Zacks Small-Cap Research

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GRUPO TMM (GTMAY-OTC)

TMM: High Utilization at Maritime has Grupo TMM Tracking Ahead of 2012- Neutral

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	04/05/2013
Current Price (05/21/13)	$0.85
Target Price	**$1.50**

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 five-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.

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)	Year (Dec)
2012	809.1 A	3,334.7 A
2013	837.0 A	3,345.0 E

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

	Q1 (Mar)	Year (Dec)
2012	-$1.36 A	-$6.49 A
2013	-$1.64 A	-$6.94 E

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WHATS NEW

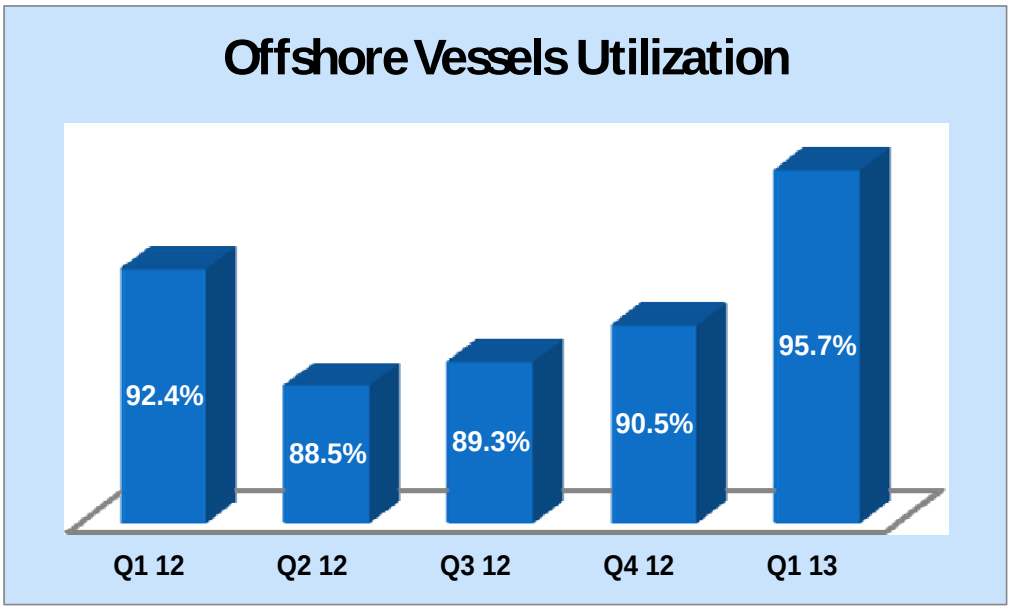
High Utilization at Maritime has Grupo TMM Tracking Ahead of 2012

On May 16, 2013 Grupo TMM, the Mexican intermodal transportation and logistics Company, released results for its first quarter ended March 31, 2013.

Maritime remains the dominant division at Grupo TMM. The Company's offshore business continued with high utilization and Ports and Terminals reported increased auto exports at Acapulco, particularly South America bound, as well as higher volumes at maintenance and repair.

As a result, Grupo's consolidated revenue for the first quarter fiscal 2013 was strong at $837.0 million pesos, improving year over year by $27.9 million pesos, from $809.1 million pesos for the comparable quarter of 2012.

The improvement in year over year sales for the segment was primarily due to a 7.9 percent revenue increase at offshore, as a result of higher average daily tariffs, to having two additional vessels in the fleet and to improved utilization, which grew from 92.4 percent in the 2012 first quarter to 95.7 percent in the 2013 reported quarter. Additionally, parcel tanker revenue improved 26.1 percent year over year due to higher volumes, and harbor towage revenue grew 9.3 percent due to an improved revenue mix attributable to the Liquefied Natural Gas, or LNG, services.



Grupo's Maritime revenue for the first quarter improved nearly 5 percent or by $25.6 million pesos year over year to $554.5 million pesos.

Maritime operating profit for the quarter increased 16.8 percent year over year as a result of revenue increases at offshore and harbor tugs. Operating margin increased to 20.8 percent from 18.6 percent in the 2012 first quarter.

Also worth noting is that Maritime's EBITDA for the 2013 first quarter grew 9.2 percent to $257.4 million pesos compared to $235.8 million pesos in the 2012 first quarter. Likewise, EBITDA margin at Maritime improved in the 2013 first quarter to 46.4 percent compared to 44.6 percent in the 2012 first quarter.

Excluding other income net in both reported periods, consolidated operating profit in the 2013 first quarter was $35.9 million pesos, improving 13.6 percent from $31.6 million pesos in the 2012 first quarter. Other

income net was $10.5 million pesos in the 2013 first quarter and mainly included $5.9 million pesos in cash dividends from affiliates and $1.6 million pesos in net tax recoveries. In the 2012 first quarter, other income net of $27.5 million pesos included $28.7 million pesos in cash dividends from affiliates, offset by a $1.3 million peso reserve for expenses associated with an arbitrage at the Maritime division.

Consolidated EBITDA in the 2013 first quarter was $203.7 million pesos compared to $213.6 million pesos in the 2012 first quarter.

The Ports and Terminals segment continued its trend of revenue growth, improving by $20.9 million pesos to $97.7 million pesos. Likewise, the Ports and Terminals segment's operating profit during the 2013 first quarter increased 37.9 percent compared to the 2012 first quarter, largely due to profit improvements at Acapulco and at maintenance and repair, specifically at the Veracruz, Manzanillo and Altamira facilities.

As of March 31, 2013, TMM's total net debt was $9,891.7 million pesos. The Company paid approximately $395.0 million pesos of its Trust Certificates debt, including a capital prepayment of $5.0 million pesos. Of Grupo TMM's total debt, only $239.1 million pesos or 2.4 percent is short term. This compares to $332.6 million pesos or 3.1 percent of total debt being short term as of December 31, 2012.

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 financing of the development of a container terminal at Tuxpan in 2013. Additionally, as part of its 5-year growth plan, TMM continues to work to expand the Company's revenue and profit base through the addition of specialized offshore vessels to its fleet.

Similarly, in January 2012 TMM acquired a shipyard at the Port of Tampico, which has contributed to Maritime's revenue and profit.

A Closer Look at the TMM's Growth Plan

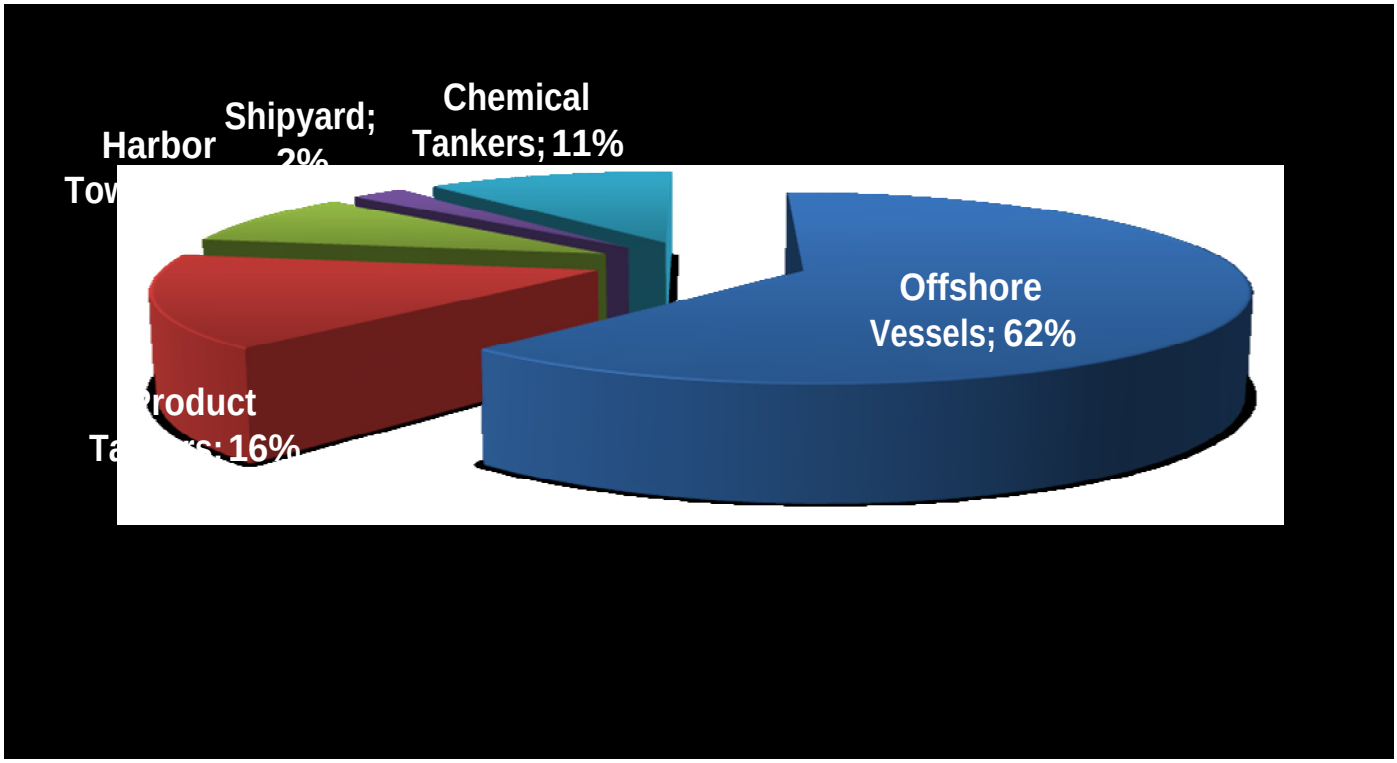
The firm's five-year growth plan includes two projects. The first project consists of the development of a container and liquids terminal at the Port of Tuxpan, Veracruz. The container terminal will meet increasing demand for capacity in the Gulf of Mexico, taking advantage of organic growth in the Mexican 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.

2012 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 as part of its five-year growth plan. 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. (65% of Total Revenue)
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 five 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 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.



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 five 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. (10% 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 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 financing of 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. In the second half of 2010, The Ports and Terminals division started offering stevedoring services for general cargo at Tampico.





Logistics Operations. (25% 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, Mexico City and Monterrey.

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; trucking services; auto haulage services; warehousing and bonded warehousing facility management and product handling and repackaging.



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	0.03x	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
REVENUE			
Net Revenue	**3,344.90**	**3,334.70**	**3,345.00**
Sequential Growth			
OPERATING EXPENSES			
Cost of Revenues	2,266.60	2,315.30	2,300.00
% of Revenue			
Gross Profit -	**1,078.30**	**1,019.40**	**1,045.00**
Proforma Gross Margin	*32.2%*	*30.6%*	*31.2%*
Depreciation + Amort	795.7	695.9	705.0
% of Revenue	*23.8%*	*20.9%*	*21.1%*
Corp Expenses	207.7	75.6	60.0
% of Revenue	*6.2%*	*2.3%*	*1.8%*
Other Income (Expenses)-Net	-	-	-
% of Revenue			
Total Operating Expenses	1003.40	771.50	765.00
% of Revenue	*30.0%*	*23.1%*	*22.9%*
Operating Income -	**74.9**	**247.9**	**280.0**
Operating Margin	*2%*	*7%*	*8%*
NON-OPERATING ITEMS			
Non operating Income/Expense	167.8	-896.8	-985.0
% of Revenue	*5.02%*	*-26.89%*	*-29.45%*
Tax Provision	41.10	8.80	4.0
Effective Tax Rate			
Net Income -	**201.60**	**-657.70**	**-709.00**
Net Income Margin	*6.0%*	*-19.7%*	*-21.2%*
EARNINGS PER SHARE			
EPS - Basic	$1.85	-$6.49	-$6.94
EBITDA (in Millions)	$870.60	$943.80	$985.00

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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 9,891.7 million in net debt.

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