

Grupo Tmm Sab

(GTMA5-OTC)

GTMA5: 2Q15 Results Show Strength in Maritime Segment

Current Recommendation	Neutral
Prior Recommendation	Outperform
Date of Last Change	04/07/2013
Current Price (7/30/15)	\$1.33
Target Price	\$2.50

OUTLOOK

Grupo TMM reported second quarter 2015 results yesterday. Driven primarily by a 34.4% year-over-year advance in Maritime revenue, TMM registered a 28.0% improvement in total revenue to P\$836.4 million compared to P\$653.2 million recorded in the second quarter of 2014. We believe TMM is well positioned to benefit from the opening of Mexico's energy sector. However, the steep decline in oil prices could cause a longer than expected delay of the opportunities energy reform is expected to generate, in our view.

SUMMARY DATA

52-Week High	\$2.91
52-Week Low	\$1.05
One-Year Return (%)	15
Beta	NA
Average Daily Volume (sh)	2,329

ADRs at 5:1 ord. shares (mil)	20
Market Capitalization (\$mil)	\$27
Short Interest Ratio (days)	12.5
Institutional Ownership (%)	2
Insider Ownership (%)	36

Annual Cash Dividend	\$0.00
Dividend Yield (%)	0.00

5-Yr. Historical Growth Rates	
Sales (%)	-6.5
Earnings Per Share (%)	N/A
Dividend (%)	N/A

P/E using TTM EPS	-3.5
P/E using 2015 Estimate	-4.0
P/E using 2016 Estimate	N/A

Risk Level	Above Average
Type of Stock Industry	Small-Value Maritime

ZACKS ESTIMATES

Revenue

(in millions of \$US)

	Q1	Q2	Q3	Q4	Year
	(Sep)	(Dec)	(Mar)	(Jun)	(Jun)
2012	63 A	49 A	54 A	50 A	215 A
2013	51 A	55 A	57 A	57 A	219 A
2014	53 A	49 A	54 A	51 A	187 A
2015	47 A	52 A	49 E	51 E	199 E

Earnings per ADR

(\$US EPS is operating earnings before non recurring items)

	Q1	Q2	Q3	Q4	Year
	(Sep)	(Dec)	(Mar)	(Jun)	(Jun)
2012	-\$0.53 A	\$0.82 A	-\$0.38 A	-\$1.25 A	-\$2.97 A
2013	-\$0.64 A	-\$0.89 A	-\$0.28 A	-\$0.34 A	-\$2.15 A
2014	-\$0.07 A	-\$0.11 A	\$0.05 A	-\$0.22 A	-\$0.35 A
2015	-\$0.07 A	-\$0.08 A	-\$0.05 E	-\$0.10 E	-\$0.30 E

Metrics Pro Forma; Quarters might not sum reflecting exchange rates
Zacks Projected EPS Growth Rate - Next 5 Years %

N/A

Disclosures begins on page 8

KEY POINTS

- Driven primarily by a P\$192.6 million or 34.4% year-over-year advance in Maritime revenue, TMM registered a 28.0% improvement in total revenue. The company reported second quarter 2015 results yesterday.
- TMM's Ports and Terminals segment has been hurt by lower revenues in the Automobile segment, as vehicle exports to South America have been constrained by an agreement between Mexico and Brazil limiting auto exports to Brazil.
- On an adjusted basis excluding the sale of vessels in the Maritime segment, consolidated operating income would have been P\$140.1 million and P\$59.5 million in 2Q15 and 2Q14 respectively, representing a 135.5% year-over-year improvement.
- Consolidated EBITDA of P\$257.5 million was up 12.7%, while free cash flow of P\$75.2 million more than doubled (+108%).
- At the end of June 2015, the company's net debt stood at P\$9,606.4 million, down from P\$10,245.2 million at the end of December 2014. TMM expects to complete a recapitalization in 2H 2015, designed to strengthen its balance sheet and enhance its financial flexibility as it prepares to leverage the opportunities that Mexico's energy reforms are expected to generate.

SECOND QUARTER 2015 HIGHLIGHTS

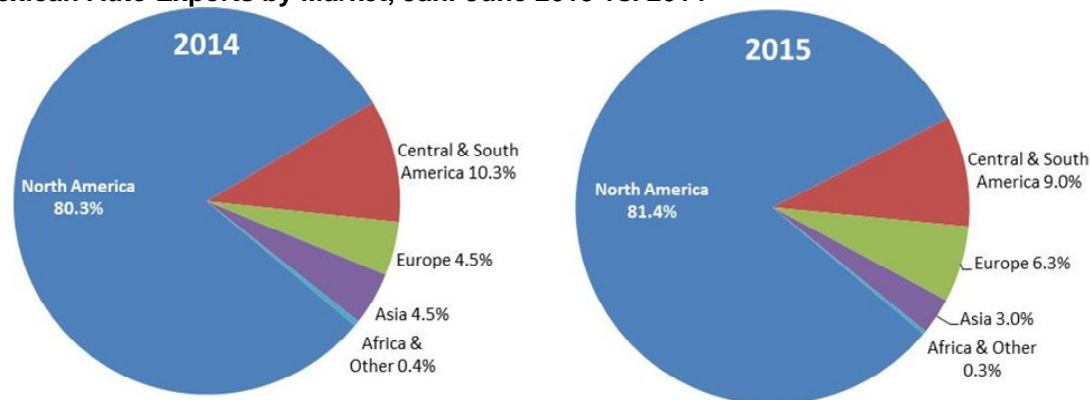
TMM reported second quarter 2015 results yesterday. Revenue of P\$836.4 million came in significantly ahead of our P\$669.4 million forecast. Driven primarily by a P\$192.1 million or 34.4% year-over-year advance in Maritime revenue, TMM registered a 28.0% improvement in total revenue compared to P\$653.2 million recorded in the second quarter 2014. The latest quarter was consistent with recent periods, wherein Maritime revenue has been trending up versus prior year quarters, while Ports and Terminals revenue has been constrained. The Ports and Terminals segment has been hurt primarily by lower shipments of Mexican automobiles to Latin American markets, we believe. Second quarter 2015 Ports & Terminals revenue of P\$67.6 million declined 13.0% compared to last year's second quarter. Corporate and other revenue of P\$18.5 million advanced by 6.9% year-over-year.

Mexican Automobile and Truck Exports			
January-June 2015 versus 2014			
	2015	2014	% Chg
North America	1,144,674	1,023,235	11.9%
Central America	16,004	10,536	51.9%
South America	110,536	120,081	-7.9%
Europe	88,028	57,254	53.7%
Asia	42,374	56,786	-25.4%
Africa	947	1,131	-16.3%
Other	<u>2,895</u>	<u>4,548</u>	-36.3%
Total	1,405,458	1,273,571	10.4%

Source: AMIA

TMM's Ports and Terminals segment has been hurt by lower revenues in the Automobile segment, as exports to South America were lower, reflecting an agreement between Mexico and Brazil limiting auto exports to Brazil. For the automotive industry overall, total exports to South America declined 7.9% in the first six months of 2015, according to AMIA (Asociación Mexicana de la Industria Automotriz). South America represents the second biggest export destination of vehicles after the U.S. and Canada. During the first half of 2015, exports to South America comprised 7.9% of Mexico's total automotive exports, down from 9.4% in the same period of 2014. Including Central America, the market accounted for 9.0% of Mexico's auto exports compared to 10.3% in the 2014 period.

Mexican Auto Exports by Market, Jan.-June 2015 vs. 2014



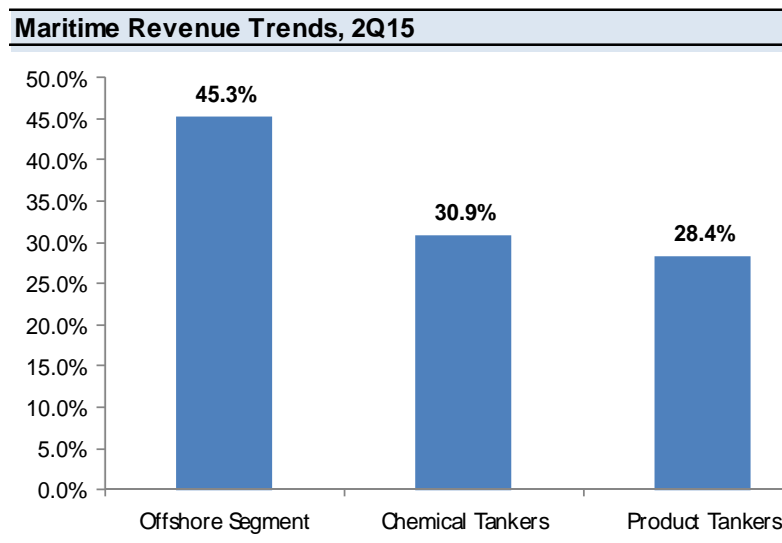
Source: AMIA

As noted, the decline at Ports and Terminals was offset by strength at the Maritime segment. Compared to the above noted 28.0% improvement in total revenue, costs of freight and services advanced 37.7% year-over-year. Among other factors, this increase reflected higher costs in the Maritime segment due to a change to low-sulfur fuels, per new regulations. Depreciation costs were also higher, partially reflecting the new accounting policy for valuation of vessels. As a result, operating income of P\$76.5 million was down slightly (-2.5%) compared to the second quarter of 2014.

Adjusted Operating Income Increased

Operating income was also negatively impacted by the sale of TMM's oldest product tanker in the Maritime segment. However, on an adjusted basis excluding the sale of vessels in the Maritime segment, consolidated operating income would have been P\$140.1 million and P\$59.5 million in 2Q15 and 2Q14, respectively. That represents a 135.5% year over improvement. Moreover, consolidated EBITDA of P\$257.5 million was up 12.7% from P\$228.5 million recorded in the same period of 2014, while free cash flow of P\$75.2 million more than doubled (+108%) from the P\$36.1 million registered in 2Q 2014.

Segment Operating Results



Source: Company reports

Maritime

The company's Maritime segment recorded a 34.4% increase in revenue, as noted. This was driven primarily by an overall better mix of services and higher average rates. Specifically, the company recognized a 45.3% revenue advance in the Maritime offshore segment due to a better services mix and higher average rates. In addition, the company registered a 30.9% year-over-year improvement in chemical tankers revenue on higher average freight rates and a 28.4% improvement in product tankers revenue on a better mix and higher average rates. On the higher revenue base, operating profit in the Maritime segment advanced 18.5% year-over-year to P\$148.1 million from P\$125.0 million.

The Maritime segment operating profit was impacted in both periods by costs related to the sale of the Palenque II tanker, as well as higher operating costs in the tug vessel segment. Excluding the impact of vessel sales, second-quarter Maritime operating profit would have been P\$211.8 million in 2015, up from P\$106.0 million in 2014. This represents a 99.8% annual improvement.

Ports and Terminals

Ports and Terminals revenue declined 13.0% year-over-year, as previously indicated. This decline was driven principally by lower revenues in the company's Acapulco operations, reflecting lower automobile shipments, as well as reduced operations in the Tuxpan terminal. This was partially offset by higher Maintenance and Repair and intermodal terminal revenue. Not surprisingly, Ports and Terminals operating profit was lower (-53.8%) on the lower revenue base, coming in at P\$7.2 million compared to P\$15.6 million.

Financial Expense and Balance Sheet

Assisted by lower financial expense of P\$205.2 million versus P\$213.3 million in 2Q14, the company reported a narrower loss for Grupo TMM shareholders of (P\$136.2) million compared to (P\$164.6) million. The company's net debt stood at P\$9,606.4 million at the end of June 2015, down from P\$10,245.2 million at the end of December 2014. The company also indicated that it expects to complete a recapitalization in 2H 2015, designed to strengthen its balance sheet and enhance financial flexibility as it prepares to leverage the opportunities that Mexico's energy reforms are expected to present.

RISKS

- The recent trends in oil prices could cause a longer than expected delay of investment in Mexico's energy sector.
- Mexico's oil reforms might not have the impact that Pemex and the government expect.
- The company's initiatives could take longer than expected to produce operating efficiencies.
- Despite medium and long-term contracts in place at the Maritime division, tariff volatility could impact operations.
- The global downturn in the product tanker business could impact Maritime's revenue and profit.
- The balance sheet remains highly leveraged.
- TMM's new projects could take longer than expected to complete.
- Given that roughly 94% of TMM's debt is peso denominated and that the company must supplement its peso generated revenue with dollar revenues to service its debt, TMM faces currency exchange risk.

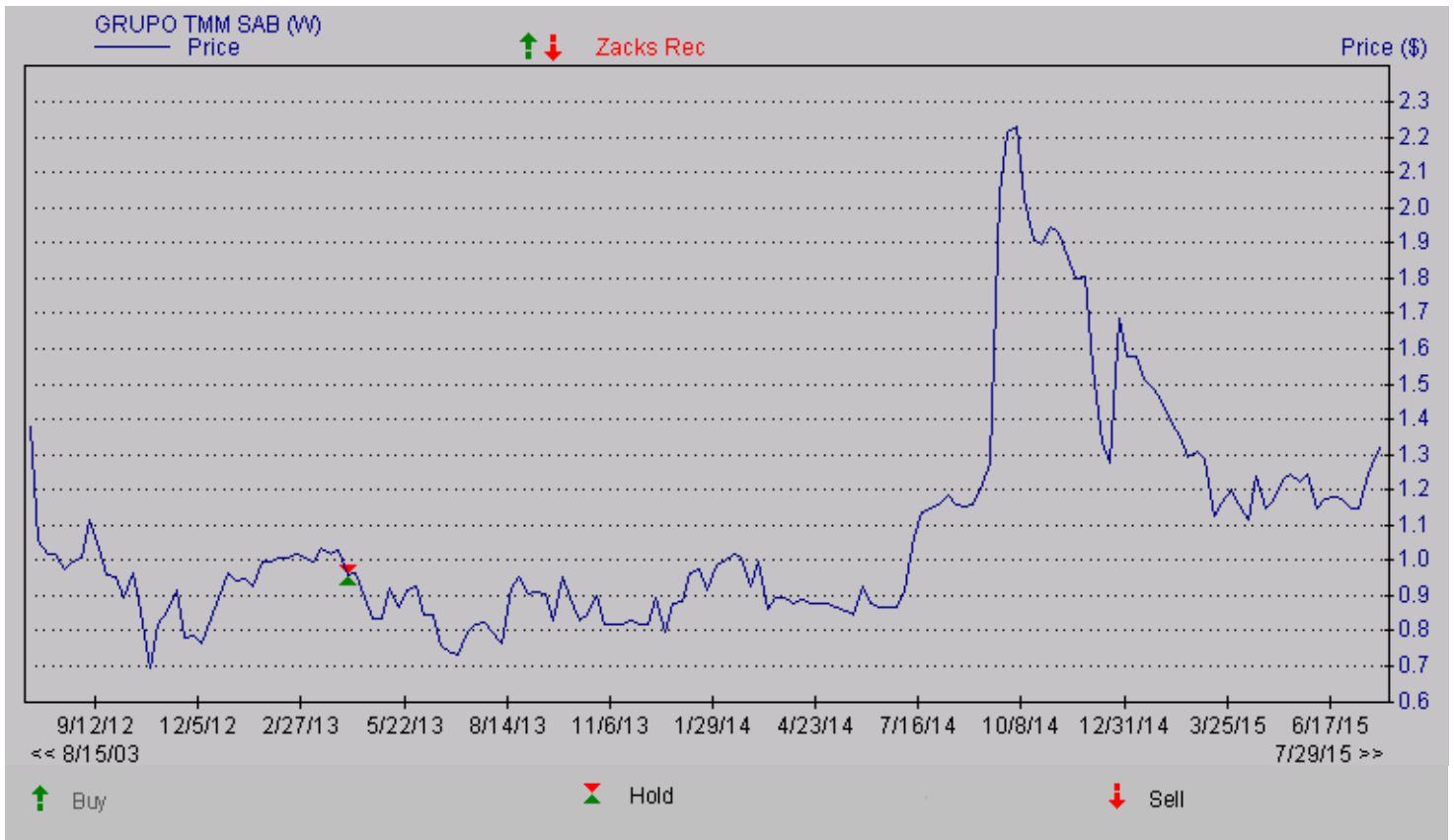
PROJECTED INCOME STATEMENT

Grupo TMM Quarterly Income Statements & Projections (\$ Mexican Pesos millions)

	1Q14	2Q14A	3Q14A	4Q14A	2014A	1Q15A	2Q15A	3Q15E	4Q15E	2015E
Ports & Terminals	74.3	77.7	58.5	66.4	276.9	66.8	67.6	54.4	59.8	248.6
Maritime	599.9	558.2	660.4	692.2	2,510.7	628.3	750.3	672.9	699.1	2,750.7
Corporate & others	12.7	17.3	18.5	18.7	67.2	18.5	18.5	18.3	18.5	73.8
Rev from freight & svcs	P\$686.9	P\$653.2	P\$737.4	P\$777.3	P\$2,854.8	P\$713.6	P\$836.4	P\$745.7	P\$777.4	P\$3,073.1
Ports & Terminals	(60.2)	(58.4)	(54.6)	(57.1)	(230.3)	(51.2)	(56.4)	(48.6)	(51.4)	(207.6)
Maritime	(321.3)	(288.7)	(389.3)	(444.7)	(1,444.0)	(348.8)	(427.1)	(381.5)	(449.1)	(1,606.6)
Corporate & others	(13.0)	(17.2)	(18.8)	(15.9)	(64.9)	(18.2)	(18.2)	17.0	(16.1)	(35.5)
Cost of freight & services	(394.5)	(364.4)	(462.7)	(517.7)	(1,739.3)	(418.2)	(501.7)	(413.1)	(516.6)	(1,849.6)
Ports & Terminals	(3.5)	(3.7)	(3.7)	(4.3)	(15.2)	(3.8)	(4.1)	(3.6)	(4.3)	(15.9)
Maritime	(142.6)	(144.5)	(149.8)	(428.9)	(865.8)	(151.7)	(175.0)	(151.3)	(150.2)	(628.2)
Corporate & others	(1.9)	(1.9)	(1.8)	(1.9)	(7.5)	(1.9)	(1.9)	(1.8)	(1.9)	(7.5)
Depreciation & amortization	(148.0)	(150.0)	(155.3)	(435.1)	(888.4)	(157.4)	(181.0)	(156.7)	(156.4)	(651.6)
Corporate expenses	(50.0)	(59.2)	(51.7)	(14.3)	(175.2)	(54.4)	(72.0)	(52.2)	(52.9)	(231.5)
EBIT										
Ports & Terminals	10.6	15.6	0.2	5.0	31.4	11.8	7.2	2.2	4.0	25.1
Maritime	139.5	125.0	121.3	(181.4)	204.4	127.8	148.1	140.1	99.8	515.9
Corporate & others	(2.2)	(1.8)	(2.1)	0.9	(5.2)	(1.6)	(1.6)	33.5	0.5	30.8
Other (expenses) income	23.9	(1.1)	254.0	80.5	357.3	16.1	(5.3)	15.0	15.0	40.8
Operating Income	P\$121.8	P\$78.5	P\$321.7	(P\$109.3)	P\$412.7	P\$99.7	P\$76.5	P\$138.6	P\$66.4	P\$381.1
EBITDA	P\$269.8	P\$228.5	P\$240.0	P\$325.8	P\$1,301.1	P\$257.1	P\$257.5	P\$295.3	P\$222.9	P\$1,032.7
Financial (expenses) income	(216.4)	(213.3)	(204.1)	(197.6)	(831.4)	(193.4)	(205.2)	(205.4)	(205.6)	(809.6)
Exchange gain (loss)	(3.1)	0.6	(22.7)	(41.1)	(66.3)	3.1	2.1	2.1	2.1	9.4
Net financial cost	(219.5)	(212.7)	(226.8)	(238.7)	(897.7)	(190.3)	(203.1)	(203.3)	(203.5)	(800.2)
Loss before taxes	(97.7)	(134.1)	94.9	(348.0)	(484.9)	(90.6)	(126.6)	(64.7)	(137.1)	(419.1)
Provision for taxes	(2.2)	(3.8)	(2.7)	4.0	(4.7)	(0.5)	(0.8)	(2.0)	(7.9)	(11.2)
Net Loss before discontinuing	(100.0)	(137.9)	92.2	(344.0)	(489.7)	(91.1)	(127.4)	(66.7)	(145.0)	(430.2)
Loss from discontinuing operatic	(14.7)	(25.9)	(12.8)	(3.5)	(56.9)	(21.5)	(9.6)	(20.0)	(20.0)	(71.1)
Net Loss for the period	(114.7)	(163.9)	79.4	(347.5)	(546.7)	(112.6)	(137.0)	(86.7)	(165.0)	(501.3)
Attributable to:										
Minority interest	(1.5)	0.8	(1.0)	4.3	2.6	0.1	(0.8)	0.1	0.1	(0.5)
GTMM Equity holders	(113.2)	(164.6)	80.4	(351.8)	(549.2)	(112.5)	(136.2)	(86.6)	(164.9)	(501.8)
LPS	(P\$1.11)	(P\$1.60)	P\$0.79	(P\$3.44)	(P\$5.36)	(P\$1.10)	(P\$1.30)	(P\$0.85)	(P\$1.61)	(P\$4.91)
Avg shares out (millions)	102.2	102.2	102.2	102.2	102.2	102.2	102.2	102.2	102.2	102.2

Source: Company reports, Zacks estimates

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research (“Zacks SCR”), a division of Zacks Investment Research (“ZIR”), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Marla Backer, CFA, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, equity research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand USD per annum.

POLICY DISCLOSURES

Zacks SCR Analysts are restricted from holding or trading securities placed on the ZIR, SCR, or Zacks & Co. restricted list, which may include issuers in the Small-Cap Universe. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1164 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 29.0%, Hold/Neutral- 51.6%, Sell/Underperform – 16.2%. Data is as of midnight on the business day immediately prior to this publication.