



2018 TRADERFORUM LATAM Conference Mexico Under AMLO: What Next?

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Who is AMLO (Andres Manuel Lopez Obrador)



President elect of Mexico, won by a landslide, 53.1% of votes

Born 1953 (65 years of age)

Takes office Dec 1, 2018 for a 6 year term

Leader of political party MORENA, won under “Juntos Haremos Historia” coalition which included the Labor Party (L) and Encuentro Social (R)

A life-long politician, joined the PRI in 1973 in Tabasco; left the PRI at the start of the Salinas term in 1988 to join Cuauhtémoc Cardenas and the PRD

No direct ties to the military, labor unions or other political or social organizations

Elected Mexico City mayor, served 2000-2005

Ran twice for president before winning: in 2006 (lost to president Calderon) and 2012 (lost to president Peña)

AMLO's Track Record

Positives	Negatives
As Mexico City Mayor fostered healthy, open communication with the media	As losing candidate in 2006 protested by blocking Paseo de la Reforma for months
Implemented austerity program saving an estimated \$11b pesos	Corruption scandals: His secretary of finance and the PRD leader in Mexico City at the time both caught on videotape accepting cash bribes
Social spending expanded to \$65b pesos primarily to the elderly, poor families, students	Nepotism: Wife as communication adviser and international relations "expert"; son is MORENA's president
Mexico City's debt grew at its slowest pace on 25 years, kept AAA rating for public debt	Extreme populist and confrontational discourse when addressing his base
Crime rate fell 20% vs previous admin; private security advisor was R. Giuliani	On his mandatory personal financial disclosure (3 of 3) declared to have no properties, no savings accounts, basically no assets under his name
Record public and private investments in infrastructure; record FDI during his term	

AMLO's Political Platform*

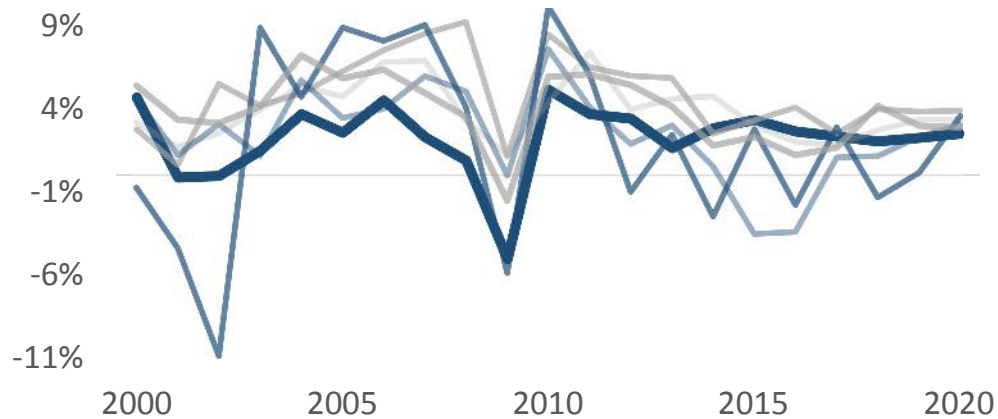
Key Policies or Proposals	Implications
1. Austere government	Cost cutting program, reducing corruption, lowering interest payments > Mx\$ 400 billion pesos in annual savings ; pledged fiscal balance during his term.
2. Governance and anticorruption	Attempts to articulate a 12 point program to reduce or eradicate corruption including transparency in public servant's personal wealth disclosures and the role of the Supreme Audit prosecuting public servant's corruption crimes.
3. Social spending	Jobs growth incentives Mx\$200bn, youth programs Mx\$108bn, Welfare state Mx\$50bn, plus other spending programs and public investments totaling Mx\$560bn/yr.
4. Energy sector	Pledged to bring down president Peña's Energy reform but also to respect contracts that are already in place. Significant source of uncertainty.
5. General economic policy	Nationalist Pro-growth agenda: Invest Mx\$50bn in Ag sector, Mx\$80bn in CFE and Pemex, build 2 new oil refineries (estimated \$10-\$30bn USD investment); infra investments of \$220bn annually.
6. Internal security	Greater integration of institutions; redirect military inwards for internal security, create national guard with 250k soldiers; pledges to reduce crime 50% by 2024.
7. Foreign policy	Prudent approach to bilateral US relations ; recent success renegotiating trade agreement with US shows a well coordinated effort with Peña's administration.

Mexico's Macro Conditions as AMLO Takes Office

Macro Variable	Data Point	
Real GDP Growth 2017	2.3%	Oxford Economics
CPI Inflation	4.8%	Banco de Mexico, Quarterly Report August 29, 2018
Policy Rate	7.75%	
FX MX/USD	19.02	Spot FX, 9/25/18, Bloomberg
Unemployment Rate	3.6%	INEGI, Thompson Reuters
Government Debt % GDP 2018E	50.4%	World Bank
Central Bank Reserves US\$	\$173.6bn	Banco de Mexico
FDI % GDP 2018E	2.6%	Oxford Economics
Current Account Deficit 2018E	-2.0%	Thompson Reuters
Fiscal Deficit 2017	-1.0%	SHCP, Oxford Economics, AZTLAN calculations

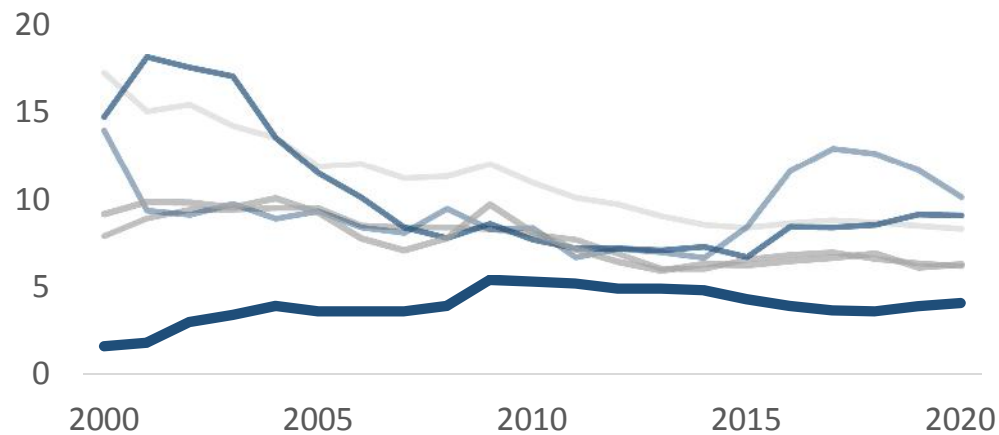
Mexico's Macro Conditions in the LATAM Context

GDP Growth %



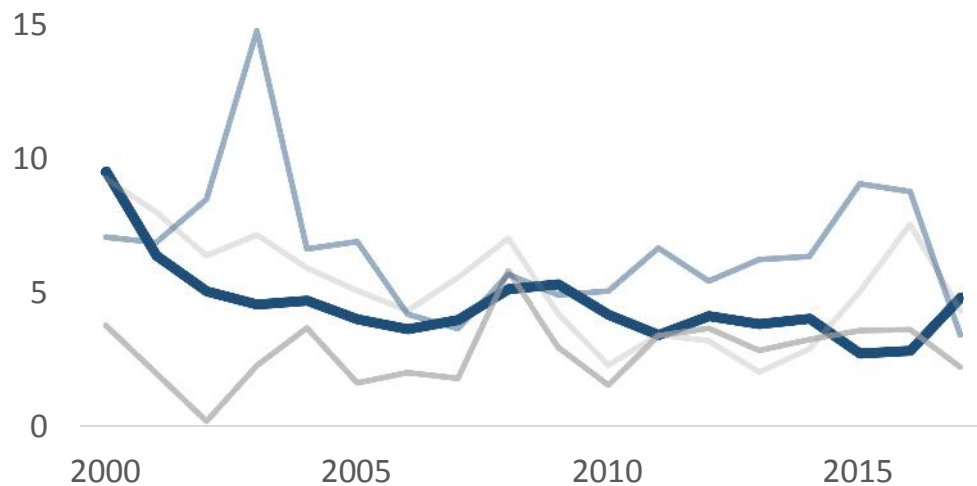
■ Mexico ■ Colombia ■ Peru ■ Brazil ■ Argentina ■ Chile
 20yrAvg 2.2% 3.8% 4.8% 2.4% 2.0% 3.8%

Unemployment Rate %



■ Mexico ■ Colombia ■ Peru ■ Brazil ■ Argentina ■ Chile

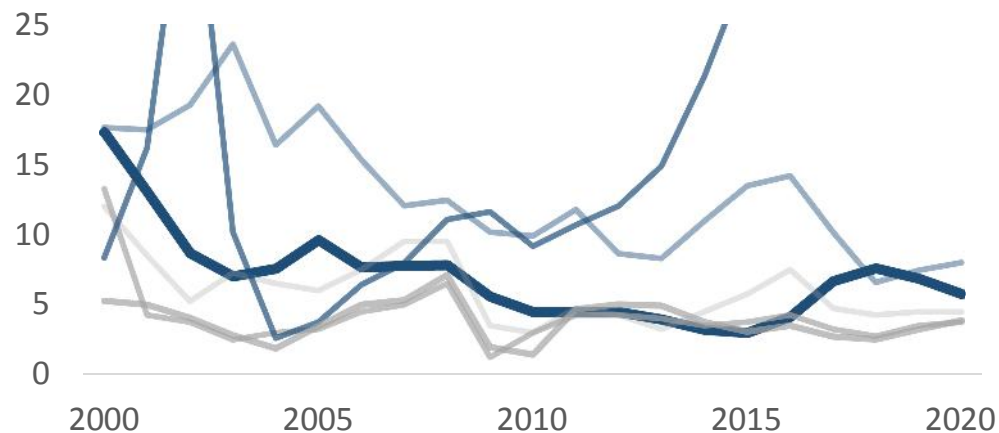
CPI Inflation %



■ Mexico ■ Colombia ■ Peru ■ Brazil

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Policy Interest Rates %

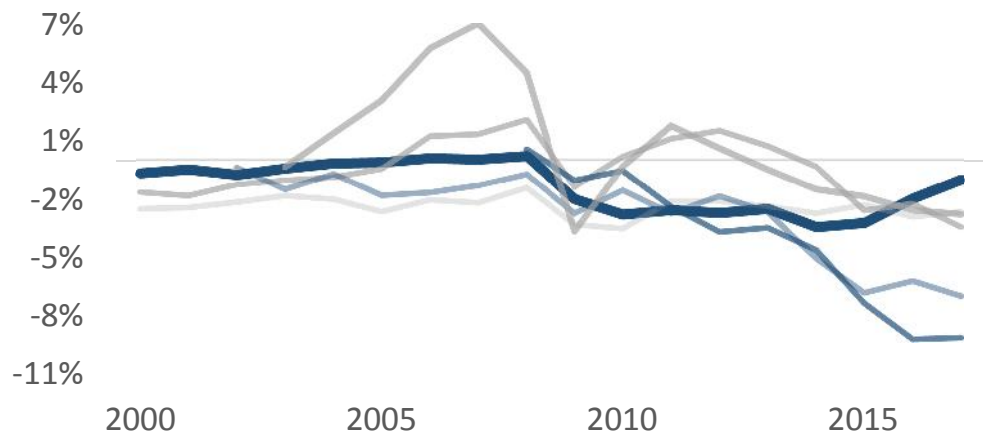


■ Mexico ■ Colombia ■ Peru ■ Brazil ■ Argentina ■ Chile

*Source: Thomson Reuters EIKON Macro Explorer

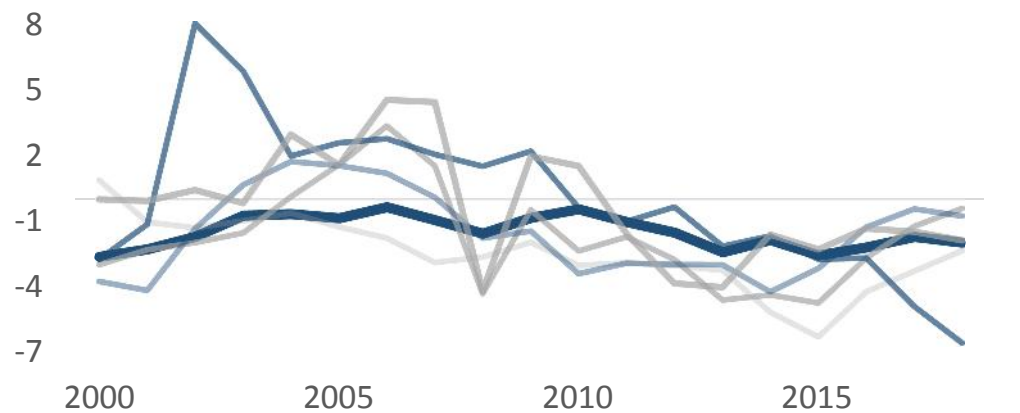
Mexico's Macro Conditions in the LATAM Context

Fiscal Balance % GDP



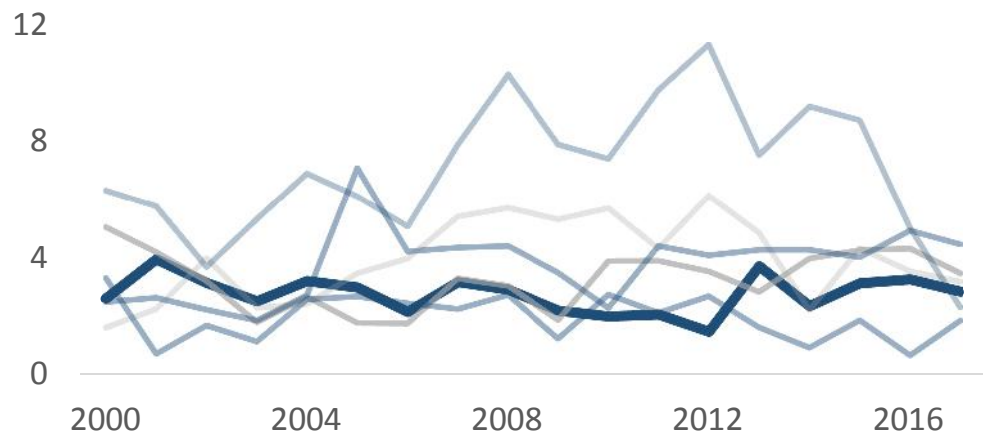
2017 -1.0% -2.7% -3.5% -7.0% -9.1% -2.8%

Current Account Balance % GDP



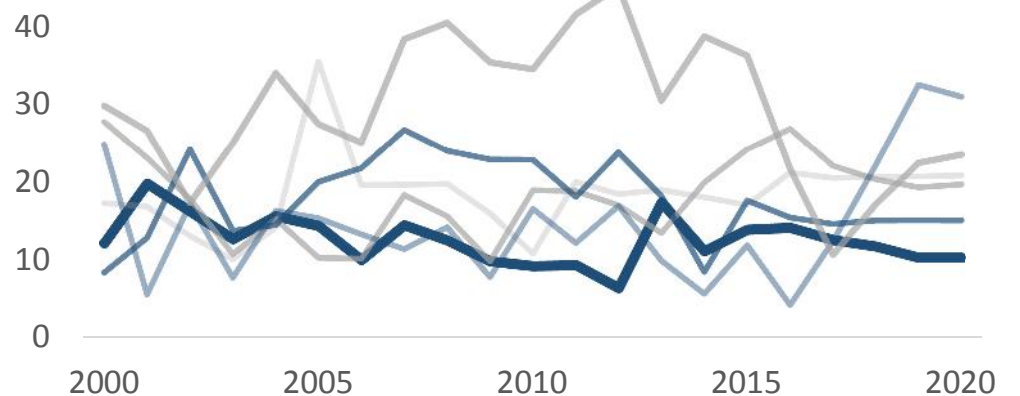
2018E -2.0% -2.4% -0.4% -0.8% -6.6% -1.9%

FDI % GDP



Mexico Peru Brazil Colombia Chile Argentina

FDI as % of Total Investment



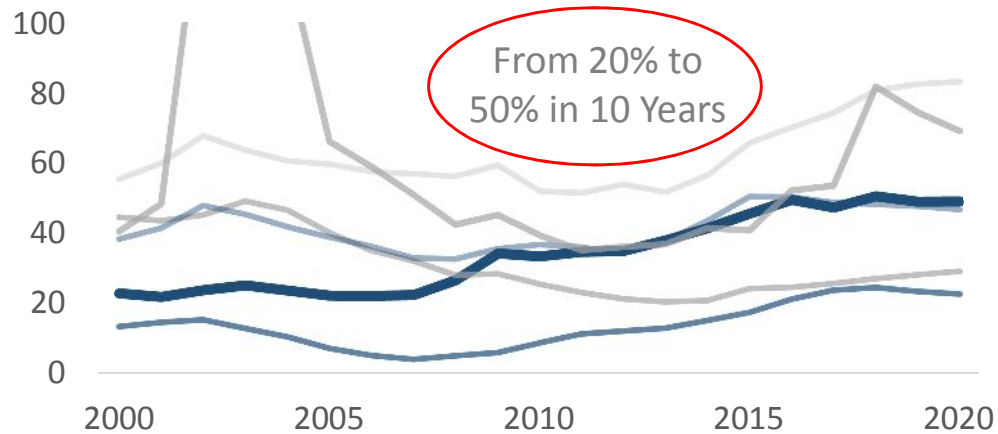
Mexico Colombia Brazil Argentina Peru Chile

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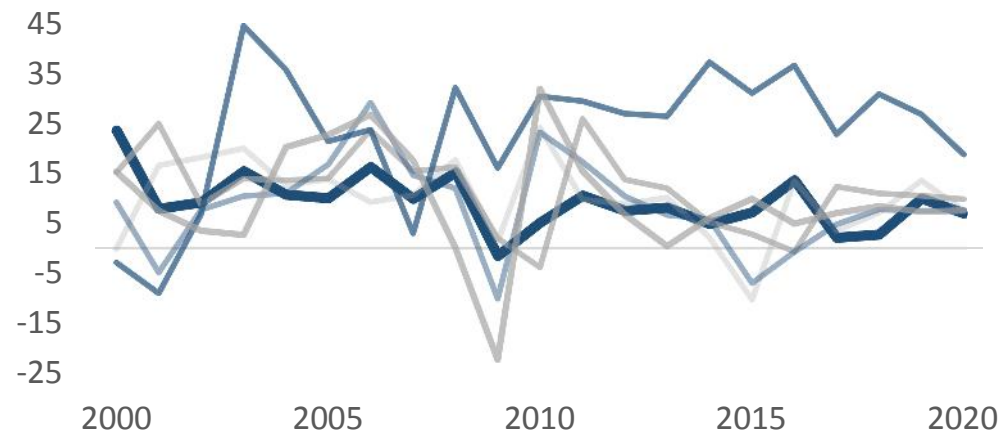
*Source: Thomson Reuters EIKON Macro Explorer

Mexico's Macro Conditions in the LATAM Context

Government Debt % GDP



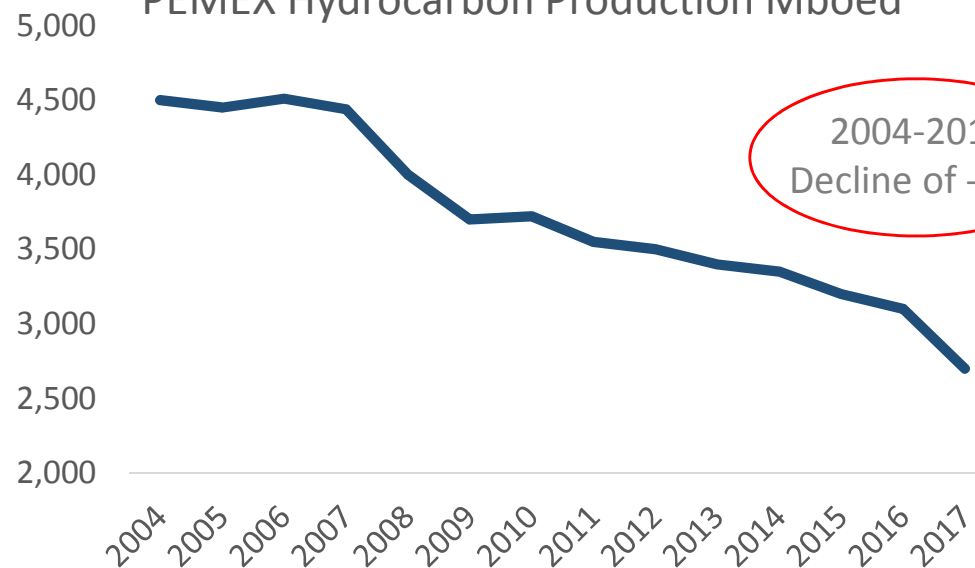
Tax Revenue % Growth



■ Mexico ■ Brazil ■ Peru ■ Colombia ■ Chile ■ Argentina
 2018E 50.4% 80.6% 26.8% 48.1% 24.3% 81.5%

■ Mexico ■ Brazil ■ Colombia ■ Peru ■ Argentina ■ Chile

PEMEX Hydrocarbon Production Mboed



9/27/2018

*Source: Thomson Reuters EIKON Macro Explorer and PEMEX Investor Relations

PEMEX: Why the Energy Reform to Begin With

PEMEX Summary Financials

Mx\$ Millions	2013	2014	2015	2016	2017
Revenue	1,608,205	1,586,728	1,166,362	1,074,093	1,397,030
Revenue Growth		-1.3%	-26.5%	-7.9%	30.1%
EBIT	727,622	615,480	(154,387)	424,350	104,725
EBIT Margin	45.2%	38.8%	-13.2%	39.5%	7.5%
EBITDA	971,762	955,151	754,220	658,884	498,947
EBITDA Margin	60.4%	60.2%	64.7%	61.3%	35.7%
Net Income	(169,866)	(265,203)	(712,435)	(191,646)	(280,845)
Net Margin	-10.6%	-16.7%	-61.1%	-17.8%	-20.1%
Net Debt	753,753	1,023,700	1,382,412	1,814,781	1,909,910
Net Debt/EBITDA	0.8x	1.1x	1.8x	2.8x	3.8x
Interest Expense	39,586	51,559	67,774	98,844	117,645
EBITDA/Int Expense	24.5x	18.5x	11.1x	6.7x	4.2x
Total Equity	(185,751)	(768,066)	(1,331,929)	(1,233,985)	(1,503,317)

Will the Market Allow for 2 New Refineries + Energy Reform Annulment?

Rating Agency Name & Rating Type	Rating	Rating Date
S&P Senior Unsecured (Domestic)	A-	18-Dec-2017
R&I Long-term Issuer Rating (Foreign)	BBB+	25-Apr-2018
	BBB+	14-Apr-2017
R&I Long-term Issuer Rating (Domestic)	BBB+	25-Apr-2018
	BBB+	14-Apr-2017
Moody's Backed Long-term Senior Unsecured MTN Rating	(P)Baa3	31-Mar-2016
Moody's Long-term Issuer National Scale Rating (Foreign)	WR	27-Apr-2017
Moody's Derived Long-term Issuer Rating (Foreign)	Baa3	12-Apr-2018

Our Base Case Scenario: a Pragmatic AMLO

The obvious need for private participation in Mexico's energy sector will be acknowledged, regardless of what is said/done about current administration's energy reform

Hopefully, market proves 2 new refineries under current Pemex structure unfeasible

What if not?

Yes, sovereign debt can expand, way beyond the current 50% of GDP

Fiscal balance pledge - good bye

Finances get strained further given ongoing interest rate cycle

Based on a simple sources and uses model, FX spikes

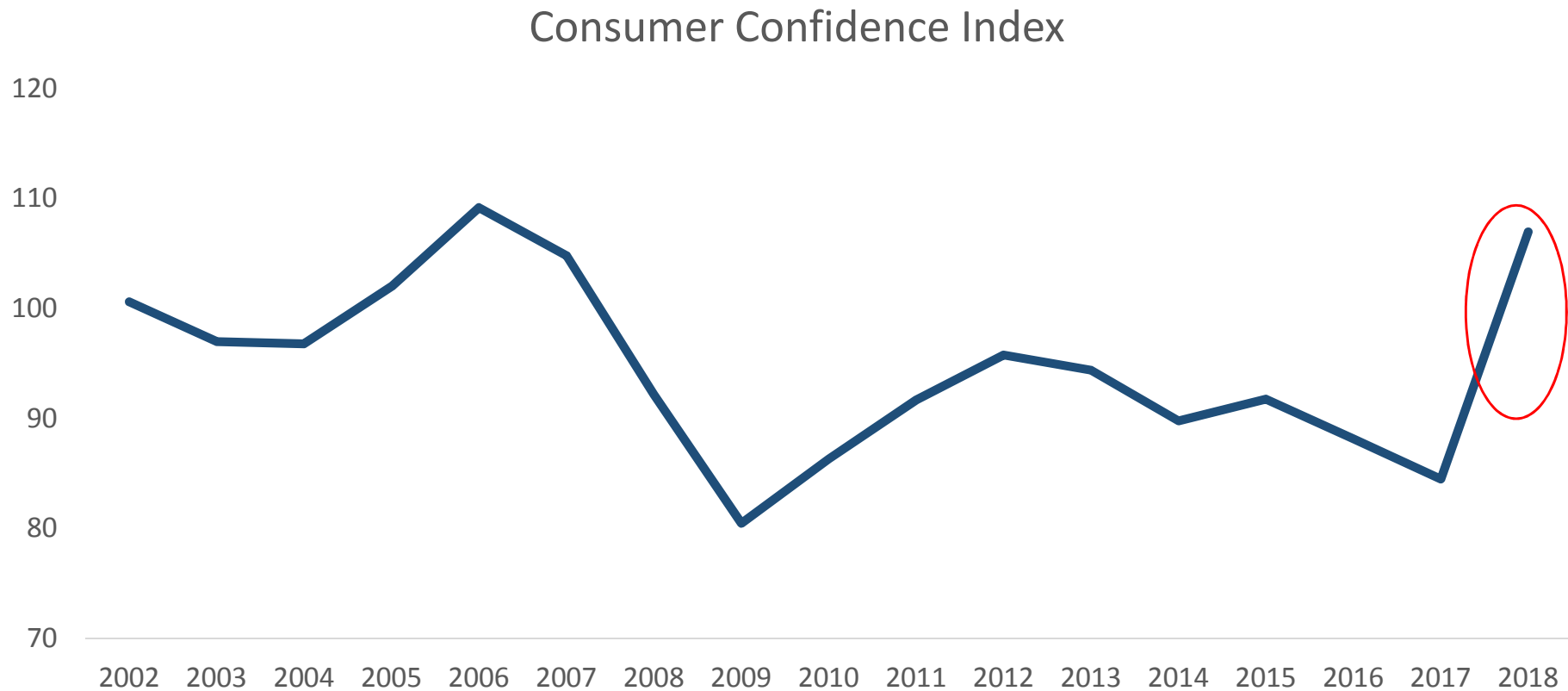
Sovereign risk premiums expand

Additional second order effects on the exchange rate ensue

Etc...

Feb 14, 2019 a critical date: Oil bidding rounds 3.2 and 3.3

Spike in Consumer Confidence Right After the Election A Vote of Confidence for AMLO



9/27/2018

*Source: Banco de Mexico

General Equity Market Implications by Sector

Sector/Industry	Potential Effects/Expectations
Media and Telecom	Respect for private property but stronger enforcement of antimonopoly or cross ownership rules. Increased competition; oversight of interconnection rates
Consumer/Food/Retail	Social spending particularly youth programs and salary subsidies should foster consumption with stable aggregate labor costs
Banks	In theory policies promote formalization, positive for banks long term; interest rate caps potentially negative
Infrastructure/Construction/Airports/Industrials	New airport could boost infrastructure development multi-decade; inhibit investment if cancelled. Multimodal development of Tehuantepec corridor a positive with favorable ramifications
Mining	Expect increased regulatory and environmental oversight, higher operational costs; stronger positioning of mining unions



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