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BMV: CULTIBA.MX

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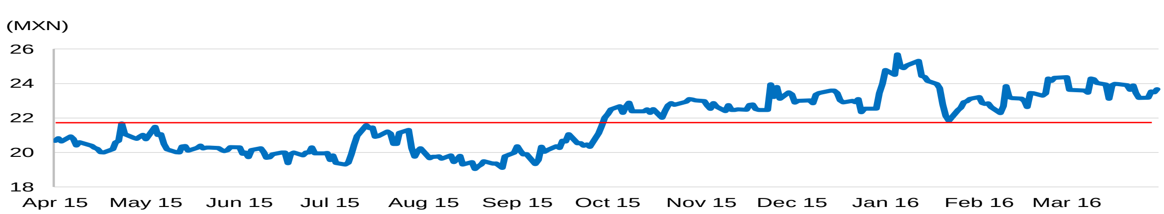
Organización Cultiba, S.A.B. de C.V.

SELL | LAST PRICE$23.67 (APRIL 21, 2016) | TARGET PRICE: $19.36

Key Takeaways

- **Flat Revenue Growth** Volume growth for the beverage, jug water and sugar segments are projected at 2.4%, -0.6% and 0.7%, respectively. The expected growth for CSD, NCSD and personal bottled water will follow GDP growth; jug water will maintain its historic growth and sugar volumes will react to changes in commodity sugar prices. Price increases will drive revenue growth, especially in the jug water segment where prices are expected to increase by 9.3% on a compounded rate. Revenue growth for CSD, NCSD and personal bottled water, jug water and sugar maintain a conservative growth of 4.2%, 8.7% and 0.1%.
- **High costs threaten EBITDA Margins** In the past five years, high SG&A costs drove negative net income; management announced headcount reductions should improve operating margins going forward. EBIT margins are low compared to comps because of high SG&A. Drops in sugar prices imply a double effect benefiting the COGS for the beverage segment while decreasing the sugar segment's sales.
- **CAPEX and dividends result in negative FCF** Average Net Working Capital for the past five years has resulted in an MXN124.7 million inflow for CULTIBA and it is expected to decrease. In the past suppliers have proven to be a good source of funding. CAPEX levels are just above annual depreciation from 2010 to 2015 and they are expected to increase as the company invests in more efficient plants. Both common dividends and dividends to non-controlling parties (PepsiCo, Empresas Polar) will remain at 5% and 3% percentage of revenues respectively.
- **Low trading volume results in a low beta.** The company has 36.33% of shares outstanding, and because of low trading volume it is not considered part of the Mexican Stock Exchange Index. This results in a low beta of 0.53 and a WACC of 6.49%.

CULTIBA Share Price



Source: Bloomberg

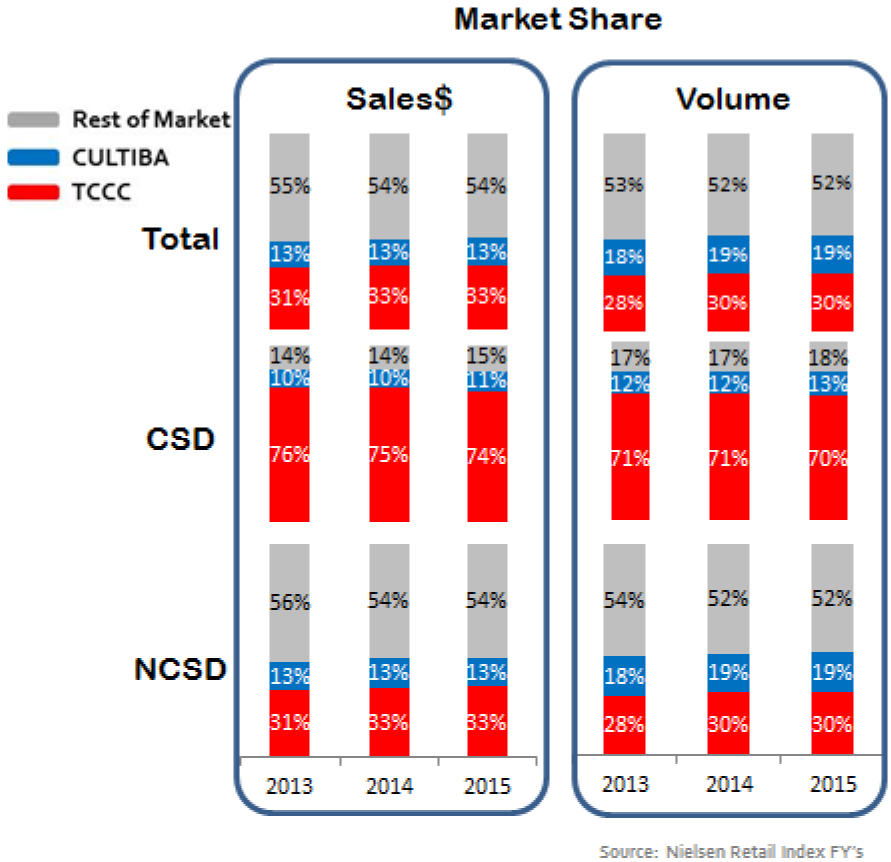
COMPANY OVERVIEW

Organización Cultiba S.A.B. de C.V. is a holding company with a majority interest (51%) in GEPP, one of Mexico's largest bottlers of carbonated and non-carbonated drinks and jug water. Through GEPP, Cultiba produces sales and distributes nationwide beverages from PepsiCo brands such as Pepsi Cola, Pepsi Light, Seven Up, Mirinda, Lipton and Gatorade since its joint venture signed with PepsiCo Inc. in 1992. It also produces, sells and distributes own branded products such as Epura, Electropura, Santorini, Trisoda, Spin, Junghannns and Aqua di Roma and brands from third parties such as Petit, Jarritos, Squirt and Canada Dry. Cultiba is also the holding company of Grupo Azucarero México GAM, S.A. de C.V. (GAM) and its subsidiaries, a leading sugar producer that operates three sugar mills in the Northwestern and Western Mexico (states of Jalisco, Michoacán and Sinaloa) and an additional sugar mill (located in Tabasco) with a 49% minority interest through a joint venture with INCAUCA, an ethanol and sugar producer in Colombia. (See Figure 1– Cultiba holding structure and Figure 2- Location of Cultiba's sugar mills)

Cultiba is a publicly traded company and its shares are listed in the Mexican Stock Exchange under the ticker symbol "CULTIBA". It currently has 717,537,466 shares outstanding, 36.5% of them being floating. Juan I. Gallardo Thurlow, Cultiba's CEO owns 63.47% of these floating shares.

In 2015, Cultiba reported consolidated revenues of MXN37,194 million with an -1.9% growth against 2014 and total consolidated volume of 1,650 million unit cases (1 unit case=24 bottles of 8oz) representing a 2.3% growth vs 2014. Nationwide, Cultiba's market share in the total beverage sector (without beer) is 13% in sales and 19% in volume, remaining stable for the past three years, such market share is identical for the NCSD industry while for the CSD market Cultiba's products owns 11% of sales and 13% of volume market share considerably growing since 2013. Coca-Cola's bottlers (KOF and ARCA) are Cultiba's main competitors occupying the first place in market share with 33% of sales and 30% in volume all together. Main differences in market share in sales against competitors are due to GEPP price strategy locating below Coca-Cola's and above Brands "B" which dedicate to a low income segment. GEPP, unlike KOF and ARCA, is the only beverage bottler with a national network of distribution. The attractiveness of the Mexican market consumption of the categories sold by Cultiba allows it to keep a stable growth in this category. According to Canadian, Euromonitor and the Beverage Marketing Corporation (2015) Mexico owns the largest per capita consumption in both CSD and bottled water (163 liters and 234 liters per year respectively). Growing healthier lifestyle and low quality of drinkable water in the country has aided in this industry boost.

Figure 3 – Cultiba's market share

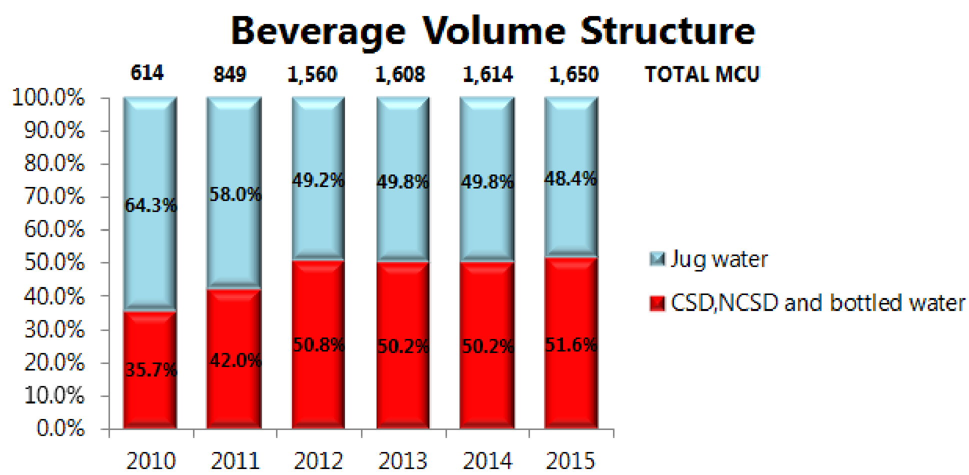


FLAT REVENUE GROWTH

Beverages division
Total Beverages

Cultiba produces, sells and distributes carbonated soft drinks and non-carbonated soft drinks including ready to drink tea, juices, flavored water as well as isotonic beverages, and personal bottled water altogether representing 51.6% of its beverage volume structure in 2015. Jug water, produced and sold in presentations of 10.1 and 20 liters is distributed directly to consumers' households and it represents 48.4% of its volume in the same year.

Figure 4- Cultiba's beverage volume structure

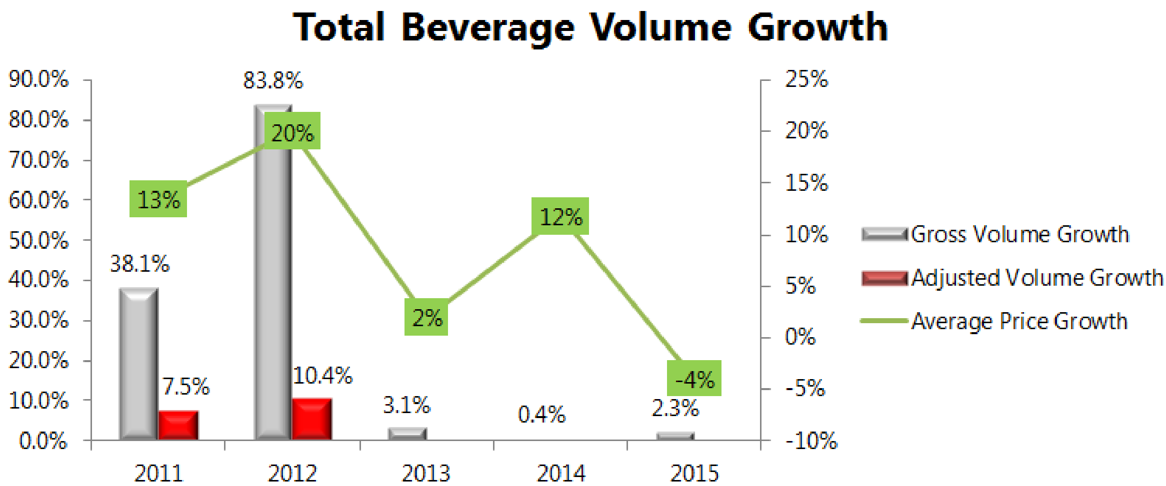


Source: Annual reports and analyst elaboration

Sales volumes for total beverages were obtained by factoring out the M&A activity of the company from 2011-2015. The relevant M&A activity for this period first took place in December 31, 2010 when the internal consolidation between GEUSA and GEUPEC took place, leaving only one bottler in charge of the national distribution. For this we compared the volume sold only by GEUSA in 2011 of 660 MCU with reported 614 MCU in 2010. This resulted in an adjusted volume growth of 7.5% from 2010 to 2011. Volume growth without factoring out this activity results in 38.1%. The second important M&A activity took place in the same year in September 30, 2011 when Cultiba, through GEPP, acquired The Pepsi Bottling Group México S. de R.L. de C.V. and its subsidiaries (PBC) and Productos Gatorade de México S. de R.L. de C.V. and its subsidiaries (Gatorade) which gave GEPP the power to distribute nationwide PepsiCo's brands as well as distribute the brand Gatorade. In order to compare 2012 to 2011 we added the volumes of the consolidated GEUSA and GEUPEC with the full year volumes of PBC and Gatorade (754 MCU) which are already considered in 2012. This resulted in an organic growth of 10.4% compared to the reported volume in 2012. Without considering this adjustment for the acquisition, volume growth would have resulted in 83.8%.

Geometric mean gross volume growth (considering acquisitions) results in 6.2% while geometric mean of adjusted volume growth (factoring out acquisitions) results in 2.9% from 2011 to 2015.

Figure 5 – Gross vs Adjusted Total Beverage Volume Growth

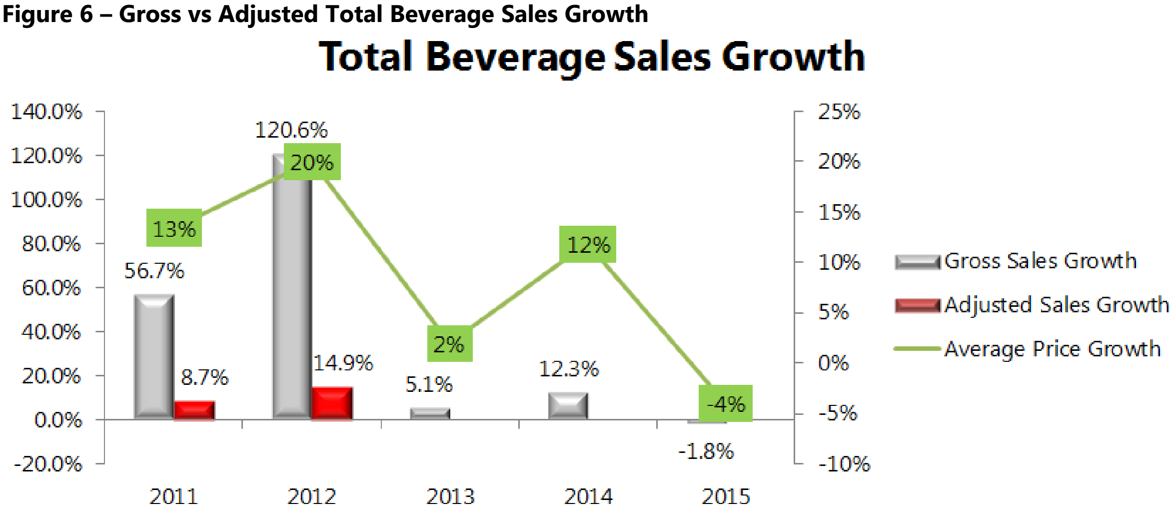


Source: Annual reports and analyst elaboration

Same adjustment for both M&A activities was made for total beverage sales in order to get the organic sales growth. For this we compared the sales made by GEUSA in 2011 of MXN9, 350 million to those reported in 2010 of MXN8, 603 million resulting in adjusted sales growth of 8.7% from 2010 to 2011. Sales growth without factoring out this activity results in a 56.7% growth for the same period. Considering the second M&A activity already mentioned (PBC and Gatorade) we calculated the organic growth of the company from 2011 to 2012. In order to compare these two years we added the sales of the consolidated GEUSA and GEUPEC with the full year sales of PBC and Gatorade (MXN16, 529 million) which are already considered in 2012. This resulted in an organic growth of 14.9% from 2011 to 2012 compared to the reported sales in 2012. Without considering this adjustment for the acquisition sales growth would have resulted in 120.6%.

Median gross sales growth (considering acquisitions) results in 12.3% while median of adjusted sales growth (factoring out acquisitions) results in 8.7% from 2011 to 2015.

Figure 6 – Gross vs Adjusted Total Beverage Sales Growth



Source: Annual reports and analyst elaboration

Due to the importance of both beverage segments sold by Cultiba, further historical analysis and future estimates were made by category segment:

CSD, NCSD and personal bottled water

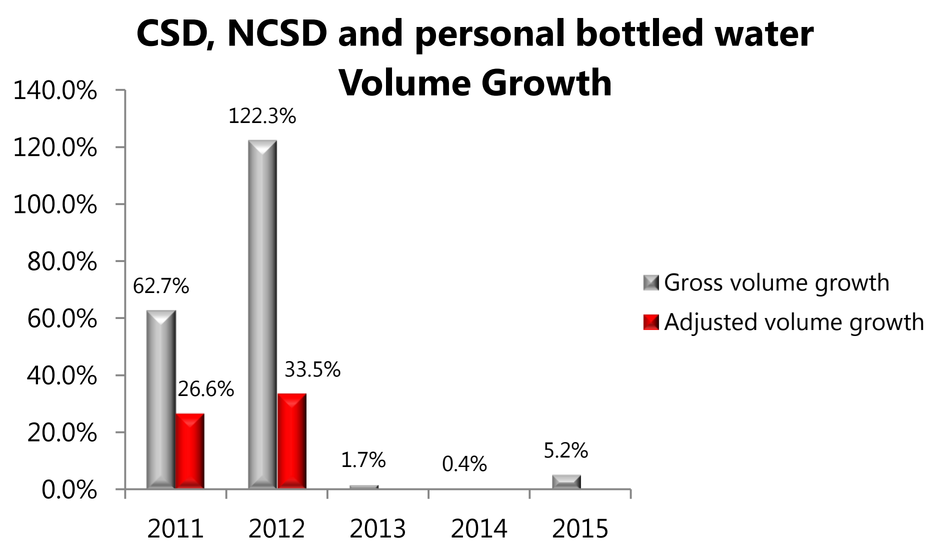
Historical Values

This category currently represents 51.6% of the total beverage volume sales vs 35.7% in 2010 as previously seen in Figure 4. This increase in volume structure was mainly due in 2011 and 2012 when the acquisition of PBC and Gatorade took place.

In order to consider the effect M&A activities had in historical volume growth for this category we took a different approach. In order to make this category volume comparable from 2010 to 2011 which is affected by the GEUSA-GEUPEC consolidation, we took total volume sold by GEUSA in 2011 (same used for the total beverage analysis) and multiplied it by the weight of the category in 2011 which amounts to 42%, resulting in 278 MCU. When comparing this volume with the reported in 2010 which only considers GEUSA organic growth amounts to 26.6% for this segment. Without factoring out this activity volume growth results in 62.7% for CSD, NCSD and bottled water category. For the volume growth from 2011 to 2012 same procedure was made with the total volume sold by GEUSA+GEUPEC and the integration of PBC and Gatorade which amounts to 1,413 MCU. This volume was then multiplied by the same weight of the category of 42% resulting in 594.1 MCU which was further compared to the 793.1 MCU reported resulting in an organic growth of 33.5%. Without factoring out this merging volume growth results in 122.3%.

Geometric mean gross volume growth (considering acquisitions) results in 7.7% while geometric mean of adjusted volume growth (factoring out acquisitions) results in 5.0% from 2011 to 2015.

Figure 7 – Gross vs Adjusted CSD, NCSD and personal bottled water volume growth



Source: Annual reports and analyst elaboration

For CSD, NCSD and bottled water sales we took even another step to find adjusted sales growth for the category (as well as for jug water). Sales by segment are not reported and management currently states that 85% of sales come from CSD, NCSD and bottled water while 15% comes from jug water. This structure was stable for the past years. We believe this statement is correct since CSD, NCSD and bottled water is a higher value category sold in more expensive channels (supermarkets, convenience stores, pharmacies) while jug water has a one unique distribution system being delivered directly to the households. Also costs differ from one category to another since package, labeling and even marketing are more focused on the CSD, NCSD and bottled water and such category competes directly with Coca-Cola's products and adapts to the on-the-go lifestyle of the current consumer. Jug water seems like a commodity that customers expect to pay less due to its functionality and great importance of its returnable presentations.

Thus, for the years other than 2011 we multiplied the total beverage reported sales for each year from 2010-2015 by 85% in order to get the sales corresponding to CSD, NCSD and personal bottled water. For 2011, only for the purposes of calculating the adjusted value growth we got the same 85% first from the MXN9,350 million from the total beverage sales that correspond to GEUSA operations in order to make it comparable with 2010 resulting in MXN7,948 million. When comparing this value to the same 85% proportion in 2010 of MXN7, 313 adjusted value growth results in 8.7%. Then, for 2011-2012 adjusted growth, same 85% proportion was obtained of the total calculated sales in 2011 that includes GEUSA+GEUPEC and PBC and Gatorade activities resulting in MXN21,998 million and compared to the corresponding sales (after proportion) for 2012 of MXN25,284 million. Adjusted value growth results in 14.9% for 2012 vs 2011.

Median gross sales growth results in 12.3% and median adjusted sales growth results in 8.7% from 2011 to 2015. (See Figure 6 - Gross vs Adjusted total beverage sales growth)

Average prices for this category have a median of -1% growth from 2011 to 2015. CAGR from 2010-2015 resulted in 1%.

Estimated Values

Correlations were run vs historical adjusted volume growths from 2011 to 2015 in order to obtain projected organic volume growth for CSD, NCSD and personal bottled water. First correlation was against historical population growth in Mexico from 2011 to 2015 obtained from Secretaria de Gobernación (Secretaria de Gobernación, 2016) resulting in a correlation of 0.77. Next correlation was against per capita consumption growth of Carbonated Soft Drinks in Mexico for the same 2011-2015 period obtained from Bloomberg (Bloomberg, 2015) resulting in a correlation of 0.78. Another correlation was against the mean annual Mexican Consumer Confidence Index historical growth for the same period obtained from INEGI's ENCO (National Survey about Consumer's Confidence) resulting in a correlation of 0.82 (INEGI, 2016). Last correlation run against Mexican GDP historical growth rate obtained from the World Bank (The World Bank, 2015) resulted in

0.95. This last correlation was then used for volume projections. Thus in order to obtain future projected volumes we multiplied GDP growth estimated for each year from 2016-2020 times 0.95 correlation, added 1 to the result and then multiplied the result times the last volume reported. This results in a CAGR of 2.4% from 2016 to 2020 for this category and a median volume of 927.8 for the same period.

In order to find projected prices, first we multiplied each reported sales for total beverages in every year times the corresponding category importance as previously explained (85% in this case) obtaining each year's historical reported sales for every category. Then divide each year's sale by the volume reported for the category for the same year obtaining an average price per unit case for CSD, NCSD and personal bottled water category. After this we calculated the growth in price for each year from 2011 to 2015. Correlation was run against Mexican inflation for the same period and resulted in 0.72 which was further used for these category average price projections. Thus in order to obtain future projected average prices we multiplied estimated inflation for each year from 2016-2020 times 0.72 correlation, added 1 to the result and then multiplied the result times the last average price reported. This results in a CAGR of 1.7% from 2016 to 2020 for this category and a median average price of MXN36.7 for the same period.

Projected organic sales value were obtained using the estimates of volume and average price previously explained resulting in a CAGR of 4.2% and a median of MXN34,044 million.

Figure 8 – Correlations between CSD, NCSD and bottled water volume growth and indicators

	2011	2012	2013	2014	2015	
CSD,NCSD and bottled water adjusted growth	**26.6%**	**33.5%**	**1.7%**	**0.4%**	**5.2%**	**ρ**
Population Growth	1%	1%	1%	1%	1%	0.77
GDP growth rate (%)	4%	4%	1%	2%	2%	0.95
Per capita Consumption Growth CSD,NCSD and Bottled Water	1.6%	1.0%	-0.3%	-3.9%	-0.8%	0.78
Mean Annual Consumer Confidence Index Growth	6%	5%	0%	-6%	2%	0.82

Source: Official sources listed in references and analyst elaboration

Figure 9 – Correlations between CSD, NCSD and bottled water average price growth and indicators

	2011	2012	2013	2014	2015	
CSD, NCSD and bottled water average price growth	**-3.7%**	**-0.8%**	**3.3%**	**11.9%**	**-6.6%**	**ρ**
Mexican inflation	3.4%	4.1%	3.8%	4.0%	2.8%	0.72

Source: Official sources listed in references and analyst elaboration

Jug water

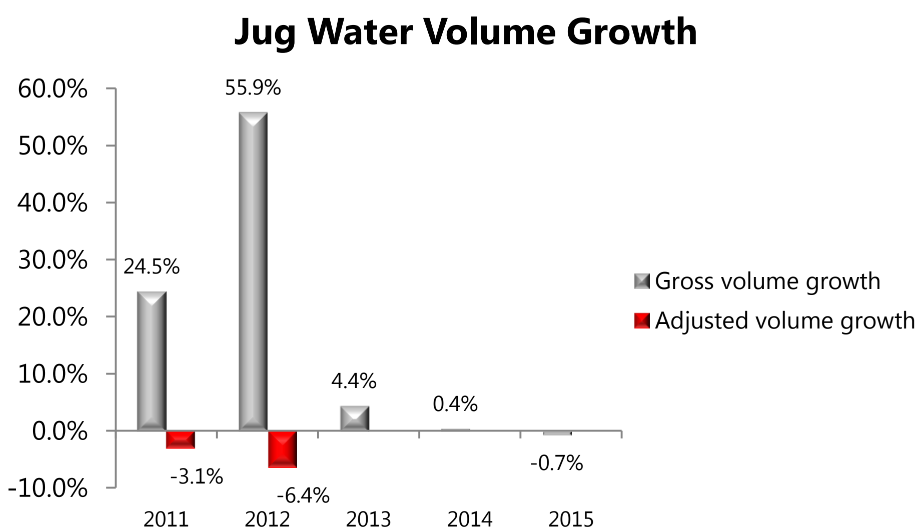
Historical Values

This category currently represents 48.4% of the total beverage volume sales vs 64.3% in 2010 as previously seen in Figure 4.

In order to consider the effect M&A activities had in historical volume growth for this category we took the same approach discussed in the CSD, NCSD and bottled water category. In order to make this category volume comparable from 2010 to 2011 we took total volume sold by GEUSA in 2011 (same used for the total beverage analysis) and multiplied it by the weight of the category in 2011 which amounts to 58%, resulting in 383 MCU. When comparing this volume with the reported in 2010 (which only considers GEUSA) organic decrease amounts to -3.1% for this segment. Without factoring out this merging, volume growth results in 24.5% for jug water category. For the volume growth from 2011 to 2012 same procedure was made with the total volume sold by GEUSA+GEUPEC and the integration of PBC and Gatorade which amounts to 1,413 MCU. This volume was then multiplied by the same weight of the category of 58% resulting in 819.11 MCU which was further compared to the 766.6 MCU reported resulting in an organic decrease of -6.4%. Without factoring out this merging volume growth results in 55.9%.

Median gross volume growth (considering acquisitions) results in 4.4% while median of adjusted volume growth (factoring out acquisitions) results in -0.7% from 2011 to 2015.

Figure 10– Gross vs Adjusted Jug Water Volume Growth



Source: Annual reports and analyst elaboration

For jug water sales we took the same steps as sales for CSD, NSCD and personal bottled water to find adjusted sales growth for the category. Thus, for the years other than 2011 we multiplied the total beverage reported sales for each year from 2010-2015 by 15% in order to get the sales corresponding to jug water. For 2011, only for the purposes of calculating the adjusted value growth we got the same 15% first from the MXN9,350 million from the total beverage sales that correspond to GEUSA operations in order to make it comparable with 2010 resulting in MXN1,403 million. When comparing this value to the same 15% proportion in 2010 of MXN1,290 adjusted value growth results in 8.7%. Then, for 2011-2012 adjusted growth, same 15% proportion was obtained of the total calculated sales in 2011 that includes GEUSA+GEUPEC and PBC and Gatorade activities resulting in MXN3,882 million and compared to the corresponding sales (after proportion) for 2012 of MXN4,462 million. Adjusted value growth results in 14.9% for 2012 vs 2011.

Median gross sales growth results in 12.3% and median adjusted sales growth results in 8.7% from 2011 to 2015.

As seen by the reader adjusted growths per year and for the total period are the same for jug water and CSD, NCSD and personal bottled water in sales. This is explained by the assumption that 85-15% proportion along the 5 years does not change. (See Figure 6 - Gross vs Adjusted total beverage sales growth)

Average prices for this category have a median of 11.8% growth from 2011 to 2015. CAGR from 2010-2015 resulted in 12.1%.

Estimated Values

Correlations were run vs historical adjusted volume growths from 2011 to 2015 in order to obtain projected organic volume growth for jug water. Correlation against historical population growth in Mexico from 2011 to 2015 resulted in -.46. Correlation against the mean annual Mexican Consumer Confidence Index historical growth for the same period resulted in -.63. Per capita water consumption growth in Mexico for the same 2011-2015 period obtained from Bloomberg resulted in -0.66. Correlation was run against the Cultiba's household delivery annual penetration growth for the years of 2012 to 2014 obtained from their annual reports (against jug water adjusted volume growth for the same period) and resulted in -0.80. Last correlation run against Mexican GDP historical growth rate and resulted in -.95. Since none of these values represented a common sense for projected volumes historical adjusted volume median growth rate of -0.7% was used for estimates.

Thus in order to obtain future projected volumes we added 1 plus the negative median -0.7% and then multiplied the result times the last volume reported and for every year. This results in a CAGR of -0.6% from 2016 to 2020 for this category and a median volume of 781.8 MCU for the same period.

In order to find projected prices, first we multiplied each reported sales for total beverages in every year times the corresponding category importance as previously explained (15% in this case) obtaining each year's historical reported sales. Then divide each year's sale by the volume reported for the category for the same year obtaining an average price for jug water. After this we calculated the growth in price for each year from 2011 to 2015. Correlation was run against Mexican inflation for the same period and resulted in 0.52, since it was considered quite low the team decided to use historical median price growth of 11.8%. Thus in order to obtain future projected average prices we added 1 to this previously mentioned growth and then multiplied the result times the last average price reported. This results in a CAGR of 9.3% from 2016 to 2020 for this category and a median average price of MXN9.1 per case unit for the same period.

Projected organic sales value were obtained using the estimates of volume and average price previously explained resulting in a CAGR of 8.7% and a median of MXN7,081 million.

Figure 11 – Correlations between jug water volume growth and indicators

	2011	2012	2013	2014	2015	
Jug water adjusted growth	**-3.1%**	**-6.4%**	**4.4%**	**0.4%**	**-0.7%**	**ρ**
Population Growth	1%	1%	1%	1%	1%	-0.46
GDP growth rate (%)	4%	4%	1%	2%	2%	-0.95
Per capita Consumption Water Growth	6.3%	2.8%	-1.0%	3.0%	2.9%	-0.66
Mean Annual Consumer Confidence Index Growth	6%	5%	0%	-6%	2%	-0.63
Household Delivery Penetration Growth		9%	-4%	9%		-0.80

Source: Official sources listed in references and analyst elaboration

Figure 12 – Correlations between jug water average price growth and indicators

	2011	2012	2013	2014	2015	
Jug water average price growth	**25.9%**	**41.5%**	**0.7%**	**11.8%**	**-1.1%**	**ρ**
Mexican Inflation	3.4%	4.1%	3.8%	4.0%	2.8%	0.52

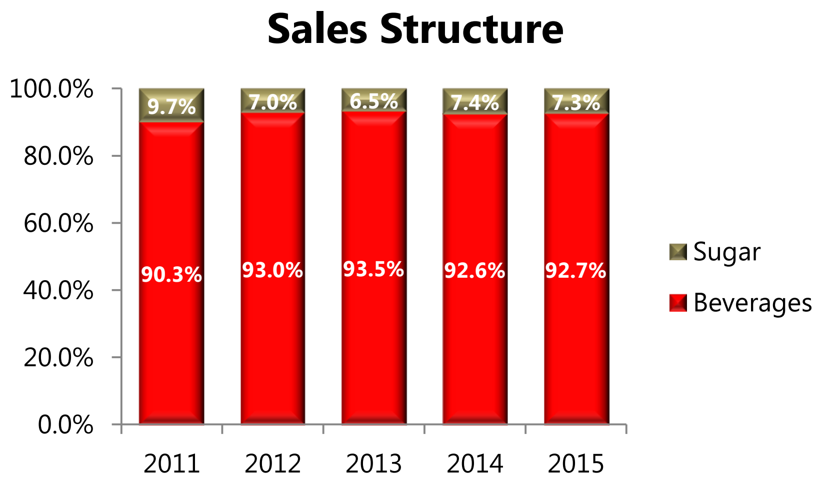
Source: Official sources listed in references and analyst elaboration

Sugar division

Historical Values

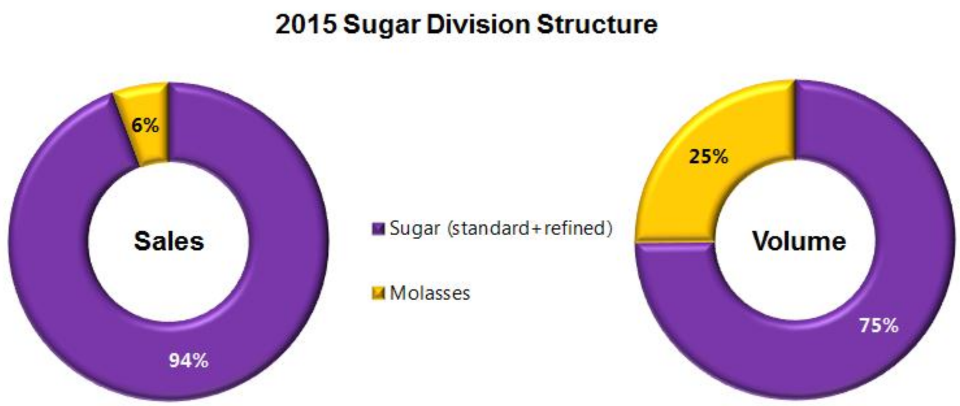
In 2015 sugar represents 7.3% of Cultiba's sale structure amounting to revenues of MXN2, 711 million. As mentioned in the company overview, Cultiba operates 4 sugar mills in different regions across Mexico. Altogether they produce and sell standard sugar which is the most commonly consumed in Mexico and refined sugar. These sugar mills also produce molasses, a sugar sub product commonly used for cattle feeding and ethanol production. Due to the available information in public sources and importance of sub categories within the sugar division the latter was analyzed and projected all together as explained next.

Figure 13 – Total sales structure by division



Source: Annual reports and analyst elaboration

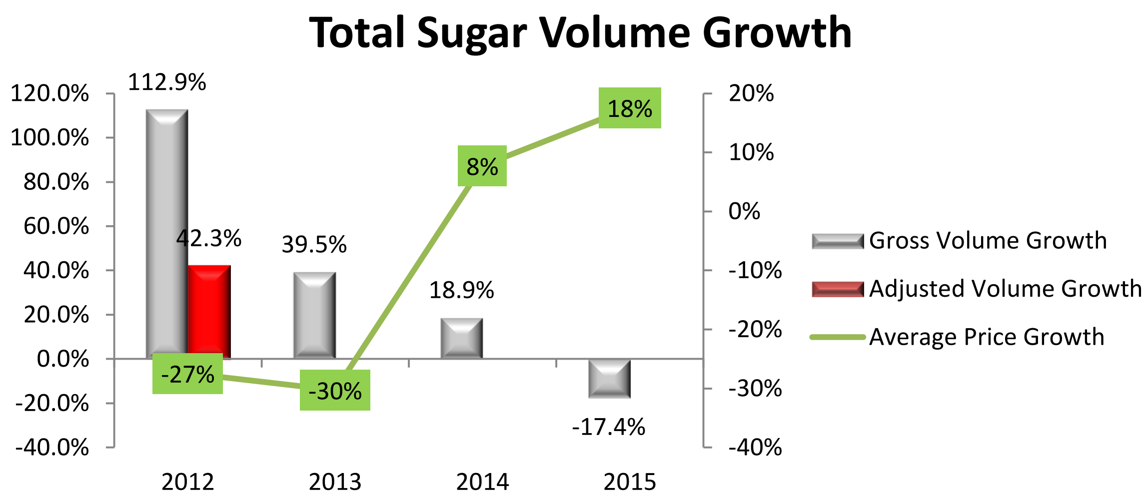
Figure 14 – 2015 Sugar Division Structure



Source: Annual reports and analyst elaboration

Sales volumes for total sugar division were obtained by factoring out the M&A activity of the company from 2011-2015. The relevant M&A activity for this period took place in May 1st 2011 when Cultiba merged with Gamhold1, S.A. de C.V. and its subsidiaries (GAM) and Controladora Conasa, S.A. de C.V. and its subsidiaries (CONASA) increasing its importance in the sugar commodity market. In order to find adjusted volume growth from 2011 to 2012 we calculated the amount of volume corresponding to a full year of operation of GAM and CONASA. For this we divided the volume reported for 2011 by 244 days which correspond to the volume sold from May 1st to December 31 2011 and multiplied it by 365 days to obtain the total full year sugar sales volume of 218,765 tons. This volume was then compared to 2012 reported volume of 311,348 tons resulting in an adjusted volume growth of 42.3%. Volume growth without factoring out this merging results in 112.9% from 2011 to 2012. No further M&A activity was presented for this division.

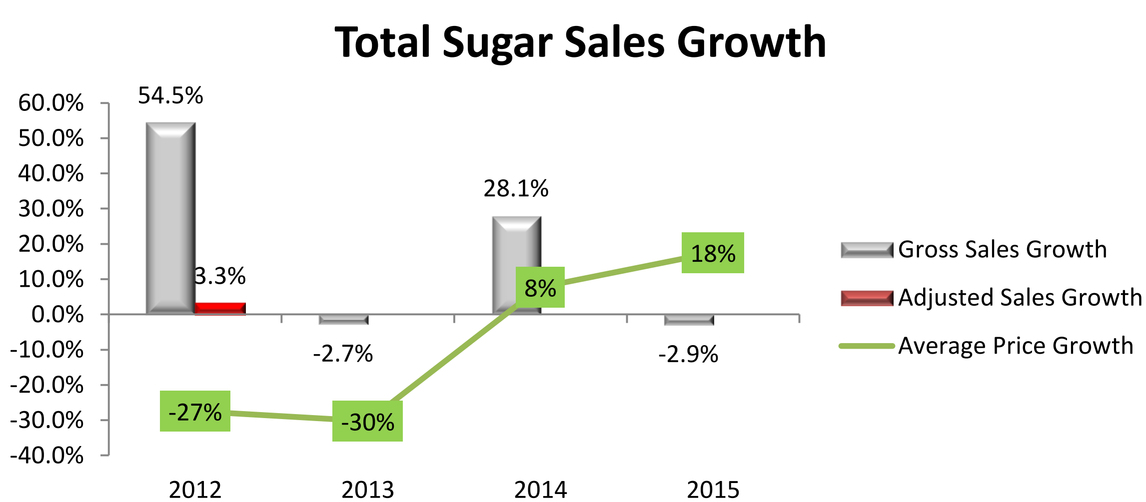
Figure 15 – Total Sugar Volume Growth



Source: Annual reports and analyst elaboration

Sales for the total sugar division were obtained by factoring out the same M&A activity previously mentioned. We calculated the amount of sales corresponding to the full year of operation of GAM and CONASA by dividing the sales reported for 2011 by the same 244 days to obtain the total full year sugar sales of MXN2, 170 million. These sales were then compared to 2012 reported sales of MXN2,240 million resulting in an adjusted sales growth of 3.3%. Sales growth without factoring put this merging result in 54.5% from 2011 to 2012.

Figure 16 – Total Sugar Sales Growth



Source: Annual reports and analyst elaboration

Average prices for this category have a median of -9.9% growth from 2011 to 2015. CAGR from 2011-2015 resulted in -8.5%.

Estimated Values

Correlations were run between organic sugar growth in volume and future sugar prices growth from 2012 to 2015 considering the available information resulting in a correlation of -.98. This correlation was used to project estimated volumes for total sugar division. Projected volumes were obtained by multiplying each year's corresponding growth in future sugar prices times the correlation of -.98, the result plus 1 and finally multiplying last result times the last volume reported. CAGR from 2016 to 2020 results in 0.7% and median volume for the same period results in 415,130 tons.

In order to obtain estimated sugar prices per ton same procedure as for volume was run. Team compared total sugar changes in prices from 2012 to 2015 against growth in future sugar prices for the same period resulting in a correlation between them of 0.84. Estimated average prices for 2016-2020 were obtained by multiplying each year's corresponding growth in future sugar prices times the correlation of 0.84, the result plus 1 and finally multiplying last result times the last average price reported. CAGR from 2016 to 2020 results in -0.6% and median average price for the same period results in MXN6,495.9 per ton.

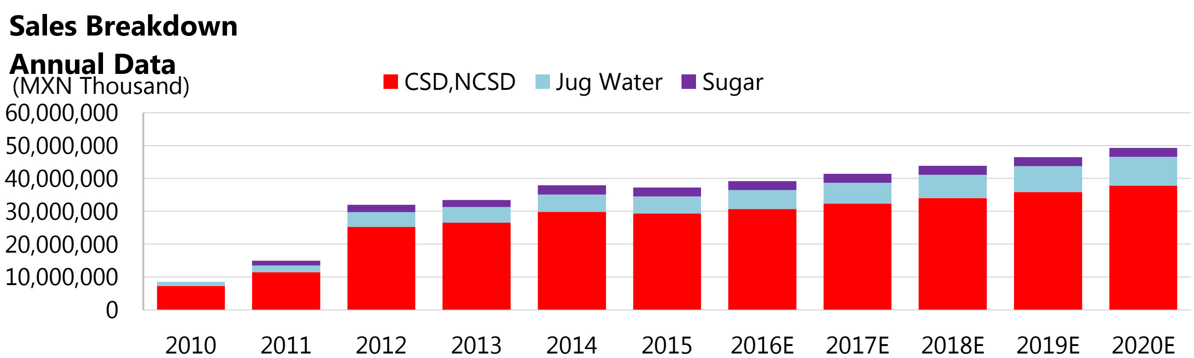
Projected organic sales value were obtained using the estimates of volume and average price previously explained resulting in a CAGR of 0.1% and a median of MXN2,697million.

Figure 17– Correlations between total sugar average price growth and indicators

	2012	2013	2014	2015	
Total sugar average price growth	**-27.4%**	**-30.3%**	**7.7%**	**17.6%**	**ρ**
Future sugar prices growth	-16%	-16%	-12%	4%	0.84

Source: Annual reports and analyst elaboration

Figure 18– Sales breakdown Annual Data by category (historical and projected)



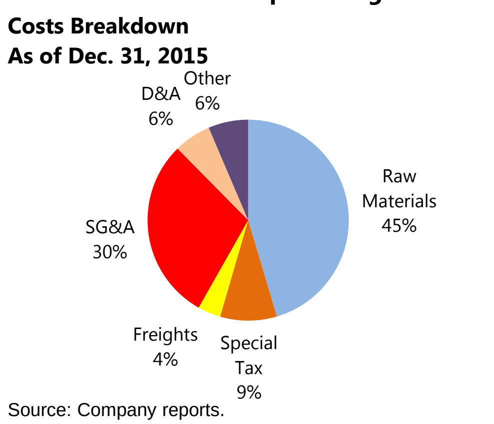
Source: Company reports and team estimations.

HIGH COSTS THREATEN EBITDA MARGINS

- **In the past, high SG&A costs drove negative net income; management announced headcount reductions should improve operating margins going forward.**
- **EBIT margins are low compared to comps because of high SG&A.**
- **Drops in sugar prices should benefit the COGS for the Beverage segment while they decrease the sugar segment's sales.**

In the past five years, high SG&A costs drove negative net income; management announced headcount reductions should improve operating margins going forward. EBIT margins are low compared to comps because of high SG&A. Drops in sugar prices imply a double effect benefiting the COGS for the beverage segment while decreasing the sugar segment's sales.

Figure 19– 2015 Costs as a percentage of revenue



Source: Annual reports and analyst elaboration

Figure 20– Costs as a percentage of revenue (historical and projected)

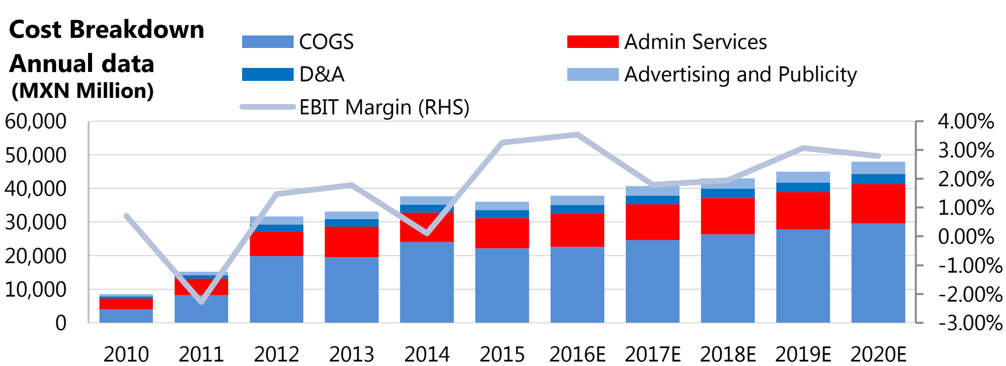
Costs as a percentage of Revenue (%)	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Revenues (MXN 000)	8,603	14,933	31,987	33,453	37,908	37,194	39,179	41,407	43,821	46,436	49,236
D&A	7.8%	7.2%	6.8%	6.8%	6.2%	6.2%	6.2%	6.2%	6.1%	6.1%	6.1%
Advertising and Publicity	6.9%	7.4%	7.5%	6.3%	6.7%	6.7%	7.0%	6.9%	7.0%	7.1%	7.3%
Admin Services	38.2%	32.2%	22.9%	27.2%	23.0%	24.5%	25.6%	25.7%	24.8%	23.8%	23.8%
COGS	46.1%	55.3%	62.0%	58.4%	63.5%	59.5%	57.8%	59.5%	60.2%	59.8%	60.1%
Total Costs	99.1%	102.2%	99.1%	98.8%	99.3%	96.8%	96.6%	98.3%	98.1%	96.9%	97.3%

Costs and Revenue (MXN Million)	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Revenues	8,603,032	14,932,595	31,986,573	33,453,156	37,908,179	37,194,343	39,178,886	41,407,451	43,821,033	46,436,003	49,235,557
D&A	673,906	1,074,475	2,166,774	2,282,921	2,345,439	2,307,430	2,427,300	2,565,370	2,687,752	2,841,943	3,018,245
Advertising and Publicity	597,139	1,105,007	2,394,914	2,116,897	2,538,033	2,490,240	2,735,277	2,865,017	3,088,198	3,302,525	3,570,466
Admin Services	3,288,706	4,814,128	7,314,599	9,108,784	8,707,208	9,100,262	10,015,113	10,643,171	10,846,181	11,063,722	11,714,145
COGS	3,967,679	8,260,305	19,823,243	19,535,075	24,069,428	22,113,676	22,650,276	24,636,607	26,360,862	27,789,349	29,581,197
Total Costs	8,527,430	15,253,915	31,699,530	33,043,677	37,660,108	36,011,608	37,827,966	40,710,165	42,982,993	44,997,539	47,884,052

Source: Annyal reports and analyst.

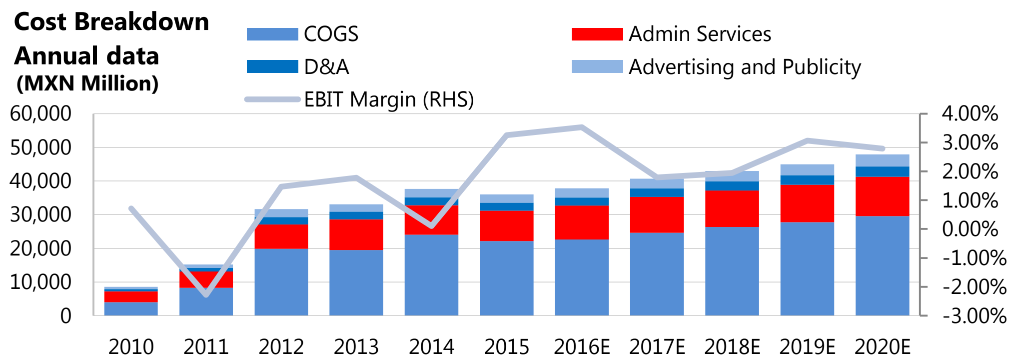
Organización Cultiba underwent a major consolidation process in 2011 when local franchised bottlers joined to form one entity with nationwide coverage. This consolidation nearly doubled the sales volume and the revenues for the entity, but it also more than doubled operating costs as factories and plants were decreasing the optimization in processes. The company went from having 15,432 employees in 2010 to 37,597 employees in 2011. Since this consolidation, Cultiba has struggled to fully integrate the operations. Administrative Costs as a percentage of revenues were 38.2% in 2010 and slightly above 30% in 2011 and margin has slowly been reduced to 24.5% in 2015. The company hit an employee maximum of 40,752 in 2013, after that a 1,008 headcount reduction brought upon a 400bps improvement in Administrative Costs margin. Aside from the employees mentioned above, Cultiba does not directly employ the people in charge of the sugar mills. The projections incorporate the assumption that Administrative Costs will slightly increase during 2016 and 2017 up to 25.7% and then go down during the last three projected years setting just below levels of 2015 as 23.8% of revenues which describes this cost as practically stable during the next five years. This will follow management announcements to reduce headcount in the coming years.

Figure 21– Costs as a percentage of revenue (historical and projected)



Source: Company reports and estimations.

Cultiba's Gross Margins are slightly below that of comparable companies, but high SG&A costs decrease EBIT Margins to a minimum, with a negative EBIT margin in 2011 due to the headcount and other assets acquired by the consolidation mentioned before. PepsiCo brand products' competitive advantage is price, as mentioned in the company overview locating below Coca-Cola's and above brands B, so margins are considerably tighter and forcing the company to be cost efficient. Average price per unit case during the past five years for Cultiba, KOF and ARCA are MXN19.8, MXN34.5 and MXN49.2, respectively.



Source: Company reports and estimations.

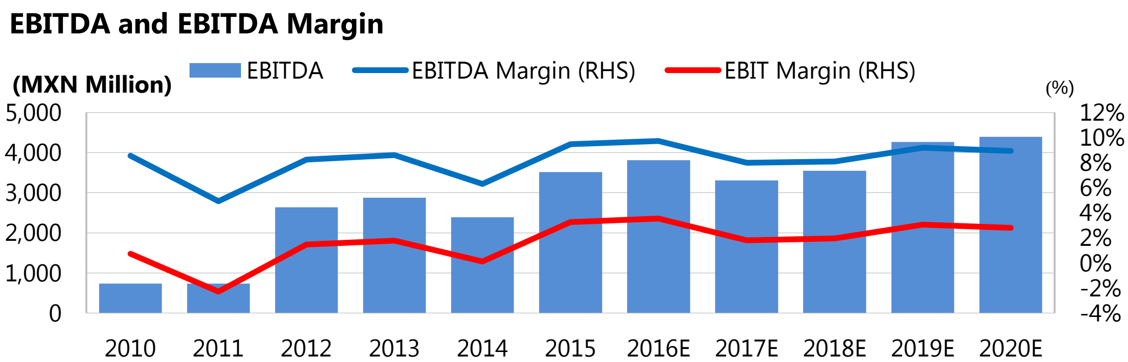
Industry Margins	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CULTIBA											
Gross Margin (%)	53.9%	44.7%	38.0%	41.6%	36.5%	40.5%	42.2%	40.5%	39.8%	40.2%	39.9%
EBIT Margin (%)	0.7%	-2.3%	1.5%	1.8%	0.1%	3.3%	3.5%	1.8%	2.0%	3.1%	2.8%
EBITDA Margin (%)	8.6%	4.9%	8.2%	8.6%	6.3%	9.5%	9.7%	8.0%	8.1%	9.2%	8.9%
KOF											
Gross Margin (%)	46.3%	45.9%	46.5%	46.7%	46.4%	47.3%	46.6%	46.7%	46.7%	46.7%	46.8%
EBIT Margin (%)	15.3%	14.3%	14.4%	13.5%	14.5%	14.4%	15.1%	15.1%	14.8%	14.3%	13.9%
EBITDA Margin (%)	19.2%	17.9%	18.2%	18.0%	19.2%	19.1%	19.8%	19.9%	20.0%	19.9%	19.9%
ARCA											
Gross Margin (%)	45.8%	45.2%	46.3%	48.1%	49.0%	48.5%	48.5%	49.0%	49.0%	49.5%	49.5%
EBIT Margin (%)	14.4%	13.0%	15.0%	16.3%	17.3%	16.7%	16.6%	17.2%	17.1%	17.6%	18.1%
EBITDA Margin (%)	18.6%	16.9%	19.3%	20.5%	21.6%	21.3%	20.9%	21.7%	22.0%	22.5%	23.0%

Cultiba sources 100% of the sugar used in the beverage production from its subsidiary GAM, which sales it at market price minus an additional discount. About 75% of the company's Costs of Goods Sold correspond to raw materials. Raw materials for the beverage segment include concentrate obtained from PepsiCo, sugar and sweeteners and PET (plastics). This should provide a competitive cost advantage and a natural hedge to the commodity price of sugar. However, team found that COGS for the beverage segment have not moved in line with changes in sugar prices. Also, no significant correlation was found between the costs for the beverage segment and the price of PET. Cultiba operates two wholly owned plastic production plants where it produces most of the plastic bottles used in the beverage segment. The analysis is based on the assumption that COGS for both the beverage and the sugar segment will follow a short term moving average by month.

The Sugar Division is vertically integrated into sugarcane. GAM will support EBITDA Mg in the future as its co-generation plant installed in the already owned Tala sugar mill in Jalisco is now building a refinery section and it contributes to savings in energy as well. Management has stated that it plans to continue investing in co-generation plants, which will further improve EBITDA margins going forward.

Future EBIT and EBITDA margins are expected to slowly increase as Cultiba manages to adequately consolidate its operating installations and personnel acquired since 2011. Additionally, capital expenditures are directed to increasing the efficiency at existing facilities; driving long term costs improvements, such as those expected in energy from the installation of the Co-generation plants in the sugar mills and sugar refinery plants. However, from the analyst point of view, such margins are not expected to reach the ones of competitors because of the brand value in the country as seen in its tendency in market share.

Figure 23– Historic and projected EBITDA value and margin%



Source: Company reports and team estimations.

CAPEX AND DIVIDENDS RESULT IN NEGATIVE FCF

- **Average Net Working Capital for the past five years has resulted in inflows and accounts payable have proven to be a good source of funding.**
- **CAPEX levels are just above annual depreciation from 2010 to 2015 and they are expected to increase as the company invests in more efficient plants.**
- **Both common dividends and dividends to non-controlling parties (PepsiCo, Empresas Polar) will remain at 5% and 3% percentage of revenues respectively.**

Cultiba reported an operating loss in 2011 and in 2014. In 2014 the operating loss was a result of an inventory write-down in the sugar segment, so this one time, nonrecurring item was adjusted back during the analysis. With this adjustment EBIT margins averaged below 1% from 2010 to 2015 while EBITDA Margins averaged 7.67%. These low margins increase the importance of a cash flow controls. Average Net Working Capital for the past five years has resulted in an MXN124.7 million in inflow for CULTIBA and it is expected to decrease. In the past, accounts receivable have composed most of the outflows while accounts payable have proven to be a good source of funding. In 2014, suppliers generated an inflow of MXN1,733 million which supported Cash Flow from Operations (CFO). That year the Funds Flow from Operations (FFO) increase was mainly driven by an increase in other assets which resulted from the decrease in prepaid expenses.

Figure 24– Days Working Capital

Days Working Capital	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Days Receivable	22.42	54.93	39.37	34.29	38.04	20.88	21.50	22.13	19.84	18.96	18.51
Days Inventory	35.42	75.95	29.20	28.43	25.97	28.28	27.94	27.64	24.70	25.74	26.47
Days Payable	53.02	117.59	49.79	48.27	64.26	51.65	49.89	49.92	50.48	52.60	50.98
Days Working Capital, Net	4.82	13.29	18.78	14.45	-0.26	-2.49	-0.44	-0.15	-5.94	-7.89	-6.00

Cultiba is not expected to generate substantial inflows from working capital going forward. Days Working Capital are expected to remain at the levels seen in 2015. The analysis does not foresee any material inflows from accounts receivable as the company will not require additional sources of financing going forward. The company has improved its CFO generation since 2014, prior to that increases in Accounts receivable had resulted in CFO below 2.0% of revenues. In 2014 and 2015 CFO represented 15.8% and 11.7% of revenues.

Capital expenditures resulted in negative Free Cash Flow in 2012 and 2013. The CAPEX levels are just above annual depreciation from 2010 to 2015 and they are expected to increase as the company invests in more efficient plants. During the past five years Capex/ Depreciation has averaged 1.15 times, the Company is investing just enough to maintain current operations. Going forward, management has stated plans to increase investments in its operating plants with the intention to improve efficiency. The assumptions for capex investments for 2016 to 2020 consider that Capex will remain at around 6.7% of revenues expect for 2018 and 2019 when the company will be investing in renewing production plants. Capex in those two years will be around 1.35 times depreciation.

Figure 25– Cash Flow Analysis

Cash Flow	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
FFO	**625,837**	**553,824**	**1,810,970**	**508,248**	**5,178,667**	**3,991,877**	**3,830,769**	**4,111,664**	**4,137,506**	**3,666,031**	**4,135,525**
Working Capital	(62,337)	1,170,509	(1,176,448)	(335,797)	794,166	358,196	(235,054)	(60,133)	487,177	151,492	(142,479)
CFO	**563,500**	**1,724,333**	**634,522**	**172,451**	**5,972,833**	**4,350,073**	**3,595,715**	**4,051,532**	**4,624,683**	**3,817,523**	**3,993,045**
Capex	772,800	1,332,868	2,864,188	2,966,092	1,882,238	2,538,103	2,580,878	2,795,951	3,494,938	4,019,179	3,224,081
FCF (equity)	**(209,300)**	**391,465**	**(2,229,666)**	**(2,793,641)**	**4,090,595**	**1,811,970**	**1,014,838**	**1,255,581**	**1,129,745**	**(201,656)**	**768,965**
Dividends	161,611	631,666	0	190,002	290,593	350,535	289,560	335,556	361,776	367,094	398,156
FCF (to the firm)	**(370,911)**	**(240,201)**	**(2,229,666)**	**(2,983,643)**	**3,800,002**	**1,461,435**	**725,278**	**920,025**	**767,968**	**(568,750)**	**370,809**

Another significant cash outflow for Organización Cultiba is the payment of common dividends and dividends to non-controlling parties. These have been constantly paid out in the past despite Net Income Loses. Both common dividends and dividends to non-controlling parties (PepsiCo, Empresas Polar) will remain at 5% and 3% percentage of revenues respectively. PepsiCo and Empresas Polar jointly own 49% of Cultiba's beverage segment and the analysis does not assume that the dividend amount will decrease in the short to mid-term. The amount paid out as common dividends is decided by the Board of Directors; the president of the Board, former CEO Juan Ignacio Gallardo Thurlow, owns 63.47% of Cultiba's shares.

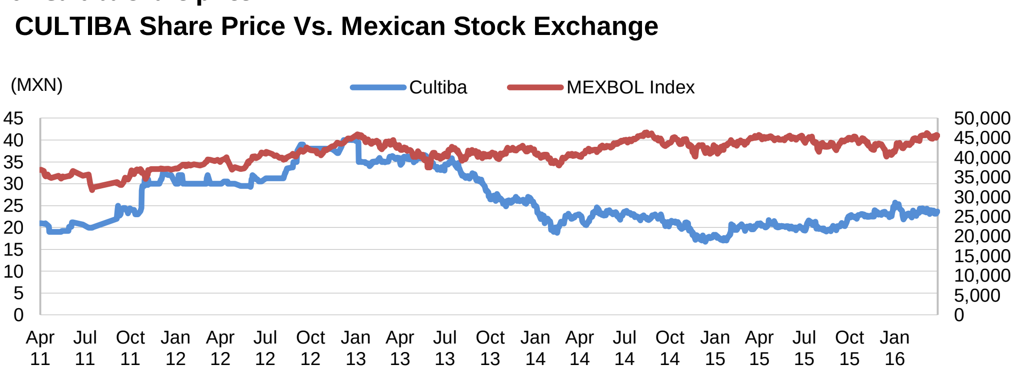
LOW TRADE VOLUME; LOW BETA

- **Cultiba's floating shares represent a small amount of the Mexican Stock Exchange and result in a low beta.**
- **Newly refinanced debt reduced cost of funding.**
- **Share price has been relatively stable during the past two years and is expected to remain that way.**

Cultiba as a holding company owns 100% of GAM's shares and 51.0% of GEPP, the national Pepsi Brand Bottler in Mexico. Gepp's Shares are jointly owned by PepsiCo (20.0%) and Empresas Polar (29.0%, a food and beverage producer in Colombia, in charge of the distribution of Pepsi Brand products). PepsiCo and Polmex have the option to purchase from Cultiba 11.0% of Gepp's shares starting July 2017. If the option is executed, Cultiba would no longer have a majority interest in Gepp. As of today Cultiba consolidates 100% of Gepps operations.

Organización Cultiba is a publicly traded entity whose shares are listed on the Mexican Stock exchange since November 22, 2012 when Cultiba became the holding company for GEPP and GAM. The Company has 717.5 million shares of which 262.1million are outstanding. The majority shareholder is the president of the Board and former CEO Juan Ignacio Gallardo Thurlow with 63.47% or 455.2 million Cultiba shares. The shares not owned by Mr. Gallardo make up the 36.33% public float; these shares are distributed amongst a variety of brokerage firms who do not individually own more than 1% of company shares.

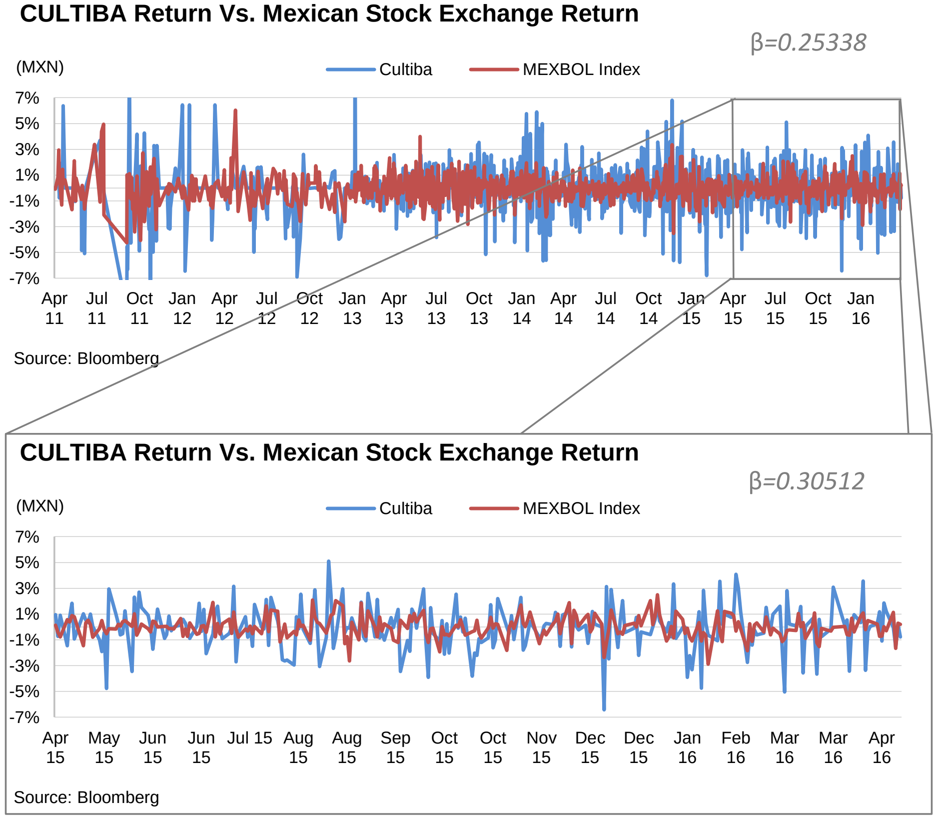
Figure 26– Cultiba share price



Source: Bloomberg

The Mexican Stock Exchange developed a capitalization weighted index which tracks the performance of the 35 leading stocks (Bloomberg, 2016). It is made up of a selection of shares that are representative of all the shares listed on the exchange from various sectors in the economy. If each company had the same weight they would each represent 2.8% of the index, but the companies are weighed based on capitalization every 6 months. Cultiba is often times left out of the index because it is not considered to be amongst the top 35 traded companies in terms of volumes traded or capitalization. The small number of shares outstanding and the lack of significance in the MexBol results in a beta of 0.30512 for the past year and 0.25338 when calculated for the past five years.

Figure 27– Cultiba Returns and MexBol Returns



For the purposes of the WACC calculation, the beta was based on the returns for the past year. The adjusted beta amounts to 0.53675. This beta is considered low, but the characteristics of the Mexican Stock Exchange Index give way too low betas for stocks that are not included and do not have a significant weight in the Index. The WACC calculation also considers the low cost of debt that the company has achieved in the past two years.

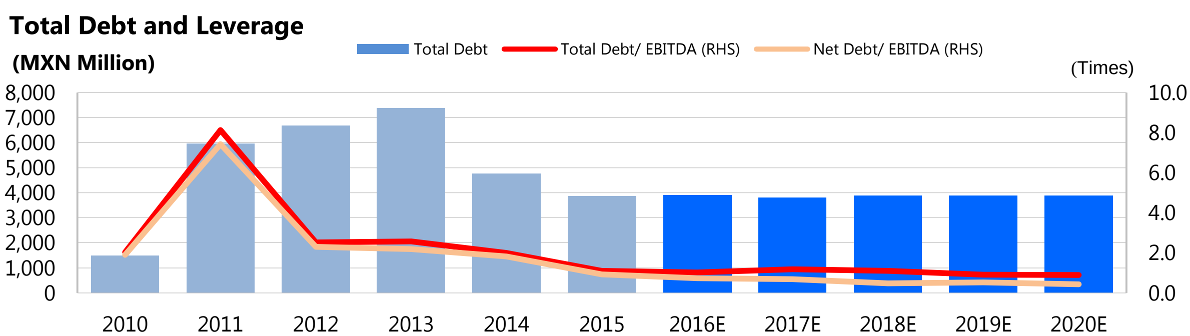
Cultiba's debt is composed of 7.58% in local currency bank debt, 56.31% foreign currency bank debt and a Certificado Bursátil (Cebure, Mexican Bonds) issuance that makes up the remaining 36.11%. The local currency bank debt has a weighted average cost of debt of 4.27% while the Cebures issued in 2013 have an interest rate of 4.47%. The debt with the lowest cost is the foreign currency bank debt which has a weighted average cost of funding of 2.83%. The lenders for this debt include Bank of America, Societé Generale and Rabobank Nederland.

WACC	
	6.49%
Cost of Capital	7.29%
Risk Free Rate	3.53%
Beta	0.54
Market Return	7.00%
Cost of Debt	4.33%
Tax Rate	30%
Debt	19%
Equity	81%
Debt+Equity	100%

Figure 28 – WACC

The Company's debt significantly increased in 2011 when the consolidation took place, bridge loans were used to fund the necessary payments to PepsiCo. The company has since been working on refinancing the debt and decreasing the cost of funding. The company's leverage measured as Total Debt to EBITDA peaked in 2011 at 8.1 times (x) and Net Debt to EBITDA at 7.4x. Management has managed to reduce leverage metrics, as of December 31, 2015 total debt to EBITDA stood at 1.1x while net debt to EBITDA was at 0.9x. Cultiba has not announced significant Capex plans for the future so the amount of debt is expected to remain close to current levels. Also the low cash flow generation does not indicate that the debt might be decreasing in the short- to mid- term.

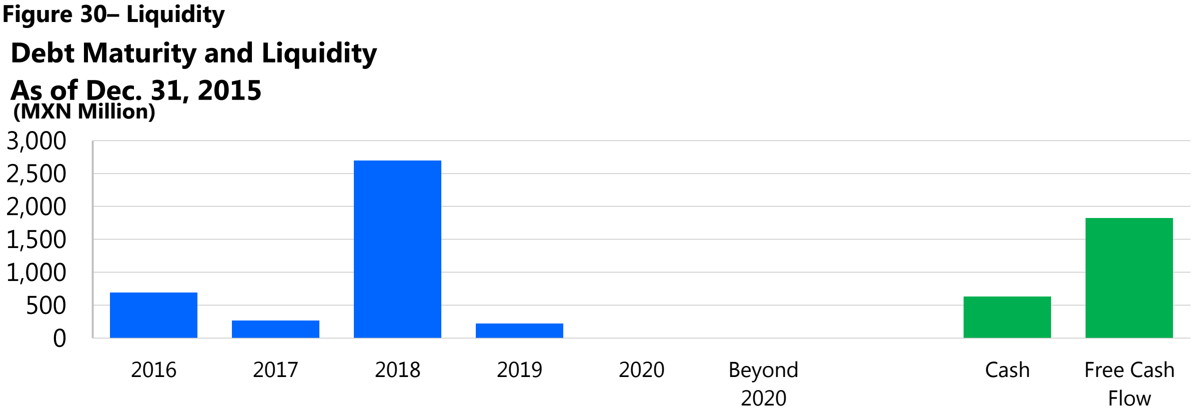
Figure 29– Total Debt and Leverage Ratios



Source: Company reports and team estimations.

The company's liquidity does seem to indicate that the company will be refinancing its debt in the short term. In 2018, 69.87% of the debt matures; Cultiba's Cash on hand is not enough to pay down the maturity. Refinancing these MXN2,694 million could have a positive impact on the price of the shares if the company manages to obtain debt with a lower cost of funding. The Company's access to bank funding and debt markets is adequate, so the risk of refinancing is considered low.

Figure 30– Liquidity



Source: Company Reports.

If the company manages to refinance its debt and reduce its cost of funding by 100bps, the discount rate would decrease by around 50bps and the target price would improve from MXN19.36 to MXN20.13. The new target price would still be 15% below the current market price and the sell recommendation would remain.

Figure 31 – Sensitivity Analysis

	0.80%	1.30%	1.80%	2.30%	2.80%	3.30%	3.80%	4.30%	4.80%
4.99%	18.14	20.41	23.40	27.51	33.49	43.02	60.59	103.79	379.65
5.49%	16.05	17.81	20.04	22.98	27.01	32.88	42.23	59.47	101.85
5.99%	14.38	15.77	17.49	19.68	22.56	26.52	32.27	41.45	58.37
6.49%	13.00	14.12	15.49	17.18	19.33	22.16	26.04	31.69	40.69
6.99%	11.85	12.77	13.88	15.22	16.88	18.99	21.76	25.57	31.11
7.49%	10.87	11.64	12.55	13.63	14.95	16.58	18.65	21.37	25.11
7.99%	10.03	10.68	11.44	12.33	13.40	14.69	16.29	18.32	20.99
8.49%	9.30	9.86	10.50	11.25	12.12	13.17	14.43	16.00	18.00
8.99%	8.67	9.15	9.70	10.32	11.06	11.92	12.94	14.19	15.73
9.49%	8.11	8.52	9.00	9.53	10.15	10.87	11.71	12.72	13.94

There are very few analysts that publicly follow the stock and market consensus is skewed towards the buy side with 57.14% of the analysts recommending a buy. Analyst estimations are based on the assumption that Cultiba will achieve the operating margins that Coca-Cola Femsa and Arca Continental have. Both KOF and Arca are Coca-Cola bottlers and Mexico is one of the countries with the highest consumption per capita of Coca-Cola Brand Products. Our analysis is centered on the fact that Cultiba will not be able to achieve these margins; Pepsi Brand products have a much lower market share in Mexico (13% compared to Coca-Colas 33% in 2015), the brands competitive advantage is low prices which makes for lower margins and the company has not been able to materialize synergies from the consolidation back in 2011.

Cultiba's share price has remained between MXN18.35 and MXN25.77 in the past year, with volatility decreasing in the past 5 months where the stock remained between MXN22.13 and MXN25.69.

April 27, 2016

Cultiba, S.A.B. de C.V. Discounted Cash Flows (MXN Thousands)	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Revenues	8,603,032	14,932,595	31,986,573	33,453,156	37,908,179	37,194,343	39,178,886	41,407,451	43,821,033	46,436,003	49,235,557
Cost of Goods Sold	3,967,679	8,260,305	19,823,243	19,535,075	24,069,428	22,113,676	22,650,276	24,636,607	26,360,862	27,789,349	29,581,197
Gross Profit	**4,635,353**	**6,672,290**	**12,163,330**	**13,918,081**	**13,838,751**	**15,080,667**	**16,528,611**	**16,770,844**	**17,460,172**	**18,646,654**	**19,654,360**
SG&A	4,559,751	6,993,610	11,876,287	13,508,602	13,590,680	13,897,932	15,177,691	16,073,558	16,622,131	17,208,189	18,302,855
Other Income (Expense)	13,938	19,351	-182,511	-185,413	207,061	-26,398	-33,582	-44,169	-16,500	17,282	-20,673
EBIT	**61,664**	**-340,671**	**469,554**	**594,892**	**41,010**	**1,209,133**	**1,384,502**	**741,455**	**854,541**	**1,421,182**	**1,372,178**
Income Taxes	-7,473	-195,181	-534,878	25,735	-56,735	358,698	338,924	156,789	182,940	347,811	324,541
NOPLAT	**69,137**	**-145,490**	**1,004,432**	**569,157**	**97,745**	**850,435**	**969,151**	**519,019**	**598,178**	**994,828**	**960,525**
Depreciation	673,906	1,074,475	2,166,774	2,282,921	2,345,439	2,307,430	2,427,300	2,565,370	2,687,752	2,841,943	3,018,245
Cash Flow Generation	**743,043**	**928,985**	**3,171,206**	**2,852,078**	**2,443,184**	**3,157,865**	**3,396,452**	**3,084,388**	**3,285,931**	**3,836,770**	**3,978,769**
Decrease (Increase) Receivables	-263,750	279,541	-1,224,615	317,006	-748,380	51,631	-180,745	-202,276	129,140	-31,083	-84,649
Decrease (Increase) Inventories	142,154	629,508	172,971	101,800	-190,448	-780	-20,944	-131,381	81,782	-176,396	-185,293
Increase (Decrease) Suppliers	59,259	261,460	-124,804	-754,603	1,732,994	307,345	-33,364	273,525	276,255	358,972	127,462
Capital Expenditures	-772,800	-1,332,868	-2,864,188	-2,966,092	-1,882,238	-2,538,103	-2,580,878	-2,795,951	-3,494,938	-4,019,179	-3,224,081
Total Investment	**-835,137**	**-162,359**	**-4,040,636**	**-3,301,889**	**-1,088,072**	**-2,179,907**	**-2,815,931**	**-2,856,083**	**-3,007,762**	**-3,867,687**	**-3,366,560**
Cash Flow	**-92,094**	**766,626**	**-869,430**	**-449,811**	**1,355,112**	**977,958**	**580,521**	**228,305**	**278,169**	**-30,917**	**612,209**
Terminal Value											17,104,883
Total Cash Flow	-92,094	766,626	-869,430	-449,811	1,355,112	977,958	580,521	228,305	278,169	-30,917	17,717,092
WACC							6.5%				
Discounted Cash Flows							545,153	201,334	230,362	-24,043	12,938,866
Enterprise Value							13,891,671				
Debt							3,859,293				
Equity Value							10,032,378				
Shares Outstanging							717,500				
Perpetual Growth Rate							2.8%				
Target Price							**19.36**				
Difference Between Mkt/Target Price							-18.2%				

April 27, 2016

FINANCIALS AND FORECASTS

Cultiba Balance Sheet (MXN Thousands)	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Assets											
Cash and Cash Equivalents	84,733	520,221	589,462	1,083,266	396,343	627,426	1,486,541	2,424,098	3,387,500	2,916,971	3,353,136
Cash on Hand	84,733	520,221	589,462	1,083,266	396,343	627,426	0	0	0	0	0
Restricted Cash							1,486,541	2,424,098	3,387,500	2,916,971	3,353,136
Accounts Receivable, Net	528,507	2,247,313	3,450,556	3,142,528	3,950,484	2,127,500	2,308,245	2,510,522	2,381,381	2,412,465	2,497,114
Inventories	385,029	1,718,876	1,586,036	1,521,850	1,712,298	1,713,079	1,734,023	1,865,404	1,783,623	1,960,019	2,145,312
Other Current Assets	11,336	1,138,544	993,459	2,357,126	664,518	1,669,715	1,882,044	1,989,098	2,105,040	2,230,655	2,365,138
Accounts Receivable Related Parties	9,366	666,741	595,272	278,860	260,764	1,268,819	924,241	976,813	1,033,750	1,095,438	1,161,480
Prepaid Expenses	1,970	383,095	276,354	1,938,432	320,448	343,340	799,822	845,318	894,590	947,974	1,005,125
Process Crops		67,943	94,197	139,638	82,759	56,870	140,149	148,121	156,755	166,109	176,124
Derivative Financial Instruments		20,765	27,636	196	547	686	17,832	18,846	19,945	21,135	22,409
Total Current Assets	**1,009,605**	**5,624,954**	**6,619,513**	**8,104,770**	**6,723,643**	**6,137,720**	**7,410,853**	**8,789,122**	**9,657,543**	**9,520,110**	**10,360,700**
Property Plant and Equipment, Net	4,545,024	14,333,260	14,485,672	14,766,240	14,159,758	14,369,334	14,522,911	14,753,492	15,560,678	16,737,915	16,943,751
Property			2,672,983	2,622,249	2,634,693	5,874,281	5,874,281	5,874,281	5,874,281	5,874,281	5,874,281
Plant			2,927,571	2,890,010	2,966,433	5,857,709	5,857,709	5,857,709	5,857,709	5,857,709	5,857,709
Equipment	4,545,024	14,333,260	9,618,213	10,037,473	11,371,138	8,602,925	11,183,803	13,979,753	17,474,691	21,493,870	24,717,951
Construction			602,539	681,503	411,669	829,573	829,573	829,573	829,573	829,573	829,573
Other			1,503,732	1,867,461	1,942,984		0	0	0	0	0
Accumulated Depreciation			(2,839,366)	(3,332,456)	(5,167,159)	(6,795,154)	(9,222,454)	(11,787,824)	(14,475,576)	(17,317,519)	(20,335,763)
Intangible Assets, Net	817,636	7,557,176	7,569,112	7,526,279	1,441,599	1,441,599	1,441,599	1,441,599	1,441,599	1,441,599	1,441,599
Investment in Associates	72,087	509,649	597,683	816,733	669,214	501,904	501,904	501,904	501,904	501,904	501,904
Long Tem Accounts Receivable		746,672	69,439	58,148	51,042	41,918	41,918	41,918	41,918	41,918	41,918
Deffered Tax				465,861	2,151,472	930,071	930,071	930,071	930,071	930,071	930,071
Other Non-Current Assets, Net	28,115	246,312	205,233	146,653	4,926,177	4,752,628	4,089,668	3,260,999	2,495,065	2,884,346	3,215,389
Long Term Prepaid Expenses	28,115	193,464	119,218	91,396	455,263	334,584	1,760,490	1,403,771	1,074,057	1,241,632	1,384,137
Long Term Process Crops		32,083	86,015	54,720	26,665	16,385	761,781	607,425	464,755	537,266	598,930
Derivative Financial Instruments		20,765		537	957	515	72,197	57,568	44,047	50,919	56,763
Other					4,443,292	4,401,144	1,495,199	1,192,234	912,206	1,054,528	1,175,559
Total Non-Current Assets	**5,462,862**	**23,393,069**	**22,927,139**	**23,779,914**	**23,399,262**	**22,037,454**	**20,598,000**	**19,999,913**	**20,041,164**	**21,607,681**	**22,144,560**
Total Assets	**6,472,467**	**29,018,023**	**29,546,652**	**31,884,684**	**30,122,905**	**28,175,174**	**28,008,853**	**28,789,034**	**29,698,707**	**31,127,791**	**32,505,260**
Liabilities and Equity											
Suppliers	576,345	2,661,199	2,704,326	2,583,553	4,237,565	3,129,008	3,095,644	3,369,168	3,645,423	4,004,395	4,131,857
Bank Loans and Notes Payable	737,500	4,804,770	1,816,564	3,976,315	2,908,836	688,425	260,096	2,694,024	216,748	0	0
Current Portion of Non-Current Debt											
Other Current Liabilities	257,692	1,213,456	1,447,873	797,028	989,535	2,743,981	1,853,117	1,855,839	1,776,537	1,847,862	2,133,843
Accounts Payable Related Parties	41,179	71,872	101,948	1,866	2,833	3,101	50,396	50,470	48,313	50,253	58,030
Provisions	180,122	1,031,880	1,342,317	433,635	720,087	876,495	1,248,501	1,250,336	1,196,907	1,244,961	1,437,635
Taxes Payable				352,267	266,615	1,774,692	503,369	504,109	482,567	501,942	579,624
Other Current Financial Liabilities	36,391	109,704	3,608	9,260		89,693	50,851	50,926	48,749	50,707	58,554
Current Liabilities	**1,571,537**	**8,679,425**	**5,968,763**	**7,356,896**	**8,135,936**	**6,561,414**	**5,208,856**	**7,919,032**	**5,638,709**	**5,852,257**	**6,265,700**
Bank Loans and Notes Payable	750,000	1,162,831	4,848,312	3,408,633	1,838,159	3,170,868	3,639,101	1,111,149	3,671,677	3,905,173	3,905,173
							0	0	0	0	0
Other Non-Current Liabilities	620,540	3,876,574	2,887,874	2,249,657	3,484,092	1,969,367	2,800,986	3,046,621	3,259,846	3,436,496	3,658,080
Post-Employment and Other Non-Current Employee Benefits	144,802	1,270,260	1,239,162	1,023,261	1,111,759	1,182,586	1,193,895	1,298,595	1,389,480	1,464,776	1,559,224
Deferred tax liabilities	11,725	1,648,702	1,648,712	1,226,396	1,014,703		1,026,614	1,116,644	1,194,795	1,259,541	1,340,755
Provisions and Other Non-Current Liabilities	464,013	957,612			1,357,630	786,781	580,477	631,382	675,571	712,180	758,101
Total Non-Current Liabilities	**1,370,540**	**5,039,405**	**7,736,186**	**5,658,290**	**5,322,251**	**5,140,235**	**6,440,087**	**4,157,770**	**6,931,523**	**7,341,669**	**7,563,253**
Total Liabilities	**2,942,077**	**13,718,830**	**13,704,949**	**13,015,186**	**13,458,187**	**11,701,649**	**11,648,943**	**12,076,801**	**12,570,231**	**13,193,926**	**13,828,953**
Non-Controlling Interest in consolidated Subsidiaries	**1,006,477**	**6,804,327**	**6,918,037**	**7,143,429**	**7,041,503**	**7,156,139**	**7,156,139**	**7,156,139**	**7,156,139**	**7,156,139**	**7,156,139**
Equity											
Capital Stock	492,738	3,945,025	3,768,656	4,218,907	4,218,907	4,218,907	4,218,907	4,218,907	4,218,907	4,218,907	4,218,907
Additional Paid-In Capital	359,027	5,328,536	5,328,212	5,869,588	3,670,917	3,577,183	3,577,183	3,577,183	3,577,183	3,577,183	3,577,183
Retained Earnings	1,599,953	(856,547)	(172,905)	(135,692)	100,000	1,529,151	2,046,978	2,628,611	3,308,969	4,362,152	5,336,909
Net Income (Current Period)						(110,799)	807,388	385,511	469,898	836,116	741,500
Retained Earnings	1,599,953	(856,547)	(172,905)	(135,692)	100,000	1,639,950	1,239,591	2,243,100	2,839,071	3,526,036	4,595,410
Stock Repurchases	100,000	100,000	100,000	100,000			0	0	0	0	0
Cumulative and other Comprehensive Income	(27,805)	(22,148)	(100,297)	1,673,266	1,633,391	(7,855)	(639,297)	(868,606)	(1,132,722)	(1,380,516)	(1,612,831)
Translation Effect							(1,164,056)	(1,485,459)	(1,856,075)	(2,241,144)	(2,338,019)
Other Comprehensive Income	(27,805)	(22,148)	(100,297)	1,673,266	1,633,391	(7,855)	524,759	616,853	723,353	860,628	725,188
Total Equity	**2,523,913**	**8,494,866**	**8,923,666**	**11,726,069**	**9,623,215**	**9,317,386**	**9,203,771**	**9,556,094**	**9,972,337**	**10,777,726**	**11,520,168**
Total Liabilities and Equity	**6,472,467**	**29,018,023**	**29,546,652**	**31,884,684**	**30,122,905**	**28,175,174**	**28,008,853**	**28,789,035**	**29,698,707**	**31,127,791**	**32,505,261**

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Cultiba Earnings (MXN Thousands)	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Revenues	8,603,032	14,932,595	31,986,573	33,453,156	37,908,179	37,194,343	39,178,886	41,407,451	43,821,033	46,436,003	49,235,557
Cost of Goods Sold	3,967,679	8,260,305	19,823,243	19,535,075	24,069,428	22,113,676	22,650,276	24,636,607	26,360,862	27,789,349	29,581,197
Gross Profit	**4,635,353**	**6,672,290**	**12,163,330**	**13,918,081**	**13,838,751**	**15,080,667**	**16,528,611**	**16,770,844**	**17,460,172**	**18,646,654**	**19,654,360**
SG&A	4,559,751	6,993,610	11,876,287	13,508,602	13,590,680	13,897,932	15,177,691	16,073,558	16,622,131	17,208,189	18,302,855
Depreciation and Amortization	673,906	1,074,475	2,166,774	2,282,921	2,345,439	2,307,430	2,427,300	2,565,370	2,687,752	2,841,943	3,018,245
Selling	597,139	1,105,007	2,394,914	2,116,897	2,538,033	2,490,240	2,735,277	2,865,017	3,088,198	3,302,525	3,570,466
Administrative	3,288,706	4,814,128	7,314,599	9,108,784	8,707,208	9,100,262	10,015,113	10,643,171	10,846,181	11,063,722	11,714,145
Other income (expense)	13,938	19,351	(182,511)	(185,413)	207,061	(26,398)	(33,582)	(44,169)	(16,500)	17,282	(20,673)
EBIT	**61,664**	**(340,671)**	**469,554**	**594,892**	**41,010**	**1,209,133**	**1,384,502**	**741,455**	**854,541**	**1,421,182**	**1,372,178**
Interest Expense	(92,762)	(188,151)	(421,289)	(338,919)	(231,811)	(159,992)	(169,009)	(164,933)	(168,542)	(169,268)	(169,268)
Interest Income	107	9,518	36,300	23,275	26,411	15,715	13,718	25,072	23,400	23,518	23,396
Foreign exchange (loss) gain, net	8,259	(215,887)	9,645	(32,555)	10,031	(365,824)	(118,918)	(99,524)	(121,358)	(139,119)	(168,949)
Other Financial Income (Expense)			(142,175)	232,016	(1,669,044)	(303)	19,453	20,559	21,758	23,056	24,446
Earnings before Tax	**(22,732)**	**(735,191)**	**(47,965)**	**478,709**	**(1,823,403)**	**698,729**	**1,129,746**	**522,629**	**609,799**	**1,159,370**	**1,081,803**
Income Taxes	(7,473)	(195,181)	(534,878)	25,735	(56,735)	358,698	338,924	156,789	182,940	347,811	324,541
Share of profit of associates and JVs accounted for using the equity method,	(5,805)	(25,160)	20,034	(16,641)	(147,519)	(178,147)	(58,873)	(67,718)	(74,811)	(90,618)	(102,948)
Consolidated Net Income	**(21,064)**	**(565,170)**	**506,947**	**436,333**	**(1,914,187)**	**161,884**	**731,949**	**298,122**	**352,049**	**720,941**	**654,315**
Non-controlling Interest	3,738	(95,378)	133,901	283,113	16,458	110,799	75,439	87,389	117,850	115,174	87,185
Net Income	(24,802)	(469,792)	373,046	153,220	(1,930,645)	272,683	807,388	385,511	469,898	836,116	741,500
Depreciation and Amortization	673,906	1,074,475	2,166,774	2,282,921	2,345,439	2,307,430	2,427,300	2,565,370	2,687,752	2,841,943	3,018,245
EBITDA	**735,570**	**733,804**	**2,636,328**	**2,877,813**	**2,386,449**	**3,516,563**	**3,811,802**	**3,306,825**	**3,542,293**	**4,263,125**	**4,390,423**

Key Assumptions (Vertical Analysis)	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Sales Growth		**73.57%**	**114.21%**	**4.58%**	**13.32%**	**-1.88%**	**5.34%**	**5.69%**	**5.83%**	**5.97%**	**6.03%**
Gross Margin (%)	**53.88%**	**44.68%**	**38.03%**	**41.60%**	**36.51%**	**40.55%**	**42.19%**	**40.50%**	**39.84%**	**40.16%**	**39.92%**
Admin & Sales/ Revenues (%)	45.17%	39.64%	30.35%	33.56%	29.66%	31.16%	32.54%	32.62%	31.80%	30.94%	31.04%
SG&A/ Revenues (%)	53.00%	46.83%	37.13%	40.38%	35.85%	37.37%	38.74%	38.82%	37.93%	37.06%	37.17%
EBIT Margin (RHS)	**0.72%**	**-2.28%**	**1.47%**	**1.78%**	**0.11%**	**3.25%**	**3.53%**	**1.79%**	**1.95%**	**3.06%**	**2.79%**
EBITDA Margin (RHS)	**8.55%**	**4.91%**	**8.24%**	**8.60%**	**6.30%**	**9.45%**	**9.73%**	**7.99%**	**8.08%**	**9.18%**	**8.92%**
Implied Interest Rate	6.24%	3.15%	6.32%	4.59%	4.88%	4.15%	4.33%	4.33%	4.33%	4.33%	4.33%
Interest Income / Revenues (%)	0.00%	0.06%	0.11%	0.07%	0.07%	0.04%	0.04%	0.06%	0.05%	0.05%	0.05%
Other Financial Income (Expense) / Revenues (%)	0.00%	0.00%	-0.44%	0.69%	-4.40%	0.00%	0.05%	0.05%	0.05%	0.05%	0.05%
Implied Tax Rate (%)	32.87%	26.55%	1115.14%	5.38%	3.11%	51.34%	30.00%	30.00%	30.00%	30.00%	30.00%

Leverage	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
EBITDA	735,570	733,804	2,636,328	2,877,813	2,386,449	3,516,563	3,811,802	3,306,825	3,542,293	4,263,125	4,390,423
Total Debt	1,487,500	5,967,601	6,664,876	7,384,948	4,746,995	3,859,293	3,899,197	3,805,173	3,888,425	3,905,173	3,905,173
Net Debt	1,402,767	5,447,380	6,075,414	6,301,682	4,350,652	3,231,867	2,412,656	1,381,075	500,925	988,202	552,037
Total Debt/ EBITDA	2.0	8.1	2.5	2.6	2.0	1.1	1.0	1.2	1.1	0.9	0.9
Net Debt/ EBITDA	1.9	7.4	2.3	2.2	1.8	0.9	0.6	0.4	0.1	0.2	0.1

Cash Flow Analysis	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
FFO	**625,837**	**553,824**	**1,810,970**	**508,248**	**5,178,667**	**3,991,877**	**3,803,353**	**4,084,910**	**4,110,166**	**3,638,573**	**4,108,067**
Working Capital	(62,337)	1,170,509	(1,176,448)	(335,797)	794,166	358,196	(235,054)	(60,133)	487,177	151,492	(142,479)
CFO	**563,500**	**1,724,333**	**634,522**	**172,451**	**5,972,833**	**4,350,073**	**3,568,300**	**4,024,777**	**4,597,343**	**3,790,065**	**3,965,587**
Capex	772,800	1,332,868	2,864,188	2,966,092	1,882,238	2,538,103	2,580,878	2,795,951	3,494,938	4,019,179	3,224,081
FCF (equity)	**(209,300)**	**391,465**	**(2,229,666)**	**(2,793,641)**	**4,090,595**	**1,811,970**	**987,422**	**1,228,826**	**1,102,404**	**(229,114)**	**741,507**
Dividends	161,611	631,666	0	190,002	290,593	350,535	289,560	335,556	361,776	367,094	398,156
FCF (to the firm)	**(370,911)**	**(240,201)**	**(2,229,666)**	**(2,983,643)**	**3,800,002**	**1,461,435**	**697,862**	**893,270**	**740,628**	**(596,208)**	**343,351**

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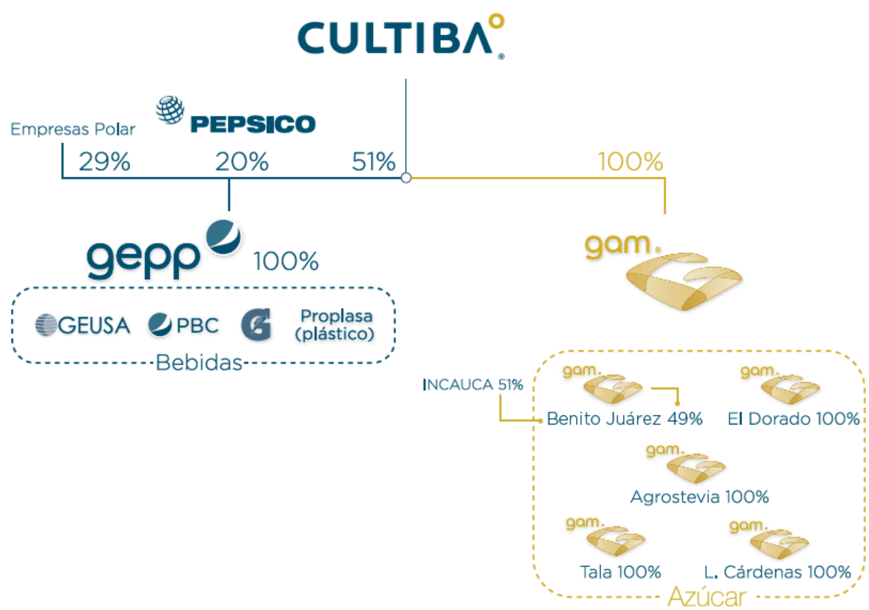
Cultiba Cash Flow Statement (MXN Millions)	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Operating Activities											
Pretax Income	(22,732)	(735,191)	(47,965)	436,333	(1,914,187)	161,884	1,129,746	522,629	609,799	1,159,370	1,081,803
Depreciation	673,906	1,074,475	2,166,774	2,282,921	2,345,439	2,307,430	2,427,300	2,565,370	2,687,752	2,841,943	3,018,245
Differed Taxes				25,735	(56,735)						
Asset Writedowns	(6,276)	(5,645)	332	(5,888)	1,637,963	32,861	(2,657)	(1,162)	(415)	(789)	(602)
Financial Derivatives	1,253	(1,121)	(8,392)	32,555	(10,031)		2,853	3,173	4,032	6,516	1,308
Interest Received				(10,707)	(11,789)	(15,715)	(13,718)	(25,072)	(23,400)	(23,518)	(23,396)
Interest Paid	92,762	188,151	421,289	338,919	231,811	159,992	169,009	164,933	168,542	169,268	169,268
Currency Exchange		571,471	(34,452)	75,069	283,947	386,285	118,918	99,524	121,358	139,119	168,949
Other	3,869	5,379	(20,034)				(3,595)	(6,083)	(9,904)	(6,528)	(6,528)
Other Comprehensive Income	0	0	142,175	(232,016)	1,669,044	358,698	19,453	20,559	21,758	23,056	24,446
Income (Loss) from Investment in Unconsoli	(5,805)	(25,160)	20,034	16,641	147,519	178,147	58,873	67,718	74,811	90,618	102,948
Change in Trade Receivables	(263,750)	279,541	(1,224,615)	317,006	(748,380)	51,631	(180,745)	(202,276)	129,140	(31,083)	(84,649)
Change in Inventories	142,154	629,508	172,971	101,800	(190,448)	(780)	(20,944)	(131,381)	81,782	(176,396)	(185,293)
Change in Trade Payables	59,259	261,460	(124,804)	(754,603)	1,732,994	307,345	(33,364)	273,525	276,255	358,972	127,462
Change in Other Assets	21,090	(120,101)	175,598	(1,329,677)	1,390,930	787,624	450,631	721,615	649,993	(514,897)	(465,526)
Change in Other Liabilities	26,129	(243,146)	52,194	(195,529)	287,492	484,361	(59,245)	248,357	133,923	247,975	507,565
Taxes paid	(65,606)	30,283	(639,722)	(605,457)	(604,209)	(704,042)	(338,924)	(156,789)	(182,940)	(347,811)	(324,541)
Net Cash Flow from Operating Activities	**656,253**	**1,909,904**	**1,051,383**	**493,102**	**6,191,360**	**4,495,721**	**3,723,590**	**4,164,639**	**4,742,484**	**3,935,815**	**4,111,460**
Financing Activities											
Capital Expenditures	(772,800)	(1,332,868)	(2,864,188)	(2,966,092)	(1,882,238)	(2,538,103)	(2,580,878)	(2,795,951)	(3,494,938)	(4,019,179)	(3,224,081)
Interest Received				10,707	11,789	15,715	13,718	25,072	23,400	23,518	23,396
Acquisitions and Divestitures	55,351	131,262	616,012	284,672	49,736	50,391	121,349	138,311	139,522	108,931	92,815
Investments towards associates	(40,605)	(2,952,774)	(68,000)	(235,691)	(15,795)						
Other Investing Activities	(59,817)	(90,862)									
Cash from Investing Activities	**(817,871)**	**(4,245,242)**	**(2,316,176)**	**(2,906,404)**	**(1,836,508)**	**(2,471,997)**	**(2,445,810)**	**(2,632,568)**	**(3,332,016)**	**(3,886,730)**	**(3,107,870)**
Financing Activities											
Debt Proceeds	413,500	4,031,672	7,156,581	7,574,091	10,925,015	1,757,181	39,904	0	83,252	16,748	0
Debt Repayment		(1,823,747)	(6,236,882)	(6,932,754)	(13,845,881)	(3,037,924)	0	(94,024)	0	0	0
Interest paid	(92,753)	(185,571)	(416,861)	(331,358)	(230,316)	(161,363)	(169,009)	(164,933)	(168,542)	(169,268)	(169,268)
Equity Issuance		441,564	188,591	450,251			0	0	0	0	0
Common Dividends Paid	(129,997)	(631,666)		(128,008)	(172,209)	(193,735)	(175,929)	(196,121)	(210,460)	(217,067)	(233,258)
Common Dividends Paid to Non-Controllinç	(31,614)			(61,994)	(118,384)	(156,800)	(113,632)	(139,435)	(151,316)	(150,027)	(164,898)
Additional Paid in Capital		672,252	642,605	2,319,272			0	0	0	0	0
Equity Repurchase	(3,221)			17,606							
Cash from Financing Activities	**155,915**	**2,504,504**	**1,334,034**	**2,907,106**	**(3,441,775)**	**(1,792,641)**	**(418,665)**	**(594,513)**	**(447,066)**	**(519,614)**	**(567,424)**
Adjustments to Cash Flow due to variations in the FX rate		266,322									
Total Change in Cash	(5,703)	435,488	69,241	493,804	913,077	231,083	859,115	937,557	963,402	(470,529)	436,166
Begining Cash and equivalents	90,436	84,733	520,221	589,462	1,083,266	396,343	627,426	1,486,541	2,424,098	3,387,500	2,916,971
Ending Cash and Equivalents	84,733	520,221	589,462	1,083,266	1,996,343	627,426	1,486,541	2,424,098	3,387,500	2,916,971	3,353,136
Cash at Hand						627,426					
Restricted Cash	84,733	520,221	589,462	1,083,266	1,996,343	0	1,486,541	2,424,098	3,387,500	2,916,971	3,353,136

April 27, 2016

APPENDIX

Figure 1 – Cultiba holding structure



Source: Annual reports

Figure 2 – Location of Cultiba's sugar mills

Source: Annual reports

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