Zacks Small-Cap Research

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GRUPO TMM (GTMAY-OTC)

GTMAY: Realigning the Business to Focus on Maritime & New Business- Neutral

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	04/05/2013
Current Price (07/31/13)	$0.82
Target Price	**$1.50**

OUTLOOK

Grupo TMM is one of the largest maritime transportation companies in Mexico. The firm, through its subsidiaries provides maritime services and ports and terminals management to international and domestic clients throughout Mexico. As part of its growth strategy, the firm is committed to modernizing its fleet and increasing its penetration in Mexican Ports, which will in turn maximize margins. TMM's offshore and product tanker fleet generally work with long and medium-term contracts which has the effect of predictable cash flows.

SUMMARY DATA

52-Week High	**$1.90**
52-Week Low	**$0.70**
One-Year Return (%)	**-54.21**
Beta	**0.66**
Average Daily Volume (sh)	**2,459**
Shares Outstanding (mil)	**102**
Market Capitalization ($mil)	**$18**
Short Interest Ratio (days)	**1.97**
Institutional Ownership (%)	**4**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-7.5**
EBITDA (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**3**

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

Revenue
(in millions of Pesos)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012					2,592.20 A
2013					2,773.30 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012					-$7.70 A
2013					-$7.89 E

Reflects Logistics operations as discontinued

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WHATS NEW

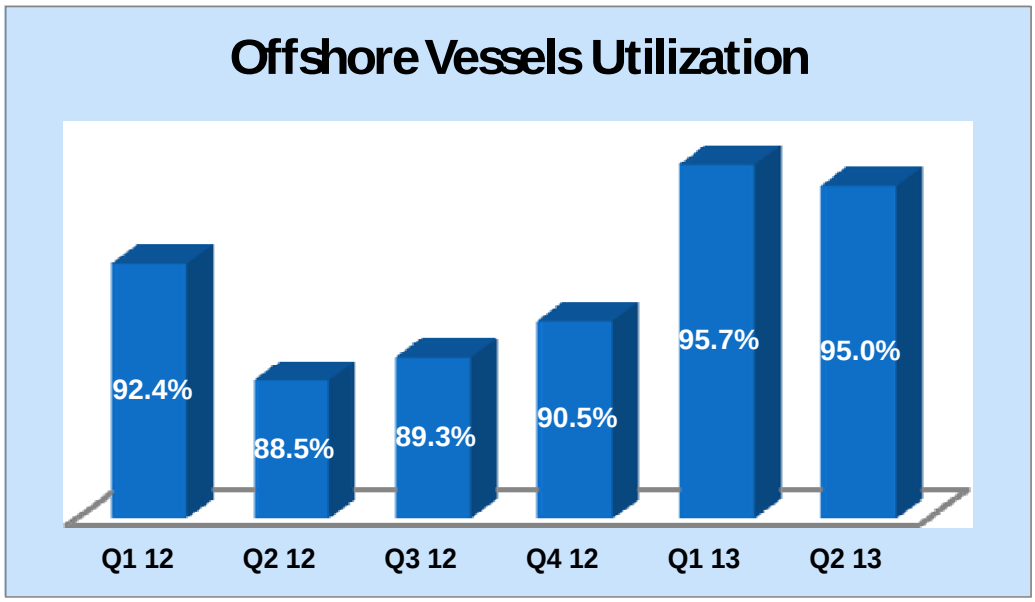
Grupo TMM Realigns its Business to Focus on Maritime and New Business Opportunities

On July 26, 2013, Grupo TMM (OTC: GTMAY and BMV: TMMA), released results for its second quarter ended June 30, 2013.

Revenue and operating profit showed solid improvement and continue to track well ahead of 2012. The Company's offshore Maritime business continued to excel while Ports and Terminals reported higher volumes at the automotive and at the maintenance and repair segments.

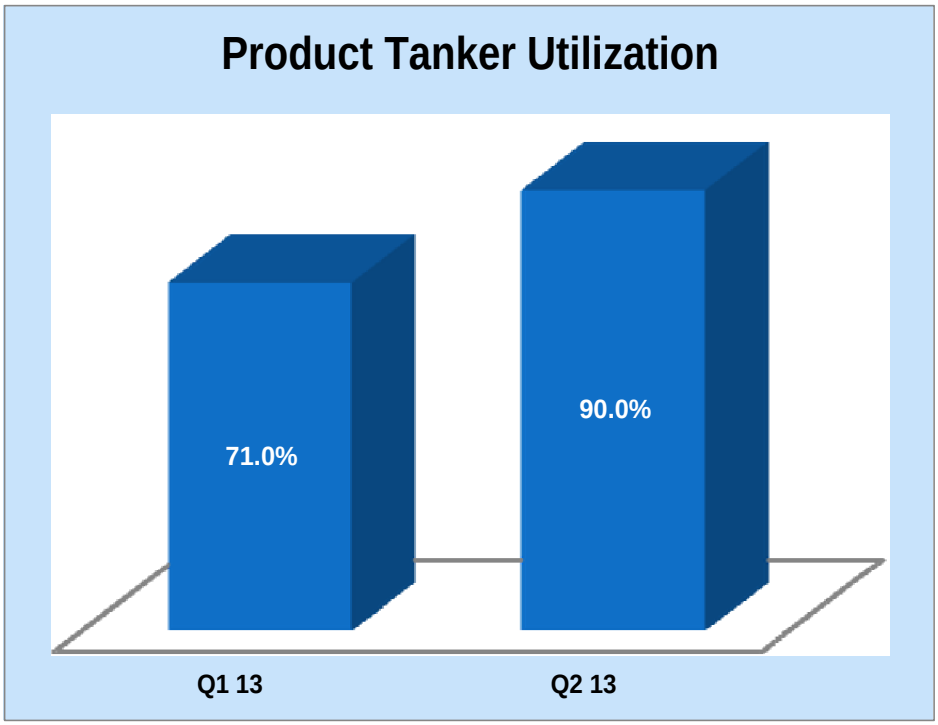
As a result, Grupo's consolidated revenue for the second quarter fiscal 2013 was strong at $716.4 million pesos, improving year over year by 12.4 percent or $79.2 million pesos, from $637.2 million pesos for the comparable quarter of 2012.

The improvement in year over year sales was primarily due to a nearly 13 percent revenue increase at Maritime as a result of revenue improvements at all business segments except for the shipyard and to solid utilization of 95 percent in the quarter. Additionally, product tanker utilization in the 2013 second quarter was 90 percent, improving from 71 percent in this year's first quarter.



Grupo's Maritime revenue for the second quarter improved 12.9 percent or by $25.9 million pesos year over year to $611.6 million pesos. Maritime operating margin profit increased 22.1 year over year as a result of offshore and harbor tugs, partially offset by profit losses at product tankers.

Also worth noting is that Maritime's EBITDA for the 2013 second quarter grew 11.4 percent to $276.8 million pesos compared to $248.5 million pesos in the 2012 second quarter.



Divesting Logistics
The Company's board of directors approved the sale of some of Grupo TMM's non-core assets, which include the trucking, auto hauling and warehousing operations. Going forward, these operations will be presented as discontinued operations according to IFRS 5 "Non-current assets held for sale and discontinued operations".

Looking at the past two fiscal years, the aforementioned discontinued operations incurred in operating losses of $275.6 million pesos in 2011 and $161.6 million pesos in 2012.

Port and Terminals
The Ports and Terminals segment continued its trend of revenue growth, improving by 11.4 percent or $9.6 million pesos year over year to $92.2 million pesos as a result of revenue improvements at the automotive and maintenance and repair segments. However, Ports and Terminals second quarter 2013 operating profit decreased by $5.6 million pesos to 8.1 million pesos driven by higher operating costs at the automotive division.

Tracking Ahead of 2012
Second-quarter 2013 consolidated operating profit increased 35.2 percent to $99.8 million pesos from $73.8 million pesos in the second quarter of 2012 driven mainly by higher operating profit at Maritime. Second-quarter 2013 consolidated EBITDA was $245.4 million pesos, up 13.3 percent from $216.5 million pesos in the 2012 second quarter while net interest expense was $209.9 million pesos during the quarter, resulting in free cash flow of $35.5 million pesos in the second quarter.

As of June 30, 2013, TMM's total net debt was $9,887.0 million pesos compared to total net debt of $9,891.7 million pesos at the end of the first quarter 2013. Of TMM's total debt, only $349.3 million pesos, or 3.3 percent, is short term. During the first quarter 2013 the Company paid approximately $395.0 million pesos of its Trust Certificates debt, including a capital prepayment of $5.0 million pesos.

Going forward, management expects to take advantage of new business opportunities at Maritime, as Mexico's Energy Reform is approved. Additionally, TMM anticipates announcing an agreement for a new project to grow TMM before year end.

STRATEGY CHANGE

Due to exchange rate volatility associated with the appreciation of the Peso to the US Dollar, Grupo TMM changed its functional and reporting currency from the U.S. Dollar to the Mexican Peso. This change will eliminate the impact of the exchange rate volatility in net financial cost and in turn in stockholders equity. Exchange rate losses have been significant over the past two years.

2013 and Beyond

Grupo TMM expects to reach an agreement for the development of a container terminal at Tuxpan in 2013. Additionally, TMM continues to work to expand the Company's revenue and profit base through the addition of specialized offshore vessels to its fleet.

A Closer Look at the TMM's Growth Plan

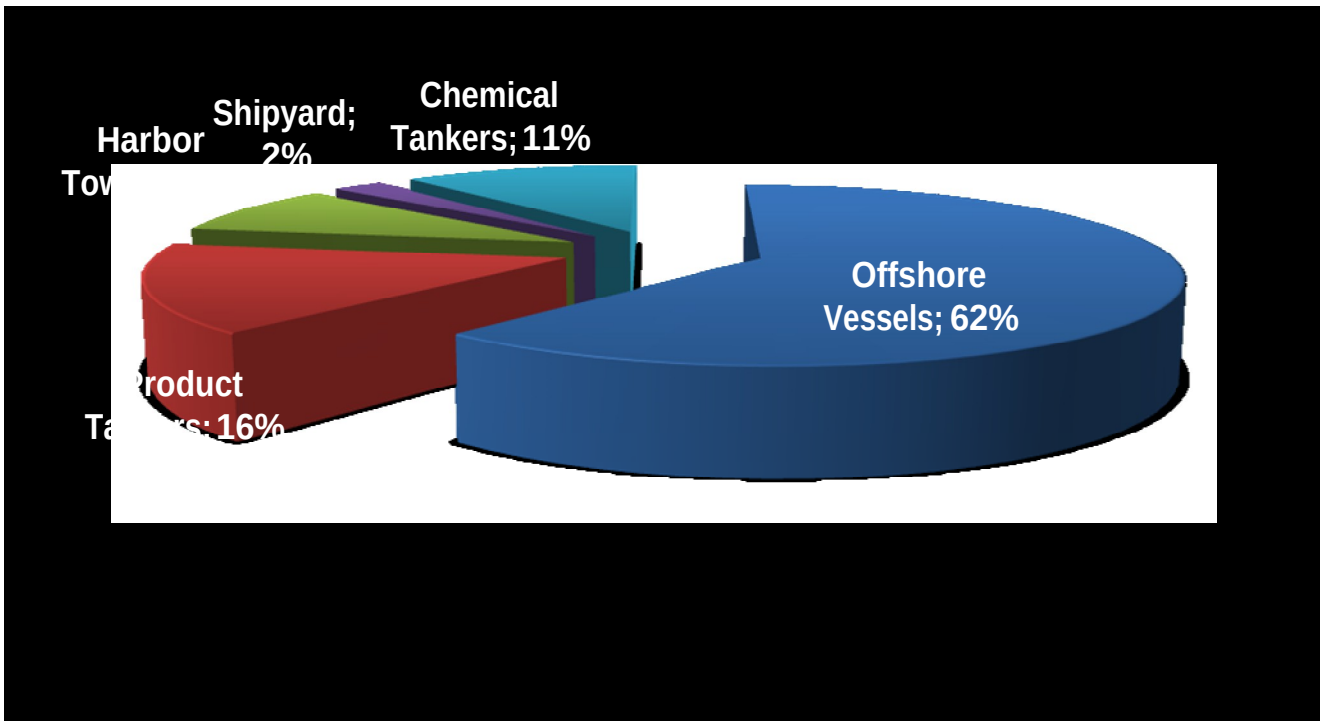
The firm's five-year growth plan includes two projects. The first project consists of the development of a container and liquids terminal at the Port of Tuxpan, Veracruz. The container terminal will meet increasing demand for capacity in the Gulf of Mexico, taking advantage of organic growth in the Mexican market. The liquids terminal will address current and projected increased demand for imported gasoline and diesel fuel through the construction of a pipeline and a berthing position.

While development of the facility could take up to two years, management believes it will reach an agreement for the financial implementation of the development of a container terminal in 2013.

Still, when completed, the terminal will strategically position TMM in these lucrative markets.

The second project includes the addition of specialized offshore vessels to TMM's fleet to meet increased demand for deep water transportation. The Company's intent is to escalate these services by taking advantage of the Mexican Navigation Law which grants priority to Mexican ship owners performing cabotage (intra-Mexican movement between Ports) in Mexican waters.

1H 2013 Maritime Contribution



INVESTMENT THESIS

- The firm's Maritime division is the dominant business at TMM. In the 2012 third quarter the Company added two offshore vessels to its fleet. TMM is committed to continue to modernize its fleet with specialized offshore vessels. TMM prefers to compete for margin rich niche business and employs long to medium-term contracts.

- TMM is committed to increase its penetration in Mexican ports, particularly Tuxpan. This should make the firm more efficient and more profitable in the long run.

- The outlook for deep water drilling is promising.

- Mexico's new energy reform will benefit TMM's offshore business.

- TMM is evaluating the possibility to join forces with an international shipyard to allow for building capacities at its shipyard in Tuxpan.

Maritime Operations.
The Maritime Operations division provides maritime transportation services, including offshore vessels that provide transportation and other services to the Mexican offshore oil industry, tankers that transport petroleum products within Mexican waters, parcel tankers that transport liquid chemical and vegetable oil cargos from and to the United States and Mexico, and tugboats that provide towing services at the port of Manzanillo, Mexico. The firm provides these services through its fleet of 40 vessels, which includes product tankers, a variety of offshore supply vessels, harbor tugs and chemical tankers.

Offshore Vessels
The offshore vessels unit has a fleet of 27 vessels mainly for transport of dry and liquid cargo, anchor handling tug vessels, crew boats, fire fighting vessels, four point mooring vessels and dynamic positioning vessels.



Product Tankers
This segment provides product tanker chartering services to PEMEX for the transportation of petroleum products, from refineries to various Mexican ports. The fleet is comprised of 5 product tankers. The firm enjoys an advantage here as Mexican Maritime law establishes that cabotage services should be provided by Mexican flag vessels and Mexican companies are given priority.



Chemical Tankers
The firm currently operates 2 chemical vessels that transport chemicals, vegetable oils and molasses. Currently more than 90% of cargo is transported under a contract of Affreightment. This is a service contract under which a ship owner agrees to transport a specified quantity of fuel products or specialty products, at a specified rate per ton, between designated loading and discharge ports.



Harbor Towing
TMM is the sole provider of towing services at the port of Manzanillo since January 1997 and has a concession through January 2015, which is anticipated to be renewed when expired. The firm currently has 6 vessels that service over 2,000 vessels per year. Major clients include, NYK, MSC, PEMEX and Hapag-Lloyd. Also, in March 2012, TMM began providing tug services to a new Liquefied Natural Gas, or LNG, terminal at Manzanillo, which has significantly improved the revenue mix of this division.



Shipyard
On January 2012, TMM announced the acquisition of a shipyard at the Port of Tampico, Veracruz. The shipyard concentrates on ship repair and has in operation two, 3,000-ton lift capacity dry docks. In the longer term, the Company expects to have the necessary capabilities to build vessels at this facility, through the association of an international shipyard.



Ports and Terminals Operations.
The firm presently operates two Mexican port facilities, Tuxpan and Acapulco, under concessions granted by the Mexican Government, which provide for certain renewal rights. This business unit also provides port agent services to vessel owners and operators in the main Mexican ports. At Acapulco, the Company operates and manages an automobile terminal, a cruise ship terminal and an automobile warehouse with a capacity to store up to 2,000 automobiles.

The Company owns approximately 2,000 acres of land in Tuxpan, and a multipurpose cargo terminal, currently handling only small volume of cargo. As stated above in this report, Grupo TMM expects to reach an agreement for the development of a container terminal at this Port in 2013. It is important to

note that the Company has the required environmental permits to develop and operate at this port. The Company is also working on the financial implementation for a liquids terminal at Tuxpan.

The Company's shipping agencies offer services including port agent services, cargo and multimodal supervision; ship chandler services and bunkering services.

The automotive segment provides value-added logistics services including storage and distribution of finished vehicles from auto yards to final distribution companies. The Company also offers services of maintenance and repair of containers to major international shipping companies at Mexico's main ports including, Manzanillo, Veracruz, Altamira, Ensenada and Mazatlán, as well as at intermodal and specialized terminals at Mexico City and Aguascalientes.





The Future of Deep Water Drilling

On March 3rd 2013 Mexico's ruling party proposed a new energy reform, to allow for private and foreign investment in the oil industry. This reform is up for approval by Congress in the second half in 2013. This new energy reform allows for larger private and foreign investment at PEMEX, to increase deep water exploration and production.

The new energy reform should benefit TMM going forward, specifically in its offshore related operations.

VALUATION

Despite the different segments, the firm is primarily a shipping firm which is set to take advantage of deep water drilling opportunities and is uniquely positioned for higher margins than the competition due to the nature of its medium and long term contracts, having less exposure to tariff volatility.

For investors with a time frame of several quarters this may be a good entry point as the firm is set to embark on a growth strategy that will improve the capital structure, (now highly leveraged) continue impressive utilization, and provide above average return on assets. When looking at several metrics (P/B, P/S) the firm looks undervalued. From an operational standpoint the firm has made impressive strides. (EBITDA margin and Utilization)

Management has effectively steered the company, for example it has kept its fleet of maritime assets modern with several purchases as well as selling off inefficient equipment. In our opinion investors should be more concerned with the cash flow and EBITDA numbers. We compared the firm against the transportation industry.

Metric	Grupo TMM	Industry Average
EV/EBITDA	11.60x	7.59x

While not as popular as Price/Earnings or Price/BV, Price/Sales is not influenced by accounting decisions in depreciation, inventory and extraordinary charges. P/S multiples are much less volatile than P/E multiples. However if the problem with the firm lies in cost control the P/S ratio will not reflect this flaw.

Metric	Grupo TMM	Industry Average
Price/Sales	0.10x	3.95x

According to the Price/Sales model the firm appears undervalued and fairly valued using the Enterprise model compared to the industry.

Using a blend of these valuation metrics we arrive at a price of $1.50.

PROJECTED INCOME STATEMENT

INCOME STATEMENT (MXP Millions)	FY 2011	FY 2012	FY 2013 E	FY 2014 E
REVENUE				
Ports & Terminals	*330.89*	*350.85*	*381.50*	*400.00*
Maritime	*2,133.40*	*2,188.81*	*2,341.75*	*2,450.00*
Others	*49.93*	*52.54*	*50.00*	*51.00*
Net Revenue	**2,514.22**	**2,592.20**	**2,773.25**	**2,901.00**
Sequential Growth				
OPERATING EXPENSES				
Ports & Terminals	*252.18*	*280.75*	*322.00*	*330.00*
Maritime	*1,115.74*	*1,206.87*	*1,262.00*	*1,300.00*
Others	*48.84*	*53.24*	*50.00*	*52.00*
Gross Profit -	**1,097.47**	**1,051.34**	**1,139.25**	**1,219.00**
Proforma Gross Margin	*0.44*	*0.41*	*0.41*	*0.42*
Depreciation and Amortization				
Ports & Terminals	*15.31*	*15.30*	*15.00*	*15.25*
Maritime	*521.14*	*561.86*	*565.00*	*570.00*
Others	*12.81*	*12.54*	*9.00*	*10.00*
Total D&A	**549.26**	**589.70**	**589.00**	**595.25**
Ports & Terminals	*63.40*	*54.79*	*42.00*	*50.00*
Maritime	*496.52*	*420.08*	*505.00*	*515.00*
Others	*(11.72)*	*(13.24)*	*(8.50)*	*(10.00)*
Corporate	*(187.59)*	*(172.00)*	*(209.00)*	*(220.00)*
Other Income (expense)	*(20.11)*	*(3.56)*	*12.00*	*15.00*
Operating Income	**340.51**	**286.08**	**341.50**	**350.00**
Proforma Operating Margin	*0.31*	*0.27*	*0.30*	*0.29*
Ports & Terminals	78.71	70.10	59.50	70.00
Maritime	1,017.66	981.94	1,079.00	1,150.00
Others	1.09	(0.70)	-	1.00
Corporate	(187.59)	(172.00)	(175.00)	(180.00)
Other Income (expense)	(20.11)	(3.56)	(4.00)	(5.00)
EBITDA	**889.77**	**875.78**	**959.50**	**1,036.00**
Non-Operating				
Loss from Discontinued Ops	(275.65)	(161.62)	(140.00)	(0.15)
Financial Cost	167.80	(896.80)	(932.00)	(945.00)
Min int	*12.50*	*5.30*	*6.00*	*8.00*
Tax Provision	41.10	8.80	70.00	75.00
Effective Tax Rate				
Net Income -	**179.06**	**(786.44)**	**(806.50)**	**(678.15)**
Net Income Margin	*0.07*	*(0.30)*	*(0.29)*	*(0.23)*
Adjustments for Disc Ops	**-**	**-**		
EARNINGS PER SHARE				
EPS - Basic	1.75	(7.70)	(7.89)	(6.64)
EPS - Diluted	1.75	(7.70)	(7.89)	(6.64)

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RISKS

- 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 continue to impact Maritime's revenue and profit.
- The firm remains highly leveraged with MXP 9,887.0 million in net debt.

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