Zacks Small-Cap Research

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Grupo TMM (TMM-NYSE)

TMM: Free Cash Flow and EBITDA improvement in 2010
Outperform

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	05/16/2010
Current Price (03/02/11)	$2.65
Six- Month Target Price	**$4.50**

OUTLOOK

Grupo TMM is one of the largest integrated logistics and transportation companies in Mexico. The firm, through its subsidiaries provides maritime services, land transportation services, integrated logistics services, and ports and terminals management to international and domestic clients throughout Mexico. As part of its 5-year 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. We feel the firm should outperform the industry and set a price target of $4.50.

SUMMARY DATA

52-Week High	**$3.20**
52-Week Low	**$1.97**
One-Year Return (%)	**-9.22**
Beta	**-0.08**
Average Daily Volume (sh)	**8,222**
Shares Outstanding (mil)	**102**
Market Capitalization ($mil)	**$54**
Short Interest Ratio (days)	**0.82**
Institutional Ownership (%)	**9**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**3.3**
Zacks Rank	**3**

Risk Level	**Above Avg.**
Type of Stock	**Small-Value**
Industry	**Trans-Services**
Zacks Rank in Industry	**4 of 9**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2008	86 A	93 A	95 A	89 A	363 A
2009	80 A	75 A	75 A	79 A	308 A
2010	81 A	75 A	75 A	74 E	305 E
2011	80 E	83 E	84 E	85 E	332 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2008	-$0.18 A	-$0.26 A	$0.25 A	$1.66 A	$1.47 A
2009	$0.09 A	-$1.20 A	$0.00 A	-$0.32 A	-$1.43 A
2010	-$0.41 A	$0.14 A	-$0.27 A	-$0.26 E	-$0.80 E
2011	$0.11 E	$0.18 E	$0.20 E	$0.25 E	$0.74 E

Zacks Projected EPS Growth Rate - Next 5 Years % **15**

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WHATS NEW

EBITDA, Free Cash Flow Grows
Grupo exits 2010 having reduced its debt significantly through restructuring and grown its EBITDA for the 5th consecutive year. EBITDA has grown at a lofty 182% or a compounded yearly growth rate (CYGR) of 29.6%. The firm was also Free Cash Flow positive for the year. The firms cash position increased by $58.1 million over the year and short-term debt is only 2.7% or $23.7 million of net debt. It should be noted that the firms Mexican Trust Certificates increased $40.2 million from appreciation of the Peso vs. the Dollar. (these are 20 year term and non-recourse to the company)

5 Year Growth Strategy
Management outlined TMM's 5-Year growth strategy, which includes increasing penetration in Mexican Ports and adding new vessels to TMM's Fleet. Regarding increasing penetration in Mexican ports, the firm is targeting Tampico, where it began stevedoring services for general cargo in the fourth quarter, and Tuxpan. Tuxpan is uniquely positioned for a container and liquid terminal for oil products.

On March 1, 2011 Grupo TMM announced results for the fourth quarter of fiscal year 2010 ending December 2010. Revenue for the period was $74.0million down 0.9% sequentially from $74.7 million and down 67% year over year. Revenue in the 2010 periods was negatively impacted by reduced revenue in the fourth quarter at product and chemical tankers in the Maritime segment, and in the fourth quarter and full year at Logistics.

Consolidated operating profit decreased 64% in the 2010 fourth quarter over the same period of last year, due mainly to a 4.8% profit decrease at Maritime and to increased losses at Logistics. Consolidated operating profit in the 2010 full year grew 26% compared to the 2009 full year, mainly attributable to increases at Maritime and Ports.

In the 2010 fourth quarter, consolidated EBITDA decreased 6.0% to $22.1 million compared to $23.5 million in the same period of last year. In the full year of 2010, EBITDA increased 24.3% to $89.4 million compared to $71.9 million in 2009. However, full-year 2009 consolidated EBITDA included a $4.4 million gain from the sale of two offshore vessels in the second quarter of 2009. Without this one-time gain, EBITDA increased 32.4%, or $21.9 million, in the 2010 full year, compared to the same period last year.



At Maritime, fourth-quarter 2010 revenue and operating profit decreased 2.5% and 4.8% respectively, compared to the 2009 fourth quarter. Revenue reductions were mainly attributable to product tankers, impacted by two bare boat contracts which were extended at lower rates, and to chemical tankers, due to one less vessel in operation. Gross profit decreased due to lower rates at product tankers and offshore vessels in the fourth quarter of 2010.

In the full year of 2010 Maritime revenue increased 0.5% as a result of improved results at offshore, due to operating one new process vessel beginning in the first quarter, and at harbor tugs, due to increased ship calls at Manzanillo. In the full year of 2010, Maritime's operating profit grew 7.6% compared to 2009, due mainly to improved profit at product tankers, as all vessels worked with contracts, and at harbor tugs attributable to higher volumes.

As of December 31, 2010, TMM's total net debt was $729.8 million. TMM's Trust Certificates debt was negatively impacted by $40.2 million from the appreciation of the peso versus the dollar in the 2010 full year. Year over year, TMM’s total net debt benefitted from an improved cash position of $58.1 million. TMM closed the year with less than 3 percent of its outstanding debt as short term.

On February 15, 2011, the Company paid approximately $44.5 million of Trust Certificates debt, including a capital prepayment of $8.4 million, evidencing the improvement of the Company’s cash flow.

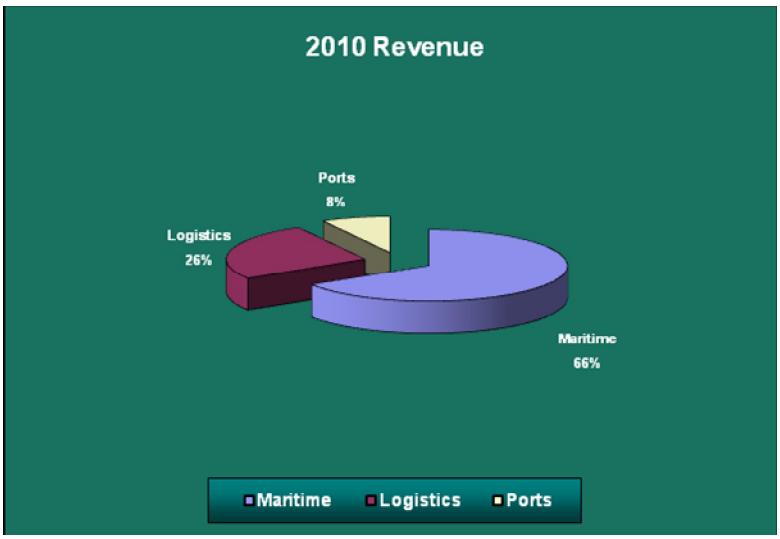
INVESTMENT THESIS

- The firm's Maritime division is the dominant business at TMM. TMM prefers to compete for margin rich niche business and pursues the employment of long to medium -term contracts at its Maritime business.

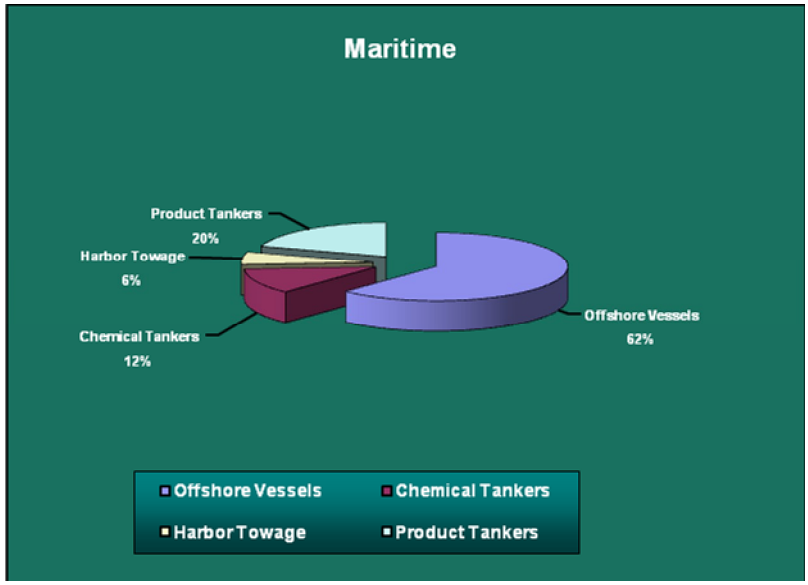
- TMM is committed to taking advantage of strategic opportunities to add new vessels to its fleet and increase its penetration in Mexican ports. This should make the firm more efficient and more profitable in the long run.

- Approximately 90% of the Company total debt is peso denominated, non recourse to the Company and for a 20-year term.

Grupo TMM is one of the largest integrated logistics and transportation companies in Mexico. The firm, through its subsidiaries provides maritime services, land transportation services, integrated logistics services, and ports and terminals management to international and domestic clients throughout Mexico. TMM continues to record solid EBITDA growth.



Maritime Operations. (66% of Total Revenue)
The Maritime division is further broken down into 4 segments; Offshore Vessels, Product Tankers, Chemical Tankers, and Harbor towing.



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 43vessels, which includes product and chemical tankers, harbor tugs and a variety of offshore supply vessels.

Renewing the Fleet
The firm's business strategy is to renew its maritime fleet with modern high quality vessels which will allow the TMM to take advantage of the increased demand for oil exploration in Mexico's deep waters.

Throughout 2008 and 2009 the firm added 10 offshore vessels and 3 product tankers. The utilization of the maritime fleet remains above the industry average.

Offshore Vessels
The offshore vessels unit has a fleet of 30vessels 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 five product tankers, all of which are under medium and long-term contracts

The firm enjoys a bit of an advantage here as Mexican Maritime law establishes that cabotage services should be provided by Mexican flag vessels and Mexican companies given priority.

Chemical Tankers
The firm currently operates three 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. This type contract differs from a spot or consecutive voyage charter in that no particular vessel is specified.

Harbor Towing
TMM is the sole provider of towing services at the port of Manzanillo. The firm currently has five vessels that service over 1,700 vessels per year. Major clients in Harbor Towing include Maersk, CSAV, NYK, MSC, and Hapag-Lloyd.

Ports and Terminals Operations. (8% of Total Revenue)
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 terminal of multipurpose cargo. While TMM currently handles only a small volume of cargo at the port, they are evaluating the development of a container and liquid terminal for oil products at this site as part of their 5-year growth strategy.

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

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).In the second half of 2010, The Ports and Terminals division started offering stevedoring services for general cargo at Tampico.

Logistics Operations. (26% of Total Revenue)
TMM provides dedicated trucking services to major manufacturers, including automobile plants, and retailers with facilities and operations throughout Mexico. The firm offers full-service logistical facilities in major industrial cities throughout Mexico, including Aguascalientes, Toluca, Puebla, Veracruz, Nuevo Laredo, Cuernavaca, Mexico City, Monterrey, Manzanillo, Ensenada, and Altamira.

Services provided include consulting, analytical and logistics outsourcing, which encompass the management of inbound movement of parts to manufacturing plants consistent with just-in-time inventory planning practices; logistics network (order-cycle) analysis; logistics information process design; trucking, intermodal transport and auto haulage services; warehousing and bonded warehousing facility management; supply chain and logistics management; product handling and repackaging; local pre-assembly; and inbound and outbound distribution using truck transport.

Currency Impact and Restructuring
At December 31, 2010, 62% of the company's revenues and 31% of its costs were dollar denominated. Currency fluctuations or the devaluation and depreciation of the Peso can impact revenues and costs as the company reports earnings in US dollars. Also, the majority of the firm's debt is denominated in Mexican Pesos. Therefore an appreciation of the Peso versus the dollar can cause exchange losses resulting in losses on the bottom-line. Investors should focus on top-line numbers as well as cash flow and EBITDA.

This quarter marked the fifth consecutive quarter of positive free cash flow. TMM was free cash flow positive, closing 2010 with $19.4 million of free cash flow compared to $15.7 million of negative cash flow in 2009, an improvement of $35.1 million.

In 2010, the Company significantly improved its debt profile through the restructuring of its high yield dollar denominated debt and through the consolidation of the three tranches of its Trust Certificates Program into one issuance. Recall at the end of the 2nd quarter the firm reopened its 20-year, non recourse, Mexican Trust Certificates Program to consolidate all tranches into one issuance for $10.5 billion pesos (approximately $817 million dollars. This issuance improved the Program's credit rating to AA in the domestic scale. The transaction closed on July 29th and allowed the firm to prepay certain dollar-denominated debt and fund new projects

The firm's industry position is quite unique in that it operates as a door to door provider of services, yet also at times enjoys niche markets and other times monopolistic markets. This certainly leads to higher margins than the competition. Despite the different segments, the firm is primarily a shipping firm which is set to take advantage of deep water drilling opportunities.

Management has effectively steered the Company, for example it has kept its fleet of maritime assets modern with several purchases throughout 2008 and 2009 as well as selling off inefficient equipment. In our opinion investors should be more concerned with the top-line and EBITDA numbers given the large amount of debt denominated in Mexican pesos. This adds the complexity of exchange gains and losses to the bottom line.

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