America Movil (AMX)

Updated August 17th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$13	**5 Year CAGR Estimate:**	10.8%	**Market Cap:**	$42.6 B
Fair Value Price:	$10	**5 Year Growth Estimate:**	14.0%	**Ex-Dividend Date:**	11/5/2020[1]
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Dividend Payment Date:**	11/16/2020
Dividend Yield:	2.9%	**5 Year Price Target**	$19	**Years Of Dividend Growth:**	3
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	12.1%

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 America 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 can purchase 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$42.6 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 (7/14/20) financial results for the second quarter of fiscal 2020. The company incurred lockdown measures in all the countries where it is present. Equipment revenues slumped -27% due to the pandemic but service revenues grew 6.5% and thus peso-denominated total revenues edged up 0.6% over last year's quarter. The company disconnected 5 million wireless clients in the quarter, including 1.7 million in Mexico. Operating income rose 10.5% and finance costs decrease. As a result, earnings-per-share rose from $0.23 to $0.26.

America Movil is facing a downturn due to the global recession caused by the pandemic. The effect of the pandemic on telecommunications companies is likely to be limited but the closure of the stores in many countries will affect results.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.00	$1.50	$1.85	$1.56	$1.00	$0.66	$0.15	$0.42	$0.76	$1.06	***$0.75***	***$1.44***
DPS	$0.26	$0.29	$0.30	$0.35	$0.36	$0.32	$0.29	$0.33	$0.33	$0.37	***$0.38***	***$0.50***
Shares[2]	4017	3850	3792	3524	3408	3299	3289	3304	3302	3288	***3300***	***3200***

Despite its dominant business position in Mexico, America Movil has exhibited a remarkably volatile performance record, partly due to the inevitable currency fluctuations. The company will also be affected by the global recession caused by the pandemic. Nevertheless, as we expect the pandemic to subside from next year, we expect 14.0% average annual earnings-per-share growth over the next five years off this year's low comparison base.

On the other hand, we reiterate that our America Movil projections have significant uncertainty due to (1) potential fluctuations in the Peso-USD exchange rate and (2) a release from the Mexican Federal Telecommunications Institute that indicates the intention to loosen the company's dominant grip on Mexico's telecommunications industry, where it has a market share of approximately 60% and generates nearly one-third of its total revenues.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.7	17.1	13.3	13.7	22.0	29.3	---	38.9	22.0	14.1	***17.3***	***13.5***
Avg. Yld.	1.0%	1.1%	1.2%	1.6%	1.6%	1.6%	2.2%	2.1%	2.0%	2.5%	***2.9%***	***2.6%***

[1] Estimated date.

[2] In millions.

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America Movil is trading at a price-to-earnings ratio of 17.3, which is much higher than our fair value estimate of 13.5 times earnings. If the company's price-to-earnings ratio declines to 13.5 over the next five years, the stock will incur a -4.9% annualized drag in its returns over this period due to the contraction of its valuation level. 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	13.0%	19.3%	16.2%	22.4%	36.0%	48.5%	193%	78.6%	43.4%	34.9%	***50.7%***	***34.9%***

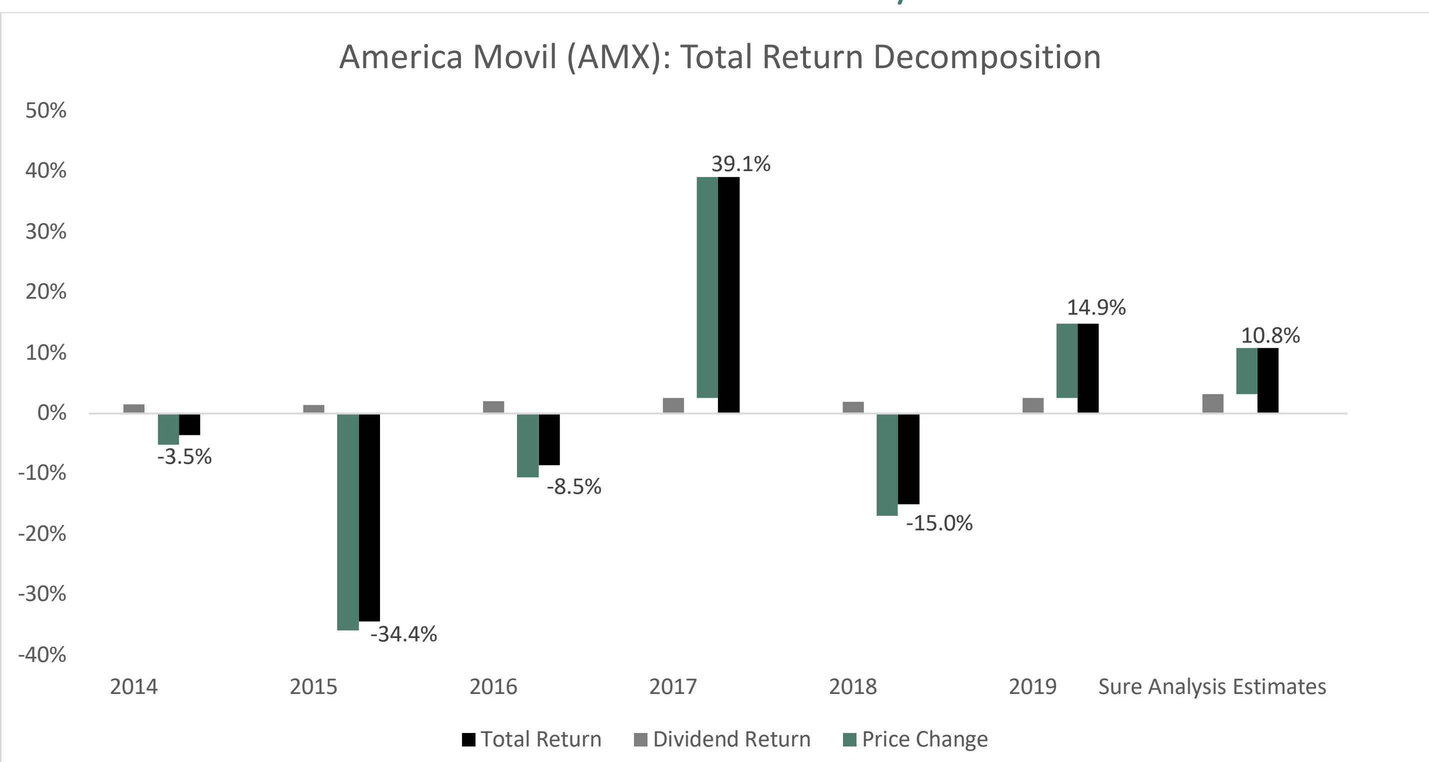
America Movil benefits from being the largest telecommunications company in its operating geography. In addition, America Movil is rated A3 by Moody's, A- by S&P, and A- by Fitch. While the company carries a significant amount of debt, just like almost all the companies in this sector, its interest expense consumes only one-quarter of its operating income and hence its debt is manageable.

However, investors should be aware of the greatest risk of America Movil, namely its exposure to the exchange rate of the Peso vs. USD. Currencies of weak economies tend to depreciate vs. the dollar in the long run. This has proved to be the case for the Peso, as it has depreciated by -27% in the last five years. This is a strong headwind, which can significantly reduce the long-term returns of the stock even if the company exhibits great business performance.

Final Thoughts & Recommendation

America Movil has a dominant position and it could recover from the pandemic from next year, along with the global economy. Thanks to its -39% correction in the last six months, the stock could offer a 10.8% average annual return over the next five years. However, this expected return is not adequate to compensate investors for the volatile record and the currency risks of the stock. As a result, we maintain our hold rating for the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	49,798	55,646	58,915	61,607	63,825	56,444	52,293	54,044	54,056	52,316
Gross Profit	29,761	32,290	32,985	33,528	34,739	29,902	26,288	27,788	27,563	27,817
Gross Margin	59.8%	58.0%	56.0%	54.4%	54.4%	53.0%	50.3%	51.4%	51.0%	53.2%
SG&A Exp.	10,233	11,742	12,590	13,102	13,957	12,717	12,229	12,729	11,829	11,217
D&A Exp.	7,200	7,581	7,874	7,957	8,649	7,940	7,963	8,473	8,107	8,253
Operating Profit	12,042	12,711	12,249	12,089	11,775	8,931	5,876	5,298	7,266	8,042
Op. Margin	24.2%	22.8%	20.8%	19.6%	18.4%	15.8%	11.2%	9.8%	13.4%	15.4%
Net Profit	7,204	6,698	6,916	5,848	3,471	2,214	464	1,551	2,737	3,518
Net Margin	14.5%	12.0%	11.7%	9.5%	5.4%	3.9%	0.9%	2.9%	5.1%	6.7%
Free Cash Flow	9,393	5,811	5,839	5,175	7,147	768	4,330	4,287	5,025	4,281
Income Tax	2,863	3,206	3,495	2,382	2,987	1,211	611	1,319	2,420	2,650

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	70,705	67,041	75,765	78,396	86,685	74,574	73,077	75,500	72,722	80,888
Cash & Equivalents	7,737	4,218	3,489	3,682	4,508	2,598	1,120	1,233	1,102	1,043
Acc. Receivable	7,514	9,160	7,427	7,442	8,328	7,049	8,504	9,888	11,066	10,876
Inventories	2,103	2,436	2,201	2,807	2,436	2,046	1,778	1,972	2,051	2,170
Goodwill & Int.	9,676	8,175	11,115	9,991	17,510	15,062	14,711	14,986	13,621	14,682
Total Liabilities	43,604	50,169	56,216	62,321	70,774	65,322	60,004	62,259	60,211	68,907
Accounts Payable	154	10,019	7,042	7,549	7,135	6,120	6,405	5,409	6,025	5,986
Long-Term Debt	24,445	27,157	32,039	37,480	40,924	39,291	34,139	35,451	32,509	32,961
Total Equity	24,812	16,408	18,838	15,472	12,503	6,458	10,077	9,864	9,973	9,394
D/E Ratio	0.99	1.66	1.70	2.42	3.27	6.08	3.39	3.59	3.26	3.51

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	10.9%	9.7%	9.7%	7.6%	4.2%	2.7%	0.6%	2.1%	3.7%	4.6%
Return on Equity	33.2%	32.5%	39.2%	34.1%	24.8%	23.4%	5.6%	15.6%	27.6%	36.3%
ROIC	14.9%	14.0%	14.5%	11.1%	6.3%	4.2%	1.0%	3.2%	5.8%	7.8%
Shares Out.	4017	3850	3792	3524	3408	3299	3289	3304	3302	3288
Revenue/Share	12.60	14.16	15.47	16.91	18.43	16.88	15.92	16.40	16.37	15.85
FCF/Share	2.38	1.48	1.53	1.42	2.06	0.23	1.32	1.30	1.52	1.30

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.