Zacks Small-Cap Research

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Grupo Tmm Sab (GTMAY-OTC)

GTMAY: *3Q15 Results Show Improvements in Ports and Terminals Segment*

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	04/07/2013
Current Price (11/30/15)	$1.26
Target Price	**$2.50**

OUTLOOK

Last week, TMM reported 3Q15 revenue of P$794.1 million, up 9.2% compared to 3Q14 reflecting y/y improvements at both of the company's operating segments. In fact, the Ports and Terminals segment, which has experienced negative y/y revenue over the last few quarters, recorded a 24.1% improvement compared to 3Q14. Nevertheless, in our view, the steep decline in oil prices could cause a longer than expected delay of the opportunities energy reform is expected to generate for TMM and others.

SUMMARY DATA

52-Week High	**$1.77**
52-Week Low	**$1.05**
One-Year Return (%)	**-24**
Beta	**-0.71**
Average Daily Volume (sh)	**1,576**
ADRs at 5:1 ord. shares (mil)	**20**
Market Capitalization ($mil)	**$28**
Short Interest Ratio (days)	**15.4**
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	**Small-Value**
Industry	**Maritime**

ZACKS ESTIMATES

Revenue
(in millions of $US)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (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	48 A	51 E	198 E

Earnings per ADR
($US EPS is operating earnings before non recurring items)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (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	-$0.06 A	-$0.10 E	-$0.31 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 9

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KEY POINTS

- Last week, TMM reported 3Q15 revenue of P$794.1 million, up 9.2% compared to 3Q14 reflecting y/y improvements at both operating segments. In fact, this quarter reversed the recent negative trend that the Ports and Terminals segment has experienced over the last few quarters, as segment revenue advanced 24.1% y/y.

- TMM recorded the 24.1% annual Ports and Terminals segment revenue improvement despite the continued decline of Mexican vehicles transported. On higher transported volumes of steel and gravel, revenues in the company's Tampico and Tuxpan terminals more than offset the lower number of vehicles transported. Ports and Terminals operating income increased to P$7.0 million versus P$0.3 million and EBITDA to $10.5 million from $3.9 million (+169%).

- Consolidated EBITDA of P$280.4 million was up 9.8% from P$255.4 million recorded in the same period of 2014, while free cash flow of P$112.6 million was up 57% from P$71.7 million registered in 3Q 2014.

- The company also indicated that it expects to continue to contain costs in order to strengthen its balance sheet and enhance financial flexibility, as it prepares to leverage the long-term opportunities that Mexico's energy reforms are expected to present.

THIRD QUARTER 2015 HIGHLIGHTS

TMM reported third quarter 2015 results last week. Revenue of P$794.1 million advanced 9.2% compared to the same quarter of 2014. The company's two primary operating segments – the Maritime and Ports division and the Terminals unit – each recorded year-over-year revenue improvements in the quarter. In fact, this quarter reversed the recent negative trend that the Ports and Terminals segment has experienced, as over the last few quarters, its revenue has been constrained primarily by lower shipments of Mexican automobiles to Latin American markets, we believe. Third quarter 2015 Ports & Terminals revenue of P$72.6 million advanced 24.1% compared to last year's third quarter. Maritime revenue, which has been trending up for the last several quarters, advanced 8.2% to P$703.1 million compared to P$649.9 million recorded in 3Q14. Corporate and other revenue of P$18.4 million was virtually flat year-over-year compared to P$18.5 registered in the third quarter 2014.

Grupo TMM 3Q Revenue Comparisons ($ Mexican Pesos millions)

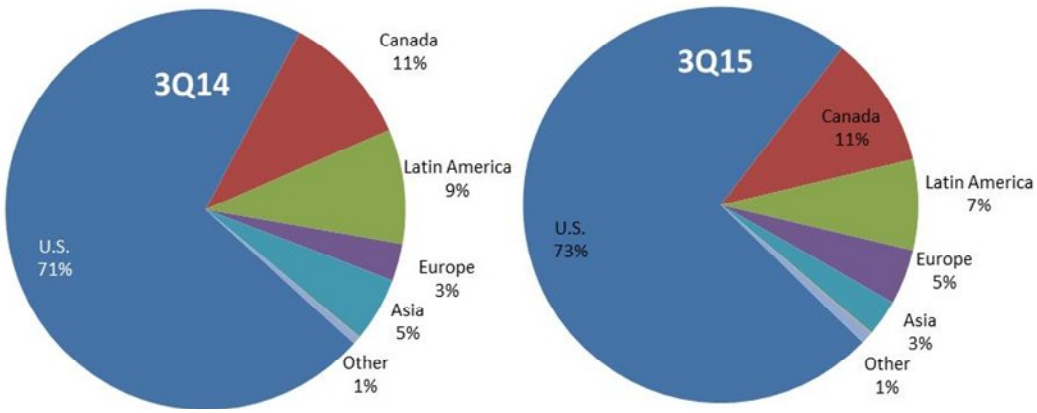
	3Q14A	3Q15A	Y/Y % Chg
Ports & Terminals	58.5	72.6	24.1%
Maritime	649.9	703.1	8.2%
Corporate & others	18.5	18.4	-0.5%
Rev from freight & svcs	**P$726.9**	**P$794.1**	9.2%

Source: Company reports

Mexican Automobile and Truck Exports July-September 2015 versus 2014			
	3Q14	**3Q15**	**% Chg**
U.S.	482,919	496,802	2.9%
Canada	72,822	73,147	0.4%
Latin America	62,846	50,163	-20.2%
Europe	20,475	30,463	48.8%
Asia	35,259	20,025	-43.2%
África	301	565	87.7%
Other	4,308	6,601	53.2%
Total exports	678,930	677,766	-0.2%
Source: AMIA			

For much of the year, TMM's Ports and Terminals segment has been hurt by lower revenues in the Automobile segment, as noted. Reflecting an agreement between Mexico and Brazil limiting auto exports to Brazil, Mexican vehicle exports to South America have trended lower. For the automotive industry overall, total exports to Latin America declined by 20.2% in the quarter compared to the same quarter of 2014, according to AMIA (Asociación Mexicana de la Industria Automotriz). Latin America represents the third largest export destination of Mexican vehicles after the U.S. and Canada. During the third quarter of 2015, exports to Latin America comprised 7.4% of Mexico's total automotive exports, down from 9.3% in the same period of 2014.

Mexican Automotive Exports by Market, 3Q Comparisons 2015 vs. 2014



Source: AMIA

Excluding a non-recurring gain of P$237.0 million in the third quarter of 2014 related to the disposal of an asset, the company's consolidated operating income fell 2.4% in the third quarter of 2015 compared to the same period of 2014. Conversely, with direct costs increasing at a lower rate than revenue increased, TMM's consolidated EBITDA of P$280.4 million was up 9.8% from P$255.4 million recorded in the same period of 2014, while free cash flow of P$112.6 million was up 57% from P$71.7 million registered in 3Q 2014.

Segment Operating Results

Maritime Segment

The company's Maritime segment has enjoyed positive trends through the first nine months of 2015, as illustrated in the chart below. Specifically in the third quarter of 2015, Maritime revenues advanced 8.2% year-over-year, primarily reflecting 26.8% higher revenues in chemical tankers, which was attributable to improved average freight rates, combined with a 25.1% increase in product tankers revenues reflecting 100.0% fleet utilization.

The Maritime segment's operating profit fell 12.3% year-over-year to P$119.9 million in 3Q15 from P$136.7 million registered in the same period of 2014. This decline was mainly the result of higher operating costs in the company's offshore segment for the U.S. dollar denominated hire of two vessels, higher fuel costs at harbor tugs and a 3.5% increase for the extension of tugs vessel service in Manzanillo. Nevertheless, 3Q15 Maritime EBITDA advanced 3.8% year-over-year to P$297.3 million versus P$286.5 million recorded in 3Q14.

Ports and Terminals segment

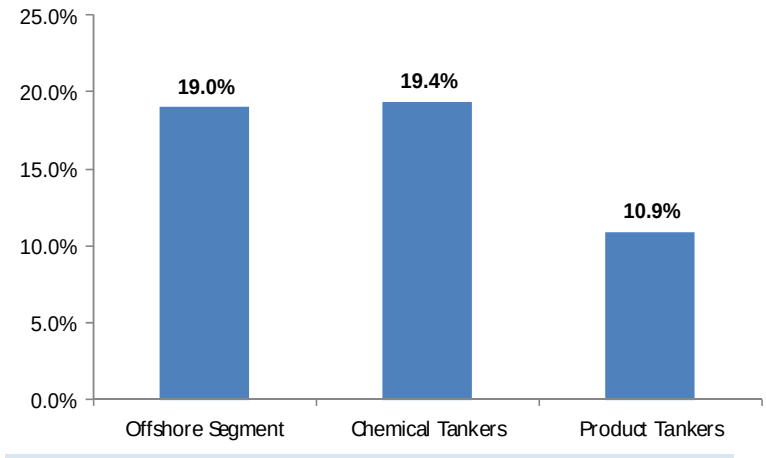
Despite the continued decline of Mexican vehicle exports to Latin America, TMM recorded the above noted 24.1% year-over-year revenue improvement in the Ports and Terminals segment to P$72.6 million. The lower number of transported cars at Acapulco was more than offset by improved revenues in the company's Tampico and Tuxpan terminals, reflecting higher volumes of steel and gravel transported. The Ports and Terminals segment's operating income increased to P$7.0 million versus P$0.3 million, mainly due to the improved volumes at the Tampico and Tuxpan terminals. As a result, Ports and Terminals EBITDA of $10.5 million was up 169% compared to $3.9 million recorded in 3Q14.

January – September Results

TMM's consolidated revenue for the first nine months of 2015 advanced 13.4% year-over-year, reflecting a 15.1% improvement in the Maritime segment, which was partially offset by a 1.7% contraction in Ports and Terminals revenue. The company attributed the improved Maritime segment revenue primarily to better fleet utilization and efficiency. Specifically, TMM recognized a 19.0% revenue advance in the Maritime offshore segment. In addition, the company registered a 19.4% year-over-year improvement in chemical tankers revenue on higher average freight rates and a 10.9% improvement in product tankers revenue on a better mix and higher average rates. As well, product tankers utilization improved to 100.0%.

On the higher segment revenue base, excluding a one-time asset sale, pro forma Maritime segment operating income would have increased 14.0% year-over-year to P$459.5 million in the 2015 nine-month period. Maritime segment operating income, however, fell 1.8% on a reported basis during the first nine months of 2015 compared to the same period of 2014. This contraction primarily mirrored the sale of the Palenque tanker in the 2014 period for P$63.6 million.

Maritime Revenue Trends, First Nine Months 2015



Source: Company reports

The lower Ports and Terminals revenue in the first nine months of 2015 primarily reflected fewer cars transported in Acapulco, which was partially offset by higher revenues in the intermodal terminal and container maintenance and repair. Nevertheless, Ports and Terminals EBITDA of $37.4 million recorded in the first nine months of 2015 was up slightly compared to $ 37.3 million in the same period of 2014. We estimate that TMM has implemented cost containment measures to help offset the soft revenue trends the segment has experienced during much of the year.

Financial Expense and Balance Sheet

The company registered lower financial expense of P$186.2 million versus P$204.1 million recorded in 3Q14. The company's net debt stood at P$9,702.3 million at the end of September 2015, down from P$10,245.2 million at the end of December 2014. The company also indicated that it expects to continue to contain costs in order 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

- Recent trends in oil prices could cause a longer than expected delay of investment in Mexico's energy sector and 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 AND BALANCE SHEET

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

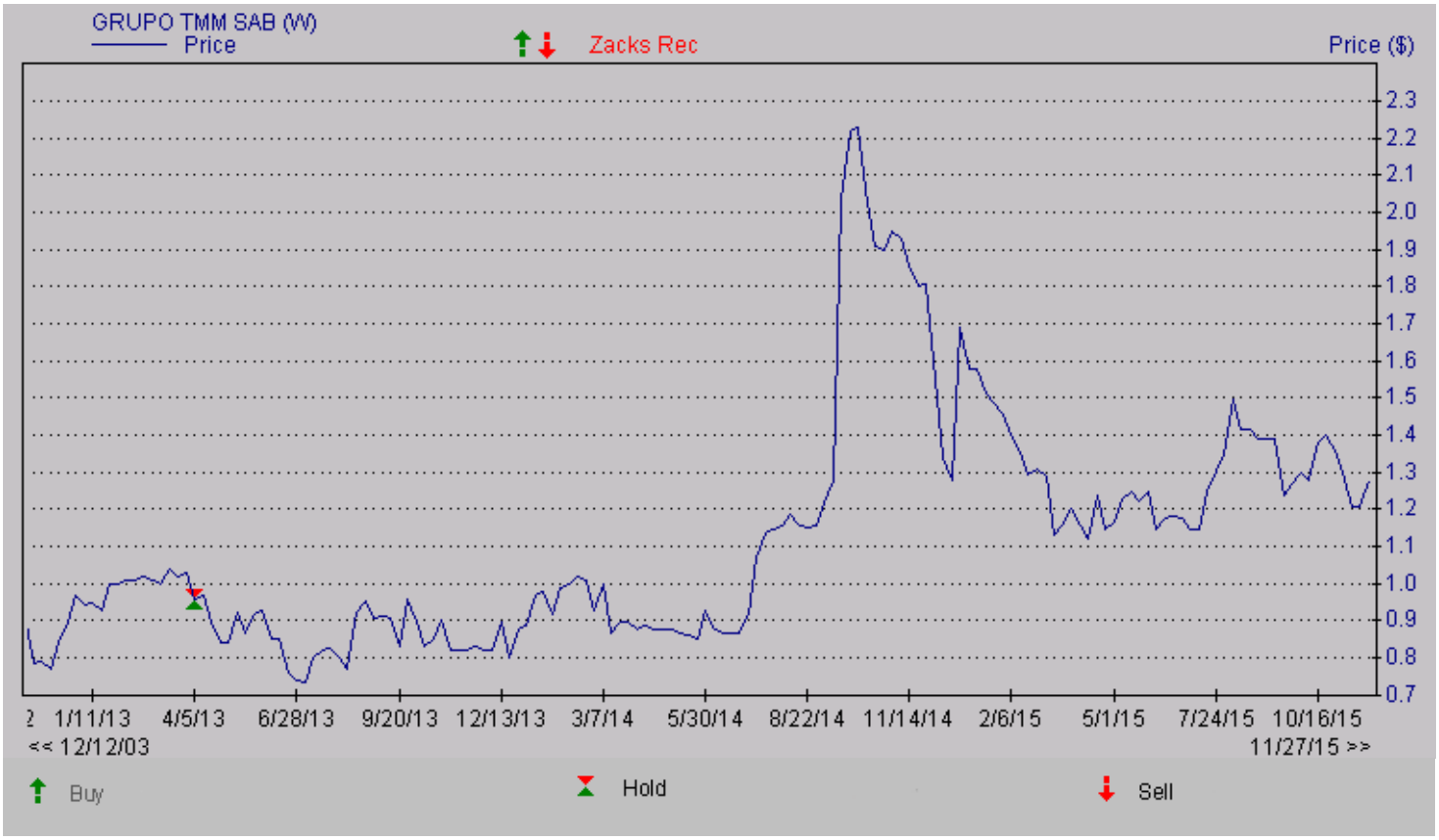
	1Q14	2Q14A	3Q14A	4Q14A	2014A	1Q15A	2Q15A	3Q15A	4Q15E	2015E
Ports & Terminals	74.3	77.7	58.5	66.4	276.9	66.8	67.6	72.6	59.8	266.7
Maritime	599.9	558.2	660.4	692.2	2,510.7	628.3	750.3	703.1	699.1	2,780.8
Corporate & others	12.7	17.3	18.5	18.7	67.2	18.5	18.5	18.4	18.5	73.9
Rev from freight & svcs	**P$686.9**	**P$653.2**	**P$737.4**	**P$777.3**	**P$2,854.8**	**P$713.6**	**P$836.4**	**P$794.0**	**P$777.4**	**P$3,121.3**
Ports & Terminals	(60.2)	(58.4)	(54.6)	(57.1)	(230.3)	(51.2)	(56.4)	(62.0)	(51.4)	(221.0)
Maritime	(321.3)	(288.7)	(389.3)	(444.7)	(1,444.0)	(348.8)	(427.1)	(405.8)	(449.1)	(1,630.8)
Corporate & others	(13.0)	(17.2)	(18.8)	(15.9)	(64.9)	(18.2)	(18.2)	(18.1)	(16.1)	(70.6)
Cost of freight & services	**(394.5)**	**(364.4)**	**(462.7)**	**(517.7)**	**(1,739.3)**	**(418.2)**	**(501.7)**	**(485.9)**	**(516.6)**	**(1,922.4)**
Ports & Terminals	(3.5)	(3.7)	(3.7)	(4.3)	(15.2)	(3.8)	(4.1)	(3.6)	(4.3)	(15.8)
Maritime	(142.6)	(144.5)	(149.8)	(428.9)	(865.8)	(151.7)	(175.0)	(177.4)	(150.2)	(654.2)
Corporate & others	(1.9)	(1.9)	(1.8)	(1.9)	(7.5)	(1.9)	(1.9)	(1.9)	(1.9)	(7.6)
Depreciation & amortization	(148.0)	(150.0)	(155.3)	(435.1)	(888.4)	(157.4)	(181.0)	(182.8)	(156.4)	(677.6)
Corporate expenses	(50.0)	(59.2)	(51.7)	(14.3)	(175.2)	(54.4)	(72.0)	(68.4)	(52.9)	(247.7)
EBIT										
Ports & Terminals	10.6	15.6	0.2	5.0	31.4	11.8	7.2	7.0	4.0	29.9
Maritime	139.5	125.0	121.3	(181.4)	204.4	127.8	148.1	119.9	99.8	495.7
Corporate & others	(2.2)	(1.8)	(2.1)	0.9	(5.2)	(1.6)	(1.6)	(1.5)	0.5	(4.3)
Other (expenses) income	23.9	(1.1)	254.0	80.5	357.3	16.1	(5.3)	40.7	15.0	66.5
Operating Income	**P$121.8**	**P$78.5**	**P$321.7**	**(P$109.3)**	**P$412.7**	**P$99.7**	**P$76.5**	**P$97.7**	**P$66.4**	**P$340.1**
EBITDA	**P$269.8**	**P$228.5**	**P$240.0**	**P$325.8**	**P$1,301.1**	**P$257.1**	**P$257.5**	**P$280.5**	**P$222.9**	**P$1,017.7**
Financial (expenses) income	(216.4)	(213.3)	(204.1)	(197.6)	(831.4)	(193.4)	(205.2)	(186.2)	(186.4)	(771.2)
Exchange gain (loss)	(3.1)	0.6	(22.7)	(41.1)	(66.3)	3.1	2.1	(2.8)	(2.8)	(0.4)
Net financial cost	(219.5)	(212.7)	(226.8)	(238.7)	(897.7)	(190.3)	(203.1)	(189.0)	(189.2)	(771.6)
Loss before taxes	**(97.7)**	**(134.1)**	**94.9**	**(348.0)**	**(484.9)**	**(90.6)**	**(126.6)**	**(91.3)**	**(122.7)**	**(431.5)**
Provision for taxes	(2.2)	(3.8)	(2.7)	4.0	(4.7)	(0.5)	(0.8)	(1.0)	(7.0)	(9.3)
Net Loss before discontinuing	**(100.0)**	**(137.9)**	**92.2**	**(344.0)**	**(489.7)**	**(91.1)**	**(127.4)**	**(92.3)**	**(129.7)**	**(440.7)**
Loss from discontinuing operatic	(14.7)	(25.9)	(12.8)	(3.5)	(56.9)	(21.5)	(9.6)	(10.6)	(20.0)	(61.7)
Net Loss for the period	**(114.7)**	**(163.9)**	**79.4**	**(347.5)**	**(546.7)**	**(112.6)**	**(137.0)**	**(102.8)**	**(149.7)**	**(502.5)**
Attributable to:										
Minority interest	(1.5)	0.8	(1.0)	4.3	2.6	0.1	(0.8)	3.0	0.1	2.4
GTMM Equity holders	**(113.2)**	**(164.6)**	**80.4**	**(351.8)**	**(549.2)**	**(112.5)**	**(136.2)**	**(99.8)**	**(149.6)**	**(500.1)**
LPS	**(P$1.11)**	**(P$1.60)**	**P$0.79**	**(P$3.44)**	**(P$5.36)**	**(P$1.10)**	**(P$1.30)**	**(P$0.98)**	**(P$1.46)**	**(P$4.89)**
Avg shares out (millions)	102.2	102.2	102.2	102.2	102.2	102.2	102.2	102.2	102.2	102.2

Grupo TMM Balance Sheet ($ Mexican Pesos)

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
Cash & equivalents	776.9	847.9	693.5	743.0	627.8	1,316.9	1,180.3
Accounts receivable	555.7	546.0	534.6	782.0	791.6	834.6	915.2
Other accounts receivable	187.8	154.0	172.7	947.1	1,059.2	203.6	223.3
Prepaid expenses & others current assets	183.2	185.3	172.9	149.0	176.3	167.9	152.8
Non-current assets held for sale	171.3	172.8	170.9	184.9	173.7	180.8	181.4
Total current assets	1,875.0	1,906.0	1,744.6	2,806.0	2,828.6	2,703.8	2,653.0
P,P&E	12,163.4	12,170.4	11,666.1	9,459.4	9,357.2	9,233.0	10,046.0
Cumulative Depreciation	(3,378.6)	(3,483.9)	(3,594.4)	(461.0)	(454.9)	(569.9)	(373.8)
P,P&E	8,784.8	8,686.5	8,071.7	8,998.4	8,902.3	8,663.1	9,672.2
Other assets	327.8	317.7	1,042.6	309.5	298.4	290.1	288.7
Deferred taxes	948.4	948.4	1,101.8	810.3	810.3	810.3	475.6
Total assets	**11,935.9**	**11,858.6**	**11,960.7**	**12,924.2**	**12,839.6**	**12,467.3**	**13,089.5**
Bank loans & current maturities	556.3	629.7	523.9	918.6	759.3	752.0	899.4
Suppliers	278.2	242.2	291.6	371.6	425.4	353.9	288.1
Other accounts payable & accrued expenses	578.0	548.3	652.6	631.0	693.9	500.5	521.5
Liabilities associated with assets held for sale	109.8	114.1	116.7	94.2	89.6	92.7	91.2
Total current liabilities	**1,522.3**	**1,534.3**	**1,584.8**	**2,015.4**	**1,968.2**	**1,699.1**	**1,800.2**
Bank loans	469.6	440.6	498.7	344.4	361.7	336.0	332.7
Trust certificates debt	9,658.9	9,760.5	9,671.8	9,725.1	9,779.8	9,835.4	9,650.5
Other long-term liabilities	198.9	201.0	203.4	201.9	204.7	208.0	211.1
Total long-term liabilities	**10,327.5**	**10,402.1**	**10,374.0**	**10,271.4**	**10,346.2**	**10,379.4**	**10,194.3**
Total liabilities	**11,849.7**	**11,936.4**	**11,958.7**	**12,286.8**	**12,314.4**	**12,078.5**	**11,994.5**
Total stockholders´ equity	86.2	(77.7)	1.8	637.5	525.1	388.7	1,095.0
Total liabilities & stockholders´ equity	11,935.9	11,858.7	11,960.5	12,924.3	12,839.6	12,467.2	13,089.5

Source: Company reports, Zacks estimates Prior quarters are not pro forma

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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