



## GISSA: Positive results, derived from volume growth and the capture of new business.

### In line with estimates?

Positive report, driven by higher casting and machining volumes in all regions. We also observed higher cost absorption during the quarter, so we expect profitability to show gradual improvements in the coming quarters, mainly due to the stabilization of new production lines and greater cost control.

It is worth noting that, during the year, Draxton accumulated new business capture equivalent to US\$123 million annually, with parts compatible with the electrification and hybridization of vehicles.

Given this progress, we remain broadly positive about GISSA's performance, due to the capture of new business, the recent start-up of the production line in San Luis Potosí and the stabilization of raw material prices, situations that will add to the issuer's profitability.

### Operating profile

#### Draxton (autoparts)

In The subsidiary of the automotive segment has continued with a positive outlook, mainly derived from the good performance of the commercial area, managing to capture an important volume that will allow filling the expansions of the plant in San Luis Potosí.

In addition, GISEderlan has continued to win business in strategic components that will allow us to increase the casting volume for Draxton, a positive situation for a greater diversification of clients.

During the quarter, Draxton China was nominated for a foundry and machining project, which is aligned with the strategy of the portfolio of products for electric and higher value-added vehicles.

It is important to highlight that Draxton received from its customer Schaeffler the "Most Innovative Supplier" award, given to those suppliers with the highest commitment to innovation and digitalization.

In terms of volume, during 3Q23 the foundry recorded an increase of 9% YoY, mainly driven by the North America region (+10% YoY) and to a lesser extent Europe/Asia (+8%).

Machining volume grew 63% YoY, driven by a 97% increase in North America and a 25% increase in Europe/Asia.

BUY	IV SEP24	Ps.44.60
Price (GISSAA) (Ps.)		28.00
Max/min. 2Y (Ps.)		35.80 / 20.90
Total expected return*		59.3%
Market cap (USD Mill.)		489
Enterprise value (USD Mill.)		684
Outstanding shares (Mill.)		307
Float		58%
Avg. daily amount 2 years (Ps. Mill.)		1.5

Price as of 10/20/2023

USD/MXN Ps.17.55

### GISSA VS IPC

(base 100 last three years)



Source: elaborated by APL Global with data from the BMV.

#### USD millions

Quarterly results	3Q23	3Q22	Diff.
Total Revenues	256	246	4%
Draxton	231	225	3%
Vitromex	0	0	0%
Cinsa	24	21	15%
EBITDA	17	34	-49%
Draxton	19	34	-42%
Vitromex	0	0	0%
Cinsa	0	1	-53%
EBITDA Margin	7%	14%	
Draxton	9%	15%	
Vitromex	0%	0%	
Cinsa	-	5%	
Net profit	-7	2	n.a.
Net Margin	-	1%	

Accumulated Results	9M23	9M22	Diff.
Total Revenues	788	732	8%
EBIT	-34	44	n.a.
EBITDA	59	91	-35%
EBITDA Margin	7%	12%	
Net Profit	19	20	4%
Net Margin	2%	3%	

Balance Sheet	3Q23	4Q22	Diff.
Cash and Eq.	68	66	3%
Property, Plant and Equipment	455	405	12%
Total Assets	1,203	1,393	-14%
Total Liabilities	613	770	-20%
Net Debt	156	196	-20%
Net Debt / 12m EBITDA	1.7x	1.8x	

Source: The company, BMV and APL Global



For the year to date, foundry volume grew 14% YoY, while machining volume increased 55%.

Revenues increased 3% compared to 3Q22, reaching US\$231 million, mainly due to the higher volume shipped.

For 3Q23, the EBITDA margin showed a recovery with respect to the previous quarter, due to lower expenses from the entry into production of new products, positioning the margin at 9% vs. 15% in 3Q22.

On a cumulative basis, Revenues reached US\$716 million (+9% YoY), with EBITDA of US\$64 million (-28% YoY) and a margin of 9% (vs. 13% in 9M22).

It is important to note that line 6 in San Luis Potosí continues to stabilize, while, according to the company, line 7 of this same plant will be ready for testing in January 2024, which will allow it to improve its cost absorption and improve margins.

As for Evercast, one of the first two plating lines has been started up, a project through which it will become the largest plating plant in the American continent, reaching a production of 30 million parts for brake systems.

#### *Other business (Cinsa and GISEderlan)*

The household products subsidiary continued to face a challenging environment due to the slowdown in consumer spending in Mexico, with revenues of US\$24 million at the end of 3Q23, which represented an increase of 15% vs. 3Q22. During the quarter, Cinsa's EBITDA remained close to zero, so there is no comparative record.

On a cumulative basis, Revenues totaled US\$70 million (-4% YoY), with an EBITDA of US\$3 million (-49% YoY) and a margin of 4% (vs. 10% in 9M22).

Finally, GISEderlan, the machining plant in joint venture with Fagor Ederlan Mexico, recorded revenues of US\$18 million during the quarter.

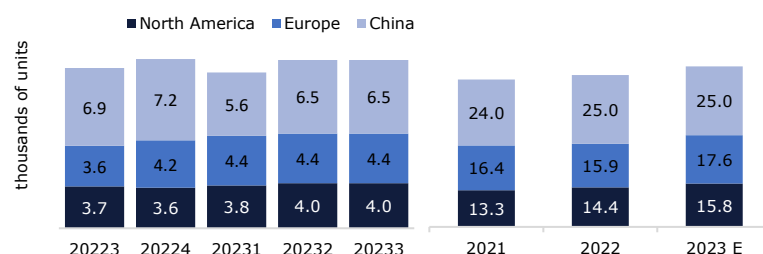
#### **Consolidated**

Consolidated Revenues reached US\$256 million during the quarter, an increase of 4% compared to the same period of the previous year. EBITDA totaled US\$17 million, 49% lower than in 3Q22, resulting in an EBITDA margin of 7% (vs. 14% in 3Q22).

For the first nine months of the year, Revenues reached US\$788 million (+8% YoY), with EBITDA of US\$59 million (-35% YoY) and an EBITDA margin of 7% (vs. 12% in the same period of the previous year).

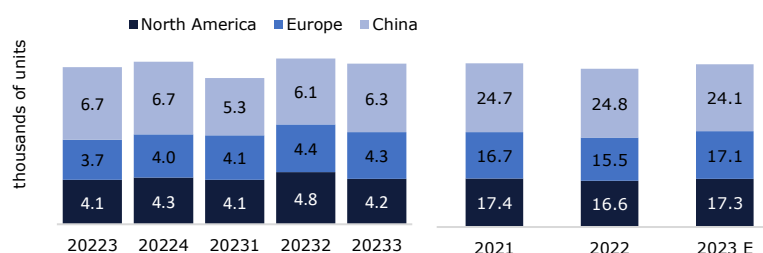
Comprehensive Financing Result (CFR) for 3Q23 was US\$7 million (+227% YoY), while for the first nine months of the year it was US\$6 million (-53% YoY), resulting in a Net Loss of US\$7 million for the quarter (vs. a Net Income of US\$8 million in 3Q22) and a Net Income of US\$19 million for the first nine months of the year (4% lower than the same period of the previous year).

#### **Production of Vehicles**



Source: GISSA quarterly report and APL Global estimates.

#### **Sale of Vehicles**



Source: GISSA quarterly report and APL Global estimates.

**Balance Sheet**

At the end of September, Cash and Cash Equivalents ended at US\$68 million (+3% vs. 4Q22), while Debt with Cost, including leases, amounted to US\$225 million, resulting in a Net Debt of US\$156 million (-39% vs. 4Q22). As a result, Net Leverage (Net Debt/EBITDA U12M) was 1.7x.

It should be noted that 74% of bank debt matures in 2025 and beyond, so there is no pressure on the short-term balance sheet.

**Is fundamental recommendation / I.V. maintained?**

With the results observed, we expect GISSA to have a growth trend in profitability during the remainder of 2023 and 2024, being periods of consolidation for Draxton, due to the stabilization of production line 6, the entry into operations of line 7 and the production of higher value-added parts.

In addition, the programs won during the last few years and the relocation of production to North America will continue to favor the issuer, so with the favorable financial position we expect to capitalize on the opportunities that may arise in the short term.

After reviewing our valuation model, we have maintained our 12-month (September 2024) Intrinsic Value (IV) unchanged at Ps.44.60, ratifying our fundamental BUY recommendation, which translates into an expected total return of 59.3% with respect to the closing price on October 19.

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Assumptions for the calculation of the WACC	
Risk-free rate (M10):	9.1%
Risk premium on capital:	2.0%
Monthly Beta 3A:	0.60
Beta-adjusted risk premium:	1.2%
Sovereign risk premium:	3.5%
(-) ESG discount at sovereign risk*:	-50.0%
Cost of equity capital:	12.0%
Implicit credit spread:	0.9%
Cost of debt before taxes:	13.5%
Effective tax rate:	30.0%
All-in cost of debt:	10.0%
Debt mix (D/(D+E)):	31%
<b>WACC:</b>	<b>11.4%</b>
Residual Growth:	3.0%

Source: APL Global and various recognized sources

\*ESG Addendum

DCF/Year	1	2	3	4	5	6	7	8	9	10
NOPLAT	35	42	44	48	51	55	59	63	68	73
Depreciation & Amortization	56	58	51	44	41	40	37	33	33	33
Investment in working capital	(12)	(29)	(37)	(17)	(30)	(32)	(32)	(45)	(45)	(31)
CAPEX	25	31	29	31	34	37	40	44	48	52
<b>Free Cash Flow (FLE):</b>	<b>104</b>	<b>101</b>	<b>87</b>	<b>105</b>	<b>95</b>	<b>100</b>	<b>105</b>	<b>94</b>	<b>103</b>	<b>127</b>
Present Value FLE Years 1-10	585									
Residual value:	1,551									
Present Value of the residual:	527									
Total Present Value:	1,111									
Net debt:	156									
Minority interest:	39									
Implicit capitalization value:	917									
Outstanding shares:	307									
V.I. calculated by DCF:	2.99									
I.V. calculated by DCF (Ps.) @USD/MXN 17.55	52.44									

In USD millions

In USD millions							
Sensitivity of the IV calculated by DCF: Residual vs. WACC							
Scenarios for WACC levels		GIS Residual Growth Scenarios					
		2.0%	2.5%	3.0%	3.5%	4.0%	
		12.4%	42.99	44.22	45.57	47.08	48.77
		11.9%	45.83	47.24	48.81	50.57	52.55
		11.4%	48.98	50.61	52.44	54.50	56.84
		10.9%	52.49	54.39	56.54	58.97	61.76
		10.4%	56.43	58.66	61.20	64.10	67.45
Sensitivity of the IV calculated by multiple: EV/EBITDA Target vs. Changes in EBITDA							
Changes in EBITDA		Scenarios for multiple EV/EBITDA target					
		6.9x	7.9x	8.9x	9.9x	10.9x	
		5.0%	27.77	33.41	39.05	44.69	50.33
		2.5%	26.85	32.35	37.86	43.36	48.87
		0.0%	25.92	31.29	36.66	42.03	47.40
		-2.5%	24.99	30.23	35.47	40.70	45.94
		-5.0%	24.07	29.17	34.27	39.37	44.48
Valuation method		Price	Weig.	Multiples	LTM	NTM	Year 2
DCF		52.44	50%	Valuation calculated with the TP			
EV/EBITDA target		36.66	50%	EV/EBITDA	10.4x	6.2x	5.2x
12-month Intrinsic Value (IV)		44.60	100%	Valuation calculated with the actual price:			
Current price		28.00		EV/EBITDA	7.3x	4.6x	3.8x
Potencial return of IV		59.3%					
Dividend yield netx 12M		0.0%					
Total expected return		59.3%					
Recommendation:		BUY					

Source: APL Global


*USD millions*

P&L				
	2021	2022	2023 E	2024 E
Net income	997	1,025	1,097	1,223
Cost of Sales	840	872	999	1,072
Selling Expenses	133	111	136	152
EBIT	38	60	(29)	82
Earned interests	3	5	9	3
Interest paid	18	24	30	21
Participation in results of Associates	1	1	2	2
Income taxes	7	19	(14)	23
Discontinued operations	-	20	43	4
Profit attributable to controlling Interest	19	39	20	54
Profit attributable to non-controlling interest	3	6	4	6
Net profit (loss)	22	45	24	60
EBITDA	120	127	83	199
CAPEX	36	10	85	21
Growths in:				
Total Revenues			7.0%	11.6%
Operating Profit			n.a.	n.a.
EBITDA			-34.5%	138.1%
Controlling interest in net ut. (loss)	0	33	40	48
Margins:				
Operating	3.8%	5.8%	-2.6%	6.7%
EBITDA	###	12.4%	7.6%	16.2%
Net	2.2%	4.4%	2.2%	4.9%
Outstanding shares (millions)	331	320	309	307
Value in books	2.0	1.9	2.0	2.1
EPS	0.1	0.1	0.1	0.2
EBITDA per share	0.4	0.4	0.3	0.6
Cash Flow				
	2021	2022	2023 E	2024 E
EBITDA	120	127	83	199
(-) + working capital	20	1	(45)	6
Other adjustments to reconcile income	(41)	(12)	51	(48)
NET CF FROM OPERATING ACT.	99	116	90	157
Flows from loss of control	-	-	-	-
PPE purchases	32	50	85	21
Others	(5)	(8)	(8)	(15)
NET CF FROM INVESTMENT ACT.	(37)	(58)	(92)	(36)
Increase in debt	(28)	(14)	60	(68)
Dividends paid	-	22	87	-
Interest paid	11	12	14	21
Others	(12)	(37)	48	5
NET CF FROM FINANCING ACT.	(52)	(84)	8	(84)
CASH AND EQ. AT THE END OF THE	93	74	66	128

Source: APL Global

Balance Sheet				
	2021	2022	2023 E	2024 E
Cash and equivalents	74	66	92	128
Clients and acr	147	151	189	173
Inventories	116	110	114	110
Assets held for sale	-	252	0	-
Other assets	15	51	36	178
Current assets	352	630	395	412
Investments in subs. and associates	8	12	14	14
Property, plant and equipment	480	405	458	405
Right-of-use asset	9	8	13	13
Goodwill	199	190	145	145
Intangible assets	97	89	83	83
Deferred tax assets	39	18	34	34
Other non-current assets	24	41	39	40
TOTAL ASSETS	1,208	1,393	1,182	1,146
Short-term debt	1	88	2	25
Short-term lease	3	3	0	1
Supplier and other a.p. s.t.	271	289	331	357
Income tax payable	6	30	40	40
Other liabilities	-	84	-	-
CURRENT LIABILITIES	280	494	373	423
Long-term debt	241	219	190	213
Long-term lease	7	6	16	17
Long-term taxes payable	4	3	2	2
Long-Term Provisions	15	13	16	17
Other long-term liabilities	43	34	27	-
TOTAL LIABILITIES	590	770	625	672
STOCKHOLDER'S EQUITY	617	623	593	652
Gross Debt	252	315	208	256
Net Debt	178	250	116	127
Operational indicators and financial ratios				
	2021	2022	2023 E	2024 E
Liquidity	1.3x	1.3x	1.1x	1.0x
Acid test ratio	0.8x	1.1x	0.8x	0.7x
Leverage (TL/SE)	1.0x	1.2x	1.1x	1.0x
Total debt/EBITDA	2.1x	2.5x	2.5x	1.3x
Net Debt/EBITDA	1.5x	2.0x	1.4x	0.6x
Interest coverage ratio	2.1x	2.5x	-0.9x	3.9x
Days in inventory	50	45	41	37
Days in collection	53	53	62	51
Days payable outstanding	116	119	119	120
Operating cycle (days)	-13	-21	-16	-32
ROA	1.8%	3.2%	2.0%	5.2%
ROE	3.6%	7.2%	4.0%	9.1%



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