscal tightening in developed countries and growing sovereign debt concerns in Europe.

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International stock markets' performance

Region/indices	Closing date 24/Aug	Change % 22 July to-date Local currency	USD	Year-to-date Local currency	USD	Last 12 months Local currency	USD
All Country World Index	42	-13.2	-13.2	-9.6	-9.6	7.8	7.8
MSCI World	299	-13.6	-13.6	-9.6	-9.6	7.2	7.2
MSCI Developed World	286	-13.4	-13.4	-8.7	-8.7	8.3	8.3
Dow Jones	11,321	-10.7	-10.7	-2.2	-2.2	12.8	12.8
NASDAQ	2,468	-13.7	-13.7	-7.0	-7.0	16.2	16.2
S&P 500	1,178	-12.4	-12.4	-6.4	-6.4	12.0	12.0
Nikkei 225	8,640	-14.7	-12.8	-15.5	-10.1	-4.0	5.2
S&P Asia 50	2,971	-16.2	-16.2	-15.7	-15.7	1.2	1.2
EURO STOXX	2,239	-19.3	-19.0	-19.8	-13.6	-14.4	-2.6
Emerging markets							
ME Global MSCI	978	-15.2	-15.2	-15.0	-15.0	0.5	0.5
MSCI Latam	**3,842**	**-12.0**	**-12.0**	**-16.7**	**-16.7**	**-2.1**	**-2.1**
MSCI EM Asia	400	-16.5	-16.5	-14.5	-14.5	-0.2	-0.2
MSCI EMEA	335	-14.9	-14.9	-14.4	-14.4	6.0	6.0
Brazil	53,796	-10.7	-13.8	-22.4	-19.7	-17.4	-9.2
Mexico	**34,645**	**-3.1**	**-9.4**	**-10.1**	**-10.7**	**10.5**	**15.0**

Source: HSBC, Bloomberg

Assessing the damages

The table above shows the magnitude of the plunge that major stock indexes experienced beginning on 22 July (third and fourth columns) to 24 August. MSCI World, the broadest global index, tumbled 13.2%, the developed-market average fell 13.4%, and that of emerging markets fell 15.2%. In other words, the sell-off was generalized. The Mexican Stock Exchange's IPC benchmark was off 9.4% in USD over that period.

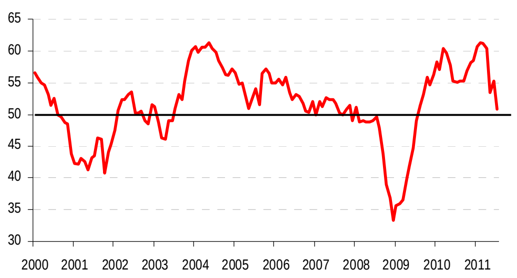
International environment: A perfect storm?

Global stock markets abruptly plunged in recent weeks. Such a move is characteristic of a shift in global investor mood. Volatility can be interpreted as a sign of falling global growth expectations and a reappraisal of risk. This has raised risk aversion globally.

Magnitude and duration of the global slowdown

Given the negative economic data from around the world, led off by both manufacturing and nonmanufacturing indicators – the Institute for Supply Management (ISM) in the US – there is an understandable concern about just how much the international economy might slow and how long it would take before an economic revival could take hold.

US manufacturing ISM at 50.9 points



Source: Bloomberg

US: Barely hanging on to growth territory

As the graph above shows, the manufacturing ISM approached the 50-point threshold between expansion and contraction with the July reading of 50.9 points, as opposed to the market's 54.4-point estimate.

So far, we have witnessed only successive waves of lowered expectations. For example, HSBC Economics lowered its US GDP growth estimates for 2011 and 2012 to 1.8% and 2.5%, respectively, from 2.5% and 3.1% (see *US Monthly Economic Update: GDP revisions darken economic outlook*, by Kevin Logan, 1 August 2011). Please note that we are not

speaking of an economic contraction but rather a slowing of growth.

The main point of concern is that cuts to public spending will weigh against an economic rebound and further complicate the job of solving the fiscal deficits of developed countries. It would then appear that additional monetary measures would be the authorities' only option.

However, in its latest statement from the Federal Open Market Committee, the US Federal Reserve not only recognized the risk of a further slowing of the economy in the coming months, but offered a pessimistic assessment in suggesting that the economy will not experience a vigorous recovery in the coming years (see *US FOMC Decision: Sets 0.0% to 0.25% funds rate through mid-2013*, by Kevin Logan, 9 August 2011).

Perhaps we can take some relief from the fact that by the time the Fed launched a second round of quantitative easing (QE) in November 2010, the US economy was already showing signs of bouncing back (see the graph on the manufacturing ISM on previous page).

China generates anxiety just by cooling

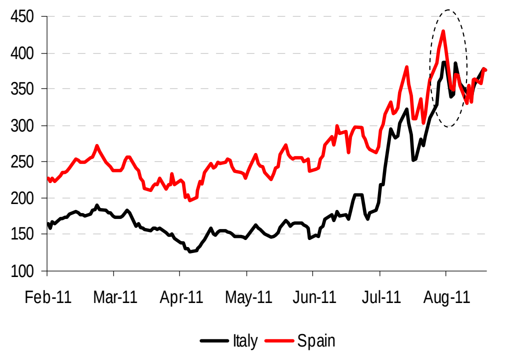
In July, Chinese industrial production, retail sales, and investment readings came in lower than expected in a sign of the success of restrictive monetary policies aimed at avoiding an overheating of the economy. Although China appears to be on the road to a soft landing, its economy is still expected to grow 9% this year (see *China: Cooling, not collapsing: July growth data falls below expectations*, by Qu Hongbin, 10 August 2011).

However, according to Mr. Qu, HSBC's co-head of Asian economics and chief economist for greater China, inflation remains the main short-term risk facing the economy, so the country's central bank is likely to keep monetary policy restrictive in the third quarter. In other words, Chinese authorities may continue to apply the brakes to the economy in the short term and affect global growth in the process.

European contagion

The list of European Union member states with sovereign debt solvency problems – Greece, Portugal, Ireland, and Spain – was recently expanded to include Italy, the region's third-largest economy. Spain, the fourth-biggest economy in the EU, has also re-emerged as a focus of attention. The resulting jitters are manifest in rising interest rates on sovereign debt.

CDS: Spain and Italy (bps)



Source: Bloomberg

In addition, the cost of guaranteeing payment of the debt of Spain and Italy, as measured through purchases of credit default swaps (CDS), rose considerably and subsided only when the European Central Bank said on 8 August that it would extend its bond purchase program – previously limited to Greece, Portugal, and Ireland – to include Spain and Italy (see the graph above).

The main concern is that countries running deep fiscal deficits will eventually require a restructuring that will force banks holding their debt to assume losses. Although there is still a possibility that euro-zone authorities can manage the situation without seriously affecting the rest of the world, we must recognize that this is the greatest risk factor for sparking a second financial crisis with repercussions for the global economy.

The following graph depicts the extent to which anxiety about default has pulled the prices of European bank stocks steadily lower.

Euro Stoxx banking sector sub-index

Source: Bloomberg

Growing risk aversion

In this global environment, investors are trying to avoid exposure to risk assets by taking shelter in safe-haven instruments and hard currencies.

The Chicago Board Options Exchange Volatility Index, known as the VIX or the fear index, illustrates the increase in risk aversion, as evidenced by the resurgence of volatility. The VIX climbed from less than 20 points in mid-July to above 30 in recent days.

Rising gold prices are a reflection of this flight to safety and away from the uncertainty about other financial investments.

Volatility Index

Source: Bloomberg

International price of gold (USD/oz)

Source: Bloomberg

In addition, slowing economic growth discourages some people from investing in stocks and leads them into debt instruments. Despite S&P's downgrade of its rating on US sovereign debt, the 10y Treasury yield is at historical lows, and it even fell briefly below 2.1% (see the following graph) as investors continue to perceive US government debt as a safe shelter from the volatility of other financial assets.

US 10y Treasury yields (%)

Source: Bloomberg

Mexico: Strong fundamentals offer opportunities in relative terms

Even with a slowing economy…

Given the increasing weakness and vulnerability of the global economy, HSBC economists for Mexico and the US recently lowered their projections of growth in both economies. The Mexico GDP growth outlook for 2011 and 2012 was cut to 3.7% and 3.9%, respectively, from

International market 2011e forward PE vs. average forward 2007-2011

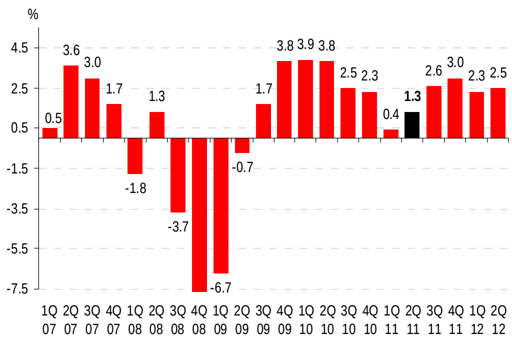
Country	Index	2011e forward PE	Average 2007-2011	Discount (%)
World	**MSCI AC**	**10.8**	**13.4**	**-20**
Developed	**MCSI DM**	**10.9**	**14.1**	**-22**
Emerging	**MSCI EM**	**9.8**	**10.9**	**-10**
US	**S&P 500**	**11.3**	**14.5**	**-22**
Canada	S&P/TSX	13.4	15.2	-11
Brazil	Bovespa	8.4	9.8	-15
Mexico	**IPC**	**13.7**	**14.5**	**-6**
Europe	Eurostoxx 50	7.7	10.9	-29
UK	FTSE 100	8.8	11.4	-23
France	CAC 40	8.0	11.2	-29
Germany	DAX 30	8.4	12.3	-31
Spain	IBEX 35	8.4	11.1	-25
Italia	FTSE MIB	7.7	11.6	-34
China	MSCI China	9.7	14.7	-34
Japan	Nikkei	14.9	18.4	-19
Hong Kong	Hang Seng	10.4	14.6	-29

Source: Bloomberg

4.1% for both years (see *Mexico Economics & Strategy: Changing our macroeconomic views*, by Sergio Martín, 8 August 2011).

For the US economy, HSBC has lowered its growth estimate to 1.8% from 2.5% for 2011 and to 2.5% from 2.9% for 2012, (see *US Monthly Economic Update: GDP revisions darken economic outlook*, *by* Kevin Logan, 1 August 2011).

HSBC quarterly estimates of US GDP



Source: Bloomberg, HSBC estimates

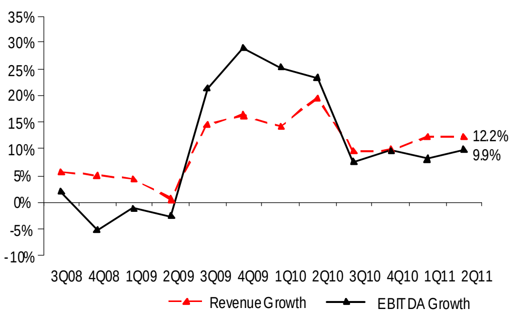
Growth estimates have been lowered but no economic contraction is contemplated

As shown in the graph immediately above, based on HSBC estimates, growth in the coming quarters should be greater than that of the first two quarters of 2011.

…Mexican companies should continue to generate attractive earnings in 2011

In 2Q11, aggregate results for IPC Index-listed companies included growth of 12% in sales, 10% in EBITDA, and 38% in net income.

IPC aggregate growth in sales and EBITDA



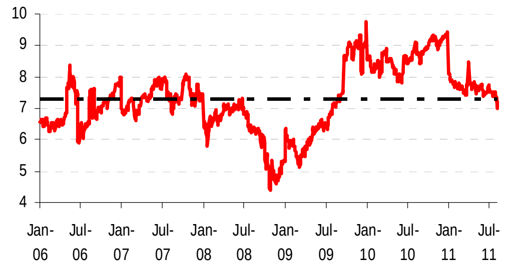
Source: HSBC with data from the Mexico Stock Exchange (MSE).

For full-year 2011, the market consensus estimates via IBES Thomson Reuters see growth of 12% in EBITDA and 20% in net income.

Forward multiples at a discount

As can be seen in the table above using Bloomberg data, the recent drop in prices has left the 2011 forward PE showing a discount to the historical average of Mexico and of all indexes listed.

Mexico: EV/EBITDA for 2011e vs. historical average (x)



Source: Bloomberg

In Mexico, for the first time since mid-2009, the 2011e forward EV/EBITDA of 7.2x represented a discount to the 7.3x average of 2006-2011 (see the graph above).

Historically low interest rates for more time to come

A slower pace of economic growth implies fewer pressures on the Consumer Price Index than anticipated, so we pushed our estimate of the timing by the central bank to begin tightening monetary policy to October 2012 from March 2012 (see *Mexico Economics & Strategy, Changing our macroeconomic views*, by Sergio Martín, 8 August 2011). Rates on long-term MBonos have already priced in such an outlook.

Mexico: MBono December 2024 (%)

Source: Bloomberg

Such low rates should continue to support company results. In addition, this appears likely to facilitate credit for the recovery in consumption. And bonds continue to represent a low opportunity cost, as opposed to equity investments.

Low interest rates also favor companies that pay dividends. The following table lists companies with a consistent policy of dividend payouts and shows their yields.

Dividend yields of selected Mexican

Higher than 4%	Between 4-2%	Between 2-1%	Lower than 1%
OMA	GMODELO	WALMEXV	TELEVISA
KIMBER	PEÑOLES	AC	CHEDRAUIB
TELMEX	HERDEZ	ARA	MEXICHEM
BOLSA	GMEXICO	COMPARC	LIVERPOOL
ASUR	BIMBOA	ALFAA	ELEKTRA
GAP	GCARSO	FEMSA	AZTECA
		GFINBUR	
		AMX	
		GFNORTE	

Source: HSBC with data from the Mexico Stock Exchange.

Far from Europe, close to the US

Mexico is among emerging-market countries with the least exposure to Europe's sovereign debt crisis. A mere 4.8% of Mexican exports was shipped to Europe in 2010.

Exposure to Europe is indirectly increased due to Mexico's close ties to the US. If the US financial system were to be affected by the sovereign debt crisis in Europe, and we observed the manufacturing and industrial sectors being affected as well, it would affect Mexico by constraining export demand.

In any event, the Mexican Stock Exchange has performed defensively amid Europe-related jitters and volatility. The MXN/USD exchange rate tends to absorb some of the global volatility. The table at the top of the previous page shows the favorable differential between "nominal" change and change in USD terms over the recent period of volatile markets.

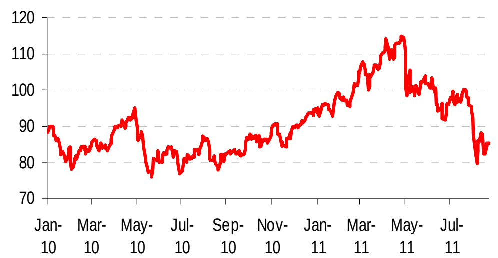
Declining oil prices should favor US consumption revival

HSBC US economist Kevin Logan has explained that part of the weakness in the US stemmed from

higher energy eating into real incomes: "The sharp run-up in gasoline prices early in the year likely provided the key catalyst for the softening of consumer demand," he wrote in *US Monthly Economic Update: GDP revisions darken economic outlook*, (1 August 2011).

It is notable that WTI crude has broken back below where it began the year, a development that should eventually support a revival of consumption and a reactivation of the US industrial sector.

Price of WTI crude oil (USD/bbl)



Source: Bloomberg

Attention, foreign investors: Recent MXN weakening has cheapened stock prices in USD

If we assume that the exchange-rate depreciation from MXN11.50/USD at the beginning of July to MXN12.44/USD currently is only a reflection of the temporary surge in volatility, then international stock prices provide foreign investors with an entry opening. As the following graph shows, the USD-equivalent IPC (IPC divided by the exchange rate) fell close to 14% between the beginning of July and the closing date of this report, 24 August 2011.

Local institutional investors: Looking for attractive entry prices

On 27 July, Mexico's National System for Retirement Savings (Consar) announced that it

Dollarized IPC in USD terms (IPC/exchange rate)

Source: Bloomberg

would raise the ceiling on equity investments by the Afores retirement funds. The change took effect on 28 July, and according to our estimates, implied that the cap on such investments was raised to MXN442.3bn (USD36.4bn), up 23% from the previous cap.

The remaining assets that could have been invested in equities under the new regulation at end-July 2011 amounted to MXN180.0bn (USD14.8bn), or 87.3% higher than those that could have been invested before the regulatory change.

The MXN180.0bn represents:

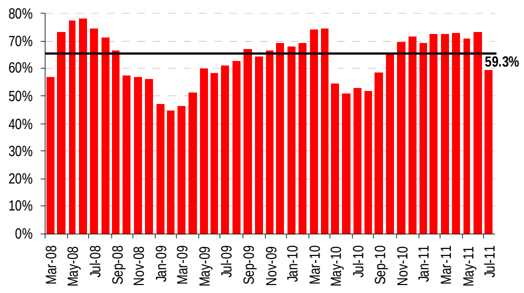
- 40.7% of the estimated maximum amount allowed (vs. 26.9% in June, before the new regulation was introduced, see the graph below).
- It would take about 35.4 trading days to be allocated vs. 19.6 days in June (based on last 12m-average daily trading of MXN5bn).
- The MXN180.0bn is equivalent to 8.7% of the current free-float value of the IPC, or 406bps above that of June 2011.

Sector breakout of the IPC index

Telecommunications		Consumer services		Consumption goods		Industrials		Infrastructure		Financials	
Company	Influence %	Company	Influence %	Company	Influence %	Company	Influence %	Company	Influence %	Company	Influence %
AMX	24.8	WALMEX	10.6	FEMSA	8.5	PEÑOLES	2.9	GEO	0.7	GFNORTE	3.7
TELMEX	2.5	ELEKTRA	3.0	KIMBER	1.9	GMEXICO	7.5	URBI	0.9	COMPARC	1.0
AXTEL	0.2	SORIANA	0.4	GCARSO	1.0	MEXICHEM	1.6	ARA	0.2	BOLSA	0.3
		TLEVISA	5.8	AC	1.4	MFRISCO	1.9	GAP	0.8	GFINBUR	2.4
		COMERCI	0.3	GMODELO	2.1	ICH	0.3	ICA	0.6		
		AZTECA	0.6	GRUMA	0.2	ALFA	4.0	ASUR	0.4		
		CHDRAUI	0.3	BIMBO	2.3	CEMEX	3.2	HOMEX	0.5		
		INCARSO	0.3	LAB	0.6						
Total	**27.5**		**21.4**		**16.6**		**21.5**		**4.1**		**7.4**

Source: : HSBC with data from the Mexico Stock Exchange (MSE).

Mexico: Capacity used in stock investments as a percentage of total capacity



Source: Bloomberg

Thus, as can be seen in the graph above, the percentage of assets already invested in stocks as a proportion of maximum capacity fell to 59.3% from 73.1% before the limits were raised (see *Mexico Equity Strategy: Afore Watch: July update of retirement fund activity*, by Juan Carlos Mateos, 19 August 2011).

How to invest in Mexico? Focus on consumption plays

Domestic consumption should set the pace for 2012

We prefer to focus on companies exposed to domestic consumption, which should outpace overall GDP growth of 3.7-3.9% over the next 18 months.

Sources of the slowdown

The slowdown is coming from abroad and in tradable goods. HSBC economics has reduced its projections of industrial output for both Mexico and the US. However, estimates of internal consumption remain stronger than for overall GDP, as shown in the following table.

Mexico: 12m growth forecast (%)

	2010	2011e	2012e
GDP	**5.4**	**3.7**	**3.9**
Consumption	**5.0**	**5.0**	**5.4**
Gross fixed investment	2.3	7.0	6.7
Industrial production	6.0	3.3	4.2
Unemployment rate	5.4	4.8	4.3

Source: HSBC Economic Research

Industrials, mining, and steel not favored

We believe that the following industries have a less attractive outlook under the new lower-growth scenario for Mexico and the US foreseen by HSBC economists:

- *Cement*: Low-cap utilization in the North American Free Trade Agreement (Nafta) market. We already have below-consensus estimates of volume growth in the US.
- *Steel*: Highly sensitive to the global slowdown.
- *Industrials*: Mainly in auto parts due to dependence on the US market.
- *Mining*: Commodity prices could be hurt by the global slowdown.

Services and consumption sectors trading at a premium to industrials

Approximately 80% of the value of the Bolsa's IPC index is related to services and internal

consumption (eg, telcos, financials, housing, media, and retail). According to our estimates, these two sectors trade at premiums of 15% in terms of EV/EBITDA and 27% in PE to the industrial sector for 2011e (please see the table on the previous page).

Premium justified due to better expected outlook, we believe

This premium is justified, in our view, due to the better outlook for domestic consumption than for the industrial sector. For perspective, we estimate that this valuation gap has been above 20% on average over the past five years. We expect this gap to widen going forward as the outlook for the domestic sector improves.

Valuation: Mexican consumption and services vs. industrials

	PE (x)		EV/EBITDA (x)	
	2011e	2012e	2011e	2012e
Industrial	12.1	10.4	7.1	5.9
Domestic services & consumption	15.4	13.5	8.2	7.3
Premium	**27%**	**30%**	**15%**	**24%**

Source: Bloomberg

Details on a recovery in Mexico's consumption

HSBC's chief economist for Mexico, Sergio Martin, expects consumption to grow at a faster pace than the overall economy in 2011 and 2012; the latter is an election year. Mr. Martin's estimates of growth in consumption are 5.0% and 5.4% for 2011 and 2012, respectively, and in GDP 3.7% and 3.9%.

Attractive gap between consumption and GDP

In our view, the gap between domestic consumption and GDP is attractive:

- 130bps in 201.1
- 150bps in 2012.

Additional factors that make us bullish on the domestic outlook

In our view, some recently released data provide additional reasons to be optimistic about domestic consumption and prospects for companies exposed to it.

Consumer confidence is at the highest level since the 2008-09 crisis

There is still no clear evidence of international contagion about consumer confidence in Mexico. Indeed, this has shown no signs of recent erosion, as the following graph shows. Please note that the 95.5 level posted for July was the highest reading since the 2008-09 global financial crisis (see the section, "Mexico: Consumer confidence keeps recovering in July," in *The MAD (multi-asset daily)*, by Sergio Martin, 4 August 2011.

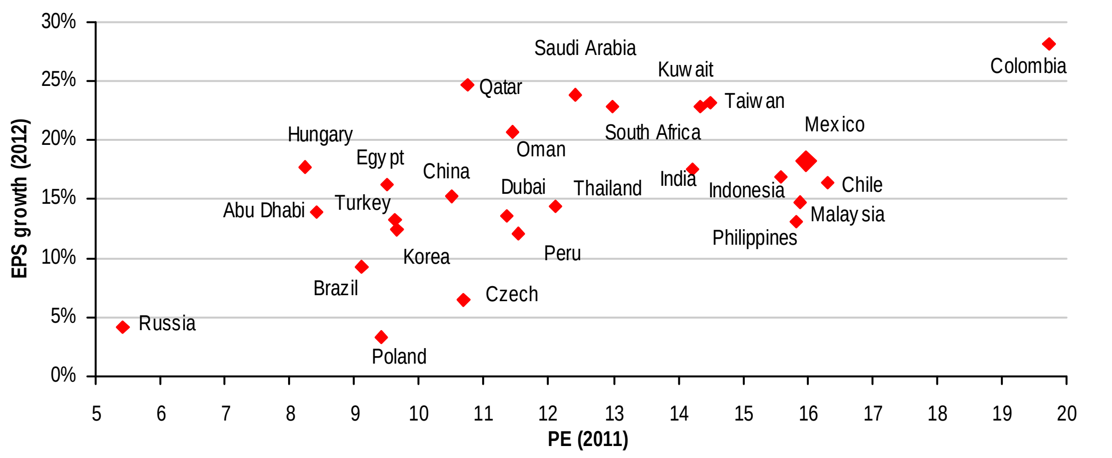
Mexico: Consumer confidence

Source: Bloomberg

Encouraging signs in July retail sales

On 15 August, Antad, the national retailers association, reported data for July. According HSBC economist Sergio Martin, the results were positive, exceeding the YTD average. Antad sales results might anticipate a positive outcome for the Inegi national statistics agency's retail sales data for July; which prompts us to believe that consumption continues to strengthen. (See "Mexico: Retail sales: encouraging signs for

GEMs: PE 2011e vs EPS growth 2012e



Source: IBES Thomson Financial Datastream

July," by Sergio Martin, in the [*MAD (multi-asset daily),*]() 16 August 2011).

Sales data

In July, Antad reported a 13.5% annual increase in its members' total sales and a 6.4% increase in same-store sales, both in nominal terms. In real terms, sales rose 9.6% and same-store sales gained 2.8%. The report reflected the positive calendar effect of one more Sunday with respect to July 2010 and the result of some special promotions. Particularly in same-store sales, by type of good, clothing presented the biggest increase, 7.9%. General stores and supermarkets registered increases of 4.5% and 0.5%, respectively. By type of store, department stores registered an 8.8% improvement, and specialty and convenience stores rose 3.9% and 0.8%, respectively.

Implications

Antad sales showed a soft upward trend, which suggests that consumption continues on its recovery path. On the negative side, recent concerns about economic activity, along with high levels of unemployment and low remittance flows, remain factors that could limit consumption growth going forward.

Bottom line

We anticipate that may continue expanding, but we see uncertainty about the impact of slower economic activity in 2H11.

Positive feedback from meetings with 11 companies in Mexico City

Visits reinforced our conviction that favors domestic consumption plays into 2012

Members of HSBC's equity research and strategy teams recently met with 11 Mexican companies across the consumption, retail, infrastructure, banks, and telecom, and media industries. Overall, these visits reinforced our conviction that favors domestic consumption plays in Mexico in 2H11 and into 2012, an election year.

The meetings were with these companies: Alsea, a restaurant operator; America Móvil, telecom; Grupo Financiero Banorte, banking; Coca-Cola Femsa, bottling; Empresas ICA, construction and infrastructure; Grupo Bolsa Mexicana de Valores, or Bolsa, stock exchange; Grupo Carso, conglomerate with retail, industrial, and infrastructure interests; Liverpool, department store; Televisa, media; URBI, homebuilding; and Wal-Mart de Mexico, retailing.

High comparative valuation, as always

Mexico's premium to other EMs

The Mexican stock market's 2012e PE is 13.1x, which implies a premium to its most relevant peers:

- Brazil: 66%
- GEMs average: 46%
- Latam average: 44%

The scatter graph at the top of the previous page plots 2011e PE against the 2012e earnings growth rate. Mexico's earnings growth in 2012e should exceed that of Brazil, 18.3% vs 9.3%, but not enough to close the valuation premium gap. Mexico has continued to shift away from the middle range of GEMs when comparing EPS growth with PE multiples (less attractive).

High relative premiums

The following chart on forward PE depicts how the Mexican stock market has a record of trading at a premium to other emerging markets.

Market recognizes Mexico to be more defensive relative to other EMs, in our view

In our view, the Mexican market can be seen as a somewhat more defensive alternative than other EMs. We believe this can be explained by the close relationship to the US economy, a stronger sovereign debt rating than other EMs, lower inflation and interest rates, and the large weighting that the service sector has in the IPC index – more defensive in the current volatile global environment. We believe this explains the premium versus other emerging markets, which is at a 10-year high.

Flow of funds: GEM outflows continue

According to EPFR Global, a provider of fund flow and asset allocation data:

- Dedicated GEM equity funds have seen YTD outflows equivalent to 0.5% of assets under management (AUM), but 0.2% inflows in July.
- By EM region, EMEA equity funds had the largest outflows, as a percentage of AUM, in July.
- Latam equity funds lost 0.5% of AUM in July (-5.7% year-to-date).

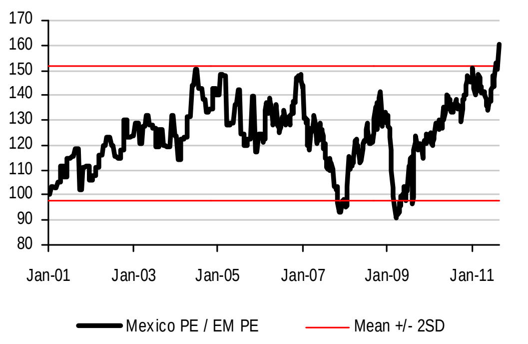
Please see *GEMs flow of funds: EMEA region sees largest outlflows for third month running*, by Wietse Nijenhuis, John Lomax, and Kishore Muktinutalapati (25 August 2011).

Recent developments

Mexico: USD2.5bn in outflows YTD; fund managers moving to underweight stance

- In July, net mutual fund outflows were USD187m. Net outflows YTD amounted to USD2.5bn. The largest outflow, USD732m, took place in June. The only net inflow, USD260m, took place in April.
- Latam fund managers in April 2011 changed their position on the Mexican market to underweight from overweight, which had been in place since the end of 2007; their underweight position has continued to grow every month since.

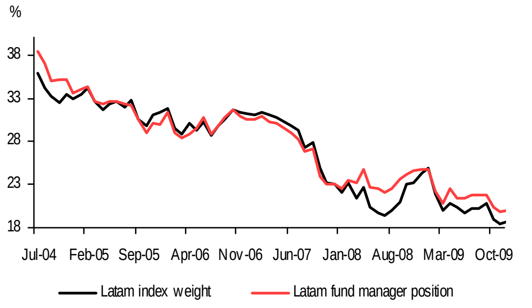
Forward PE: Mexico's premium vs. emerging market average



Source: HSBC, IBES, Thomson Financial Datastream

- GEM funds moved from an overweight position the Mexican stock market to neutral in April 2011. However, in May, they moved to an underweight stance.
- HSBC GEMs equity strategists John Lomax and Wietse Nijenhuis have an underweight stance on the Mexican market.

Mexico: Latam fund manager positions vs. Latam benchmark

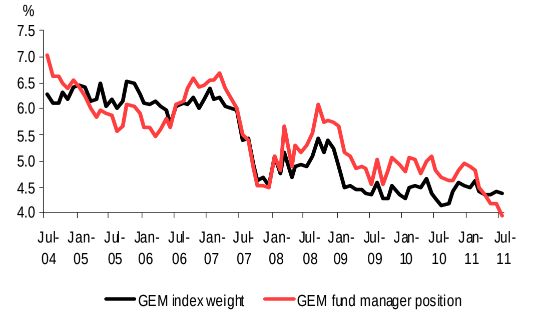


Source: EPFR Global, Thomson Financial Datastream

Brazil: USD3.7bn in outflows YTD

- In July, net mutual fund outflows were USD413m. Net outflows YTD amounted to USD3.7bn. The largest outflow, USD2.8bn, took place in February. There were net inflows in April, USD1.0bn, and May, USD291m.
- Latam funds remain underweight the Brazilian market, on which GEM funds have an overweight position.
- HSBC has a neutral stance on the Brazilian market.

Mexico: GEMs fund manager position vs. GEMs benchmark



Source: EPFR Global, Thomson Financial Datastream

Mexican stock market: Valuation summary

	Index weighting	PE 2011e	PE 2012e	EV/EBITDA 2011e	EV/EBITDA 2012e	Prices 24-Aug	Prices TP 12mo.	As of 2Q11 BV	As of 2Q11 P/B	Market cap (USDm)
Food & Beverage		**19.5**	**14.3**	**7.6**	**6.5**				**2.4**	
AC	0.4%	16.8	13.7	9.6	7.7	58.63	**79.00**	29.8	2.0	5,988
Bimbo	2.4%	22.3	17.8	9.2	7.8	25.40	**29.3**	9.5	2.7	9,571
Alsea		18.5	13.5	6.5	5.5	11.31	**11.2**	4.7	2.4	553
Femsa	7.4%	18.5	15.4	6.8	5.7	84.88	**88.1**	33.1	2.6	19,794
GModelo	2.2%	21.3	19.4	9.9	9.1	68.03	**78.0**	23.2	2.9	17,634
Gruma	0.2%	6.91	5.8	4.9	4.4	22.79	**33.5**	20.1	1.1	977
KOF		19.8	14.2	6.2	5.5	120.29	**122.0**	39.1	3.1	11,607
Infrastructure		**9.4**	**8.2**	**7.7**	**6.7**				**1.0**	
Ara	0.3%	8.2	7.2	5.8	5.2	5.23	**8.00**	7.0	0.8	547
Cemex	4.8%	na<0	na<0	9.2	8.8	6.56	**9.27**	17.9	0.4	5,356
Cicsa		18.8	15.3	11.6	9.9	7.50	**9.10**	4.0	1.9	1,534
Geo	0.7%	7.6	7.1	5.0	4.2	24.25	**33.00**	15.1	1.6	1,073
Homex	0.5%	7.4	6.2	4.8	4.7	41.13	**56.00**	38.5	1.1	1,107
ICA	0.8%	4.7	8.3	12.2	10.5	18.60	**38.00**	24.6	0.8	3,039
Sare		8.8	5.8	7.6	6.1	1.85	**3.30**	5.6	0.3	102
URBI	0.8%	10.1	7.8	5.5	4.5	22.70	**32.00**	16.1	1.4	1,990
Retail		**22.6**	**16.4**	**12.8**	**11.6**				**3.6**	
Chedraui	0.3%	19.6	14.9	9.2	7.7	33.85	**45.00**	17.1	2.0	2,595
Comerci	0.4%	20.3	18.3	8.5	8.8	18.48	**16.50**	14.3	1.3	1,608
Elektra	1.8%	45.2	na>50	29.0	27.2	1,177.07	**566.95**	164.6	7.2	22,813
Gfamsa		13.8	13.8	4.9	4.9	13.76	**25.70**	20.5	0.7	484
Genomma Lab	0.7%	17.7	13.7	12.2	9.4	25.01	**40.00**	4.2	5.9	2,109
Soriana	0.4%	15.7	14.7	8.2	7.8	30.21	**39.00**	20.2	1.5	4,357
Walmex	11.9%	23.1	21.3	14.3	11.5	32.87	**41.00**	6.8	4.9	53,375
Holdings		13.7	12.4	7.2	6.3				2.2	
Alfa	4.2%	9.5	12.5	6.9	6.7	152.84	**183.00**	64.5	2.4	6,535
GCarso	1.4%	14.8	15.2	9.5	8.3	28.51	**43.00**	14.5	2.0	5,258
Kuo		14.4	10.5	5.6	4.9	16.00	**7.30**	11.1	1.4	585
Mexichem	1.4%	17.8	14.3	9.1	8.0	46.54	**20.66**	12.6	3.7	6,711
Consumer products										
Kimber	1.7%	19.0	17.3	10.4	9.6	75.30	**80.75**	6.0	12.5	6,384
Telecoms & media		**9.6**	**9.1**	**5.5**	**5.2**				**2.7**	
AMX	22.5%	11.1	9.6	5.5	5.2	14.94	**16.00**	3.9	3.8	93,642
Axtel	0.3%	na<0	na<0	4.5	4.3	5.82	**7.99**	6.2	0.9	578
Telmex	2.5%	11.7	11.7	5.6	5.4	10.51	**12.43**	2.5	4.1	15,181
Televisa	6.2%	4.0	3.8	7.3	6.7	50.93	**57.50**	19.5	2.6	9,789
Azteca	0.6%	11.6	11.3	4.2	4.1	7.57	**9.00**	4.0	1.9	1,261
Mining		**12.6**	**11.7**	**8.1**	**6.8**				**5.0**	
GMexico	7.7%	9.3	7.9	5.5	4.8	39.84	**54.25**	12.6	3.2	24,848
Peñoles	2.2%	16.0	15.5	10.6	8.8	543.46	**521.00**	79.0	6.9	17,306
Airports		**17.9**	**17.2**	**8.9**	**8.2**				**1.2**	
Asur	0.4%	13.5	15.9	9.0	8.5	67.74	**74.85**	49.0	1.4	1,628
Gap	0.8%	19.2	16.9	10.2	9.6	47.74	**47.57**	46.2	1.0	2,146
Oma		21.0	18.8	7.7	6.6	21.24	**24.01**	23.0	0.9	579

Company names under HSBC coverage are listed in bold face. Otherwise, source: Thomson One Analytics.
Source: HSBC estimates

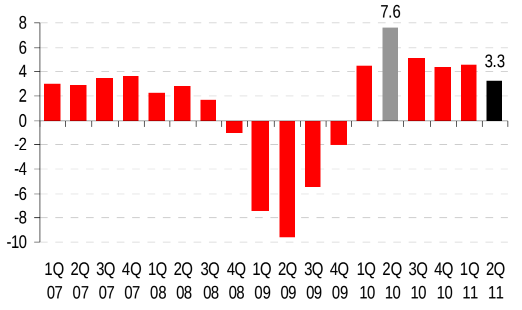
After 2Q11 results, what to expect for FY2011?

- 2Q11 results: 12.2% YoY sales growth, despite economic slowdown
- But cost pressures slowed EBITDA growth to 8%
- FY2011e: Consensus growth estimates of 11% in sales, 12% in EBITDA, and 20% in net income

Challenging economic environment

Mexican GDP in the second quarter of 2011 grew 3.3% from a year earlier. This marked a slowing relative to the 1Q11 expansion of 4.6% YoY. Meanwhile, the US economy in 2Q11 grew a mere 1.3% vs. 1Q11, with consumption practically flat at +0.1%.

Mexico: GDP growth by quarter; 2Q11: 3.3%



Source: HSBC with data from the Mexico Stock Exchange

In other words, though GDP growth slowed from 1Q11, that level sufficed to allow for strong sales growth. Comparisons year-on-year were especially challenging, as Mexico's economic recovery was most pronounced in 2Q10 (see the nearby graph). Adding to that tough sales comparison, international commodity prices were steeper in 2Q11 than in 2Q10, pushing companies' raw-material and energy costs higher.

Methodological note

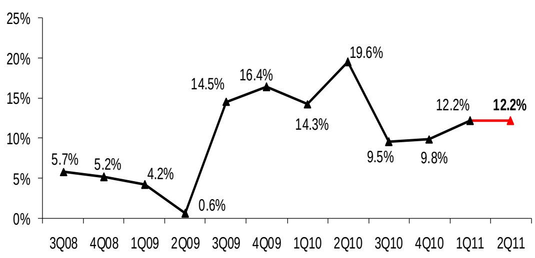
Our aggregate comparisons involve 32 commercial, industrial, and service companies that are components of the Mexican stock exchange's IPC benchmark index. We refer to the sample that will be in effect through 31 August. Our sample excludes the financial service firms Grupo Financiero Inbursa (GFinbur), Grupo Financiero Banorte (GFNnorte), and Compartamos. Grupo Carso (GCarso) remains part of the sample, but we have not included the companies that it spun off, Minera Frisco and Inmobiliaria Carso, because the historical series of the financial results of those two companies from the past two years have yet to be made public.

Double-digit sales growth: 12.2%

In the following graph, the solid line tracking aggregate sales for the IPC sample shows that

revenue growth compared to the same quarter of the previous year has sustained a recovery since 3Q09 that peaked at 16.6% in 2Q10. In3Q10 and 4Q10, growth broke slightly back below 10%, in a sign of the steep comparisons from a year earlier when the economic recovery got under way. But sales growth rebounded to double-digit territory in the first half of 2011.

Quarterly sales growth: IPC aggregate

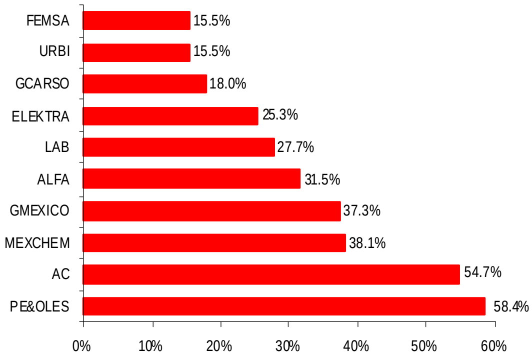


Source: Mexico Stock Exchange (MSE)

In 2Q11, sales growth was 12.2%, a considerable feat, in our view, given the weakening of GDP. Twenty-seven of the 32 companies we analyzed reported increased revenues. Alfa, América Móvil (AMX), Grupo Mexico (GMexico), Industrias Peñoles, Wal-Mart de Mexico (Walmex), and Fomento Económico Mexicano (Femsa) made the greatest contribution to aggregate growth. When we strip out those six companies, aggregate growth remains attractive at 7.9%.

When we eliminate from the sample the results of companies at which growth reflected acquisitions – Arca Continental (AC), Alfa, Genomma Lab, and Mexichem – we arrive at an 8.8% rate of organic sales growth. Walmex's contribution was purely organic, as it had already fully incorporated by 2Q10 the stores that it had acquired in Central America. AMX published as of 2Q10 comparable results with the consolidation of Telefonos de Mexico (Telmex) and Telmex Internacional.

Greater sales growth, 2Q11 vs. 2Q10



Source: HSBC with data from the Mexico Stock Exchange

Revenue setbacks at Cemex, Axtel, Telmex, Kimberly-Clark de Mexico (Kimber) and TVAzteca (Azteca) had the most adverse effect on the IPC sample.

Estimated sales growth for 2011: +11%

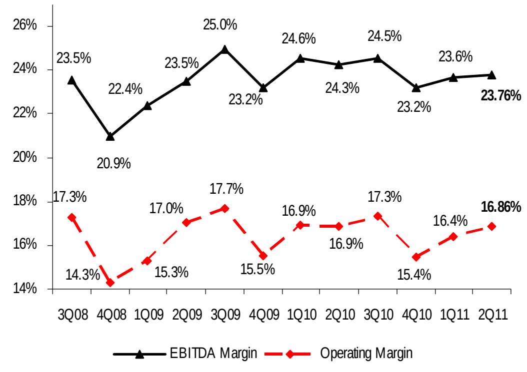
The IBES Thomson Reuters consensus estimate anticipates that for 2011, sales of the IPC sample will increase 11%, or almost three times the projected 3.7% rise in GDP. The companies expected to contribute the most to that revenue expansion are Arca Continental, +60%; Genomma Lab, +34%; Mexichem, +24%;, Grupo Bolsa, +24%;, GMexico, +24%; Alfa, +20%; GCarso, +14%; and Walmex, +14%. Controladora Comercial Mexicana (Comerci), Telmex, and Cemex are expected to act as a drag on aggregate growth.

Aggregate EBITDA margin narrowed in 2Q11

The aggregate operating margin for the IPC came in at 16.86% for 2Q11, a mere 3bps weaker than that of 2Q10. The aggregate EBITDA margin of 24.75% was 50bps below that of 1Q10 (see the following graph).

In 2Q11, aggregate operating income and EBITDA advanced 12.0% and 9.9%, respectively, from year-earlier results.

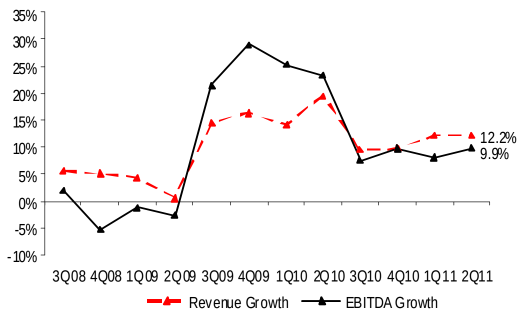
IPC: Aggregate operating and EBITDA margins performance



Source: Mexico Stock Exchange (MSE)

In 2011, the EBITDA margin displayed reduced profitability YoY after having achieved growth throughout most quarters in 2009 and 2010, a period in which EBITDA growth was stronger than that of sales, as the following graph shows. In 2Q11, sales outpaced EBITDA, which implied a reduction in the EBITDA margin in 2Q11 vs. 2Q10.

EBITDA growth lagged that of sales due to a narrowed margin in 2Q11



Source: HSBC Mexico with data from the Mexico Stock Exchange (MSE)

The reduction in the sample's EBITDA margin extended to 14, or 44%, of the 32 companies analyzed in various industries: AMX (telecommunications), Corporacion Geo and URBI Desarrollos Urbanos (housing), Grupo Elektra, Organización Soriana, Grupo Comercial Chedraui, and Walmex (retailing), Genomma Lab, Kimber, Grupo Bimbo, and Gruma (consumer brands), Grupo Televisa and TVAzteca (media), and others such as Grupo Aeroportuario del Pacífico (Gap), Cemex, and Alfa. In short, margin erosion was broader than in the previous quarter.

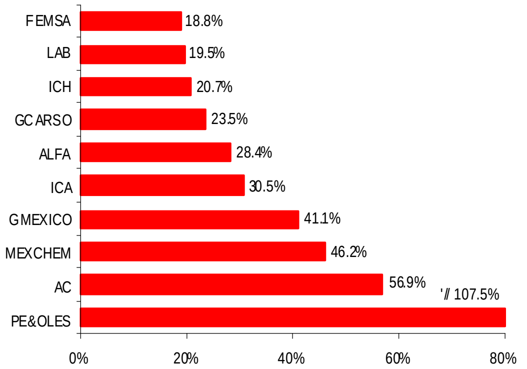
Of particular note was the extent to which most retailers and consumption firms experienced an erosion of profitability. The common denominator underlying this weakness in operating margins was a combination of a lower sales price mix and higher costs.

In contrast, mining companies such as Peñoles and GMexico boosted operating margins on the back of higher sales prices and greater revenues. Empresas ICA, Desarrolladora Homex, and Consorcio Ara in the construction and homebuilding industries, Mexichem, GCarso, and Industrias CH (ICH) in the multi-industry segment, and others such as Femsa, Axtel, and Grupo Aeroportuario del Sureste (Asur) expanded their EBITDA margins.

Mining companies were by far the main contributors to the IPC's 9.9% increase in EBITDA. When we strip GMexico and Peñoles out of the sample, EBITDA growth narrowed to 4.3%.

Other major contributors: AC's report reflected significant growth arising from the Grupo Continental merger. Alfa, Mexichem, ICH, and GCarso (conglomerates) and some companies in consumer brands, Genomma Lab and Femsa, increased EBITDA by an average of 26% (see the following graph).

Greater EBITDA growth, 2Q11 vs. 2Q10*



Source: HSBC with data from the Mexican Stock Exchange

Consensus EBITDA growth for 2011 lowered to 12.0% from 15.7% prior to 2Q11 results

The market consensus (IBES Thomson Reuters) looks for aggregate EBITDA to grow 12.0% in 2011, as opposed to the 15.7% growth forecast prior to the 2Q11 reporting season. The projection assumes 11% sales growth and cost and expense reductions as percentages of sales. The FY2011e EBITDA margin is expected to improve by 32bps to 24.4% from 24.1%.

The companies with the highest EBITDA growth estimated for 2011 are Peñoles, 83%; AC, 63%; ICA, 46%; Grupo Bolsa, 36%; Grupo Mexico, 28%; Genomma Lab, 29%; Mexichem, 26%; and Alfa, 23%.

Those that are expected to hurt aggregate growth are Telmex and Comerci, as they are projected to register lower EBITDA for full-year 2011.

Net income climbed 38%

The 38% rise in net income by our IPC sample in 2Q11 is explained by a series of factors:

- 13.9ppts correspond to Elektra, which reported MXN3.89bn net profit for 2Q11, reversing a loss of MXN2.58bn for 2Q10.
- 13.1ppt was attributable to strong earnings at Peñoles and GMexico.
- 20 companies contributed with varying degrees of earnings growth.
- Eight companies' net earnings declined.

If we strip out the first two of these four factors, net income growth would have been much more in line with that of sales, 12%. Of the 32 companies we analyzed, only 11, or 34%, had drops in net income for 2Q11, compared with 2Q10.

2Q11: 12m % variation in main results accounts

Company	Sales	Operating income	EBITDA	Net income
AC	54.7	60.9	56.9	34.9
ALFA	31.5	35.1	28.4	179.1
AMX	7.8	-1.4	2.0	14.1
ARA	4.1	9.3	13.8	10.7
ASUR	7.1	10.7	10.0	12.0
AXTEL	-2.5	-14.5	1.7	-87.2
AZTECA	-4.7	-3.5	-3.9	3.6
BIMBO	4.1	-15.6	-12.2	-16.2
BOLSA	10.2	14.5	10.6	3.5
CEMEX	-0.9	-20.2	-15.6	-12.5
CHDRAUI	14.1	5.3	6.9	6.8
COMERCI	4.5	10.4	8.8	9.8
ELEKTRA	25.3	20.3	8.8	- a +
FEMSA	15.5	17.8	18.8	2.0
GAP	13.7	-0.8	-0.5	8.2
GCARSO	18.0	32.4	23.5	-40.0
GEO	3.9	7.5	3.1	0.8
GMEXICO	37.3	54.2	41.1	105.3
GMODELO	8.2	5.9	9.0	-1.5
GRUMA	13.5	17.2	9.4	- a +
HOMEX	13.7	17.3	16.7	9.7
ICA	10.1	45.4	30.5	68.0
ICH	12.1	37.6	20.7	25.0
KIMBER	-3.2	-9.3	-7.4	-9.4
LAB	27.7	20.7	19.5	17.6
MEXCHEM	38.1	47.7	46.2	64.9
PEÑOLES	58.4	127.1	107.5	107.3
SORIANA	2.2	-10.1	-6.6	-4.9
TELMEX	-2.9	-1.5	-2.0	-11.8
TLEVISA	4.7	-0.6	4.6	0.0
URBI	15.5	19.3	14.4	52.3
WALMEX	9.2	-3.7	0.4	-3.4
Aggregate	**12.2**	**12.0**	**9.9**	**38.1**

Source: HSBC Mexico with data from the Mexico Stock Exchange (MSE)

A favorable forex effect on the level of foreign exchange items and dollar-debt servicing

In 2Q11, the peso appreciated 1.6% and closed the quarter at MXN11.72/USD, down from MXN11.91/USD in 1Q11.

As a result, companies with foreign currency debt reported forex gains in a reversal of forex losses in 2Q10, when the peso weakened 4.2%. Forex losses or gains are virtual or non-cash items.

At the level of aggregate growth at the close of 2Q11, 64% of debt was denominated in foreign currency (see the fourth column of the last table in this section). In addition, the exchange rate in 2Q11 averaged MXN11.81/USD, or almost 8% lower than the MXN12.84/USD average of 2Q10, thus facilitating a reduction of interest paid on the part of companies with foreign debt.

This signaled a positive effect on net comprehensive financial costs, for which aggregate growth fell 69.4%, thereby favoring net income growth in 2Q11 vs. 2Q10.

Cash earnings advanced 8.0%

When we strip out virtual items for 2Q11, we calculate cash earnings –a reading of whether a company is generating more or less cash in its income statement before investments and dividends, eg. We subtract from operating flows (EBITDA) net interest (interest expense minus interest income) and taxes paid.

The sample showed an increase of 8.9% in cash earnings for 2Q11 vs. 2Q10. Peñoles and GMexico contributed 3.8 and 2.3ppt, respectively, to that growth, followed by AC, GCarso, ICA, Alfa, Mexichem, Femsa, and Genomma Lab. The companies showing a decrease in net earnings were Elektra, Cemex, Kimber, TVAzteca , Soriana, Bimbo, and Telmex.

Consensus anticipates 19.8% net earnings growth for 2011

The consensus currently calls for an increase in aggregate net income of 19.8% for this year. That estimate excludes Cemex, which reported a loss for 2010 of MXN16.52bn, which is forecast to narrow sharply to MXN1.71bn for 2011. It also excludes Femsa, because the company in 2010 registered more than MXN27bn in extraordinary income from discontinued operations arising from the sale of its beer unit to Heineken. We also exclude Gruma, given the earnings it derived from the sale of its stake in GFNorte.

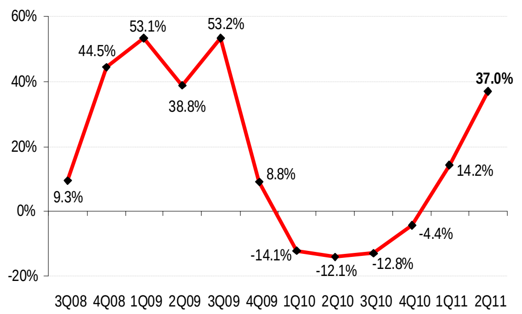
The companies that should contribute the most to the projected expansion of aggregate net income are GMexico, Peñoles, AC, Alfa, Genomma Lab, Mexichem, ICA, URBI and Chedraui.

Net debt up for second quarter in a row

Gross debt grew 10.2%

The sample's gross debt increased 10.2% compared to the close of 2Q10. AMX, ICA, Televisa, Alfa, Comerci, and AC contributed the most to the expansion of gross debt. Given AMX's dominant weight in the sample, its 34% increase was the determining factor in aggregate gross-debt results. When we eliminate AMX from the sample, growth in gross debt falls to 2.4%. As the following table shows, increases in gross debt also were reported by Asur, Ara, Elektra, Bolsa, Kimber, and Homex.

IPC aggregate net debt; 12m % variation



Source: HSBC Mexico with data from the Mexico Stock Exchange (MSE)

Cash positions fell 17%

Fourteen companies reported reductions in cash positions, led by AMX, AC, Axtel, Alfa, Ara, Asur, TVAzteca, Elektra, and Femsa. The companies that most significantly increased their

cash positions were Walmex, URBI, Televisa, Telmex, Soriana, Peñoles, Mexichem, Genomma Lab, and Kimber. Once again, AMX was the main source of the IPC cash drawdown, and if we were to eliminate it from the sample, the decline in the aggregate cash position would fall to 3.5%.

Net debt grew 15.3%, but only 6.9% excluding AMX

The increase in gross debt, combined with reduced cash positions – largely traceable to AMX– produced a 15.3% increase YoY in net debt. Excluding AMX net debt, growth was a more modest 6.9%. The other companies contributing to the increase were Televisa, ICA, Alfa, Comerci, Elektra, AC, and Mexichem. Others adding to aggregate net debt but to a lesser extent, given their limited weighting in the IPC, were Ara, Chedraui, ICH, Kimber, URBI, Homex, and Asur.

The companies that significantly lowered net debt were Femsa, GMexico, Gruma, Gap, Telmex, GCarso, Soriana, and TVAzteca.

Aggregate net debt grew in the first two quarters of 2011 after having fallen throughout the four quarters of 2010. Several factors appear to have influenced this change of direction. Alfa, Mexichem, and Televisa undertook acquisitions, while Cemex experienced weak cash-flow generation. In some instances, such as that of homebuilders, the increased net debt reflected a decision to assume additional short-term liabilities with which to finance working capital.

Net debt/EBITDA increased YoY

Aggregate financing costs were flat at 7.0%, which, when combined with added debt, implied a 5.6% increase in net interest (interest expense minus interest income) for 2Q11, compared with 2Q10.

As the following graph shows, net debt/EBITDA improved consistently between the end of 3Q09, at 1.27x, and to the end of 2Q10, at 0.78x, thanks

Balance sheet accounts, 2Q11: % variation YoY

	Cost-bearing liabilities	Cash	Net debt
AC	180.1	151.0	238.8
ALFA	23.7	-24.0	37.3
AMX	34.1	-43.5	200.9
ARA	71.2	-5.6	230.6
ASUR	343.2	131.3	Net cash
AXTEL	-4.4	-21.4	-2.2
AZTECA	21.4	93.3	-28.3
BIMBO	-18.7	-41.3	-7.0
BOLSA	43.1	-19.5	Net cash
CEMEX	-5.3	-18.2	-4.7
CHDRAUI	21.3	-54.2	220.1
COMERCI	77.3	-44.9	129.7
ELEKTRA	47.8	-8.8	Net cash
FEMSA	20.1	36.6	Net cash
GAP	1.2	-34.0	Net cash
GCARSO	15.9	158.2	-22.1
GEO	-16.4	-56.0	9.4
GMEXICO	-4.7	-0.9	-14.1
GMODELO	0	24.2	Net cash
GRUMA	-54.1	-12.7	-57.5
HOMEX	23.5	25.6	22.7
ICA	40.2	-18.1	48.1
ICH	-6.5	32.4	Net cash
KIMBER	39.0	56.6	23.7
LAB	0	18.9	Net cash
MEXCHEM	7.4	-22.9	26.0
PEÑOLES	9.3	23.9	Net cash
SORIANA	-23.7	32.5	-31.4
TELMEX	-27.0	-62.2	-21.8
TLEVISA	24.0	-44.1	255.3
URBI	44.8	55.3	30.9
WALMEX	25.6	11.8	Net cash

Source: HSBC Mexico with data from the Mexico Stock Exchange (MSE)

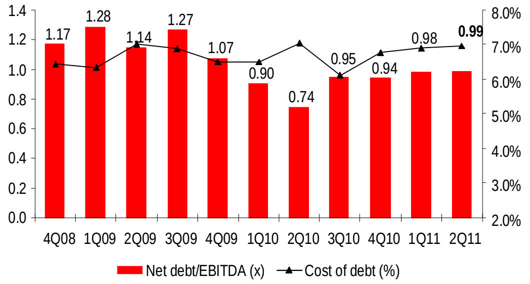
to a combination of lower debt and greater cash-flow generation. That improvement was achieved on a year-on-year basis but not quarter-on-quarter, for which the ratio has gradually risen since 3Q10.

In 2Q11, net debt/EBITDA was 0.99x, well above the 0.74x level of 2Q10 but similar to that of 0.98x in 1Q11.

The other measure of solvency we consider is the extent to which EBITDA covers net interest, a multiple that at 12.1x in 2Q11 was lower than the 12.4x level of 2Q10 but greater than the 11.7x in 1Q11. We regard levels above 10x as evidence of a strong financial position. We note that at the end of 2Q11, 64% of cost-bearing debt was denominated in foreign currencies (see the following table), down from 67% in 1Q10.

HSBC

Evolution of net debt and debt costs



Source: HSBC Mexico with data from the Mexico Stock Exchange (MSE)

Measures of debt and coverage

	Net debt/ EBITDA	EBITDA/ net int.	FC* debt/ total debt	FC* sales/ FC* debt
AC	0.8	15.4	0.0%	27.4
ALFA	2.3	5.5	74.7%	1.4
AMX	0.9	18.2	73.4%	0.9
ARA	1.6	86.4	0.0%	0.0
ASUR	No debt	Int. gain	0.0%	0.0
AXTEL	2.6	3.6	95.4%	0.0
AZTECA	No debt	6.2	45.9%	0.2
BIMBO	1.9	6.2	69.6%	1.8
BOLSA	Cash>debt	Int. gain	75.5%	1.7
CEMEX	7.0	2.0	96.0%	0.6
CHDRAUI	0.9	9.7	32.0%	4.7
COMERCI	4.0	10.5	13.5%	0.0
ELEKTRA	Cash>debt	30.1	0.0%	0.9
FEMSA	Cash>debt	14.5	28.7%	4.1
GAP	Cash>debt	Int. gain	0.0%	0.0
GCARSO	0.8	14.8	1.2%	0.9
GEO	2.1	4.6	55.4%	0.0
GMEXICO	0.2	17.5	69.5%	2.1
GMODELO	No debt	Int. gain	0.0%	16.0
GRUMA	1.9	3.4	74.7%	2.6
HOMEX	2.5	12.6	68.3%	0.0
ICA	7.6	3.9	47.9%	0.1
ICH	Cash>debt	Int. gain	100.0%	12.9
KIMBER	0.7	13.9	0.0%	1.0
LAB	Cash>debt	66.8	0.0%	5.5
MEXCHEM	1.3	9.1	67.0%	1.4
PEÑOLES	Cash>debt	262.7	112.0%	4.1
SORIANA	0.9	22.3	0.0%	0.0
TELMEX	1.3	9.1	49.8%	0.1
TLEVISA	1.5	8.0	44.4%	0.3
URBI	1.5	Int. gain	58.3%	0.0
WALMEX	Cash>debt	Int. gain	47.2%	3.5
AGGREGATE	1.0	12.1	65.8%	1.1

* FC = Foreign currency
Source: HSBC Mexico with data from the Mexico Stock Exchange (MSE)

Focus stocks details

HSBC

Coca-Cola FEMSA

- Second-quarter revenue increased 13% and EBITDA increased 14%, supported by volume and pricing growth
- Commodity cost pressure should be manageable through the bottler's pricing actions and cost savings initiatives
- We rate the stock Overweight with a USD108 target price based on the company's attractive growth potential

Momentum continues

Coca-Cola FEMSA delivered strong second-quarter results, including double-digit revenue from each of its segments, with Mexico up 10.6%, Latin Centro up 11.0%, and Mercosur up 17.8%. Revenue growth was achieved with a good balance of 5% volume growth and 7.3% pricing growth.

We believe Coca-Cola FEMSA is well-equipped to offset a rising cost environment. In 1H11, Coca-Cola FEMSA was impacted by higher PET and sweetener costs, but was able to keep gross margin stable, as the bottler benefited from the appreciation of local currencies against its USD-denominated raw-material costs. Similarly, the operating margin was flat, despite higher labor and freight costs, as a result of controlled operating expenses.

We rate KOF shares Overweight with a 12-month target price of USD108. We believe that Coca-Cola FEMSA is well-positioned to deliver strong top- and bottom-line growth this year, despite challenging market conditions. We also view favorably the company's moves to continue to increase its investment spend and to seek out brand and territorial acquisitions, which should support strong growth in the top and bottom lines.

Key forecast drivers

(MXNm)	2010	2011e	2012e	2013e
Revenue	102,438	113,789	125,438	136,914
Gross profit	47,473	52,529	58,020	63,532
Gross profit margin (%)	46.3	46.2	46.3	46.4
Operating profit	16,935	19,286	21,802	24,267
Operating profit margin	16.5	16.9	17.4	17.7
Income before taxes	14,471	16,912	19,137	21,532

Valuation data

	2010	2011e	2012e	2013e
EV/sales	1.5	1.3	1.2	1.0
EV/EBITDA	11.2	9.4	8.6	7.8
EV/IC	1.9	1.8	1.7	1.6
PE	22.7	18.3	16.1	14.2
P/book value	3.0	2.7	2.5	2.3

Issuer information

Share price (USD)	95.83	Target price (USD)	108.00
Potential return (%)	14.8		
Reuters (equity)	KOF.N	Bloomberg (equity)	KOF US
Market cap (USDm)	17,695	EV (USDm)	18,146
Free float (%)	15		
Country	Mexico	Sector	Beverages
Analyst	Lauren Torres	Contact	+1 212 525 6972

Source: HSBC Priced as at 25 Aug 2011

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Second-quarter 2011 results

Coca-Cola FEMSA delivered strong second-quarter results, with double digit revenue and EBITDA growth. Revenue increased 12.9% to MXN28.4bn, better than our MXN27.4bn

HSBC

estimate. Total company volume grew 5%, and average price per unit case increased 7.3%, with volume and pricing growth coming from each division. Operating income increased 12.4% to MXN4.6bn, just below our MXN4.7bn estimate. Operating margin was flat at 16.2%, as an increase in input costs offset revenue gains. EBITDA increased 14.1% to MXN5.7bn, and EBITDA margin improved 20bps to 20.2%.

Optimistic 2011 outlook

For 2011, we estimate growth of 4.8% in volume and 6% in pricing, which should contribute to almost 11% total company revenue growth to MXN113.8bn and 14% operating income growth to MXN19.3bn. We believe that Coca-Cola FEMSA is one of the better-positioned soft drink bottlers to manage through a rising cost environment and still be able to gain volume and value share due to the strength of its brands, distribution capabilities, and investment opportunities.

For the remainder of this year, we believe that Coca-Cola FEMSA can continue to manage through a challenging cost environment. Sweetener costs are likely to increase modestly versus last year, but according to management, this does not present a big issue in 2011. Rising PET costs are more of a concern, but the bottler has taken selective price increases to cover this cost increase and along with adjusting its packaging. Currency movements and the bottler's recycling efforts should also provide an offset.

As it is approaching zero net debt, the company noted that it continues to seek out value-added acquisitions, which would be a primary use of cash, following debt paydown. We believe that Coca-Cola FEMSA plans at least USD600m in capex this year, or about USD100m more than in 2010, directed toward new bottling plants in Brazil and Colombia, where it needs capacity. In June, Coca-Cola FEMSA announced its decision to merge with Grupo Tampico's beverage division and its plans to realize about MXN180-270m in synergies over the first 18-24 months of the combined businesses. In our view, this deal is a positive for Coca-Cola FEMSA, as it is paying a fair yet competitive price, and the transaction will give it increased exposure to Mexico.

Valuation, rating, and risks

Our 12-month target price of USD108 represents a relative (to an aggregate Mexican market index compiled by FactSet) F/PE multiple of 1.3x, an 18x 2012e PE multiple, and a 9.5x 2012e EV/EBITDA multiple. Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppt around the hurdle rate for Mexican stocks of 9.5%, or 4.5-14.5% around the current share price. Our USD108 target price implies a potential return of 14.8%, which is above the Neutral band, therefore we rate KOF shares Overweight.

Based on EV/EBITDA, Coca-Cola FEMSA is trading at 8.6x our 2012 EBITDA estimate, in line with its historical multiples and just above the peer group average of 8.2x. We expect multiple expansion over the next year to more than 9.5x, implying a target price of USD108.

Downside risks, in our view, include weakening consumer trends, increasing competitive activity, poor weather, a difficult pricing environment, and rising ingredient and packaging costs.

Empresas ICA

- Leveraged but with enough financial flexibility enhanced by the sale of its toll road concession to the Panamanian government
- Optimistic on ICA's transition to a major infrastructure operator
- Strong 2Q11 results: meeting our expectations; we rate the stock Overweight (V) with a target price of MXN38

Although leveraged, ICA has enough financial flexibility

ICA is highly leveraged company, with net debt-to-equity of 1.7x and net debt-to-EBITDA of 5.4x. However, 81.2% of ICA's total debt is at a project level; in other words, this implies no major refinancing risks. Debt at the HoldCo accounts for 18.8% of total debt and is long-term in nature.

Our stance holds: no need to raise equity

The issuance of USD500m in long-term debt provides financial flexibility as clients ask ICA to speed up construction works. Furthermore, the 24 August 2011 announcement of the sale of Corredor Sur to the Panamanian government implies, in our view, the following:

- *Net proceeds of cUSD220m.* ICA will have more flexibility to increase execution of its current backlog or participate in more projects.
- *An extraordinary gain (MXN2.40 per share).* ICA will book an extraordinary gain of cUSD129m.

Optimistic on ICA's evolution

ICA has evolved from an entity focused mainly on heavy construction to a wide portfolio ranging from activities as a homebuilder to an operator of infrastructure – toll roads, water-related projects, and airports. We believe that ICA is likely to improve its profitability and financial flexibility and to reduce its volatility in earnings due to:

- *An increasing share in operating concessions.* Fully operational concessions are material for ICA. EBITDA margins are, on average, 3.8x that of ICA's consolidated EBITDA margins.

Key forecast drivers

(MXNm)	2010	2011e	2012e	2013e
Revenue	34,965	39,678	43,701	46,324
EBITDA	5,402	5,836	6,477	6,243
EBITDA margin (%)	15.4	14.7	14.8	13.5
Operating profit	2,511	3,494	4,958	5,119
Operating profit margin (%)	7.2	8.8	11.3	11.1
Net income	1,501	2,594	1,463	2,084

Valuation data

	2010	2011e	2012e	2013e
EV/sales	1.6	1.5	1.3	1.2
EV/EBITDA	10.5	10.1	8.6	9.1
EV/IC	23.7	9.8	10.0	6.0
PE	7.9	4.6	8.1	5.7
P/book value	0.7	0.6	0.6	0.5

Issuer information

Share price (MXN)	18.26	Target price (MXN)	38.00
Potential return (%)	108.1		
Reuters (equity)	ICA.MX	Bloomberg (equity)	ICA MM
Market cap (USDm)	1,882	Market cap (MXNm)	23,380
Free float (%)	90	EV (MXNm)	58984
Country	Mexico	Sector	Construction & Engineering
Analyst	Francisco Suarez		+52 55 5721 2173

Source: HSBC Priced as at 25 Aug 2011

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- *Operating concessions as a source of financial flexibility*. Operating concessions could be sold at a profit in a securitization or could be spun-off, or can be collateral for raising debt.
- *A relatively high level of backlog that is likely to be maintained.* Scale is important to maintain profitability in the construction business.
- *More focus on projects that fall into ICA's expertise*. As long as ICA remains more selective, we believe that such a disciplined approach will yield better operating margins in its construction business.

Strong results for 2Q11

- Total revenue increased 10% y-o-y to MXN10.3bn on the back of industrial construction, +31%, thanks to strong activity in Pemex's low-sulfur gasoline projects. Civil construction, which accounted for c66% of total consolidated revenues, grew 5% y-o-y.
- Adjusted EBITDA rose 31% y-o-y to MXN1.7bn, driven by civil construction and concessions, up 23% and 44%, respectively. EBITDA margin reached 16.8% of total sales, compared with14.2% in 2Q10.
- EPS increased 11% y-o-y to MXN0.38 on the back of sound top-line growth.
- Total debt increased 18% from December 2010, mainly as a result of the execution of La Yesca hydroelectric project (26% of ICA's consolidated debt), but also the issuance of USD500m in 10-year senior unsecured debt.
- Backlog was MXN41.8bn, or 17 months of sales. Civil construction represented c82% of total backlog, and industrial construction represented c18% of ICA's total consolidated backlog.

Valuation, rating, and risks

We value ICA shares on equally weighted valuation methodologies based on sum of the parts and discounted cash flow. Our DCF model generates a fair value of MXN45.20, using a WACC of 8.1% and a perpetuity growth rate of 2.5% per year. This valuation implies 2011e target multiples of 11.3x PE and 11.6x EV/EBITDA. Our sum-of-the parts analysis produces a fair value of MXN31.50. As we weight each value at 50%, after rounding it, our 12-month target price is MXN38.

Under our research model, for stocks with a volatility indicator, the Neutral band is 10ppts above and below our hurdle rate for Mexican stocks of 9.5%, or -1.5% to +19.5% around the current share price. Our MXN38 target price suggests a potential return of 108.1%, which is above the Neutral band; thus, we rate ICA shares Overweight (V). Our target price of USD13 for the ADRs (ICA.N) assumes an exchange rate of MXN11.8 per USD, as forecast by HSBC Economics, and an ADR ratio of 4:1. We also rate ICA's ADRs Overweight (V).

Scenario analysis: In our sum-of-parts model, we value ICA's stake in Oma (OMA.OQ, Neutral (V)) at market prices, an approach that in our view is more conservative. However, our ICA target price could be affected by changes in the value of Oma shares.

Downside risks, in our view, include delays in tendering of projects or a decline in public spending or both; competition from domestic and international players; and weaker results at the Mexican airport operator Oma, which is one of ICA's most important sources of dividends among the company's subsidiaries.

FEMSA

- Strong second-quarter growth of 15.5% in revenue and 17.7% in operating income, above our estimates
- Company's 2H11 outlook is 'cautiously optimistic' as consumer sentiment may weaken, but its plans to strengthen and expand businesses remain on track
- We rate the stock Overweight with a USD78 target price, as we see attractive growth potential

Sustained momentum

In the first half of 2011, revenue and operating income at FEMSA each increased 13.5%. This growth was supported by double-digit growth at FEMSA Comercio and Coca-Cola FEMSA. At its convenience store and soft drink businesses, FEMSA benefited from strong consumer trends in Mexico and hot weather in the second quarter.

FEMSA saw sustained momentum at Comercio and in most of its territories at Coca-Cola FEMSA in 2Q11, and said it was "cautiously optimistic" for 2H11. The consumer environment in Mexico remains encouraging, as evidenced by a 4.3% increase in store traffic in the second quarter and a 6.1% increase in average customer ticket at Oxxo. Consumer confidence is at its maximum level for the past two years, but FEMSA remains diligent, as trends could become more unstable. The company remains on track to open about 1,100 Oxxo stores this year and spend about USD900m in capex, primarily at Coca-Cola FEMSA.

We expect a healthy consumer environment in Mexico, and we believe that FEMSA is well-positioned to take advantage of this environment through its expanding soft drink and convenience store businesses.

Key forecast drivers

(MXNm)	2010	2011e	2012e	2013e
Revenue	176,477	191,633	215,600	239,994
Gross profit	75,466	80,007	89,244	98,544
Gross profit margin (%)	42.8	41.8	41.4	41.1
Operating profit	23,285	26,108	29,809	33,477
Operating profit margin	13.2	13.6	13.8	13.9
Income before taxes	24,239	28,934	32,783	36,843

Valuation data

	2010	2011e	2012e	2013e
EV/sales	1.4	1.3	1.0	0.9
EV/EBITDA	9.5	8.2	7.4	6.7
EV/IC	1.7	1.5	1.3	1.1
PE	21.3	16.4	13.8	12.1
P/book value	1.9	1.6	1.4	1.2

Issuer information

Share price (USD)	64.99	Target price (USD)	78.00
Potential return (%)	21.8		
Reuters (equity)	FMX.N	Bloomberg (equity)	FMX US
Market cap (USDm)	23,255	EV (USDm)	22,990
Free float (%)	68		
Country	Mexico	Sector	Beverages
Analyst	Lauren Torres	Contact	+1 212 525 6972

Source: HSBC Priced as at 25 Aug 2011

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Second-quarter 2011 results

FEMSA delivered strong second-quarter revenue growth of 15.5% to MXN48.4bn and operating

income growth of 17.7% to MXN6.3bn, above our MXN46.9bn and MXN6.1bn estimates, respectively. At FEMSA Comercio, revenue increased 20.3% and operating income increased 26.2%, driven by 10.7% same-store sales growth and the opening of 342 new Oxxo stores in the quarter. At Coca-Cola FEMSA, revenue rose 12.9% and operating income increased 12.4%, supported by strength at the Mexico and Mercosur divisions and favorable weather conditions.

Cautious 2011 outlook

We are cautiously optimistic about the remainder of this year, as FEMSA's first-half growth may be difficult to replicate in the second half, particularly if the consumer environment becomes more challenging and customers are less inclined to accept price increases. According to management, the momentum FEMSA is experiencing is not yet present in other consumer categories that represent more significant cash outlays for the consumer or are affected by the lack of availability of consumer credit. Also, unemployment rates have not fallen recently, which may be of greater concern going forward. At the same time, we are optimistic, as FEMSA continues to strengthen and expand its convenience store and soft drink businesses, and to offer consumers attractive and affordable products.

We have a positive outlook for FEMSA. For 2011, we estimate 8.5% revenue growth to MXN191.6bn and 12% operating income growth to MXN26.1bn. For the total company, gross margin should remain flat at 41.8% at the end of 2011, but operating margin should improve 30bps to 13.6%. For 2012, we estimate 12% revenue growth to MXN215.6bn and 14% operating income growth to MXN29.8bn.

Beyond investing at FEMSA Comercio, Coca-Cola FEMSA continues to seek out value-added acquisitions. Management noted that it continues to pursue strategic opportunities and is making progress. On 28 June, Coca-Cola FEMSA announced that it agreed to merge with Grupo Tampico's beverage division, which expects to sell approximately 154m unit cases of beverages and to generate approximately MXN4.4bn of net revenue and MXN967m of EBITDA for 2011.

Valuation, rating, and risks

Our USD78 target price on FEMSA shares represents an F/PE multiple, relative to an aggregate Mexican market index compiled by FactSet, of 1.2x, and a 9x 2012e EV/EBITDA multiple. Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppt around our hurdle rate for Mexican stocks of 9.5%, or 4.5-14.5% around the current share price. Our USD78 target price represents a potential return of 21.8%, which is above the Neutral band; thus, we reiterate our Overweight rating on the shares.

Based on EV/EBITDA, FEMSA stock is trading at 8.2x our 2011 EBITDA estimate and 7.4x our 2012 estimate. Using a sum-of-the-parts calculation – comparing the soft-drink bottler peer average multiple of 8.5x, convenience-store average multiple in the low teens, and brewer average multiple of 9x 2012e EBITDA – we expect multiple expansion to 9x in 2011, implying a target price of USD78.

Downside risks that we see include weakening consumption trends, particularly in Mexico; increased competition; rising input costs, and the inability to open Oxxo stores at the anticipated rate.

HSBC

Genomma Lab

- Genomma's 2011 growth is likely to be driven by OTC and personal care in Mexico, Brazil, and the US
- We believe generics will make a strong contribution to the top line beginning in 2012
- We rate the stock Overweight (V) with a MXN40 target price

Strong outlook

Genomma Lab International remains one of the fastest-growing and interesting consumer stories in Mexico, in our view. We remain bullish on the stock and expect 30%-plus earnings growth over the next five years. We like the brand-building efforts that the company has made, and it is taking its success in Mexico to other parts of Latin America, as well as Hispanic US.

Recent results

Genomma's 2Q11 results were strong but slightly below our estimates due to a seasonal shift in sales. However, we expect a recovery in the second half to bring results back in line with our estimates. EPS for 2Q11 of MXN0.25 were below our MXN0.27 estimate. EBITDA of MXN414m was up 19.5% from 2Q10, but 6.6% lower than our MXN443m estimate. Sales of MXN1.72bn were just below our MXN1.78bn estimate. Gross margin declined to 70.9% from 73.1% in 2Q10 due to a shift in the product mix toward higher sales of generics and personal care products, which have higher associated COGS. Reported SG&A expenses-to-sales ratio improved to 48% from 49% a year ago. However, we had expected more scalability. International sales increased by an impressive 55% y-o-y, beating our 50% estimate. However, Mexico base sales growth was slower than we projected. We believe this indicates that the strong 1Q11 performance was in large part seasonal, related to the Easter shift effect. While the numbers were somewhat disappointing, we believe that this was mostly due to a timing issue and that 2H11 results should bring full-year results roughly in line with our estimates.

Key forecast drivers

(MXNm)	2010a	2011e	2012e	2013e
Revenue	6,264	8,256	10,573	13,361
Gross profit	4,449	5,833	7,428	9,387
Gross profit margin (%)	71.0%	70.7%	70.3%	70.3%
Operating profit	1,615	2,145	2,802	3,504
Operating profit margin	25.8%	24.9%	25.6%	25.8%
Income before taxes	1,575	2,161	2,828	3,539

Valuation data

EV/sales	4.0	3.0	2.3	1.8
EV/EBITDA	14.8	11.3	8.6	6.7
EV/IC	9.4	7.8	5.9	4.4
PE	24.8	17.8	13.7	11.0
P/book value	6.5	5.2	4.1	3.2

Issuer information

Share price (MXN)	24.09	Target price (MXN)	40.00
Potential return (%)	66.0		
Reuters (equity)	LABB.MX	Bloomberg (equity)	LABB MM
Market cap (MXNm)	2,066	EV (MXNm)	25,361
Free float (%)	55	(MXNm)	23385
Country	Mexico	Sector	Household Products
Analyst	Francisco Chevez		+1 212 525 5350

Source: HSBC Priced as at 22 Aug 2011

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HSBC

Genomma: 2011 and 2012 estimates

(MXNm)	2011E	2012E
Net sales	8,265	10,573
y-o-y change	31.8%	28.1%
EBITDA	2,177	2,802
EBITDA margin %	26.3	26.5
Net income	1,486	1,930
Net margin %	18.0%	18.3%
EPS	1.41	1.83
y-o-y change	39.2%	29.7%

Source: HSBC

New strategy boosts generics

2Q11 also saw a significant recovery in sales of generics under the company's Primer Nivel brand. After plunging 84.8% y-o-y in 1Q11, generic sales increased an impressive 166% from 2Q11. During its earnings conference call, management explained how the company is redoing its distribution strategy for Primer Nivel. Genomma's research indicates that about 58% of Mexican consumers who purchase generic products prefer Primer Nivel. However, the distribution channel was not reaching many of the country's smaller pharmacies. In response to this, Genomma has begun distributing Primer Nivel products through methods more commonly used by other generic products.

Outlook

We remain bullish on the long-term outlook for Genomma in Mexico, as well as in its international markets. In the remainder of 2011, we anticipate that over-the-counter (OTC) and personal care products will lead the way until generics regain their growth pace. The Mexican generics market is attractive, given legislation passed on 24 February 2010 that states that only generic and not similar drugs are allowed in Mexico. Thus, we believe that Primer Nivel brand sales growth should accelerate over time.

We expect 2011 growth to be driven by OTC and personal product sales. Genomma expanded its offerings in these two categories in 2010 through the acquisition of several well-known brands that should support the 32.7% top-line growth that we forecast for Mexico this year. Mexico sales in the first quarter were stronger than we expected and could boost full-year results. In addition, non-Mexico growth is looking increasingly promising, especially in Brazil.

Valuation, rating and risks

We rate Genomma shares Overweight (V) with a 12-month target price of MXN40. We arrive at our target price by applying a 22x multiple to our 2012 EPS estimate of MXN1.83. We derive our target multiple of 22x by applying the following formula: PE = (ROE – g)/ROE*(k-g) where g = long-term earnings growth rate, k = the cost of equity and ROE = return on equity capital. We estimate Genomma's cost of equity at 12.9%, and we apply our projected 2012 ROE of 34.0%. Given these two inputs, we calculate different growth assumptions to arrive at a "fair" multiple. Our target multiple of 22x assumes a growth rate 9.7%. We believe that this growth is ,plausible as company has achieved 30%+ EPS growth in the past three years.

Under our research model, for stocks with a volatility indicator, the Neutral band is 10 percentage points above and below the hurdle rate for Mexican stocks of 9.5%, or -0.5 to 19.5% around the current price. Our MXN40 target price suggests a potential return of 66%, which is above the Neutral band; therefore, we reiterate our Overweight (V) rating on Genomma shares.

Risks to the downside, we believe, include slower-than-expected OTC demand in Mexico; integration of pending brand acquisitions in the pipeline; entry into new markets, specifically Brazil and the US; and major family involvement in the management structure and as key executives.

HSBC

Gruma SAB

- 2Q11 results were positive, with sales improving and margins expanding mainly from price increases; Gruma is growing again, organically and via acquisitions in the US and Europe
- Gruma should post positive results for 2H11 as a result of price increases and positive hedges, despite high input costs
- Gruma trades at a 4.7x 2012 EV/EBITDA versus peer average of 8.0x; we rate the stock Overweight with an MXN33.50 target price

Valuation remains compelling and 2H11 should be solid

Gruma continues its positive performance, with 2Q11 results reinforcing our belief that the company can deftly pass high input costs through via price increases and very favorable hedges. Of the company's 2011 corn needs in the US, 100% is hedged at USD5/bu and c100% of its 2012 needs at USD5.90/bu. In wheat, Gruma is 100% hedged at USD8.40/bu for 2011 and 40% for 2012 at USD7.90/bu. As Gruma sold its Banorte stake for cUSD750m and used proceeds to repay debt, leverage metrics have improved significantly, with 1.8x net debt-to-EBITDA at end-June 2011. With a clean balance sheet, Gruma has embarked on growth via acquisitions. We believe the stock remains cheap on valuation, trading at a 2012e EV/EBITDA of 4.7x versus a peer average of near 8.0x. Although peers tend to trade at a premium to Gruma for reasons such as stronger brands and Gruma's Venezuela uncertainties, we view the current premium as too high and essentially unjustified.

Key forecast drivers

(MXNm)	2010a	2011e	2012e	2013e
Revenue	46,601	48,787	51,525	54,540
EBITDA	4,328	4,681	4,979	5,334
EBITDA margin (%)	9.3	9.6	9.7	9.8
Operating profit	2,800	3,273	3,504	3,780
Operating profit margin	6.0	6.7	6.8	6.9
HSBC net income	803	1,656	1,952	2,203

Valuation data

	2010a	2011e	2012e	2013e
EV/sales	0.5	0.5	0.5	0.4
EV/EBITDA	5.7	5.3	4.7	4.2
EV/IC	1.0	1.1	1.0	0.9
PE	16.1	7.8	6.6	5.9
P/book value	1.9	1.0	0.9	0.8

Issuer information

Share price (MXN)	22.98	Target price (MXN)	33.50
Potential return (%)	45.8		
Reuters (equity)	GRUMAB.MX	Bloomberg (equity)	GRUMAB MM
Market cap (MXNm)	12,953	EV (MXNm)	24,641
Free float (%)	25		
Country	Mexico	Sector	Food, Agribusiness & Bio-fuels
Analyst	Pedro Herrera	Contact	+1 212 525 5126

Source: HSBC Priced as at 24 August 2011

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Solid results, good margins

Gruma's 2Q11 results were positive and mostly in line with expectations. Net sales were MXN13.1bn, +13% y-o-y, higher than our estimate of MXN12.2bn and consensus of MXN11.8bn. The increase came mainly from price increases, as

volumes were only 1% higher y-o-y. US revenues were +10% from price increases implemented in February and March. Mexico revenues increased 24% entirely from price increases. Gruma had two rounds of price increases, in November 2010 and March 2011. Venezuela sales were +25% as the company increased prices across all products at the end of April 2011.

EBITDA was MXN1.1bn, +16% y-o-y, in line with our estimate of MXN1.1bn and slightly higher than consensus estimate. The consolidated margin increased 20bps y-o-y to 8.7%, despite increases in input prices. Mexico margins were solid at 15.4%, +350bps y-o-y, and recovered in Venezuela at 8.7%, +200bps y-o-y, though partly offset by weak US margins, where margins contracted 400bps to 6.3% from higher input costs, primarily wheat. Net income was MXN106m versus an MXN172m loss in 2Q10 from lower interest expenses and an FX loss.

It's growth time

After cleaning its balance sheet, Gruma is focused on growth, organically and via acquisitions. On 25 April 2011, the company announced the acquisition of Albuquerque Tortilla Co. in the US for USD8.8m. On 13 July 2011, Gruma acquired Solntse Mexico, the leading tortilla producer in Russia, for USD7m. Solntse has sales of cUSD9m per year and is responsible for introducing tortillas and corn chips into Russia, commanding a leading market position in that country's retail and foodservice segments.

Status quo in Venezuela

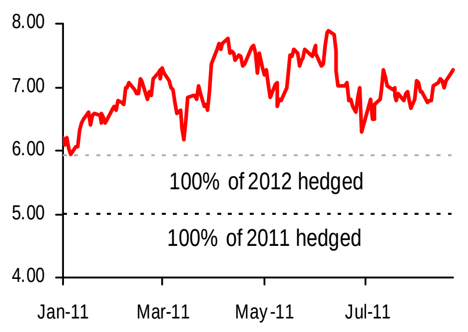
Although Venezuelan results were positive in 2Q11, uncertainties persist as Gruma continues negotiations with the government. We envision a scenario in which the government takes a controlling stake in Gruma's operations, with Gruma retaining operational responsibilities for the business. We apply a 10% discount to our valuation to assume a worst-case scenario of a possible nationalization.

Valuation, rating, and risks

We use a DCF methodology with a blended cost of equity of 9.3%; metrics are a 3% growth rate, 9% cost of debt, and debt/equity of 40/60, leading to an 8.1% WACC. We apply a 10% discount to our valuation to account for potential elimination of Venezuelan operations. Our assumptions lead us to a target price of MXN33.50 on GRUMAB shares and USD11 on GMK ADRs (using a 1H12e exchange rate of MXN12.20/USD and a 4:1 local-to-ADR ratio). Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppt around the 9.5% hurdle rate for Mexican stocks, or 4.5-14.5% around the current share price. Our MXN33.50 GRUMAB target price implies a potential return of 45.8%, which is above the Neutral band; we thus reiterate our Overweight rating.

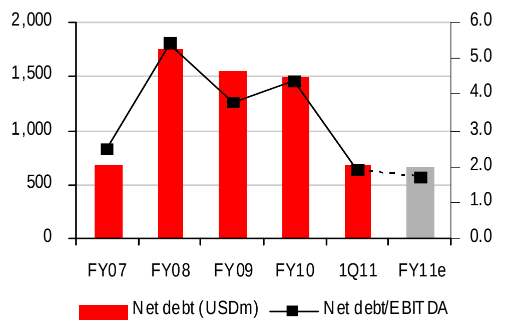
Downside risks include MXN volatility, higher grain prices and uncertainties with Venezuela operations.

CBOT corn prices versus Gruma's US hedges (USD/bu)



Source: Reuters, Thomson

Historical Gruma leverage



Source: Gruma, HSBC

HSBC

Grupo Carso

- Carso, mostly a retail play now, should benefit from recovery in domestic consumption; we estimate attractive 16% and 14% EBITDA growth for 2011 and 2012, respectively
- Recent stock weakness presents an attractive entry point, backed by strong fundamentals
- We rate the stock Overweight with a target price of MXN43

Attractive prospects

A different field for Carso

Carso, mostly a retail play now, is highly exposed to domestic consumption.

High exposure to domestic consumption: 50% of EBITDA

Carso is no longer what it used to be less than a year ago, as it has spun off its mining and real estate assets. Now it is practically a retail play, with c50% of EBITDA coming from department stores, restaurants, and record shops, for example. We believe that favorable prospects for domestic consumption bode well for Carso.

We prefer domestic plays due to our expected recovery in consumption

We prefer to focus on companies exposed to domestic consumption, which should outpace overall GDP growth of 3.7-3.9% that HSBC Economics estimates over the next 18 months.

Domestic consumption should set the pace for 2012

HSBC's chief economist for Mexico, Sergio Martin, expects consumption to grow at a faster pace than the overall economy in 2011 and 2012.

Key forecast drivers

(MXNm)	2010	2011e	2012e	2013e
Revenue	64,196	74,729	83,397	91,708
EBITDA	8,124	9,427	10,734	12,274
Depreciation & amortisation	-1,316	-1,432	-1,668	-1,834
Operating profit/EBIT	6,808	7,995	9,066	10,440
Net profit	7,0646	5,394	5,633	6,543
HSBC EPS (fully diluted)	2.57	1.96	2.05	2.38

Valuation data (year to)	2010	2011e	2012e	2013e
EV/sales	1.3	0.9	0.8	0.7
EV/EBITDA	10.5	7.5	6.3	5.1
EV/IC	1.7	1.8	1.6	1.5
PE	11.1	14.5	13.9	12.0
P/book value	2.5	2.2	1.9	1.7

Issuer information

Share price (MXN)	28.55	Target price (MXN)	43.00
Potential return (%)	50.6		
Reuters (equity)	GCARSOA1.MX	Bloomberg (equity)	GCARSOA1 MM
Market cap (USDm)	5,418	Market cap (MXNm)	67,480
Free float (%)	21	EV (MXNm)	82,131
Country	Mexico	Sector	Industrials
Analyst	Juan Carlos Mateos	Contact	+52 55 5721 3607

Source: HSBC   Priced as at 25 August 2011

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We believe that domestic consumption should set the pace for 2H11 and 2012, given that the estimated gap between domestic consumption and GDP is attractive: 130bps in 2011 and 150bps in 2012. We expect the favorable prospects for domestic consumption to have a positive impact on Carso.

HSBC

Industrial and construction and Infrastructure divisions should perform well in 2011-2012

In our view, Carso's industrial and infrastructure and construction businesses have a bright outlook.

Condumex (industrial)
Carso's industrial division should benefit from the solid performance of exports in the Mexican auto industry, driven mainly by external demand. In addition, secular growth in the telco sector in Mexico and Latam should help.

Carso Infraestructura y Construccion (infrastructure and construction)
CICSAB1.MM, MXN7.50, rated Overweight (V) by Francisco Suarez
We believe that the outlook for CICSA is positive for 2H11 and into 2012. The Mexican presidential election in 2012 could accelerate execution of the government's budget outlays. We expect CICSA's backlog to remain at current high levels. As of 2Q11, this was at MXN17.9bn, equal to 16 months of revenues.

Catalysts for Carso

Higher Pemex capex in E&P and refineries could result in more demand for pipes from CICSA, and maritime platforms could boost sales. If Telmex is allowed to offer triple-play, higher capex from Telmex in that business could benefit CICSA.

Valuation, rating, and risks

We arrive at our 12-month target price of MXN43 for Carso shares through a two-step process. First, we use our DCF valuation methodology, with a WACC of 7.9% and a terminal growth rate of 2.5%, which results in a preliminary target price of MXN51. Second, we apply a 15% discount to our DCF valuation to reflect what we view as low earnings visibility and, potentially, lower investor interest as a result of the stock's removal from the IPC index of the Mexican Stock Exchange. Of the four Mexican conglomerates under coverage, we believe Carso has the lowest earnings visibility; though there is more disclosure in some divisions than others. We believe that the information released for the infrastructure division is adequate, given that CICSA is a publicly traded company. However, in the industrial and retailing divisions, disclosure is somewhat limited. Our MXN43 target price implies a target PE multiple of 26.0x and an EV/EBITDA multiple of 16.4x for 2011e.

Under our research model, for stocks without a volatility indicator, the Neutral band is +/-5ppt around our hurdle rate for Mexican stocks of 9.5%, or 4.5-14.5% around the current share price. Our target price suggests a potential return of 50.6%, which is above the Neutral band; thus we rate Carso shares Overweight.

We see these downside risks:

- A delay in the recovery of domestic consumption and consumer credit could force consumers to postpone purchases of durable goods or to trade down in restaurants. This could hurt profitability at Sanborns and Sears retail stores.
- The economic recovery in the North American Free Trade Agreement region could lose momentum or the region could face a new downturn. Sales in the Nafta market accounted for c91% of Carso's total revenues in 2010.
- At CICSA, the construction division, we see the following risks: a decline in public spending as a result of a deterioration of the Mexican economy; changes in government policies and delays in tendering for projects, which could have a negative impact on CICSA's financial condition and operations; and competition from foreign and domestic construction companies, which could hurt the company's operations, mostly in bidding for industrial and infrastructure projects.

HSBC

Grupo Comercial Chedrai

- Best in class on market share gains and revenue growth, reinforcing stock as the best alternative to Walmex
- IFRS transition will distort results for the balance of 2011
- We rate the stock Overweight with an MXN45 target price

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Key forecast drivers

(MXNm)	2010	2011e	2012e	2013e
Revenue	51,892	58,182	65,269	73,811
Gross profit	10,518	11,614	13,380	14,910
Gross profit margin (%)	20.3%	20.0%	20.5%	20.2%
Operating profit	2,580	2,894	3,586	3,894
Operating profit margin	5.0%	5.0%	5.5%	5.3%
Income before taxes	1,870	2,151	2,811	3,089

Valuation data (year to)

EV/sales	0.6	0.6	0.5	0.5
EV/EBITDA	9.9	8.8	7.6	7.1
EV/IC	2.0	1.8	1.6	1.4
PE	22.4	20.5	15.6	14.5
P/book value	2.0	1.9	1.7	1.6

Issuer information

Share price (MXN)	32.93	Target price (MXN)	45.00
Potential return (%)	36.7		
Reuters (equity)	CHDRAUIB.MX	Bloomberg (equity)	CHDRAUI MM
Market cap (MXNm)	2,566	EV (MXNm)	31,507
Free float (%)	14	(MXNm)	33007
Country	Mexico	Sector	Food & Staples Retailing
Analyst	Francisco Chevez		+1 212 525 5350

Source: HSBC — Priced as at 22 Aug 2011

Sales growth leader

In 2Q11, Grupo Comercial Chedraui's y-o-y sales growth was the best among Mexico's top retailers, reinforcing our view that this stock may be the best alternative to WALMEXV over the long term. Short-term, however, it appears a better option than any of its peers. Chedraui's aggressive pricing, particularly against rival Walmex, resulting in significant market-share gains, supports its value proposition as a low-price food retailer. We estimate that Chedraui gained 46 points of market share in the first half of 2011, a big accomplishment for a small company. With these market share gains, we estimate that by end-2011, Chedraui could displace Comerci as the third-largest food retailer in Mexico.

Recent results

Chedraui reported 2Q11 EPS of MXN0.44, which beat our MXN0.40 estimate by 11.8%, and was up 7.2% y-o-y. EBITDA of MXN959m was up 10.7% y-o-y and 7.5% ahead of our MXN892m estimate. Detailed analysis above the EBITDA line is impossible, because the company made accounting changes in adaptation to IFRS, which reshuffled revenue and expense items.

Total y-o-y sales growth of 14.4% was the best among the Mexican retailers we cover. SSS of 1.8% was ahead of our 1.6% estimate. Chedraui opened three new stores in Mexico and two new stores in the US in 2Q11. Sales growth from the US stores was particularly impressive in MXN terms, increasing 38.9% y-o-y, despite a drop of 1.4% in SSS in USD terms and an average 6.8% appreciation of the MXN from a year earlier. US sales were boost by the opening of 14 stores over the past 12 months.

As expected, Chedraui's taxes returned to more-normal levels in 2Q11. The effective tax rate was 22%, in line with our estimate and up from 19.7% in 2Q10. Although expenses grew faster than sales, Chedraui's results were better than what its peers reported, indicating that it is managing the operations well in a challenging economic environment.

Outlook

Chedraui is accelerating its opening of new stores, which should boost its sales growth to year-end. Management said it has already opened two additional stores since June. We expect that by end-2011, total new stores opened this will reach 27. Management remains optimistic that additional stores will contribute to the top line, despite the economic slowdown in the second quarter, and company results support management's confidence.

Consumer spending growth in Mexico has been sluggish since the beginning this year, as evidenced by food retailing results. Chedraui management said that in 2Q, total traffic to company stores was down 2.2%, while average ticket was up 4.16%. This implies that customers are visiting the stores less frequently but buying more on each visit. This may reflect lower disposable income, with negative implications for short-term sales, but it could also mean improving consumer confidence and a reduced need for multiple trips to the store. Management lowered its 2011 SSS guidance to 2.5% from 4-5% and for total sales to increase between 14-15%, down from previous guidance of 15-17%. Our 2011 total and same-store sales expectations are more conservative at 2.2% and 12.1%, respectively. Nevertheless, we are encouraged by Mexican supermarket 4.1% y-o-y SSS growth in July, up from 2.4% in June and 2.5% in May.

Chedraui: Consolidated estimates for 2011 and 2012

(MXNm)	2011E	2012E
Net sales	58,182	65,269
y-o-y change	12.1%	12.2%
EBITDA	3,861	4,634
EBITDA margin %	6.6%	7.1%
Net income	1,663	2,193
Net margin %	2.9%	3.4%
EPS	1.73	2.27
y-o-y change	9.1%	31.7%

Source: HSBC

Valuation, rating, and risks

We arrive at our 12-month target price of MXN45 for Chedraui shares by applying a 20x target multiple to our 2012e EPS of MXN2.27. Our target multiple is based on a historical average 12-month forward PE and is supported by our PE-to-ROE model, implying a 7.8% long-term earnings growth rate and a 12.1% ROE that we forecast for 2012. It also reflects a 25% discount to our Walmex target multiple of 26.5x to reflect that company's greater size and share liquidity. Chedraui shares are trading at PE multiples of 20.5x and 15.6x our 2011e and 2012e EPS, respectively, and at EV/EBITDA multiples of 8.8x and 7.6x our 2011e and 2012e EBITDA, respectively. Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppt above and below the hurdle rate for Mexican stocks of 9.5%, or 4.5-14.5% around the current share price. Our target price implies a potential return, including a 1.3% dividend yield, of 36.7%, which is above the Neutral band; therefore, we reiterate our Overweight rating on Chedraui shares.

Downside risks, we believe, include a slower-than-expected economic recovery in Mexico and the US, a more competitive environment that may limit Chedraui's potential market share gains, and unfavorable exchange-rate movements impacting the bottom line.

HSBC

Grupo Financiero Banorte

- GFNorte should deliver on faster loan growth and the completion of Ixe merger synergy benefits
- The merger resulted in ROE dilution due to goodwill, although management maintains its long-run 20% ROE target
- Higher provisioning required for state government credit should be marginal; we rate the stock Overweight with an MXN64 target price

Positive macro and micro drivers support our rating

We see the micro drivers at GFNorte as synergy gains, scale economies, and greater risk credit appetite, and the macro drivers as recovering demand for both corporate and consumer loans. We estimate GFNorte trades on PE multiples of 11.4x for 2011, 8.7x for 2012, and 7.3x for 2013, and on a 2012 PTBV ratio of 1.6x. Our target price of MXN64 is based on our implied PE valuation metric, using our 2012 earnings. GFNorte trades at premium PE multiples to the big-cap Brazilian banks but against the Andean banks, especially Bancolombia, it trades at a discount, and we believe that it has the best growth potential in our Latam universe.

Additional provision charges due to any further downgrade of Mexican states and municipalities should be marginal. GFNorte's loan book to government accounts for 17.5% of the total portfolio, but this includes federal as well as state and municipal exposure; the company does not disclose the level of exposure to Coahuila and Veracruz states (both the subject of credit rating downgrade), although they concede that it has exposure. Management emphasizes that 85-90% of

Key forecast drivers

(MXNm)	2010a	2011e	2012e	2013e
Net profit	6,384	8,703	11,401	13,626
PBT	10,167	13,477	17,745	21,207
Loan growth, % change	13.7	16.8	17.5	12.6
Interest margin %	4.2	4.7	4.6	4.6
NPL ratio, % year-end	2.5	2.4	2.4	2.6
Credit charge %	2.8	1.9	1.8	1.6
Valuation data (year to)	**2010a**	**2011e**	**2012e**	**2013e**
PE	13.5	11.4	8.7	7.3
PTBV	2.1	1.9	1.6	1.4
ROE %	14.6	15.0	15.4	16.3

Issuer information

Share price MXN	42.7	Target price (MXN)	64.0
Potential return (%)	49.8		
Reuters (equity)	GFNORTEO	Bloomberg (equity)	GFNORTEO
Market cap (MXNm)	99,382		
Free float (%)	60		
Country	Mexico	Sector	Financials
Analyst	Victor Galliano	Contact	+1 212 525 5253

Source: HSBC Priced as at 24 August 2011

GFNorte's state credit exposure carries credit risk protection, as these government revenues transferred to states are paid out first to creditors, with the remainder paid on to state governments. In essence, we see risk of higher provisioning required for state government credit exposures, but GFNorte appears to have some effective credit-risk protection mechanisms that should mitigate risks and provisioning requirements.

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Key drivers

GFNorte: Core assumptions

	2011e	2012e	2013e
Loan growth (y/y)%	16.8*	17.5	12.6
Net interest margin	4.7	4.6	4.6
NPL ratio %	2.4	2.4	2.6
Provisions to av loans %	1.9	1.8	1.6

* Excludes IXE.
Source: HSBC estimates, IBES Datastream

Our core assumptions for GFNorte shown in the table above reflect the better fundamentals and medium-term merger synergies. At the end of 2Q 2011, GFNorte had cut 636 from its combined work force, and the full-year number, according to management, should top 1,200, or c5% of the total financial group's workforce and should contribute to achievement of the synergies target, 85% of which is cost-based. We believe earnings catalysts for these years should be better margins, solid loan growth and healthy credit quality.

2H11 expectations: Net earnings should get pressure from higher operating expenses and restructuring charges related to the IXE merger. We forecast an increase in opex of 26% y/y at end-2011. But we believe opex pressures should be partly offset by better interest income, which we forecast will grow 31.4% y/y including IXE.

For 2012 and 2013, we expect higher net interest income driven by a better loan mix with the strong expansion in consumer loans, especially mortgage and SME credit. On the 2Q11 results conference call, management said 40% of its estimated MXN1.5bn of merger synergies had been captured as of end-July and that extraction of the remaining 60% should be accomplished comfortably by the of March-April 2012 deadline.

The key negative effect, in our view, from the merger is that the incorporation of goodwill boosts the equity base and lowers ROE forecasts by 200+bps from 2011-2013, and yet management sticks to its target ROE of 20% over the next five years, which would be helped by a higher

GFNorte: HSBC estimates

(MXNm)	2011e	2012e	2013e
EPS (MXN)	3.74	4.90	5.86
Net profit	8,703	11,401	13,626
Net profit consensus	8,764	11,342	14,372
No of estimates	12	12	6

* Excludes IXE
Source: HSBC estimates, IBES Datastream

dividend payout. Our 2011-13 ROTE forecasts range from 18-20%.

Valuation, rating, and risks

We apply our core valuation methodology of implied PE. The implied – or target – PE multiple is ROE less long-term growth (ROE-g) divided by ROE multiplied by the cost of capital less long-term growth (ROE*(k-g)). We assume ROE of 15.4% for 2012e and cost of capital of 11.2%, with an assumed stock beta of 1.04x, medium-term (2010-2013e) EPS growth of 28.8%, and long-term (2013e-2017e) EPS growth of 7%. Based on an implied PE of 13.1x for 2012, we arrive at our 12-month target price of MXN64.

Under our research model, the Neutral band is 5ppt above and below our hurdle rate for Mexican stocks of 9.5%, or 4.5-14.5% around the current share price. Our target price of MXN64, suggests a potential return of 49.8%, which is above the Neutral band; thus, we reiterate our Overweight rating.

In our view, risks to the downside include worse-than-expected asset quality, especially in the SME portfolio, requiring greater loan-loss charges against the income statement; flat or weaker net interest margins; higher-than-anticipated operating costs and funding expenses, due to greater competition for funding; and lower-than-expected synergies from IXE merger.

HSBC

Mexichem

- Mexichem is our favorite growth story in Mexico's industrial sector; we expect attractive 31% EBITDA growth for 2011
- Strengths are a strong position in global fluorine business, leading position in PVC products in Latam, and effective acquisitions
- Hard-to-replicate competitive advantages support our view on Mexichem's growth story; we rate the stock Overweight with an MXN60 target price

Prepared to keep growing

Fluorine business

In our view, the fluorine business is Mexichem's crown jewel.

Favorable industry dynamics should continue
Prices of key products such as fluorspar should remain near record-high levels and could surpass them. Management indicated it has closed contracts at USD400 per ton.

Acquisitions and JVs should support growth
Growth should come through either acquisition of a large competitor or client; or a joint venture with any of the latter.

PVC business

This division should reduce its dependence on third-party suppliers of VCM and increase its vertical integration on the following initiatives:

JV with Pemex for the supply of VCM
Management is optimistic and believes that the planned JV with Mexico's state-owned oil company could be approved by October. This would result in a 122% increase in the annual supply of VCM from Pemex to c400,000 tons from 180,000 tons.

VCM greenfield project could help vertical integration
Mexichem is analyzing the building of a VCM manufacturing plant with 600,000 tons of annual

Key forecast drivers

(MXNm)	2010	2011e	2012e	2013e
Revenue	36,477	47,135	54,517	62,141
EBITDA	8,124	10,655	12,232	13,786
Depreciation & amortisation	-2,472	-2,922	-3,148	-3,684
Operating profit/EBIT	5,651	7,733	9,085	10,102
Net profit	3,694	4,704	5,859	6,813
HSBC EPS (fully diluted)	2.05	2.61	3.25	3.78
Valuation data (year to)	**2010**	**2011e**	**2012e**	**2013e**
EV/sales	2.6	2.0	1.7	1.5
EV/EBITDA	11.6	9.0	7.7	6.7
EV/IC	3.6	3.1	2.7	2.4
PE*	22.2	17.8	14.3	12.3
P/Book value	4.2	3.4	2.8	2.3

Issuer information

Share price (MXN)	45.05	Target price (MXN)	60.00
Potential total return (%)	33.2		
Reuters (equity)	MEXCHEM*.MX	Bloomberg (equity)	MEXCHEM* MM
Market cap (USDm)	6,821	Market cap (MXNm)	83,739
Free float (%)	35	EV (MXNm)	96,207
Country	Mexico	Sector	Industrials
Analyst	Ivan Enriquez	Contact	+52 55 5721 2397

Source: HSBC Priced as at 25 August 2011

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production capacity. The estimated cost is cUSD450m. This would lower dependence on third parties' supply.

The PVC pipes business could grow through acquisitions
These could take place in current or related businesses in Latam or elsewhere. The company is analyzing nine acquisition targets.

Strong fundamentals

PVC resins and pipes business
Mexichem has a leading position in the Mexican PVC resins and pipes markets and an increasingly stronger foothold in South America. In our view, Mexichem has practically no domestic competition in PVC resins other than imports.

Fluorine business: Sustainable competitive advantage, 20% of global production in one mine
Mexichem owns the largest fluorspar mine in the world, which accounts for c20% of global production. It has proven reserves for more than 30 years, which at current exploitation rates compares favorably to China's 7.2 years; China, the main competitor, accounts for c50% of world production but focuses mainly on its own market.

Several catalysts in sight

We identify several catalysts: Recovery in Latam homebuilding and infrastructure (Brazil's soccer World Cup in 2014 and Olympics in 2016, Mexico's presidential election in 2012); China's limited export capacity of fluorspar due to booming internal demand; and ability to react faster than Chinese fluorine producers to higher demand in the US. We believe that all of these catalysts are still playing out for Mexichem.

Valuation, rating, and risks

We derive our 12-month target price from our DCF valuation methodology, using a discount rate of 8.5% and a terminal growth rate of 2.0%. Our 12-month target price of MXN60 implies a target PE multiple of 23.0x and an EV/EBITDA multiple of 11.3x for 2011e.

Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppt above and below our hurdle rate for Mexican stocks of 9.5%, or 4.5-14.5% around the current share price. Our MXN60 target price suggests a potential return of 33.2% which is above the Neutral band; thus, we reiterate our Overweight rating on the stock.

We see these downside risks:

- A stronger peso could hurt profitability, as about 75% of Mexichem's revenues are USD-denominated. A stronger local currency results in large amounts when MXN-denominated costs are translated into USD. Therefore, gross profits and margins could come under pressure.
- Mexichem's exposure to cyclical businesses such as construction, infrastructure, and agriculture remains at c70%, so economic slowdowns or downturns could hurt its growth prospects.
- Leverage could increase substantially in the short to medium term, as the company has said it could consider building a VCM production facility. The potential risk is financing this acquisition with additional debt, which could put pressure on Mexichem's balance sheet, lower profits due to higher interest expense, and reduce cash flow.
- Inorganic growth is an important piece of the company's strategy. We believe that Mexichem might face acquisition and execution risks.

HSBC

URBI Desarrollos Urbanos

- URBI is our preferred play among Mexican homebuilders
- A cash flow-oriented strategy and addressing key structural trends before rivals underpin our view on the stock; management is a plus
- We rate the stock Overweight with a target price of MXN32

Why URBI is our favorite homebuilder

URBI Desarrollos Urbanos has above-average execution capabilities, in our view, and this is what supports our investment case in the current and changing market environment in Mexico:

- URBI's strategy is free cash flow-oriented, partly explained by above-average margins.
- URBI also is one step ahead of competitors in sustainability. This provides access for mortgage subsidies, and is consistent with the company's historical focus on home value appreciation for its customers.
- URBI has financial flexibility to leverage growth through selective investments in continuing and new projects, while reducing its geographical concentration.
- We regard URBI as the most sophisticated company among the Mexican homebuilders that we cover. Although complex in nature, accountability and an above-average track record in meeting goals over the past two (and most difficult) years, supports our idea that management is a plus.

Key forecast drivers

(MXNm)	2010	2011e	2012e	2013e
Revenue	14,977	16,884	19,374	22,025
EBITDA	4,067	4,508	5,473	6,030
EBITDA margin (%)	27.2	26.7	28.3	27.4
Operating profit	2,911	3,264	3,893	4,491
Operating profit margin (%)	19.4	19.3	20.1	20.4
Net income	1,691	2,189	2,849	3,149

Valuation data

EV/sales	1.7	1.4	1.3	1.1
EV/EBITDA	6.4	5.4	4.5	4.1
EV/IC	1.4	1.2	0.9	0.8
PE	13.0	10.0	7.7	7.0
P/book value	1.5	1.2	0.9	0.8

Issuer information

Share price (MXN)	22.44	Target price (MXN)	32.00
Potential return (%)	42.6		
Reuters (equity)	URBI.MX	Bloomberg (equity)	URBI* MM
Market cap (USDm)	1,764	Market cap (MXNm)	21,911
Free float (%)	50	EV (MXNm)	24321
Country	Mexico	Sector	Household Durables
Analyst	Francisco Suarez		+52 55 5721 2173

Source: HSBC Priced as at 25 Aug 2011

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URBI better positioned in Mexico's new housing industry environment

First listed developer to achieve a DUIS designation for a project

URBI has made sustainability central to its strategy. As a result, it had the first development under the Desarrollos Urbanos Integrales Sustentables (DUIS), or Integrated Sustainable Urban Development designation. In doing so, URBI has secured access to different mortgage pools at the state level, at Infonavit, and it had

secured access to subsidies for potential homebuyers. DUIS has also provided a mechanism through which URBI can cash out previous land bank investments when, for instance, a manufacturer or a retailer buys land on a location or when the state decides to construct a college. When this occurs, the project is enhanced, as its overall attractiveness increases.

URBI's focus since 2006 on potential customers not served by Infonavit or commercial banks

The so-called Alternativa URBI initiative has enabled the company to attract more potential customers. URBI has developed and streamlined a scoring system to identify such potential customers. Once a homebuyer establishes a sufficient record of monthly payments, he or she becomes eligible for a mortgage, when URBI can cash out its investment. It has already signed agreements with Infonavit to expand the proportion of this increasingly important business while securing funding, as in a joint venture with Aureos, a private fund.

Opportunistically allocating capital with two investment horizons

- *Allocating capital under URBI's city licensee manager:* This strategy allows URBI to leverage expansion in new cities, reducing geographical concentration, and paving the way for future growth.
- *Allocating capital in projects under operation:* This allows relatively quick conversion to EBITDA and cash flow, while capitalizing on URBI's financial flexibility and an environment that creates some degree of idle operations on smaller players.

Valuation, rating, and risks

Our 12-month target price for URBI shares is MXN32. This stems from our five-year EPS growth projection of 17.3% that results in 2016e EPS of MXN3.81, by applying a target PE multiple of 10.6x. Our target multiple is the result of the following factors: a cost of equity of 9.8%, a long-term rate of EPS growth of 2.5% after 2016, and a 2016e ROE of 10.4%. Our cost of equity calculation of 9.8% for URBI shares is the result of a beta of 1.05, a risk-free rate of 3.5%, and a country risk premium of 6.0%. Because of the URBI business model's focus on cash flow, we believe that the company will distribute dividends to its stockholders beginning in 2014. The net present value of such dividends discounted at URBI's cost of equity is MXN6.74 per share.

Our target price of MXN32 represents a 14.3x PE multiple for 2011e and a 7.8x EV/EBITDA multiple for 2011e. It also implies a discount of 11% to fair value under our DCF valuation model.

Under our research model, for stocks without a volatility indicator, the Neutral rating band is 5ppt above and below our hurdle rate for Mexican stocks of 9.5%, or 4.5-14.5% around the current share price. Our target price of MXN32 suggests a potential return of 42.6%, which is above the Neutral band; thus, we reiterate our Overweight rating on the stock.

Downside risks, in our view, include a prolonged economic slowdown; depreciation of the MXN against the USD; changes in the payment methods used by Infonavit, Fovissste, Mexico's second-largest mortgage originator, banks, and Sofoles, special-purpose finance companies, which could entail higher working-capital requirements; and higher materials costs that cannot be passed on to customers.

HSBC

Wal-Mart de Mexico

- As Mexico's outlook improves, Walmex accelerates area, sales and EPS growth
- We remain bullish on Central America and see further expansion possibilities
- We rate the stock Overweight with an MXN41 target price

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Strongest Latam retailer

Walmex remains our favorite food retailer in Latin America in spite of a tough second quarter. We believe the company is poised for sustained 15-20% long-term EPS growth on the back of continued strong organic selling space growth in Mexico and Central America. This year's planned respective 12.2% and 8.1% area expansion indicates the company's commitment to growth, in our opinion. Going forward, while we expect Mexico selling space growth to slowly decline, we believe Central America should boost total company expansion above the 10% mark for the foreseeable future. Selling space growth today should translate into future same-store sales growth, and combined with margin expansion, should lead to our bullish long-term earnings growth perspective for Walmex.

Recent results

Second-quarter EPS fell 3% to MXN0.252, the first such negative report in a very long time. Results were hurt by the previously released, weaker-than-expected 9.1% total sales growth. This was also consequence of a deceleration in average ticket growth in Mexico, as well as the introduction of "Every Day Low Prices" in

Key forecast drivers

(MXNm)	2010	2011e	2012e	2013e
Revenue	335,858	377,399	428,220	471,901
Gross profit margin (%)	22.1%	22.3%	22.2%	22.2%
Operating profit	27,044	29,779	36,989	41,174
Income before taxes	27,631	30,510	38,017	42,174

Valuation data (year to)

EV/sales	1.8	1.6	1.4	1.2
EV/EBITDA	18.1	16.4	13.3	11.7
EV/IC	5.4	4.8	4.4	4.1
PE	31.1	27.9	22.3	20.1
P/book value	5.0	4.5	3.9	3.5

Issuer information

Share price (MXN)	31.07	Target price (MXN)	41.00
Potential return (%)	32.0		
Reuters (equity)	WALMEXV.MX	Bloomberg (equity)	WALMEXV MM
Market cap (MXNm)	45,008	EV (MXNm)	552,554
Free float (%)	33	(MXNm)	542136
Country	Mexico	Sector	Food & Staples Retailing
Analyst	Francisco Chevez		+1 212 525 5350

Source: HSBC Priced as at 22 Aug 2011

Central America. This led to flat EBITDA of MXN7.7bn, and the margin stood at 8.7%, down from 9.5% a year earlier.

Outlook

We expect Walmex sales growth in Mexico during the balance of 2011 to be supported by average ticket expansion, which has been positive every month since June 2010. This supports our expectation of 11% total sales growth for the

second half of 2011. In Central America, we expect the company's sales growth to accelerate gradually over the coming months as consumers become acquainted with the benefits of "Every Day Low Prices," Walmex's traditional pricing system that was introduced in Central America during the second quarter.

Sales growth this year should also be supported by the huge store base in Mexico of 4.6m m2 of selling space and 480,000 m2 in Central America. Walmex management indicated that its sales growth can accelerate to 14-15% over 2011-2012. This is one of the most bullish statements that we have heard from Walmex management, and we believe it points to strong EPS growth over the next three to five years. To achieve this, the plan is to expand selling space by 12.2% in Mexico and 8.8% in Central America. In 2011, Walmex plans to open 445 stores with an emphasis on bodegas and discount stores, and to accelerate new store maturity by 8-10%. Also, store openings will be more evenly distributed during the year, which should boost near-term sales growth.

Walmex: Consolidated estimates for 2011 and 2012

(MXNm)	2011E	2012E
Net sales	377,399	428,220
y-o-y change	12.4%	13.5%
EBITDA	36,678	44,361
EBITDA margin %	9.7%	10.36%
Net income	21,948	27,266
Net margin %	5.8%	6.4%
EPS	1.23	1.54
y-o-y change	11.6%	25.1%

Source: HSBC

Valuation, rating, and risks

We arrive at our target price on Walmex shares of MXN41 by applying a 26.5x target multiple on our 2012e EPS of MXN1.54. Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppt above and below the hurdle rate for Mexican stocks of 9.5%, or 4.5-14.5% around the current share price. Our target price of MXN41 implies a potential return of 32%, which is above the Neutral band; therefore, we reiterate our Overweight rating on Walmex V shares

Risks, we believe, include a reversal of current positive consumer confidence trends, a more competitive environment that may limit Walmex's potential market share gains, and slower-than-expected Central America selling area expansion.

Disclosure appendix

Analyst Certification

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FEMSA	FMX.N	65.50	29-Aug-2011	2, 6, 7
GRUMA SAB	GRUMAB.MX	22.13	29-Aug-2011	6, 7, 11
GRUPO COMERCIAL CHEDRAUI	CHDRAUIB.MX	34.22	29-Aug-2011	1, 5, 7
GRUPO FINANCIERO BANORTE	GFNORTEO.MX	44.53	29-Aug-2011	6
MEXICHEM	MEXCHEM.MX	46.04	29-Aug-2011	2, 11
URBI DESARROLLOS URBANOS	URBI.MX	21.96	29-Aug-2011	11
WAL-MART DE MEXICO	WALMEXV.MX	32.08	29-Aug-2011	7

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