

# Arca (September 2014)

**Current Cashflow to Firm**  
 EBIT(1-t) = 10,259 (1-.3076) = MXN 7,103  
 - Nt CpX = 5,213- 2,570 = 2,643  
 - Chg WC = 594  
 = FCFF = 3,866  
 Reinv Rate = (2643+594)/7103= 45.6%  
 Return on capital = 7,103/48,895 =14.53%

**Reinvestment Rate**  
45.6%

**Return on Capital**  
14.53%

**Expected Growth from new investments**  
 $.456 * .1453 = 0.0662$   
 (6.62%)

**Stable Growth**  
 g = 4%; Beta = 0.80  
 Cost of capital = 10.13%  
 Tax rate = 30.00%  
 ROC = 10.13%;  
 Reinvestment rate = g/ROC  
 = 4% / 10.13% = 39.49%

MP Cashflows Terminal Value<sub>10</sub> = 7,965 / (.1013 - .04) = MXN 129,962

Op. Assets 80,384  
 + Cash: 7,318  
 + Min Hldg 8,750  
 - Debt 16,663  
 - Min Int 6,692  
 = Equity 73,098

EBIT * (1 - tax rate)	MXN 7,582	MXN 8,093	MXN 8,638	MXN 9,220	MXN 9,842	MXN 10,453	MXN 11,048	MXN 11,618	MXN 12,157	MXN 12,657
- Reinvestment	MXN 3,455	MXN 3,688	MXN 3,937	MXN 4,202	MXN 4,485	MXN 4,637	MXN 4,766	MXN 4,871	MXN 4,949	MXN 4,999
Free Cashflow to Firm	MXN 4,127	MXN 4,405	MXN 4,702	MXN 5,018	MXN 5,356	MXN 5,816	MXN 6,282	MXN 6,747	MXN 7,208	MXN 7,659

EBIT (1-t) = MXN 13,163  
 - Reinvestment = MXN 5,198  
 = FCFF = MXN 7,965

Cost of capital = 11.27% (.9039) + 4.66% (.0961) = 10.64%

Value/Share MXN 45.37

*Growth declines to 4% and cost of capital moves to stable period level.*

**On September 10, 2014**  
**Arca Continental Price = MXN 97/share**

**Cost of Equity**  
11.27%

**Cost of Debt**  
 $(4.21 + 1.60\% + 0.85\%) (1 - .30) = 4.66\%$

**Weights**  
 E = 90.39% D = 9.61%

**Riskfree Rate:**  
 MP Riskfree Rate = 5.81% - 1.60% = 4.21%

**Beta**  
0.77

x

**Equity Risk Premium**  
9.17%

Unlevered Beta for Sectors: 0.71

Firm's D/E Ratio: 12.2%

Country	Revenues	Weight	ERP
Mexico	43507	72.08%	7.40%
Argentina	7843	12.99%	14.75%
Ecuador	6310	10.45%	16.25%
US	2699	4.47%	5.00%
Total	60359	100.00%	9.17%