



Soriana Valuation  
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BY: FERNANDO DODDOLI LANKENAU

## **Why I am analyzing Soriana:**

- Since 2016, Soriana's equity market price has dropped 49.8%—from \$51 mexican pesos/share to \$23.8 mexican pesos/share
- Since 2016, Soriana's book value has grown from \$54,298 million mexican pesos to \$70,827 million mexican pesos
- Soriana's equity market price is currently \$42,700 million mexican pesos—60% of its equity book value
- Only 13.8% of Soriana's outstanding stock is floated, which makes it hard for institutional investors to get involved because there's approximately only \$295 million USD worth of stock held by public investors.
- In the past 12 months Soriana has decreased its outstanding debt balance by 18.2% and net debt by 49.4%
- Most of the Soriana's assets are fixed assets
  - The company currently has more than \$20,000 million pesos in land

## **Analysis Outline: How I plan to value Soriana**

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- a. It's one year from now and this investment did not work out. What could be the reasons that that happened?

## **Setting and Background Information**

The story of Soriana starts in November of 1968 with the opening of their first retail self-service store in the city of Torreón, Coahuila. With a growth plan in place, brothers Martin Borque, in 1971, started to institutionalize the company and began consecutively opening stores to strengthen their presence in the northern part of Mexico. Since then Soriana has expanded to the center, pacific, and south of the country.

In the year 2000 Soriana achieved more than 100 stores in operation. And in 2001 introduced a loyalty program that has helped the company captivate consumers. In 2002, the company started a diversification program with the goal of meeting different market segments within the self-service industry. Starting with warehouse clubs (City Club), and then following in 2003 with the opening of stores focused on lower prices—Soriana Mercado. Finally, in 2005 the company opened their first convenience store called Súper City.

By the end of 2005, Soriana was a strong national player in the self-service business, but with limited presence in Mexico City. Thus, in an effort to strengthen their presence in this part of the country, in 2007 Soriana acquired Grupo Gigante—another self-service retail company. The acquisition of Grupo Gigante doubled the size of Soriana and also helped the company consolidate its presence in other important parts of the country like Guadalajara, Tijuana, and the south-east. By 2012 Soriana had more than 600 stores and sales of \$100 billion Mexican pesos.

In 2016, Soriana once again made a very big acquisition. Soriana acquired 143 stores from Comercial Mexicana for more than \$35 billion Mexican pesos. Soriana financed this acquisition mainly with debt. Even though Soriana's operating income increased substantially, the financing cost arising from the issued debt has since been a significant expense for the company. Soriana currently has a debt reduction plan in place to pay down their total debt to reduce interest expenses. In the last 12 months, for example, there was a 28% net debt reduction.

Today Soriana has 796 stores, sales of over 155 billion mexican pesos, presence in all the states across the country, and competes in 7 different self-service retail segments: Hyper-markets, Super-markets, Low-Cost Supermarkets, Express Super Markets, Warehouse Clubs, Home Improvement and Construction.

Also important, but not part of Soriana's core business is their commercial real estate operations. In 2019, Soriana had more than 9,100 commercial premises. These premises are mostly next to Soriana's retail stores—which 70% are owned by the company.

In regards to the controlling shareholders, currently 86.2% of the shares outstanding are held by insiders. The Martin Bringas, Martin Viñas, and Martín López families, founders of the company, own 1,031,741,928 shares that represent 57.3% of capital stock. Additionally, the Martin Obregon family owns 519,451,158 shares that represent 28.8% of capital stock. The

remaining 248,806,914 shares, equivalent to 13.8% of the company's capital stock, are floated and held by public investors.

## Profitability

### Financials of Soriana from FY 2012 to FY 2020

(in millions of Mexican Pesos)

Year	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Revenue	155,256	157,053	155,744	153,475	153,637	149,552	109,380	101,829	105,028	104,611
Cost of Sales	121,273	122,954	121,054	119,125	119,281	116,361	86,225	79,338	82,799	83,059
Gross Income	33,973	34,099	34,690	34,350	34,356	33,161	23,155	22,491	22,229	21,552
Gross Margin	21.9%	21.7%	22.3%	22.4%	22.4%	22.2%	21.2%	22.1%	21.2%	20.6%
Operating Expenses	22,302	25,008	25,477	26,282	25,206	24,785	17,849	17,514	16,670	16,143
Operating Income	9,137	9,091	9,214	8,068	9,150	8,376	5,306	4,977	5,559	5,409
Operating Margin	5.9%	5.8%	5.9%	5.3%	6.0%	5.6%	4.9%	4.9%	5.3%	5.2%
Net Financing Cost	1,951	2,883	3,392	2,111	2,197	1,892	425	464	276	200
Pre-tax income	6,854	5,813	5,302	5,592	6,925	6,562	5,400	4,578	5,326	5,204
Net Income	4,349	3,697	3,267	3,629	4,605	4,208	3,726	3,704	3,117	3,557
Net	2.8%	2.4%	2.1%	2.4%	3.0%	2.8%	3.4%	3.6%	3.0	3.4%

Income Margin										
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### Commentary on Financials

As you can see from the table above, Soriana’s sales grew at a compounded annual rate of 4.6183% from 2012 to 2020 ( $157,053 = 104,611 \cdot (1+r)^9$ ). Moreover, Soriana’s gross margins have been highly stable, moving between 20.6% and 22.4% from 2012 to 2020. Their operating margins have also been stable from 2012 and 2020. In 2020 Soriana’s operating margin was 5.8% compared to 5.2% in 2012. In regards to Soriana’s financing cost, it has increased dramatically since 2015 mainly due to the debt the company issued to buy a significant portion of Comercial Mexicana. This increase in financing cost has greatly affected the profitability of their core business—Tiendas Soriana.

**Resumen de la información Financiera de Tiendas Soriana**

La siguiente tabla muestra un resumen de la información financiera auditada que se obtuvo de los estados financieros dictaminados de Tiendas Soriana, S.A. de C.V., principal subsidiaria directa del Emisor, para cada uno de los ejercicios que concluyeron el 31 de diciembre de 2016, 2017, 2018, 2019 y 2020. Las cifras se presentan de forma nominal.

*Cifras expresadas en millones de pesos*

	2016	2017	2018	2019	2020
Ingresos Totales	148,874	153,102	153,190	155,421	156,789
Utilidad Bruta	32,366	33,658	34,556	34,940	34,326
Gastos de Operación	27,880	29,140	30,963	29,787	29,302
Utilidad de Operación	3,473	3,547	2,766	3,626	3,424
Utilidad Neta	1,676	1,215	251	(158)	381

### Profitability of Soriana vs La Comer vs Walmex from FY 2012 to FY 2020

**Gross Margin of Soriana, La Comer, Walmex from 2012 to 2020**

Year	2020	2019	2018	2017	2016	2015	2014	2013	2012
Soriana	21.7%	22.3%	22.4%	22.4%	22.2%	21.2%	22.1%	21.2%	20.6%
La Comer	27.3%	27.3%	26.3%	25.7%	24.5%	n/a	n/a	n/a	n/a
Walmex	23.1%	22.9%	23%	22.9%	22.1%	21.9%	22.1%		
Chedraui	22%	21.5%	21.1%	20.7%	20.3%	19.7%	20%	20.2%	19.5%

**Operating Margin of Soriana, La Comer, Walmex from 2012 to 2020**

Year	2020	2019	2018	2017	2016	2015	2014	2013	2012
Soriana	5.8%	5.9%	5.3%	6.0%	5.6%	4.9%	4.9%	5.3%	5.2%
La Comer	6.4%	5.2%	5.5%	4.7%	2.8%	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Walmex	8.2%	8.3%	8%	7.6%	7.4%	7.1%	7.9%		
Chedraui	4.7%	4.3%	3.9%	4.6%	4.8%	4.6%	4.7%	4.6%	4.5%

**Net Income Margin of Soriana, La Comer, Walmex from 2012 to 2020**

Year	2020	2019	2018	2017	2016	2015	2014	2013	2012
Soriana	2.4%	2.1%	2.4%	3.0%	2.8%	3.4%	3.6%	3.0	3.4%
La Comer	5.4%	4.8%	5.7%	4.7%	3.5%	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Walmex	4.8%	5.9%	6%	7%	6.3%	5.4%	6.9%		
Chedraui	1.8%	1.2%	1.7%	2.2%	2.3%	2.3%	2.5%	2.6%	2.3%

**Return on Capital Employed of Soriana, La Comer, Walmex from 2012 to 2020**

Year	2020	2019	2018	2017	2016	2015	2014	2013	2012
Soriana	10.5%	10.6%	9.5%	11.2%	10.4%	7.8%	10.7%	12.3%	12.6%
La Comer	7.1%	4.8%	4.8%	3.7%	2.0%	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Walmex	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Chedraui	18%	14.7%	11.2%	13.3%	13.8%	13%	13%	12%	11.3%

\*ROCE = EBIT / Shareholder's Equity plus Total Debt

**Return on Equity of Soriana, La Comer, Walmex from 2012 to 2020**

Year	2020	2019	2018	2017	2016	2015	2014	2013	2012
Soriana	5.5%	5.1%	5.9%	7.9%	7.7%	7.4%	8.0%	7.2%	8.8%

La Comer	6.0%	4.4%	4.9%	3.7%	2.6%	n/a	n/a	n/a	n/a
Walmex	19.7%	22.5%	22.2%	25%	20%	17.4%	20.3%		
Chedraui	8.9%	5.4%	6.9%	7.4%	7.4%	7%	8%	7.3%	7.3%

*\*ROE = Net Income/Shareholder's Equity*

#### **Return on Assets of Soriana, La Comer and Walmex from 2012 to 2020**

Year	2020	2019	2018	2017	2016	2015	2014	2013	2012
Soriana	2.6%	2.2%	4.6%	3.6%	3.3%	3.7%	4.6%	4.0%	4.8%
La Comer	4.7%	3.5%	4.2%	3.2%	2.2%	n/a	n/a	n/a	n/a
Walmex	9.2%	10.9%	12%	13.5%	11.6%	10.4%	12.2%		
Chedraui	2.9%	1.7%	3%	3.8%	3.7%	3.5%	3.8%	3.7%	3.4%

*\*ROA = Net Income/Total Assets*

#### **Commentary on Profitability**

Although Soriana's gross margins and operating margins are relatively close to its competitors, due to the company's interest expenses, its net income margin is significantly lower than La Comer and Walmex. On the same note, Soriana's return on assets is significantly lower than its competitors, mainly due to the company's interest expenses. If we look at the company's ROA before 2015, we can see that after the acquisition of La Comer's stores, the company's profitability has greatly decreased due to the interest expense that arose from the debt issued to fund that acquisition.

The company's management currently has a debt reduction plan in place. As a result, I expect that Soriana's profitability will increase thanks to this reduction in non-operating expenses.

#### **Capital Expenditures vs Depreciation and Amortization of Soriana**

##### **Capex from 2012 to 2020** (in millions of Mexican Pesos)

Year	2020	2019	2018	2017	2016	2015	2014	2013	2012
Capex	944	1,678	2,651	2,105	2,587	1,879	3,030	3,657	3,471

% of Sales	0.6%	1%	1.7%	1.4%	1.7%	1.7%	3%	3.5%	3.3%
% of Net Operating Cash Flow	6.5%	26.3%	61.3%	25.3%	27.8	50.5%	44%	70.5%	55.4%

### **Depreciation and Amortization 2012 to 2020**

(in millions of Mexican Pesos)

Year	2020	2019	2018	2017	2016	2015	2014	2013	2012
Depreciation and Amortization	3,180	3,159	2,815	3,251	3,464	2,155	2,083	1,976	2,016
% of Sales	2%	2%	1.8%	2.1%	2.3%	2%	2%	1.9%	1.9%

### **Commentary on Capital Expenditures**

Since 2018 capital expenditures have significantly decreased. This is mainly due to the company's decision to allocate resources mainly to the maintenance of stores and the reduction in debt.

### **Capitalization and Leverage of Soriana, Walmex, and La Comer from FY 2014 to FY 2020**

#### **Capitalization and Leverage of Soriana from 2014 to 2020**

Year	Q2 2021	2020	2019	2018	2017	2016	2015	2014
Equity to Assets Ratio	0.48	0.47	0.44	0.46	0.45	0.42	0.49	0.57
Total Debt to	0.12	0.14	0.16	0.17	0.18	0.2	0.18	0



Assets Ratio								
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#### **Capitalization of Walmex from 2014 to 2020**

Year	2020	2019	2018	2017	2016	2015	2014	
Equity to Assets Ratio	0.48	0.48	0.54	0.54	0.58	0.6	0.6	

#### **Capitalization of La Comer from 2014 to 2020**

Year	2020	2019	2018	2017	2016	2015	2014	
Equity to Assets Ratio	0.78	0.8	0.86	0.85	0.85			

#### **Commentary on Capitalization**

As you can see in the tables above, Soriana is more leveraged than its competitors, however, since 2017 the company has been reducing its outstanding debt. This reduction in debt has caused the company's capitalization to improve. Additionally, La Comer, one of its main competitors, has no debt outstanding and funds itself primarily with its own equity capital—thanks to the money they obtained from the 2016 sale to Soriana.

#### **Efficiency of Soriana vs La Comer vs Walmex**

##### **Operational Expenses as a Percentage of Sales (in millions of MXN unless otherwise stated)**

##### **Soriana**

Year	2020	2019	2018	2017	2016	2015
Operating Expenses	22,119	22,548	23,614	22,389	21,362	15,721
Sales	157,053	155,744	153,475	153,637	149,552	109,380

Operational Expenses as a Percentage of Revenue	14%	14.5%	15.4%	14.6%	14.3%	14.4%
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#### **Walmex**

Year	2020	2019	2018	2017	2016	2015
Operational Expenses	105,042	94,427	92,597	86,921	77,834	69,548
Sales	701,734	641,825	612,186	573,371	532,384	489,367
Operational Expenses as a Percentage of Revenue	15%	14.6%	15%	15.2%	14.6%	14.6%

#### **La Comer**

Year	2020	2019	2018	2017	2016
Operational Expenses	5,650	4,776	3,990	3,473	3,194
Sales	27,021	21,591	19,119	16,635	14,757
Operational Expenses as a Percentage of Revenue	21%	22%	20.8%	20.8%	21.6%

#### **Inventory Turnover (in millions of MXN unless otherwise stated)**

##### **Soriana**

Year	2020	2019	2018	2017	2016	2015
Cost of Goods	122,954	121,054	119,125	119,281	116,361	86,225

Sold						
Average Value of Inventory	30,860	32,151	28,399	25,889	21,432	16,864
Inventory Turnover	3.98	3.77	4.19	4.6	5.4	5.1
Days to Sell Inventory	91.6	96.9	87	79	67	71.3

#### **Walmex**

Year	2020	2019	2018	2017	2016	2015
Cost of Goods Sold	539,694	498,795	475,324	442,299	414,900	373,308
Average Value of Inventory	67,956	65,448	61,403	56,564	51,707	48,462
Inventory Turnover	7.94	7.62	7.74	7.8	8	7.7
Days to Sell Inventory	46	47.9	47.2	46.7	45.5	47.4

#### **La Comer**

Year	2020	2019	2018	2017	2016
Cost of Goods Sold	19,636	15,698	14,078	12,305	11,148
Average Value of Inventory	3,250	2,966	2,524	2,229	2,082

Inventory Turnover	6	5.3	5.6	5.5	5.35
Days to Sell Inventory	60.4	68.9	65.2	66.4	68.2

### Sales per Square Meter

#### Soriana

Year	2020	2019	2018	2017	2016
Sales Floor m <sup>2</sup> (as stated)	4,021,126	4,120,660	4,244,236	4,299,589	4,324,320
Sales (in millions)	157,053	155,744	153,475	153,637	149,552
Sales per Square Meter (as stated)	39,260	37,790	36,163	35,730	34,590

#### Walmex

Year	2020	2019	2018	2017	2016
Sales Floor m <sup>2</sup> (as stated)	7,202,982	7,099,063	6,950,235	6,832,144	n/a
Sales (in millions)	701,734	641,825	612,186	573,371	n/a
Sales per Square Meter (as stated)	97,463	90,398	88,084	84,319	n/a

#### La Comer

Year	2020	2019	2018	2017	2016
Sales Floor m <sup>2</sup> (as	308,862	300,780	272,738	250,259	242,312

stated)					
Sales	27,021	21,591	19,119	16,635	14,757
Sales per Square Meter	87,446	71,970	70,290	66,540	60,979

### Commentary on Efficiency

Based on the data above, it is clear that Soriana is less efficient than its competitors. Although operating expenses as a percentage of sales have been constant and are very similar to walmex, inventory turnover and the days it takes for the company to sell its inventory is significantly worse than competitors. Implying weaker sales and poor inventory management. Moreover, the company's sales per square meter is also much less than competitors. However, since 2016, the company has increased sales per square meter. Mainly due to the closing of some stores and an increase in sales. In effect, I expect Soriana to sell at a smaller multiple to book value than its competitors.

## Liquidity of Soriana VS Walmex VS La Comer

### Liquidity of Soriana

Year	Q3 2021	2020	2019	2018	2017	2016
Current Ratio	1.25	1.17	1.08	1	0.98	0.95
Interest Coverage Ratio	n/a	3.92	3.38	5.14	5.52	7.14

### Liquidity of Walmex

Year	Q3 2021	2020	2019	2018	2017	2016
Current Ratio	1	1	1	1	1	1.1
Interest Coverage Ratio	n/a	6.55	10	23.22	28.7	30.5

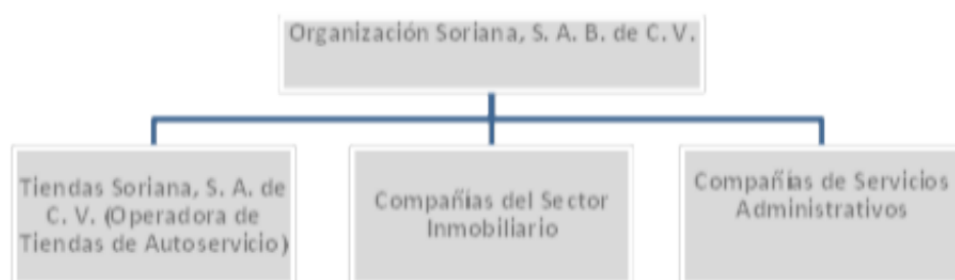
### Liquidity of La Comer

Year	Q3 2021	2020	2019	2018	2017	2016
Current Ratio	1.42	1.5	1.5	1.6	1.58	1.82
Interest Coverage Ratio	n/a	n/a	n/a	n/a	n/a	n/a

### Commentary on Liquidity:

Based on the data above, I believe Soriana will be able to meet its short term liabilities and is not likely to become bankrupt. Moreover, I expect the Soriana's financial position to continue to improve thanks to company's strong cash flow generation and the debt reduction plan in place.

## Corporate Structure



### Tiendas Soriana, S.A. de C.V

Es operadora de 795 tiendas de autoservicio en los diversos formatos, Soriana Híper, Soriana Súper, Soriana Mercado, Soriana Express y City Club. A su vez, esta subsidiaria es operadora de las tiendas de conveniencia Súper City y controladora de 12 inmobiliarias propietarias de las tiendas adquiridas de Comercial Mexicana

### Real Estate Related Subsidiaries

Empresa dedicada al arrendamiento de inmuebles, principalmente a partes relacionadas. Otra de las actividades que realiza Soriana es el giro inmobiliario, que comprende la renta de más de 9,000 locales que forman parte de las galerías comerciales anexas a cada tienda, así como a la realización de desarrollos inmobiliarios.

El giro inmobiliario de la Compañía no es considerado relevante dentro de los ingresos totales de la Compañía.

## Human Capital

La Compañía finalizó el año 2020 con un total de 86,087 empleados, de los cuales, aproximadamente el 39.54% del personal de la Compañía es sindicalizado

## Relevant Directors

### Principales Funcionarios

Nombre	Puesto	Antigüedad en el Puesto	Edad	Género
Ricardo Martín Bringas	Director General	29	61	Masculino
Rodrigo Jesús Benet Córdova	Director de Administración y Finanzas	5	38	Masculino
Ismael Humberto Fayad Wolff	Director General Comercial	17	55	Masculino
Jesús Lorente López	Director Híper y Súper	2	57	Masculino
Francisco Ramírez Díaz	Director Mercado y Express	11	56	Masculino
Carlos Alexandre Cordier Perez	Director City Club	2	60	Masculino
Carlos Francisco Sanchez Fanjul	Director de Procesos y Tecnología de Información	1	48	Masculino
Luis Girard de la Lastra	Director de Logística y Distribución	23	64	Masculino
Gustavo Armando Robles Luque	Director Jurídico	16	57	Masculino
Antonio José Madrid Garcia	Director de Recursos Humanos	3	45	Masculino
Gerardo Díaz Canales	Director de Desarrollo Inmobiliario, Construcciones y Sustentabilidad	2	52	Masculino
Jorge Alberto Reyes Mora	Director de Contraloría	9	48	Masculino

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Bolsa Mexicana de Valores S.A.B. de C.V.



Clave de Cotización: SORIANA

Año: 2020

Cantidades monetarias expresadas en Unidades

Nombre	Puesto	Antigüedad en el Puesto	Edad	Género
José Luis González Flores	Director de Auditoría	11	50	Masculino

## Board of Directors

Nombre	Género	Edad	Cargo	Calidad	Año de Elección	Suplente	Género	Año de Elección
Francisco Javier Martín Bringas	Masculino	68	Presidente	Patrimonial	1986	Ricardo Martín Bringas	Masculino	1988
María Teresa Martín Bringas	Femenino	58	Vocal	Patrimonial	2019	Carlos Eduardo Martín López	Masculino	2016
Gerardo Martín Bello	Masculino	41	Vocal	Patrimonial	2020			

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Bolsa Mexicana de Valores S.A.B. de C.V.



Clave de Cotización: SORIANA

Año: 2020

Cantidades monetarias expresadas en Unidades

Alberto Martín Soberón	Masculino	60	Vocal	Patrimonial	1994	Armando Martín Soberón	Masculino	1994
Juan José Martín Viñas	Masculino	36	Vocal	Patrimonial	2016	María Rosa Martín Soberón	Femenino	2016
Ana María Martín Bringas	Femenino	70	Vocal	Patrimonial	1994	Vacante		
Alejandro Córdoba Ruiz*	Masculino	74	Vocal	Independiente	2016	Fernando Marroquín Lavín*	Masculino	2020
Guillermo Torre López*	Masculino	85	Vocal	Independiente	2004	Ernesto Icazbalceta Lerma*	Masculino	2016

\*Consejero independiente.

## Main Shareholders

Las familias Martín Bringas, Martín Viñas y Martín López detentan un total de 1,031,741,928 acciones que se encuentran en un fideicomiso y que representa el 57.3189% del capital social. La familia Martín Soberón es propietaria de 519,451,158 acciones que representan el 28.8583% del capital y se encuentran distribuidas entre miembros de esta familia, algunos de ellos que también forman parte del Consejo de Administración.



Ricardo Martín Bringas, the company's CEO and Chairman of the Board, owns 8.2% of the company's outstanding stock.

## **Calculate Soriana's Enterprise Value**

(in millions of MXN)

### **Calculate Net Debt**

Net debt = Total Debt - Cash and Cash Equivalents

$$5,951 = (2,475 + 13,377) - 9,901$$

### **Current Equity Market Price**

42,700 million pesos

### **Enterprise Value**

EV = Current Equity Market Price + Net Debt

$$EV = 48,651 \text{ million pesos}$$

## **Calculate Soriana's Net Asset Value in Equity and Enterprise Terms**

I will begin using the net book value of assets and then add or subtract amounts that reflect differences between reproduction and book values only for those assets and liabilities for which these differences are significant.

The assets for which these differences are significant are land and intangible assets. Because land is accounted for at the acquisition cost and does not reflect appreciation value, I believe Soriana's land assets are significantly worth more than the amount on its books. I will assume a conservative appreciation of 20% for the company's land assets. In effect, the adjusted value of Soriana's land assets are \$37,326 million pesos—an increase of \$6,221 million pesos.

	Saldo al 31 de diciembre de 2019	Adiciones	Desinversiones	Trasposos	Reclasificación (1)	Saldo al 31 de diciembre de 2020
Inversión:						
Terrenos	\$ 30,890	\$ 70	\$ (4)	\$ -	149	\$ 31,105
Edificio y construcciones	39,118	425	(257)	33	64	39,383
Mobiliario y equipo de oficina	27,011	345	(467)	-	98	26,987
Derecho de uso de activos arrendados	10,827	742	(348)	-	-	11,221
Proyectos en proceso	455	58	-	(33)	(32)	448
<b>Inversión total</b>	<b>108,301</b>	<b>1,640</b>	<b>(1,076)</b>	<b>-</b>	<b>279</b>	<b>109,144</b>
Depreciación:						
Edificio y construcciones	(11,187)	(914)	51	-	(76)	(12,126)
Mobiliario y equipo de oficina	(18,646)	(1,295)	319	-	(47)	(19,669)
Derecho de uso de activos arrendados	(1,461)	(816)	65	-	-	(2,212)
<b>Total depreciación acumulada</b>	<b>(31,294)</b>	<b>(3,025)</b>	<b>435</b>		<b>(123)</b>	<b>(34,007)</b>
<b>Inversión neta</b>	<b>\$ 77,007</b>	<b>\$ (1,385)</b>	<b>\$ (641)</b>	<b>\$ -</b>	<b>156</b>	<b>\$ 75,137</b>

In regards to Soriana's intangible assets, I will adjust this amount with an estimate of Soriana's sales reproduction value. The measure of reproduction value per peso of revenue is the cost of acquiring those customers in the most efficient way possible. One way is through an independent sales agency. These typically charge 5-10% of first year sales as commission. If we use a midpoint estimate of 7.5% in fees per peso of sales, then Soriana's 157 billion book of business would have a reproduction cost of \$11.7 billion pesos ( $\$157 \text{ billion} * 0.075 = \$11.7 \text{ billion}$ ).

Thus, the resulting net asset value on an equity basis for Soriana is about \$68,373 million and the net asset value of its ongoing operations is about \$74,324 million.

	Value (millions of MXN)
Current Book Value of Equity	70,827
Value Change of PPE	+ 6,221
Value Change of Intangible Assets	- 8,675
Total Reproduction Value of Soriana (equity)	68,373
Plus Net Debt	5,951
Total Reproduction Value of Soriana (enterprise)	74,324

## Calculate Soriana's Net Power Value

### Calculate Soriana's Earnings Power

Because debt levels are not constant and are based on financial policy imposed by management, they can be changed relatively quickly. Operating income, therefore, is a better place to begin thinking about sustainable earnings power than pre-tax income.

#### 1. Calculate Sustainable Revenues

Year	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Sales	155,256	157,053	155,744	153,475	153,637	149,552	109,380	101,829	105,028	104,611

To calculate Soriana's sustainable revenue, I will take the average revenue from 2016 to 2021. I will use this time range because revenues were very constant and minimal growth was seen. Also, these revenues represent the company's sales after the acquisition of Comercial Mexicana.

Soriana's Sustainable Revenue: **\$154,119 million pesos**

#### 2. Calculate Sustainable Operating Margins

Year	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Operating Margin	5.9	5.8%	5.9%	5.3%	6.0%	5.6%	4.9%	4.9%	5.3%	5.2%

For our sustainable operating margin, I will take the average operating margin from 2016 to 2020.

Soriana's Sustainable Operating Margin: **5.75%**

#### 3. Calculate Tax Rate

For the tax rate, I will use the current corporate **tax rate of 30%**

#### 4. Calculate Sustainable Net Operating Profit After Taxes

To calculate net operating profit after taxes, I will multiply the company's sustainable revenue of \$154,119 million pesos times its sustainable operating margin of 5.75%. I will then adjust this number with the current corporate tax rate of 30%. This yields a sustainable net operating profit after taxes of:  $\$154,119 * 0.0575 * 0.7 = \$6,203 \text{ million pesos}$ .

## 5. Adjustments

I will adjust Soriana's sustainable net operating profit after taxes by adjusting the depreciation charge. I will adjust depreciation because it might be overstated on the company's books, as sustainable earnings are the earnings measured after taking into consideration the necessary investments to return a company's operations at the end of the year to their condition at the start of the year. Thus, the amount of excess depreciation can be roughly estimated by looking at the years 2018 and 2017, because there was minimal revenue growth. If we assume that for these years all capital outlays were maintenance CapEx, then "true" depreciation averaged \$2,378 million (\$2,651 million in 2018 and \$2,105 million in 2017). Comparing this number to the average depreciation and amortization charges from 2016 to 2020 of \$3,173, yields an excess depreciation and amortization charge of \$795 million pesos. As a result, I will add back this amount to Soriana's sustainable net operating profit after taxes.

Soriana's Sustainable Earnings Power =  $\$6,998 \text{ million pesos}$

## 6. Calculate Soriana's Cost of Capital

The final step to calculate Soriana's Earnings Power Value is to calculate the company's cost of capital. We will start this calculation by looking at the company's current market interest rate of its outstanding debt to estimate the company's cost of debt. The current average interest rate on the company's debt is around 6%. Thus, I will assume that the cost of debt for the company is around 6%. Debt currently represents around 20% ( $15,852 / (70827 + 15,852)$ ) of the company's financing. Thus, I will assume that the rest of the company's financing comes from equity.

To calculate the company's cost of equity I will estimate the current returns required to attract equity investors to a company with the same risk characteristics as Soriana. Because debt investments are inherently less risky than equity investments. If we look at the returns required to attract debt investors to investment grade (at least BAA rated) bonds with low probabilities of default we can find the starting point on the cost of attracting higher risk equity financing. Thus, if current BAA returns are around 3.2% and returns required to attract investors to new possible venture capital funds are around 14%. The range of possible equity costs of capital for Soriana lies between 4% and 14%. A firm in a stable business with very constant operating margins and

cash flow generation like Soriana but with the added risk of operating in Mexican Pesos would have an equity cost of capital of average risk. This equity cost of capital also contemplates the fact that Soriana owns a very large amount of real estate that could be liquidated in the event of default. Thus, within the 4%-14% range, the low-risk firm would have an 4-8% cost of equity, an average risk firm would have an 8-10% cost, a higher than average risk firm would have a cost of 10-12%, and a high risk firm would have a cost of capital of 12-14%. We will thus assume 10% as our equity cost of capital.

As a result, an appropriate cost of capital for Soriana going forward is about 9.2% ( $6 \times 0.2$  from debt +  $10 \times 0.8$  from equity). Capitalizing the \$6,998 million in Earnings Power at this rate yields an EPV for Soriana's core operating enterprise of \$76,065 million ( $\$6,998 / 0.092 = \$75,608$  million).

I will adjust this number to calculate the company's Earnings Power Value for the equity amount by subtracting net debt. Earnings Power Value for the Equity Amount: \$70,114 million pesos ( $\$70,114 = \$76,065 - \$5,951$ ).

### **Value Soriana using Discounted Cash Flow to Equity**

The next step in our valuation of Soriana is to estimate its intrinsic value by using the discounted cash flow to equity method. This way, we will estimate the value of Soriana by estimating the future cash flows to equity investors that the company is expected to produce and discounting them back to the present using an acceptable cost of capital. I will not incorporate growth in my estimate of future cash flows to remain conservative.

I proceed by dividing this method in pieces, first starting with the average net income from 2016 to 2020, because that is the earnings generated for equity investors.

Average Net Income From 2016 to 2020: \$3,881 million pesos

Next, I will calculate reinvestment needs of long-lived assets by calculating the difference between capital expenditures and depreciation. I will add this difference back to net income because it is not a cash expense. The amount of excess depreciation can be roughly estimated by looking at the years 2018 and 2017, because there was minimal revenue growth. If we assume that for these years all capital outlays were maintenance CapEx, then "true" depreciation averaged \$2,378 million (\$2,651 million in 2018 and \$2,105 million in 2017). Comparing this number to the average depreciation and amortization charges from 2016 to 2020 of \$3,173, yields an excess depreciation and amortization charge of \$795 million pesos.

Average Adjusted Net Income: \$4,676 million pesos

Next, I will calculate reinvestment needs of short-lived assets by estimating the change in non-cash working capital by looking at non-cash working capital as a percentage of revenue

from 2016 to 2020. Increases in inventory and accounts receivable represent cash tied up in assets that do not generate returns—wasting assets. Thus, if the change in non-cash working is positive, this number must be subtracted from our expected cash flows. Otherwise, if non-cash working capital decreases, it releases tied-up cash and should increase the cash flow of the firm.

**Changes in current capital excluding cash and cash equivalents and all interest bearing debt**

Year	2020	2019	2018	2017	2016
Non-Cash Current Assets	36,117	44,573	39,912	34,218	32,861
Non-Debt Current Liabilities	32,760	36,266	33,682	32,793	32,711
Non-Cash Working Capital	3,357	8,307	230	1,425	150
Non-Cash Working Capital as a % of Revenue	2.1%	5.3%	.1%	.9%	.1%

*\*All interest bearing debt will be excluded from changes in working capital because it will be considered when computing the cost of capital and it would be inappropriate to count it twice.*

According to Damodaran, working capital as a percentage of revenue is on average 0.5% for retailers. Thus, in the next 5 years, I expect non-cash working capital to decrease to 0.5% of revenues. This is a decrease of 1.6% from the current level of 2.1%. In effect, each year, for the next 5 years, I expect non cash working capital to decrease by a rate of 492 million pesos (0.32%

\* Sustainable Revenues of \$153,892 million pesos).

**Thus, adjusted net income in 2021 is expected to be \$5,168 million pesos.**

The final adjustment related to cash flows are negative cash flows associated with the repayment of old debt and positive cash flows associated with the issuance of new debt. The company currently has a debt reduction plan in place and for the past 12 months debt outstanding has been significantly reduced. In the next 5 years, I expect total debt to be reduced to \$8,157 million pesos. A reduction of \$10,000 from the current level of \$18,157 million pesos. This represents a repayment of debt of \$2,000 per year.

Thus, cash flows to equity investors are expected to be, with net income growing at approximately 120 million pesos ( $2,000 \times 6\%$  cost of debt = 120 ) per year thanks to the annual reduction in interest expenses:

Expected Adjusted Net Income for 2021 with the decrease in interest expenses:  $4,001 + 795 + 492 - 2,000$

Expected Adjusted Net Income for 2022 with the decrease in interest expenses:  $4,121 + 795 + 492 - 2,000$

Expected Adjusted Net Income for 2023 with the decrease in interest expenses:  $4,241 + 795 + 492 - 2,000$

Expected Adjusted Net Income for 2024 with the decrease in interest expenses:  $4,361 + 795 + 492 - 2,000$

Expected Adjusted Net Income for 2025 with the decrease in interest expenses:  $4,481 + 795 + 492 - 2,000$

After that, I expect cash flows to equity to be \$5,276 million ( $5,276 = 4,481 + 795$ )

Finally, for the cost of capital, I will use the cost of capital calculated in my EPV valuation of 9.2%. Thus, the discounted cash flow to equity equation to calculate Soriana's intrinsic value of equity will look like this:

Equity Value =  $(3,288/1.092) + (3,408/1.092^2) + (3,528/1.092^3) + (3,648/1.092^4) + (3,768/1.092^5) + \text{Terminal Value}$

Terminal Value = \$57,347 million pesos =  $5,276/0.092$

Present Value of Terminal Value = 33,820 million pesos =  $57,347 / 1.092^6$

Equity Value = \$47,390 million pesos =  $13,570 + 33,820$

### **Value Soriana using Discounted Cash Flow to the Firm**

Cash Flow to the firm should be both after taxes and after all reinvestment needs have been met. Because cash flow to the firm is for both equity and debt investors, it should be before debt cash flows—interest expenses, debt repayments, and new debt issues.

Thus, I will estimate the cash flows to the firm using average sustainable operating income. I will then adjust this number with the current tax rate. Finally, I will subtract from this amount reinvestment needs in long-term and short-term assets. I will not incorporate operating income growth in this valuation model.

1. Soriana's Sustainable Revenue: \$153,892 million pesos
2. Soriana's Sustainable Operating Margin: 5.72%
3. Tax Rate of 30%
4. Sustainable Operating Income After Taxes: \$6,161 million pesos
5. Adjust Reinvestment Needs:
  - a. +\$795 + \$492
6. Estimated Cash Flows to the Firm: \$7,448

Finally, for the cost of capital, I will use the cost of capital calculated in my EPV valuation of 9.2%. Thus, the discounted cash flow to the firm equation to calculate Soriana's intrinsic value in enterprise terms is:

$$\text{Enterprise Value} = (7,448/1.092) + (7,448/1.092^2) + (7,448/1.092^3) + (7,448/1.092^4) + (7,448/1.092^5) + \text{Terminal Value}$$

$$\text{Estimated Cash Flow to the Firm After Year 5} = \$6,956 \text{ million pesos} = 6,161 + 795$$

$$\text{Terminal Value} = \$75,608 \text{ million pesos} = 6,956/0.092$$

$$\text{Present Value of Terminal Value} = \$44,589 \text{ million pesos} = 75,608/1.092^6$$

$$\text{Enterprise Value} = \$73,409 \text{ million pesos} = 28,820 + 44,589$$

## Relative Multiples Valuation

### Historical P/B Ratio

Year	Present	2020	2019	2018	2017	2016	2015	2014	2013	2012
P/B Ratio	0.62	0.5	0.68	0.78	1.22	1.46	1.4	1.56	1.9	2.2

### Current Price/Book Ratio

Soriana: 0.62

Walmex: 7.26

La Comer: 1.6

Chedraui: 1.27

### Current Price/Earnings Ratio



Soriana: 10  
Walmex: 28  
La Comer: 28.5  
Chedraui: 11.7

#### **Current Price/Sales Ratio**

Soriana: 0.22  
Walmex: 1.65  
La Comer: 1.6  
Chedraui: 0.25

#### **Current Price/Operating Income Ratio**

Soriana: 4.46  
Walmex: 20.22  
La Comer: 25  
Chedraui: 5.3

### **Analysis of Results and Margin of Safety**

#### **Analysis of Results**

At the current equity market price of \$42,700 million pesos and enterprise value of around \$58,000 Soriana is selling at a discount. Looking at the company's historic P/B ratio and comparing the current P/B ratio to its competitors also confirms this.

#### **Equity Terms**

Net Asset Value	\$66,760 million
Earnings Power Value to equity	\$60,245 million
Discounted Cash Flow to Equity	\$47,390 million

#### **Enterprise Terms**

Net Asset Value	\$76,324 million
EPV to the firm	\$75,608 million
Discounted Cash Flow to the Firm	\$73,409 million

In equity terms, the intrinsic value of Soriana is between the range of 47,390 million pesos and \$66,760 million pesos. Based on the company's profitability, it is expected that Soriana will most likely sell below its book value. Given that it generates below adequate returns on capital invested. As such, I will use the equity value of Soriana from my EPV valuation as the intrinsic value of Soriana in equity terms. The reason I decided on this model is that the enterprise value calculated in this model is very close to the EV calculated in my other valuations. Also, at this valuation, Soriana would be valued at a P/B of 0.87, which is acceptable, given past market valuations of the company and improved profitability that is expected to come as debt is further reduced.

Furthermore, in enterprise terms, the intrinsic value of Soriana is very similar in all three of my valuation models. The enterprise value of Soriana falls between \$75,608 million pesos and \$76,998 million pesos, a difference of around 1.7%.

### **Margin of Safety**

Current Enterprise Market Price = \$58,000 million pesos

Current Equity Market Price = \$42,700 million pesos

With an intrinsic value of around \$60,245 in equity terms and \$76,324 in enterprise terms, Soriana is selling at a discount of around 28% ( $28\% = (60,000 - 42,700) / 60,000$ ) in equity terms and 24% ( $24\% = (76,324 - 58,000) / 76,324$ ) in enterprise terms. Given that my valuation models incorporate conservative inputs, and that the company's calculated intrinsic value in equity terms is 15% below its current book value—which is significantly composed of real estate that provides that company ample liquidity—I think Soriana is a good opportunity and my recommendation is to **invest**.

### **Potential Issues**

It's one year from now and this investment did not work out. What could be the reasons that that happened?

- Inflation increases the company's cost of capital
- Soriana is unable to transfer price increases from inflation to its customers
- Capital Expenditures increase due to inflation, causing free cash flows to decrease

