

# Allocation Mexico

## 2nd Stage of Economic Recovery Expected

### Recovery currently driven by factors from abroad but local factors might drive further improvements

The Mexican economy continues to recover, driven mainly by industrial and export activities. These sectors benefited from the increased demand from the USA caused by economic recovery.

Increased exports occurred despite the 5.9% appreciation of the Mexican Peso against the US dollar, to P\$12.3/US\$. Our expectation is of a continuation to this trend, at least until the end of this year, at which time we forecast a P\$12/US\$ FX rate: a further 2.5% appreciation.

Local economic activity, when separated from the benefit of exports, continues weak despite a slight recovery. Recently released retail sales data for February, showed a 2.3% YoY growth, while 6 months ago sales data showed a 15% decrease. In addition, automotive sales have also reported growth for the past five consecutive months.

Despite this dependence on exports, especially to the US, we expect a continued improvement to local economic activity and that it should contribute more significantly to GDP growth from 2H10. An expected financial inflow of around US\$10 bn for the fixed income market should also fuel the local economy.

Inflation decreased slightly in April, despite the economic recovery, showing that there is room for further economic growth without placing imminent pressure on interest rates. Inflation figures in the first half of April pointed to 4.4% inflation in 2010, while our annual estimate remains at 4.9% and market consensus estimate remains at 5.2%.

First quarter results continue to influence our choice for part of our portfolio, while in other cases the catalysts for specific companies' drive our choice. For April, we added GAP and Geo, increased the weight for ICA (from 5% to 10%), reduced the weight for Grupo Mexico (from 20% to 15%) and withdrew Ara, Cemex and Femsa. With these changes, we have maintained 80% of the total weight of the previous portfolio.

### Suggested Portfolio – May/10

#### LONG/OVERWEIGHT

| Stock         | Ticker   | Traded Vol.* | Weight %   |
|---------------|----------|--------------|------------|
| America Movil | AMXL     | 1,053.7      | 20         |
| GAP           | GAPB     | 45.8         | 10         |
| GEO           | GEOB     | 122.5        | 5          |
| GMexico       | GMEXICOB | 518.5        | 15         |
| GenomaLAB     | LABB     | 99.2         | 10         |
| ICA           | ICA*     | 145.3        | 10         |
| Mexichem      | MEXCHEM  | 104.0        | 5          |
| Peñoles       | PE&OLES* | 63.5         | 10         |
| Tlevisa       | TLEVICPO | 215.4        | 5          |
| Walmex        | WALMEXV  | 512.2        | 10         |
| <b>Total</b>  | -        |              | <b>100</b> |

Source: Banif - Ixe Securities Research

\* Average trading volume (P\$ mn) in the past 90 days

### “LONG”/Overweight – Suggested Portfolio

| Company       | Ticker | Current | 52 - week |      | Performance |       |
|---------------|--------|---------|-----------|------|-------------|-------|
|               |        | Price   | High      | Low  | YTD         | 12M   |
| America Movil | AMXL   | 31.7    | 31.9      | 22.2 | 3.8%        | 45.0% |

**Catalyst:** 1Q10 results were positive, as the company reinitiated subscriber growth across the region and data transmission revenues increased more than we estimated. Additionally, we expect long-term positive synergies from the Carso Global Telecom acquisition.

| Company | Ticker | Current | 52 - week |      | Performance |       |
|---------|--------|---------|-----------|------|-------------|-------|
|         |        | Price   | High      | Low  | YTD         | 12M   |
| GAP     | GAPB   | 43.6    | 47.9      | 24.1 | 7.2%        | 66.9% |

**Catalyst:** GAP has an attractive valuation and will pay a good dividend of P\$2.94 per share on May 28, with an implied yield of 6.6%. In addition, GAP reported better 1Q10 results across the board than OMA and ASUR did. We also take into account that May 2009 is a weak base for comparison because of the health emergency regarding the AH1N1 virus that caused an unexpected drop in passenger traffic that month.

| Company | Ticker | Current | 52 - week |      | Performance |        |
|---------|--------|---------|-----------|------|-------------|--------|
|         |        | Price   | High      | Low  | YTD         | 12M    |
| GEO     | GEOB   | 39.0    | 41.7      | 18.6 | 12.3%       | 115.6% |

**Catalyst:** Geo posted excellent 1Q10 results, with growths in Sales, EBITDA, and Net Income of 16, 26, and 52%, respectively and which was, by far, the best report in the sector. We believe this will act as a trigger to boost the stock's performance.

| Company | Ticker   | Current | 52 - week |      | Performance |        |
|---------|----------|---------|-----------|------|-------------|--------|
|         |          | Price   | High      | Low  | YTD         | 12M    |
| GMexico | GMEXICOB | 32.3    | 36.8      | 10.8 | 8.3%        | 208.1% |

**Catalyst:** We have a positive view for the sector in general and, within its participants, Grupo Mexico stands out with our estimates of growth for sales and EBITDA of 72 and 89%, respectively.

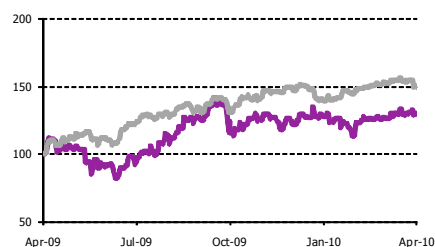
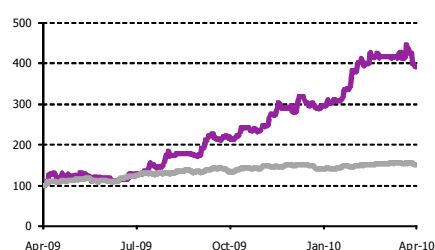
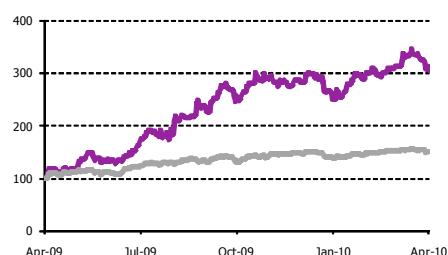
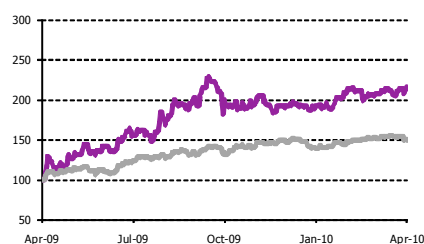
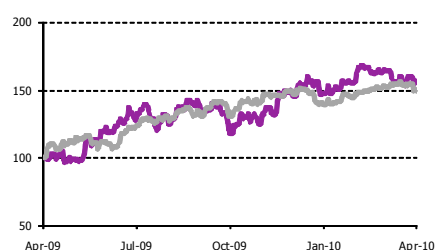
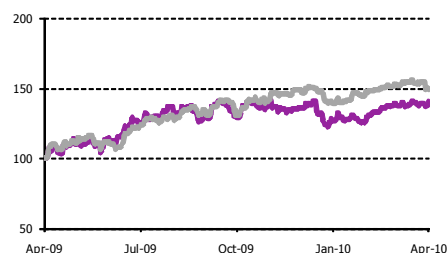
| Company     | Ticker | Current | 52 - week |      | Performance |        |
|-------------|--------|---------|-----------|------|-------------|--------|
|             |        | Price   | High      | Low  | YTD         | 12M    |
| Genomma LAB | LABB   | 40.1    | 46.2      | 10.4 | 40.4%       | 291.9% |

**Catalyst:** We believe the main factors likely to affect the company's shares positively are: 1) the very good results reported for 1Q10 and 2) positive prospects for the performance of all the markets, with highlight on the huge growth potential of operations in the USA and Brazil.

| Company | Ticker | Current | 52 - week |      | Performance |       |
|---------|--------|---------|-----------|------|-------------|-------|
|         |        | Price   | High      | Low  | YTD         | 12M   |
| ICA     | ICA*   | 32.5    | 35.5      | 15.6 | 6.6%        | 68.4% |

**Catalyst:** ICA has an attractive valuation and reported strong 1Q10 results. The prospects for 2010 are also bright, with guided sales growth of up to 20% while maintaining EBITDA margin at a high 16% to 18% level. Additionally, the shares have lagged the IPC and the sector strongly.

### Stock x IPyC



### “LONG”/Overweight – Suggested Portfolio

| Company  | Ticker  | Current | 52 - week |      | Performance |        |
|----------|---------|---------|-----------|------|-------------|--------|
|          |         | Price   | High      | Low  | YTD         | 12M    |
| Mexichem | MEXCHEM | 35.2    | 38.7      | 11.9 | 41.6%       | 195.1% |

**Catalyst:** We view the share as attractive due to good 1Q results and better prospects for the future with the possible acquisition and the consolidation of INEOS Fluor.

| Company | Ticker   | Current | 52 - week |       | Performance |        |
|---------|----------|---------|-----------|-------|-------------|--------|
|         |          | Price   | High      | Low   | YTD         | 12M    |
| Peñoles | PE&OLES* | 259.5   | 316.0     | 144.1 | -6.9%       | -80.3% |

**Catalyst:** We believe the company’s shares will benefit from the weak base of comparison for its 1Q and 2Q results. For this reason, we foresee 1H10 YoY growths of 44 and 110% in sales and EBITDA, respectively, after the 43 and 215% growths reported in 1Q. Additionally, the company has a strong cash position and a positive business outlook for the next few years.

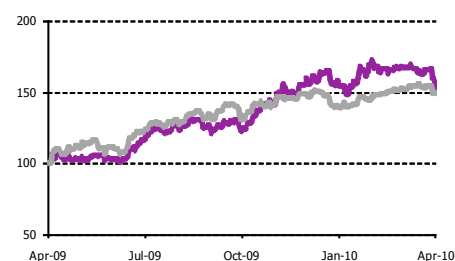
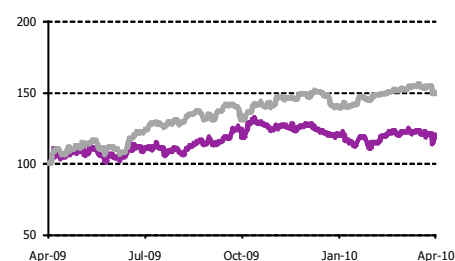
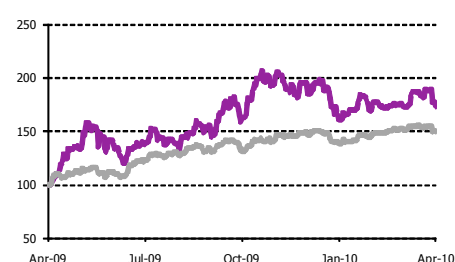
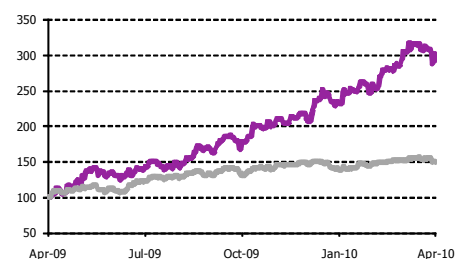
| Company | Ticker   | Current | 52 - week |      | Performance |        |
|---------|----------|---------|-----------|------|-------------|--------|
|         |          | Price   | High      | Low  | YTD         | 12M    |
| Tlevisa | TLEVICPO | 51.3    | 57.0      | 41.3 | -5.5%       | -24.5% |

**Catalyst:** In 1Q10, the company strengthened its position in the telecom business with its cable operations. In addition, we expect a stronger presence in the telecom industry with its JV with Nextel and Telefonica. We see better results in 2Q10 due to advertising related to the World Cup and an economic recovery.

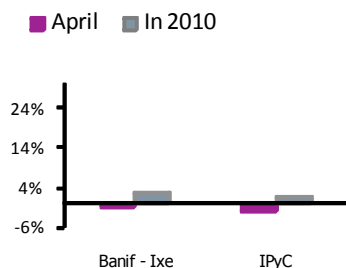
| Company | Ticker  | Current | 52 - week |      | Performance |       |
|---------|---------|---------|-----------|------|-------------|-------|
|         |         | Price   | High      | Low  | YTD         | 12M   |
| Walmex  | WALMEXV | 28.6    | 32.2      | 18.3 | -1.2%       | 54.0% |

**Catalyst:** We believe the incorporation of Central American numbers into Walmex’s operations, which started last March, plus its heavy weight in the IPC, make it a core holding in our portfolio.

### Stock x IPyC

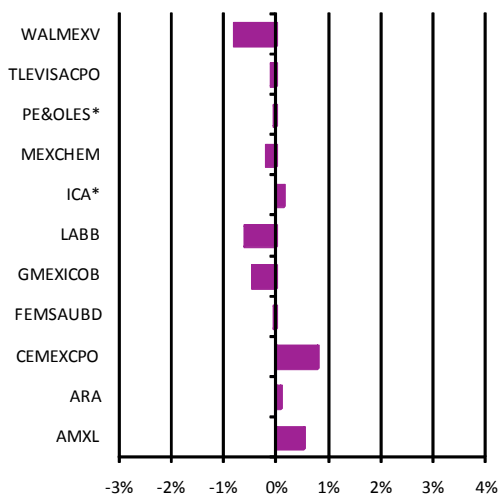


### Banif - Ixe (LONG) x IPyC



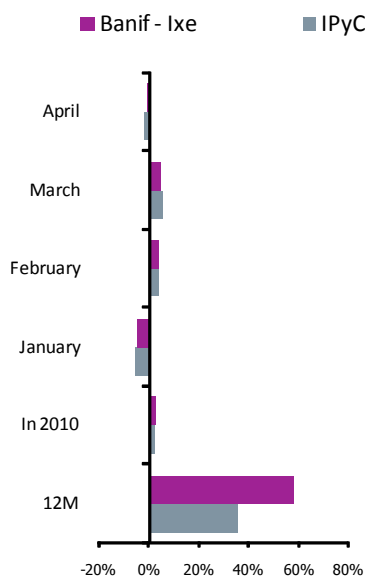
Source: Economática

### Weighted performance in April 10



Source: Economática, weighted performance of the stocks from the recommended portfolio

### Banif-Ixe x IPyC



| <u>2008</u> | Banif-Ixe | IPyC   |
|-------------|-----------|--------|
| Oct-08      | -19.6%    | -17.9% |
| Nov-08      | 0.4%      | 0.4%   |
| Dec-08      | 8.4%      | 9.0%   |
| <u>2009</u> | Banif-Ixe | IPyC   |
| Jan-09      | -8.1%     | -12.6% |
| Feb-09      | -8.7%     | -9.3%  |
| Mar-09      | 4.3%      | 10.6%  |
| Apr-09      | 13.4%     | 11.6%  |
| May-09      | 15.6%     | 11.1%  |
| Jun-09      | 3.6%      | 0.2%   |
| Jul-09      | 11.6%     | 11.0%  |
| Aug-09      | 6.6%      | 4.0%   |
| Sep-09      | 8.7%      | 3.9%   |
| Oct-09      | 0.2%      | -2.0%  |
| Nov-09      | -1.7%     | -2.0%  |
| Dec-09      | 0.8%      | 3.8%   |
| <u>2010</u> | Banif-Ixe | IPyC   |
| Jan-10      | -4.9%     | -5.4%  |
| Feb-10      | 3.9%      | 4.1%   |
| Mar-10      | 4.9%      | 5.2%   |
| Apr-10      | -0.7%     | -1.7%  |
| In 2010     | 2.9%      | 1.8%   |
| 12M         | 58.3%     | 35.4%  |
| 18M         | 58.3%     | 45.0%  |

Source: Economática and Banif - Ixe Securities Research

### Short Ideas Performance

| <u>2010</u> | Banif-Ixe |
|-------------|-----------|
| Jan-10      | 8.8%      |
| Feb-10      | -9.47%    |
| Mar-10      | -         |
| Apr-10      | -         |

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| Rating  | Coverage | Banking Relationship Last 12 Months |
|---------|----------|-------------------------------------|
| BUY     | 51.0%    | 2.0%                                |
| NEUTRAL | 21.0%    | 0%                                  |
| SELL    | 28.0%    | 0%                                  |

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