



Actinver

GRUPO ELEKTRA: At the Base of the Pyramid

Fixed Income
Research
Nov. 13, 2014

Buy

Grupo Elektra is diversifying towards other markets
within the American Continent

Grupo Elektra

- We initiate coverage on Grupo Elektra with a fundamental Buy recommendation given its good credit quality is supported by operating cash flow generation sufficient enough to cover its financial and investment obligations.
- The synergies generated through its financial and commercial services at "The Base of the Pyramid", allow the company a geographical and product diversification towards the U.S., and Center and South America.
- The peso-denominated bonds (ELEKTRA 13, 14 and 14-2), have maturities of less than three years, paying a floating coupon rate, which counters valuation losses during scenarios of increases in interest rates. We have a Buy recommendation for these local bonds based on valuation.
- Dinero Express' securitized bond is guaranteed by the earned commissions in its money transfer business in Mexico. The earned income from this business is automatically transferred to the trust so as to fulfill its financial obligations with the DINEXCB 12 holders. We have a Buy recommendation based on valuation.
- The dollar bond (EKT 7 ¼ 08/18) has a first "call" in August 2015. We have Hold recommendation based on valuation.

Grupo Elektra is conceived as a "Financial and Commercial Business Ecosystem".

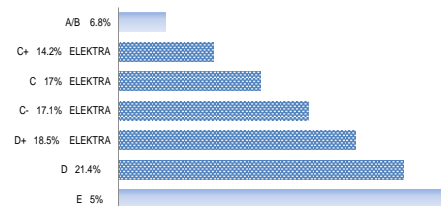
Grupo Elektra is a Mexican entity that works under an "Ecosystem of Financial and Commercial Businesses" which interact with each other to meet the needs of financing and consumption of durable goods, for the households and/or people located in the Base of the Pyramid (C+, C, C- y D+).

The Ecosystem's objective is to provide its clients uninterrupted welfare through the purchase of goods and services, access to financing and a social status that allows them to differentiate themselves from others.

Clients, who acquire goods and/or services at Grupo Elektra, make weekly payments with adequate amounts in accordance to their income level. Because of its clients' unique profile, they become frequent visitors to the company's selling points; the purchase cycle becomes recurrent when clients visit to repay their debt.

Grupo Elektra quotes its shares in the Bolsa Mexicana de Valores and Spain's LATIBEX, reaching a MP 118,580 mn market capitalization as of the end of October 2014. It also has debt issued in the local market for an approximate outstanding amount of MP 10,000 mn and a dollar bond for USD 550 mn.

Fig. 1. Distribution of Households in Mexico 2011



Source: Actinver with AMAI data. 2011

Fig. 2. Grupo Elektra: Consolidated Total Income and Net Interest Income
Cumulated Data P\$ Millones

	9M13	9M14	Chg.
Interest Income	37,258	37,557	1%
Interest Expenses	10,280	11,954	16%
Net Interest Income	26,978	25,603	-5%
NIM %	72%	68%	

	9M13	9M14	Var.
Commercial Income	14,511	16,181	12%
Commercial Expenses	10,108	10,959	8%
Gross Profit	4,403	5,222	19%
Gross Mg %	30%	32%	

	9M13	9M14	Var.
Consolidated Interest Income	51,769	53,738	4%
Consolidated Interest Expenses	20,388	22,913	12%
Consolidated Net Interest Income	31,381	30,825	-2%
Consolidated NIM%	61%	57%	

Source: Actinver with Grupo Elektra data as of 3Q14.

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Grupo Elektra positions itself as the Base of the Pyramid's leader.

In accordance to AMAIⁱ, at the end of 2011 the "Base of the Pyramid" in Mexico is very broad, as 66.8% of Mexico's households are classified in this segment, which is Elektra's target market. (See Fig. 1). On the other hand, INEGI shows that as of the end of the century's first decade, 42.4% of Mexico's homes (39.2% of the country's population) are middle class, 2.5% homes are upper class (1.7% of the population), while the remaining 55% homes (or 59.1% of the population) represent the "Base of the Pyramid".

Given Elektra's success in Mexico and its 64 years in the market, the company has extended this business concept to the U.S., Central America, and South America, creating a healthy geographical and product diversification.

Grupo Elektra's credit analysis is based primarily on the consolidated generation of operating cash flow.

Accounting-wise operations are registered through its specialized commerce subsidiary (goods and services retail; money transfers), its banking subsidiary (deposit receipts, loan and credit origination, investments, and securities), and its other financial services subsidiaries (short-term cash advances in the U.S. "payday loans", commercial services, retirement funds, and insurance).

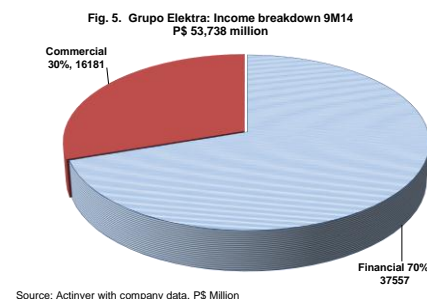
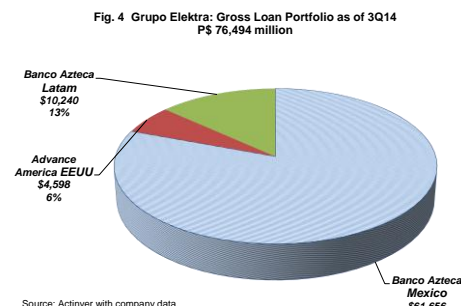
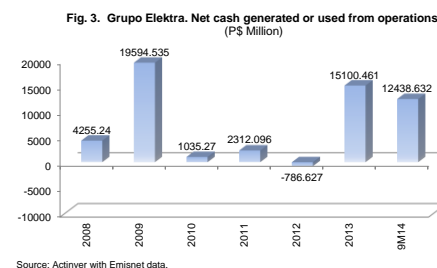
The subsidiaries' analysis is a necessary step to better understand the whole Ecosystem's nature, but not enough to understand Grupo Elektra's consolidated financial situation. Attempting to apply traditional financial leverage ratios to the consolidated balance will prove inefficient given we would have to exclude the banking business' traditional deposits (which are a cost liability) from the leverage ratio. The banking business must still be analyzed under the liquidity and capitalization metrics. Banco Azteca's capitalization ratio as of the 3Q14 is 15%, greater than Basel's and Grupo Elektra's debt issues' covenants' own required minimums. As we will see further on, the leverage ratio that the debt issues must meet is calculated based on the commercial business and Advance America, while the banking business' strength is measured through its capitalization ratio (see section: "Grupo Elektra's Debt Covenants").

Given the above argument, Grupo Elektra's capacity to generate consolidated operating cash flow is the primary tool used to support our investment recommendation. We have observed recovery signs in the company's commercial and financial businesses since 2013. (See Fig. 3).

The commercial business' (including Advance America) leverage's evolution is linked to the debt issues' credit ratings and is therefore a relevant indicator for analyzing Grupo Elektra.

Grupo Elektra's consolidated loan portfolio amounts to MP 76,494 mn as of the 3Q14, with 81% belonging to the banking business in Mexico, 13% to the banks in Latin America, and the rest in the U.S. as cash advances. (See Fig. 3).

Total cumulative consolidated revenues as of the 3Q14 amount to MP 53,738 mn, 70% of which were generated by the financial businesses and the rest by the commercial businesses. (See Fig. 5). During 2013, total income reached MP 70,732 mn, with basically the same distribution.





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The cumulative cash flow generated from operations in 2013 was MP 15,100 mn. The cumulative amount as of the 3Q14 was MP 12,439 mn. Between 2010 and 2012 Banco Azteca's performing consumer loan portfolio grew 156%, mainly due to Micronegocio and Presta Prenda personal loans, with two important effects on the business: the first with a long-term impact, as it established itself as the sector's second place since 2013; the second effect was a negative MP 787 mn operating cash flow in 2012 given the increase in the credit portfolio. As of 2013, collections have recovered, and operating cash flow has been solid for the first nine months of 2014.

Grupo Elektra's financial derivatives' fair value recognition does not represent a cash flow item (withdrawal) and they have warranties that eliminate corresponding risks.

The market value recognition of derivative product investments has not resulted in real cash flow movements, having a restricted cash amount and warranties that limit the totality of the potential losses incurred by these instruments (see section: "Positions in Financial Derivative Instruments as of September 2014").

Grupo Elektra: The Business' Ecosystem

Grupo Elektra has become its clients' main reference for the satisfaction of their durable goods consumer needs and financial services, situation which allows the company to create synergies between its strategic businesses, mentioned below:

	<u>Financial Business</u>	<u>Specialized Commerce</u>
	Banco Azteca, Afore Azteca, Seguros Azteca, Seguros Azteca Daños, Punto Casa de Bolsa = Banking operations, insurance, trading, pension funds	Elektra Stores, Salinas y Rocha, Blockbuster (entertainment) = Goods and services retail sales; Money transfers
	Advance America Cash, Advance Centers, Inc. = Cash advances	
Latin America	Banco Azteca (Panama), Banco Azteca Guatemala, Banco Azteca Honduras, Banco Azteca do Brasil, Banco Azteca del Perú, Banco Azteca del Salvador = Banking operations	Elektra Stores in Peru, Guatemala, Brazil, Honduras, and Panama.

Financial Business (as of the 3Q14):

Banco Azteca Mexico's, U.S. Advance America's, and Latin-American Banco Azteca's consolidated gross loan portfolio was MP 76,494 mn, with respective contributions of 81%, 6% and 13%. The consolidated financial business also includes operations from Seguros Azteca, Seguros Azteca Daños, Afore Azteca and Punto Casa de Bolsa. (See Fig. 6).

Fig. 6. Grupo Elektra: Gross Loan Portfolio

	As of 3Q14	Chg. 3Q14 vs 3Q13
Banco Azteca Mexico	\$61,656	-3%
Advance America US	\$4,598	15%
Banco Azteca Latin America	\$10,240	0%
Consolidated Loan Portfolio	\$76,494	-1%

Source: Actinver with Company data. P\$ Million



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Banco Azteca México with a total loan portfolio of MP 61,656 mn as of September 30, 2014, comprised 50% by personal loans, reaches a 22% market share in this product, competing with Bancomer and Banamex. However, the client profile is different given these are from different socio-economic backgrounds. It has 1,053 banking branches and 2,517 financial services stores.

Advance America is the main non-banking intermediary offering cash loans (payday loans), in small amounts and with very short deadlines in the U.S. Grupo Elektra acquired it in April 2012. The loan portfolio is equivalent to MP 4,598 mn, or 6% of the financial business. Its main market consists of lower class individuals. Advance America operates 2,432 points-of-sale in 29 states in the country.

Banco Azteca Latin America has an estimated loan portfolio of MP 10,240 mn, an equivalent to 13% of the Group's financial business, with 215 banking branches and 422 financial services stores.

Commercial Business (as of the 3Q14):

For the commercial business, the company considers results derived from the sale of goods (electronics, appliances, furniture, electronics, transportation equipment, computers, and others) and services (electronic money transfers, extended guarantees, movies and video games) in Mexico, Central and South America, through its three store formats: Elektra, Salinas y Rocha, and Blockbuster México.



Cash Flow Analysis

As we have previously mentioned, the cash flow generated from Grupo Elektra's 2013 operations was MP 15,100 mn and, as for the first nine months of the year, they were MP 12,439 mn. Banco Azteca's consumer loan portfolio grew 156% between 2010 and 2012 mainly due to the increase in personal loans from Micronegocio and Presta Prenda. This growth had two important effects on the business: the first had longer-term implications as the Group consolidated itself as the second place in the sector; the second effect was a negative MP 787 mn operating cash flow in 2012 given the increase in the credit portfolio. As of 2013, collections have recovered, and operating cash flow has been solid for the first nine months of 2014.

Given that loan portfolio growth has stabilized in the most recent two years, the operating cash flow generation is sufficient for the Group to cope with its debt commitments. (See Fig. 7 and Fig 8).

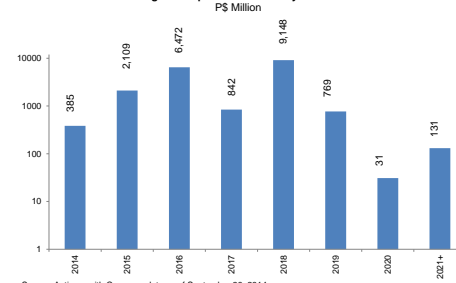
GRUPO ELEKTRA: FREE CASH FLOW

Cumulated data in P\$ Million

	2008	2009	2010	2011	2012	2013	9M14
Net Income(Loss) before taxes	12,574	7,322	127	44,222	-27,957	533	667
Non-cash items	-2,432	1,446	9,210	-29,098	46,079	18,076	14,038
Cash from Net Income before taxes	10,142	8,768	9,337	15,124	18,122	18,609	14,704
Cash flow used or generated in WK	-5,887	10,827	-8,301	-12,812	-18,908	-3,383	-2,266
+ (-) Dec. (Inc.) Clients	-8,133	799	-7,160	-17,115	-28,491	-13,583	-7,549
+ (-) Dec. (Inc.) Inventories	-643	181	-1,009	-2,596	428	1,137	350
+ (-) Dec. (Inc.) Other Receivables	1,020	-72	-428	-2,263	785	1,284	-50
+ (-) Inc. (dec.) Suppliers	-676	810	489	657	-539	-806	-898
+ (-) Inc. (dec.) Other Liabilities	3,167	9,758	223	8,946	9,587	10,181	7,307
+ (-) Income taxes	-622	-649	-416	-441	-678	-1,721	-1,425
Operating Cash Flow	4,255	19,595	1,035	2,312	-787	15,100	12,439
Cash flow after Investment Activities	-2,719	-87	-1,164	-3,623	1,085	-13,328	-9,061
Cash flow after Financial Activities	3,945	-1,512	-754	2,985	2,052	-1,438	-4,226
Change in Cash	5,481	17,995	-882	1,675	2,351	335	-848

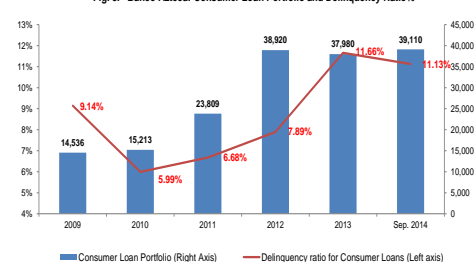
Source: Actinver with BMW data.

Fig. 7. Grupo Elektra: Maturity Profile



Source: Actinver with Company data as of September 30, 2014

Fig. 8. Banco Azteca: Consumer Loan Portfolio and Delinquency Ratio%



Source: Actinver with CNBV data as of September 2014. P\$ Million.



Positions in Financial Derivative Instruments as of September 30, 2014.

According to Grupo Elektra's "Appendix of financial derivative instrument positions as of September 30, 2014", the company is exposed to a market risk from interest rate changes as well as FX fluctuations in Mexico and the other countries where it has operations. The company covers this risk by means of different derivative instruments.

The coverage operations' main objective is to reduce the primary position's exposure to adverse movements in interest rate and currency markets.

On the other hand, Grupo Elektra's main objective for its equity swap operations is gaining an attractive potential return from the market's undervaluation (as judged by the company) of the instruments' underlying or reference assets.

Main contract terms and conditions:

- Equity swaps with a MP 10,003 mn nominal value, over the provided return on a value referenced to the company's stock price, and 100% collateralized. (See Fig. 9).
- - These instruments settle the difference between the swaps' fair value and their strike price.
 - In preparation for the possible payment obligation upon maturity, on the contract's initial day the company establishes a collateral deposit equivalent to its initial value. The collateralization implies that this amount would be the largest potential loss in a scenario in which the contract's value upon maturity is zero.
- Interest rate caps: MP 2,460 mn (with a Maturities' calendar) with the right to receive payments at the beginning of each 28-day period in which the TIE 28 is higher than the agreed upon strike price. The last covered term matures in May 2015.

All of Grupo Elektra's financial derivative instruments are marked-to-market and then valued at those levels. Fair value fluctuations are accounted for in the income statement and the unrealized profit (or loss) in the balance sheet.

Grupo Elektra is exposed to the inherent risk in the underlying asset prices' fluctuations for equity swaps. Although these fluctuations are reflected in the company's Income Statement through the instruments' marking-to-market, this does not imply a favorable or unfavorable cash flow, which is not recognized until the contract's maturity. The maximum loss would result from the underlying asset being worth zero upon maturity, in which case the loss would amount to the collateralized deposit established upon the contract's origination.

Because the equity swap operations have a cash collateral for 100% of the notional value and are not leveraged, Grupo Elektra estimates that the total potential loss derived from a catastrophic scenario would be covered and would not affect its operating cash flow.

Fig. 9. Grupo Elektra: Equity swap as of September 30, 2014

	Notional	Maturities by year		Collateral/Warranty /Loans
		2014	> 2014	
Equity swap	10,003	0	10,003	10,003

Source: Actinver with Company data. P\$ Million.



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Grupo Elektra's Debt Covenants

The following are some of the company's main credit contract (including its Senior Notes) covenants:

- The commercial division's (including Advance America) Debt with Cost to EBITDA must be less or equal to 3x.
- Banco Azteca Mexico's Capitalization Index (BIS ratio) must be higher than or equal to 10%.
- Any of the following actions, only if they adversely affect the company's payment obligations: A) acquiring other companies, stock, participation and/or other companies' assets; B) merging, consolidating, splitting, or reorganizing; C) making an unprecedented change in daily operation execution as permissible by its social objective or its method of doing business.
- Liquidate or reorganize.
- Notify loan creditors of any of the following if these could have an adverse material effect on the company's economic situation: A) any claim, action, litigation, lawsuit, procedure, dispute or arbitration before any administrative or judicial authority, domestic or foreign. B) any labor conflict; and C) any other company liability or contingent responsibility.
- Comply with all laws, regulations, decrees, rules and orders of any nature, that are applicable, including, without any limitation, timely tax payment of taxes, contributions and costs imposed on the company and its properties.
- Keep valid and updated all licenses, authorizations, concessions, permits and registrations they hold on the date of the celebration of the Loan contract and obtain licenses, authorizations, concessions, permits or registrations that may be required for the ordinary activity of its business and the compliance with its commitments.
- Issue the corresponding reports in accordance to the Financial Reporting Standards (IFRS) applicable to the date of report, adequately showing, its operations, properties and financial condition.
- Inform its loan creditors any modification to the Articles of Association, as well as any other change of the ownership and operational structure that might substantially affect the company's healthy operation. (Source: Annual Report 2013 of Grupo Elektra).

Fig. 10. Grupo Elektra: "Covenants" Senior Notes Due 2018

	Commitment	As of 3Q14
Debt /EBITDA of Guarantor*	< 0 = 3 x	na
Capitalization Ratio Banco Azteca	> 0 = 10%	15%

* Guarantors: Commercial Business and Advance America.
Source: Actinver with Prospectus of Sr. Notes 2018



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Banco Azteca México

Banco Azteca Mexico has a total loan portfolio to 3Q14 of MP61,656 mn, comprised of 70% of consumer loans and the outstanding commercial portfolio. The NPL ratio of the entire portfolio is 8% to 3Q14, compares well against Banco Ahorro Famsa and Bancoppel of 20% in both cases. Banco Azteca Mexico has loan reserves of 141% on its NPL portfolio, above total sector of 134%.

Hence, approximately 70% of the consumer portfolio of Banco Azteca was comprised of personal loans, with an NPL ratio of 11.1%, compares well if we observe non-performing reasons of Banco Famsa of 26% and Banco Coppel of 21% in 3Q14 under this product.

Market share of the personal loan portfolio of Banco Azteca is 22% to 3Q14, second highest in the sector, superseded by Banamex, but both with two client segments with different socioeconomic levels. It has 1,053 banking branches, 2,337 financial services stores and 61,676 employees to 3Q14.

From 2010 to 2012 Banco Azteca was able to increase its performing consumer portfolio in 155%, and even though it generated an increase in NPL levels, it is also true that through collection systems of Banco Azteca the problem has been corrected.

The base of the pyramid impacts in higher operational and administrative costs of banks that participate in these segments and it is necessary to maintain higher financial margins that offset the loan risk of this portfolio. Fig. 8 shows the evolution of financial margins before and after credit reserves of Banco Azteca.

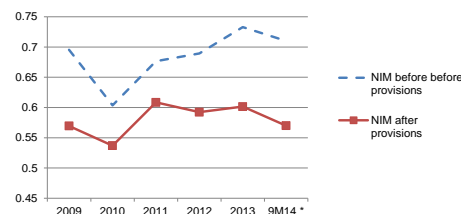
Traditional deposits in Banco Azteca reached MP80 billion in 3Q14, with a 10% growth in the past 12 months, vs. 8% that the sector grew as a whole during the same period. Accounts with immediate availability representing 90% of deposits, increased 17% in the last 12 months.

The level of liquidity of Banco Azteca is very high, as total deposits to 3Q14 are higher 1.3 times of total loan portfolio.

Level of capitalization is 14.97% at the end of September 2014.

Banco Azteca invested 7 mn dollars to develop an application so its clients can transact business through their mobile devices.

Fig. 11. Banco Azteca México: NIM before and after provisions %



Source: Actinver with CNBV data. * LTM and average current loan portfolio as of 3Q14



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Advance America

Advance America was founded in 1997 and acquired by Grupo Elektra on April 2012 for USD780 mn.

It is the main non-banking broker in USA that offers cash loans (cash advance services) in small amounts and short term deadlines. The number of loans generated in the period June 2013 to June 2014 was 11 mn, with an average advance loan amount of USD385 and an average length of 19 days.

The loan portfolio to 3Q14 is equivalent to MP4,598 mn. Its main market is individuals with lower income, operating 2,432 sale points in 29 states of USA and 6,947 employees to 3Q14. Contribution of Advance America portfolio to the consolidated loan portfolio of Grupo Elektra is 6%.

We consider that Grupo Elektra's experience in the population segment in the base of the pyramid, increases the probability of subsistence of this business in the long term, taking into account also the American culture related to loans in which honoring the payment of debt is crucial.

Main terms of competition in the sector are: customer service, location, suitability, speed and confidentiality. A great number of competitors have emerged in this industry, due to the low entry barriers and a protectionist regulation. The industry has reached certain maturity level, the closest competitors. Currently Advance America has 50% more branches than its closest competitor.

Among the risks related to the operation of Advance America, are those related to federal, state and local regulations in regard to non-banking loans the company must comply with, so a change in them or their interpretation from government authorities could affect the manner in which business is performed and could force a cancellation or modification of operations in USA.



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Elektra Stores

The commercial business sales of Grupo Elektra presented certain recovery from 2014, with an annual amount to September 2014 of MP21,575 mn, 7% above the annual sales of 2013.

Although it is difficult to compare this business with its competitors, we have prepared it with public information of Almacenes Coppel (Almaco), comparing the quarterly sales, and in which we see Almaco exceeds sales volume of the commercial business of Elektra. (See Fig. 12).

We have also compared the clients consolidated portfolio of Grupo Elektra, as it includes the commercial business, with client accounts from Almacenes Coppel and Grupo Famsa. In this case, the consolidated business of Grupo Elektra surpasses the competition. (See Fig. 13).

Dinero Express

Dinero Express is a service of electronic bank transfers created by Grupo Elektra. Through its subsidiary Intra the "money is transferred". Commissions are paid by the sender at the time of the transaction of transfer of money. Dinero Express service allows performing transactions between cities of the same country (local remittances) and between countries (international remittances).

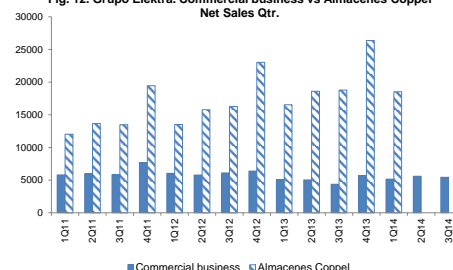
On May 8, 2012, Intra transferred the collection rights on present and future commissions of electronic transfer services, under the brand "Dinero Express" to the irrevocable trust No. 1260 of Banco Invex. The purpose of this trust is to issue once or several times senior bond trusts.

These collection rights are to be considered assets that have been transferred for the issuance of senior bonds trusts DINEXCB12, that to date amounts MP1,707 mn and in accordance to Valmer trades at a market surcharge of 59bps on TIIE 28 days.

The amount originally issued was MP2,700 mn, on May 11, 2012 and the placement surcharge was 270bps on TIIE 28. A reopening took place on November 22 that same year for MP300 mn, covering the program in full. This issuance has been prepaid in the amount of MP1,300 mn.

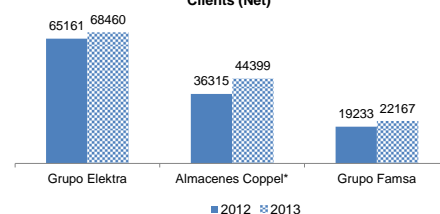
In accordance to the information of the placement prospect of DINEXCB12 the annual flow amount generated by Intra's operation in 2011 was MP592 mn.

Fig. 12. Grupo Elektra. Commercial business vs Almacenes Coppel Net Sales Qtr.



Source: Actinver with Grupo Elektra data and Sibolsa. P\$ Million

Fig. 13. Grupo Elektra Commercial Business and Peers Clients (Net)



Source: Actinver with Companies data. P\$ Million.



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Relative Value Elektra Bonds

The analysis of the relative value is a tool that helps us identify the levels of bond markets of the same rating and term, and take into account the same structure of issuances.

Nevertheless, the main restriction found in this comparison is that there are no local bonds comparable to those of Elektra, as Grupo Famsa has different loan ratings and issuance terms.

Other comparable local bonds in regard to rating, term and sector, such as Banco Interacciones and Credito Real, have been exposed to market conditions that have modified their market spread levels (performance rate differentials and TIIE to 28 days), producing distortions in the fair value curve for the bonds of samples used.

Issue	Rate	Market Spread bp	Issuance Spread Bp	Coupon %	Period (days)	Placement	Maturity
ELEKTRA 13	Flot.	179	280	6.09	1,092	June-27-2013	June-23-2016
ELEKTRA 14	Flot.	150	159	4.89	616	July-03-2014	March-10-2016
ELEKTRA 14-2	Flot.	150	150	4.79	447	Sep-12-2014	Dec-03-2015
DINEXCB 12	Flot.	58	270	5.99	2,547	May-11-2012	02/May/2019
EKT 7 ¼ 08/18	Fixed			7.25	7 years	July-28-2011	Aug-06-2018

Issue	Outstanding amount MP mn	Fitch	HR	Curve Discount	Dirty price	Valuation Recommendation
ELEKTRA 13	3,500	A(mex)	HR AA	TIIE28	101.81	Buy
ELEKTRA 14	2,500	A(mex)	HR AA	TIIE28	100.50	Buy
ELEKTRA 14-2	1,575	A(mex)	HR AA	TIIE28	100.16	Buy
DINEXCB 12	1,707	AA-(mex)	HR AA+	TIIE28	61.33	Buy
EKT 7 ¼ 08/18	USD550 mn	BB-	NA	T BILL 07/15		Hold

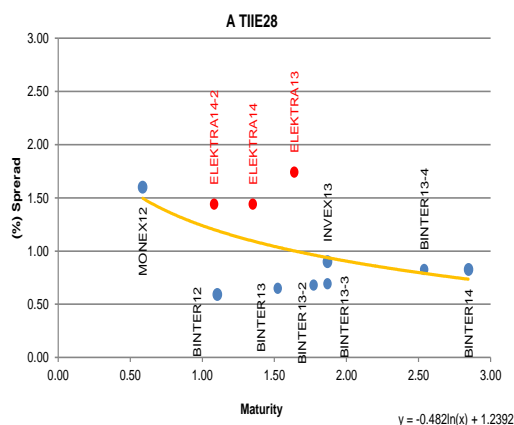
Graph 1. ELEKTRA 13, 14 and 14-2

Relative value of Cebures Elektra with bonds with same rating, and deadlines lower to 3 years.

In accordance to Graph 1, the spreads (or market rate differentials in regard to TIIE 28) of Elektra's 3 local bonds are located above the fair value curve.

We have to take into account Cebures spreads of Banco Interacciones which presses the curve downwards.

The core business of Elektra and Banco Interacciones are different.





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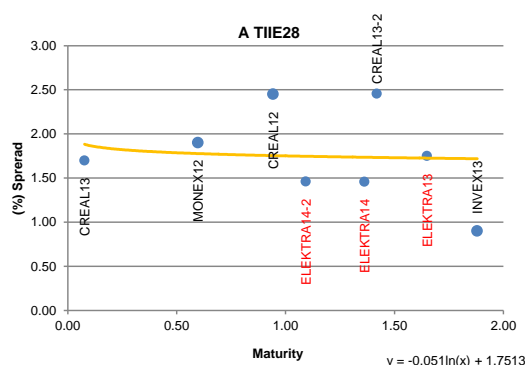
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Relative value of Cebures Elektra with bonds with same rating, and deadlines lower to 3 years.

It does not include Banco Interacciones, as their core business is different to Elektra's.

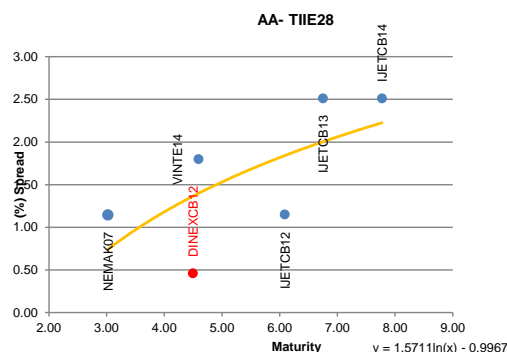
Graph 2. ELEKTRA 13, 14 and 14-2 (without Banco Interacciones)



Relative Value of Cebures Dinex 12 with local ABS of the same rating.

The common aspect between these bonds from Dinex and Interjet would be the consumer sector, although the socioeconomic level of clients is different for each company.

Graph 3. DINEX CB12



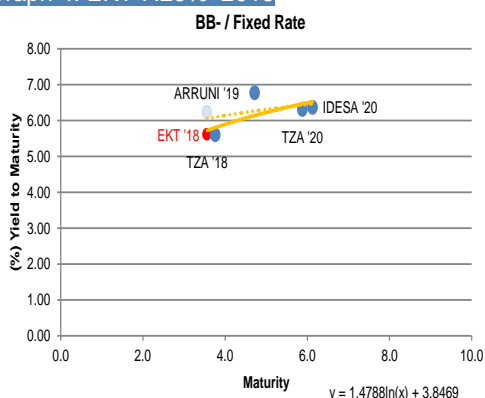
Relative Value of dollar bonds for Elektra; EKT 7.25% 2018

The dollar bond for Elektra with a maturity in 2018 has a first call on August 6, 2015, so we have compared it with the treasury bond with this deadline. The bond spread is 517bps, of the American rate of 0.09%. This spread is near to the fair value, in accordance to the graph of relative value.

There are no other Mexican bonds in dollars trading, to deadlines lower than a year, so that we can coincide in the maturity deadline in accordance to the first call of Elektra's bond.

The bonds we are using for this comparison belong to lessor Unifin Financiera (ARRUNI19), to Grupo Idesa that are participating in the petrochemical sector (IDESDA 20) and TV Azteca (TZA18).

Graph 4. EKT 7.25% 2018





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Based on Actinver's Base Scenario (60% probability) for the "New Normality of Interest rate in USA and Mexico", we would expect that the rate of Federal Funds from USA will gradually increase from 3Q15, reaching 0.75% at the end of this year and reaching a neutral level of 2.5% in 3Q17, we believe that the current market price of this bond in USD104.93 is already priced and be called before a first increase of rates takes place, or if it increases before it has a gradual move. If we suppose that this bond has a benchmark of 1%, the bond would have a price of USD103.00. It would only be placed below its nominal value if the benchmark were to be 2%.

Our recommendation is HOLD.



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GRUPO ELEKTRA: At the Base of the Pyramid

Fixed Income
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Features of Local Bonds of Grupo Elektra; ABS in pesos and dollar bonds of Grupo Elektra

ELEKTRA 13

Amount	MP 3,500 mn
Date of Issue	June 27, 2013
Period	3 years
Coupon	TIEE28 + 2.80%
Ratings	Fitch: A(mex)/ HR: HR AA
Collateral	Unsecured
Type of structure	Not structured
Type of redemption	Bullet
Voluntary anticipated redemption	Not considered
Premium for protection	Not considered
Destination of funds	Total early repayment of issues ELEKTRA 10-2 (\$1,000mdp) and ELEKTRA 11 (\$2,000mdp), working capital and expansión plan
Recommendation due to value/relative value	Buy

ELEKTRA 14

Amount	MP 2,500 mn
Date of Issue	July 3, 2014
Period	1.7 years
Coupon	TIEE28 + 1.59%
Ratings	Fitch: A(mex)/ HR: HR AA
Collateral	Unsecured
Type of structure	Not structured
Type of redemption	Bullet
Voluntary anticipated redemption	Not considered
Premium for protection	Not considered
Destination of funds	Bank liabilities and stock market repayments in short term and working capital
Recommendation due to value/relative value	Buy

ELEKTRA 14-2

Amount	MP 1,575 mn
Date of Issue	September 12, 2014
Period	1.2 years
Coupon	TIEE28 + 1.50%
Ratings	Fitch: A(mex)/ HR: HR AA
Collateral	Unsecured
Type of structure	Not structured
Type of redemption	Bullet
Voluntary anticipated redemption	Not considered
Premium for protection	Not considered
Destination of funds	Refinance liabilities, working capital and corporate purposes
Recommendation due to value/relative value	Buy



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GRUPO ELEKTRA: At the Base of the Pyramid

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EKT 7.25% 2018

Original amount	USD400 mn
Reopening amount	USD150 mn
Outstanding amount	USD550 mn
Date of Issue	August 4, 2011
Reopening date	February 8, 2012
Original period	7 years
Period from reopening	6.5 years
Date Call 1	August 6, 2015
Date Call 2	August 6, 2016
Date Call 3	August 6, 2017
Price Call 1	103.625
Price Call 2	101.8125
Price Call 3	100
Fixed coupon	7.25%
Placement spread	408
Ratings	Fitch: BB- (escala global)
Collateral	Unsecured
Type of structure	Not structured
Type of redemption	Bullet
Recommendation due to value/relative value	Hold

DINEX CB 12

Original amount issued	MP2,700 mn
Reopening amount 1	MP300 mn
Outstanding amount	MP1,707
Date of original issue	May 11, 2012
Reopening date	November 22, 2012
Original period	7 years
Period from reopening	6.5 years
Coupon	TIIE28 + 2.70%
Ratings	Fitch: AA-(mex)/ HR: HR AA+
Collateral	Unsecured
Type of structure	Future Flows. Securitization of commissions charged for the electronic cash transfer service in Mexico from Dinero Express system.
Type of redemption	Partial. Seven increasing annual partial redemptions (objective redemptions)
Total Voluntary anticipated redemption	From the second year, the Cebures can be redeemed, on any payment date but in full.
Premium for protection	Total voluntary anticipated redemption must be used between clean price or the nominal value.
Destination of funds	Liabilities payment, working capital and corporate purposes
Recommendation due to value/relative value	Buy



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GRUPO ELEKTRA: At the Base of the Pyramid

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Credit Ratings

Grupo Elektra Ratings	Fitch	HR Ratings	Moody's
	BB- (Global)		Ba3 (Global)
	A (Mex) Local LP		
	F2 (Mex) Local CP		
Local Bonds: ELEKTRA 13, 14 and 14-2	A (mex)	HR AA	
DINEX CB 12	AA-(mex)	HR AA+	
ELEKTRA 7.25% 2018	BB- (Global)		

Stable perspectives on ratings

ELEKTRA 13, 14 y 14-2

Fitch 'A (mex)' – On September 4th, 2014, Fitch assigned ELEKTRA 14-2 the A (mex) rating. This reflects Grupo Elektra's following characteristics: its operations' geographical diversification, its retail and financial market positions, Advance America's cash flow generation, and the expectation for the commercial business' leverage to remain below 2.5x in the longer term. Fitch mentions the following as key factors for this rating: i.) the decline in the commercial business' sales during the last few quarters seems to be stabilizing, ii.) Banco Azteca's asset quality metrics show a deterioration, especially in the NPL portfolio.

Factors that could improve the rating: i.) A sustained decrease in adjusted and net adjusted leverage levels to 3.5x and 3.0x levels respectively, and ii.) the strengthening of the bank's credit quality combined with the commercial business' sales and cash flow stabilization.

Factors that could negatively impact the rating include: i.) a mayor deterioration from current leverage levels, ii.) covenant violations, iii.) an accelerated increase in the commercial business' or Advace America's debt levels without the corresponding EBITDA increase, and iv.) a deterioration of Banco Azteca's credit quality.

HR Ratings 'HR AA' – Factors that support the rating: i. negative net debt levels, ii.) Advance America's consolidation into Grupo Elektra's DSCR (debt-coverage service ratio) results, 2.0x in the 2Q14 vs. 0.8x in the 2Q13, iii.) the deterioration of the commercial business' revenue, iv.) EBITDA margin pressures, v.) the adequate credit analysis and collection, and vi.) possible economic and regulatory risks coming from the U.S.



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DINEXCB 12

Fitch 'AA- (mex)' – Fitch ratified the AA- (mex) rating on October 17th, 2014, with a Stable outlook. The rating is based on: i.) the stable debt service coverage, ii.) the availability of six months-worth of cash reserves, iii.) the structural mechanism for accumulating monthly cash flows in the trust so as to make annual redemptions, iv.) Intra Mexicana's good position within the business and its relationship as Grupo Elektra's subsidiary, v.) the pre-established increasing sinking fund amortizations, and vi.) the possibility of releasing excess resources to Intra under certain conditions.

The rating could face downward pressure if there are constant decrease in the debt-service ratio and/or if the liquidity reserves see reductions. On the other hand, the rating outlook could improve if the coverage levels increase consistently. Lastly the rating could be affected if there is a change in Grupo Elektra's credit profile.

HR Ratings 'HR AA+' – Factors that support the rating include: i.) the issue's solid payment capacity, ii.) the observed commission growth, iii.) the restriction on excess resource withdrawals to Intra until after the second year, iv.) the six-month interest payment reserves, v.) the TIIE 28 cap up to 7.3% valid until May 7th, 2015, vi.) wide geographic distribution, and vii.) Grupo Elektra's performance warranty.

ELEKTRA 7.25% 2018

Fitch 'BB-' – Main factors supporting the rating: i.) commercial sales' stabilization, ii.) Advance America's performance, iii.) Banco Azteca's strength despite the asset credit quality metrics, and iv.) the expectation for a gradual deleveraging.

Factors that could improve the outlook: i.) a sustained decrease in adjusted and net adjusted leverage levels to 3.5x and 3.0x levels respectively, ii.) the strengthening of the bank's credit quality and the commercial operation's sales' cash flow.

Factors that could negatively impact the rating outlook: i.) a deterioration from current leverage levels, ii.) covenant violations, iii.) an accelerated increase in the commercial business' and Advance America's debt levels without the corresponding EBITDA increase, and iv.) a deterioration of Banco Azteca's credit quality..



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Strong Buy with extraordinary perspective. According to the analyst, in the next twelve months, the valuations of stock and/or prospects for the sector are extremely FAVORABLE

Buy. According to the analyst, in the next twelve months, the valuation of stock and / or prospects for the sector is VERY FAVORABLE

Neutral. According to the analyst, in the next twelve months, the valuation of stock and / or sector ARE NEUTRAL OR FAVORABLE but with a similar perspective to the IPC

Below market. According to the analyst, in the next twelve months, the valuation of stock and / or sector outlook ARE NOT POSITIVE

Sell. According to the analyst, in the next twelve months, the valuation of stock and / or sector outlook ARE NEGATIVE, or likely to worsen

In review with positive outlook

In review with negative or unfavorable perspective

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