America Movil (AMX)

Updated August 27th, 2018 by Nick McCullum

Key Metrics

Current Price:	$17	**5 Year CAGR Estimate:**	-1.3%	**Volatility Percentile:**	74.6%
Fair Value Price:	$10	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	15.3%
% Fair Value:	170%	**5 Year Valuation Multiple Estimate:**	-10.2%	**Valuation Percentile:**	1.5%
Dividend Yield:	1.9%	**5 Year Price Target**	$14	**Total Return Percentile:**	3.9%

Overview & Current Events

America Movil (sometimes stylized as América Móvil) is a Mexican telecommunications company headquartered in Mexico City. The company is the largest wireless telecommunications provider in Latin American based on subscriber count and has the largest market share in Mexico and the third-largest market share in Brazil. America Movil's stock trades on the Mexican Stock Exchange under the ticker AMXL, but United States investors are better off purchasing its stock through American Depository Receipts which trade on the New York Stock Exchange under the ticker AMX. America Movil trades with a market capitalization of US$57 billion and is majority owned by Carlos Slim and family, the richest man in Mexico and one of the wealthiest individuals in the world.

In mid-July, America Movil reported (7/17/18) financial results for the second quarter of fiscal 2018. In the quarter, the company saw 3.2% revenue growth, with services revenues increasing by 1.4%. Some of this reported revenue growth was due to foreign exchange fluctuations. Service revenue growth was remarkable in America Movil's two most important geographies. Mexico saw service revenue grow by 8.7% while Brazil saw service revenue grow by 11.9%. Moving down the income statement, America Movil saw EBITDA increase by 3.0% and constant-currency EBITDA increase by 4.5%. EBITDA in Mexico increased by 14.9% - its best annual increase in nearly eleven years – while the Brazilian segment's EBITDA rose by 9.9%. Operating profit increase by 4.8% in the three-month reporting period. The markets were disappointed with American Movil's financial performance in the quarter and shares fell by nearly 4% in the days following the earnings release.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.29	$1.80	$2.00	$1.50	$1.85	$1.56	$1.00	$0.66	$0.15	$0.42	***$0.75***	***$1.05***
DPS	$0.26	$0.61	$0.26	$0.29	$0.30	$0.35	$0.36	$0.32	$0.29	$0.33	***$0.35***	***$0.50***

America Movil's earnings-per-share track record is inconsistent to say the least. The company's per-share income rose to $2.00 in 2010 before falling steadily to $0.15 in 2016. With that said, much of this financial decline can be attributed to a significant deterioration in the Peso-USD exchange rate, which harms America Movil due to its United States operations. Looking ahead, we believe the company is capable of posting $0.75 in earnings-per-share this year, with that number growing by 7% per year moving forward. We note that there is significant uncertainty in these projections, as the Mexcian Federal Telecommunications Institute has stated the intention to loosen the company's dominant grip on the country's telecommunications industry moving forward.

While all telecommunications companies have the ability to grow by acquiring new customers, where America Movil's approach truly stands out is its ability to grow its revenue *per user*. In the most recent quarter, average revenue per user (ARPUs) grew by 14.1% in Brazil, 9.4% in the United States, 7.3% in Mexico, and 7.0% in Ecuador.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	19.4	10.7	12.7	17.1	13.3	13.7	22.0	29.3	---	38.9	***23.1***	***13.5***
Avg. Yld.	1.0%	3.2%	1.0%	1.1%	1.2%	1.6%	1.6%	1.6%	2.2%	2.1%	***1.9%***	***3.5%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Using the midpoint of our 2018 earnings-per-share guidance, America Movil is trading at a price-to-earnings ratio of 23.1. Although the company's valuation history since 2014 has been spotty due to rapidly declining levels of earnings-per-share, we believe that America Movil's pre-2014 valuation history is reasonably indicative of its fair value. Between 2009 and 2013, America Movil traded at an average price-to-earnings ratio of 13.5. If the company's valuation can mean revert to a price-to-earnings ratio of 13.5 over the next 5 years, this will reduce its total returns by 10.2% per year during this time period. Dividend investors should also note that America Movil is subject to Mexico's 10% withholding tax on cross-border dividend payments.

Safety, Quality, Competitive Advantage, & Recession Resiliency

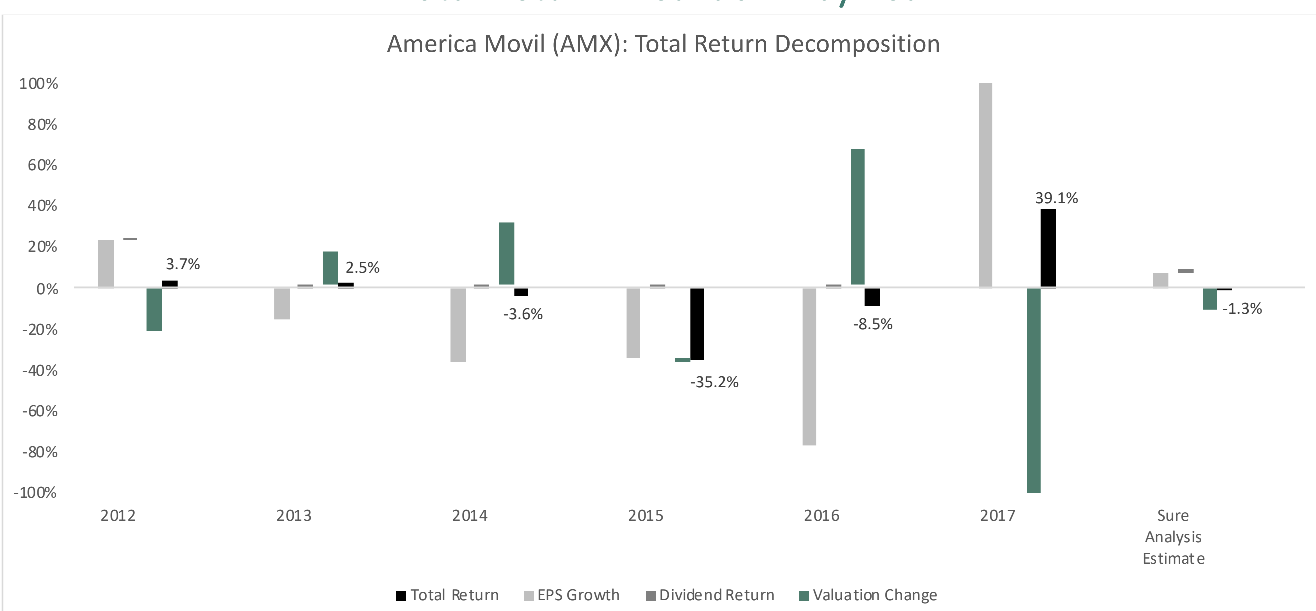
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	56.7%	39.6%	42.1%	48.2%	43.5%	42.8%	40.1%	40.1%	36.0%	36.8%	***37.5%***	***40.0%***
Debt/A	66.7%	61.1%	61.7%	74.8%	74.2%	79.5%	81.6%	87.6%	82.1%	82.5%	***80.0%***	***80.0%***
Int. Cov.	13.5	14.4	12.2	7.4	6.3	4.0	3.5	2.5	1.3	2.1	***2***	***2***
Payout	20.2%	33.9%	13.0%	19.3%	16.2%	22.4%	36.0%	48.5%	193%	78.6%	***46.7%***	***47.6%***
Std. Dev.	41.8%	36.1%	22.2%	24.8%	20.4%	24.6%	26.0%	20.2%	30.4%	19.0%	***24.0%***	***24.0%***

Qualitatively, America Movil benefits from being the largest telecommunications company in its operating geography. In addition, America Movil is rated A3 by Moody's, A- by S&P, and A- by Fitch. With that said, several of the company's quality metrics have deteriorated over time. More specifically, he company's payout ratio has spiked while leverage has simultaneously increased, which has resulted in a decline in its overall interest coverage. We also note that America Movil has a far higher stock price standard deviation than its peers in the domestic telecommunications industry.

Final Thoughts & Recommendation

On the surface, America Movil appears to be an interesting opportunity to capture the trend of growing telecommunications use worldwide. Further investigation reveals that the company's financial performance in the last several years has been quite weak. Moreover, America Movil is extremely overvalued at current prices. If the company's price-to-earnings ratio were to revert back to its historical averages over a 5-year holding period, then there is very little change that investors will be able to break even on their original investment. Because of its poor total return profile – especially when accounting for the risks associated with the company – America Movil earns a sell recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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