

AURORA RESEARCH

9th REPORT ON ALEATICA, S.A.B. DE C.V. (“ALEATICA MX”)

IFM OVERVALUES ALEATICA MX BY AT LEAST \$AUD 3 BILLION (\$MXN 41.5 BILLION)

January 5, 2021

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IFM

In his appearance before Australia's House of Representatives Standing Committee on Economics which took place on November 22, 2019, Kyle Mangini (IFM Investors' Global Head of Infrastructure) falsely denied that IFM valued its investment in Aleatica Mexico at around \$3.79 AUD per share, when those same shares were listed in Mexico's stock exchange at a quoted price of around \$1.52 AUD per share. Mr. Mangini suggested that the valuation of \$3.79 AUD made reference to Aleatica Spain (the holding company through which IFM indirectly owns part of its investment in Aleatica Mexico), while the quoted price of \$1.52 AUD a share made reference to Aleatica Mexico's shares. Below is a transcript of the question asked by the Chair of the Committee, and Mr. Mangini's reply.

CHAIR: *Sure. But you can understand the concern. If you've got an independent valuation that says \$3.79 a share, and then, when it's listed, it's \$1.52 a share, that's quite a big discrepancy. It raises a broader question around valuation, I would have thought.*

Mr. Mangini: *I suggest you're looking at two different entities. Aleatica is the holding company. It includes 17 separate concessions, including in Mexico, Chile, Peru, and Colombia. In Mexico there's a listed entity, which is part of Aleatica, that has about 10 per cent free float, but that's a subsidiary of the overall entity. So they're two separate entities.*

CHAIR: *We might follow up on that and put more questions on notice.*

In fact, as we will show throughout this briefing, IFM does value Aleatica MX (and not the holding company) at a premium of more than 100% compared to its quoted price, and IFM deliberately tried to mislead the Chair of the Committee. We will demonstrate this in the most straight-forward way: by showing a confession made by IFM.

We will first make a short introduction explaining the structure of IFM's ownership of Aleatica MX. Aleatica MX is a company listed in Mexico's Stock Exchange. IFM indirectly owns ~85% of Aleatica MX's shares through several holding companies:

- 56.85% of Aleatica's shares are owned by Aleatica Spain, which, in turn, is 100% owned by IFM Global Infrastructure Fund.
- 28.01% of Aleatica's shares are owned by Global Infraco Silver Spain, which, in turn, is 100% owned by IFM Global Infrastructure Fund.

Aleatica MX's share capital is represented by a total of 1'732,185,269 shares, out of which IFM Global Infrastructure Fund owns: (i) 984'804,808 shares through Aleatica Spain; and (ii) 485,210,435 shares through Global Infraco Silver Spain. The remaining 262,170,026 shares are the *free float* of the company (owned by the investing public).

Aleatica Spain's financial statements are prepared by its board of directors, which is composed entirely of member nominated by IFM Investors.

In its consolidated financial statements for 2018, signed by Michael John Roy Kulper (Executive Director at IFM), Aaron Wai-Yan Lehane McGovern (Investment Director at IFM), and Kittredge Murphy Zuk (Asset Management Director at IFM), Aleatica Spain makes the following confession:

The share price of ALEATICA, S.A.B. de C.V. (ALEATICA (México)) was MXN 25.28 per share at 31 December 2018 [...], however, the Group analysed the recoverable amount of its net investment in ALEATICA México, which at 31 December 2018 amounted to EUR

2,160.9 million. The valuation is based on discounted cash flows based on the economic and financial models of the concession operators composing ALEATICA (México), which show that there are no indications of impairment.

Below, we have included an image taken from Aleatica Spain's consolidated financial statements for 2018, where IFM's confession can be seen in red.



The following was of note in this connection in 2018:

(i) Mexican concession operators

The main variables used in the economic and financial models are as follows:

- The minimum discount rates used were 8.20%.
- CPI growth was obtained from Latin Focus.
- Revenue projections: revenue was projected using traffic volumes estimated by in-house and external experts and by applying toll increases when they become known.

Based on the current information of the aforementioned models, no impairment losses exist and the investment will be recovered.

For those companies with a guaranteed minimum revenue clause (Autopista Urbana Norte, S.A. de C.V., Concesionaria Mexiquense, S.A. de C.V. and Viaducto Bicentenario, S.A. de C.V.), the main driver for the recovery of the investment is the guaranteed minimum revenue clause included in the concession arrangement.

(ii) ALEATICA, S.A.B. de C.V. (formerly OHL México, S.A.B. de C.V.)

The share price of ALEATICA, S.A.B. de C.V. (ALEATICA (México)) was MXN 25.28 per share at 31 December 2018 (31 December 2017: MXN 32.63 per share), however, the Group analysed the recoverable amount of its net investment in ALEATICA México, which at 31 December 2018 amounted to EUR 2,160.9 million. The valuation is based on discounted cash flows based on the economic and financial models of the concession operators composing ALEATICA (México), which show that there are no indications of impairment.

Based on the foregoing, it was concluded that there is no impairment.

The first thing we need to do in order to correctly analyze IFM's confession is to convert all figures into a single currency. As of December 31, 2018: (i) \$AUD 1 was equal to \$MXN 13.84; and (ii) €1 was equal to \$MXN 22.49. Therefore, IFM confessed that:

The share price of Aleatica MX was \$AUD 1.82 per share at 31 December 2018. However, the Group valued its net investment in Aleatica MX, which at 31 December 2018 amounted to \$AUD 3.511 billion.

The next step is to refer all figures to the same object. In this case, we shall refer all figures to Aleatica MX's **price per share**. Given that IFM owns 984,804,808 Aleatica MX shares through Aleatica Spain, if such shares were valued by IFM at \$AUD 3.511 billion, it follows that IFM valued each one of Aleatica MX's shares at \$AUD 3.56 (the result of dividing \$AUD 3.511 billion by 984,804,808 shares). So IFM's confession can also be written as follows:

The share price of Aleatica MX was \$AUD 1.82 per share at 31 December 2018. However, the Group valued its net investment in Aleatica MX, which at 31 December 2018 amounted to \$AUD3.56 per share.

The first conclusion that can be reached is that IFM has confessed that, as of December 31, 2018, it valued its investment in Aleatica MX at \$AUD 3.56 per share, despite those shares having a quoted price of only \$AUD 1.82 per share. So IFM values its stake in Aleatica MX at a premium of more than 95% to its market value.

CONCLUSION #1: As of December 31, 2018, IFM valued its stake in Aleatica MX at a premium of more than 95% to its market value.

CONCLUSION #2: Kyle Mangini lied before Australia's House of Representatives Standing Committee on Economics, when he implied that IFM did not value its stake in Aleatica MX at a substantial premium to its market value.

So far, we have concluded that IFM valued its stake in Aleatica MX at \$AUD 3.56 per share (or \$MXN 49.27 per share) as of December 31, 2018. Considering that Aleatica MX's share capital is represented by a total of 1'732,185,269 shares, IFM's valuation of Aleatica MX puts an implied valuation on Aleatica MX of \$AUD 6.16 billion (or \$MXN \$85.34 billion). This figure stands in sharp contrast to Aleatica MX's market value of only \$AUD 3.16 billion (or \$MXN 43.78 billion), and, perhaps more importantly, to the valuation booked by other major shareholders of Aleatica MX.

For instance, several funds that are managed by Inbursa (one of Mexico's major financial institutions, majority-owned by Carlos Slim) valued the shares they own in Aleatica MX at only \$MXN 22.28 per share (or \$AUD 1.61 per share) as of December 31, 2018. Inbursa's valuation of Aleatica MX puts an implied valuation on Aleatica MX of \$AUD 2.78 billion (or \$MXN 38.59 billion), as opposed to the \$AUD 6.16 billion ascribed to Aleatica MX by IFM. Below, we have included an image of one of Inbursa's funds, showing its valuation of Aleatica MX shares.

Ibuplus, S.A. de C.V., Fondo de Inversión de Renta Variable
Administrado por Operadora Inbursa de Fondos de Inversión, S.A. de C.V., Grupo Financiero Inbursa
 Av. Paseo de las Palmas 750, Col. Lomas de Chapultepec III Sección Miguel Hidalgo, Ciudad de México C.P. 11000

Estados de valuación de cartera de inversión

Al 31 de diciembre de 2018 y 2017
 (En miles de pesos, excepto valores unitarios)


											2018		
Emisora	Serie	Tipo de valor	Tasa al valor	Tipo de tasa	Calificación o bursatilidad	Cantidad de títulos operados	Cantidad de títulos liquidados	Total de títulos de la emisión	Costo promedio unitario de adquisición	Costo total de adquisición	Valor razonable o contable unitario		
Títulos para negociar													
Inversión en instrumentos de patrimonio neto													
2% Empresas industriales													
DINE	A	1	-	-	BAJB	1,880,175	1,880,175	324,883,867	12.050000	22,656	10.800000		
DINE	B	1	-	-	MEDB	6,552,010	6,552,010	310,846,189	11.350000	74,365	10.500000		
GCARSO	A1	1	-	-	ALTB	24,840,065	24,840,065	2,281,438,674	64.501955	1,602,233	70.410000		
GISSA	A	1	-	-	MEDB	861,600	861,600	349,111,835	33.670000	29,010	26.980000		
GMXT	*	1	-	-	ALTB	319,121	319,121	4,100,594,828	26.334761	8,404	25.630000		
GSANBOR	B-1	1	-	-	BAJB	68,939,411	68,939,411	2,264,930,863	19.509984	1,345,007	17.700000		
IDEAL	B-1	1	-	-	MEDB	123,705,359	123,705,359	3,000,152,564	32.691217	4,044,079	32.510000		
KUO	A	1	-	-	BAJB	1,429,200	1,429,200	233,221,719	42.300000	60,455	48.000000		
KUO	B	1	-	-	BAJB	3,017,094	3,017,094	223,144,429	42.299393	127,621	48.490000		
ACCELSA	B	1	-	-	BAJB	505	505	189,002,921	10.300000	5	14.300000		
ALEATIC	*	1	-	-	MEDB	200,000	200,000	1,732,185,269	27.081223	5,416	22.280000		
						231,744,540				7,319,251			

So not only does IFM value its stake in Aleatica MX at a premium of more than 95% to its market value, but it also values it at a premium of more than 100% to the value ascribed to Aleatica MX shares by other funds, including those managed by Inbursa.

CONCLUSION #3: While IFM values Aleatica MX at \$AUD 6.16 billion, other investors, such as Inbursa, value Aleatica MX at only \$AUD 2.78 billion.

The figures shown in this report cover IFM’s valuation of Aleatica MX as of December 31, 2018. As of today, the divergence between Aleatica MX market value (defined as its quoted price per share) and its valuation performed by IFM has **grown**. In other words, as of today, IFM values its investment in Aleatica MX at an even higher premium to its market value, and to other funds’ valuations of the same shares, than it did as of December 31, 2018. We will soon be updating this briefing in order to include the most recent figures. For now, suffice it to say that according to its latest figures (as of the third quarter of 2020) IFM values its stake in Aleatica at \$MXN 56.04 per share (which, at the exchange rate as of September 30, 2020, is equal to \$AUD 3.50 per share), while, as of that same date, Aleatica MX’s shares were quoted at a price of only \$MXN 19.87 per share (equal to \$AUD 1.24 per share). Therefore, as of today, IFM values its stake in Aleatica MX at a premium of 182% to its market value.

Finally, we want to include the signature page included in Aleatica Spain’s consolidated financial statements, in order to prove that such financial statements are prepared by board members with executive positions at IFM.



DECLARACIÓN DE RESPONSABILIDAD Y FORMULACIÓN DE CUENTAS ANUALES

Los Administradores declaran que, hasta donde alcanza su conocimiento, las Cuentas Anuales Consolidadas han sido elaboradas con arreglo a los principios de contabilidad aplicables, ofrecen la imagen fiel del patrimonio, de la situación financiera y de los resultados de ALEATICA, S.A.U. (antes OHL Concesiones, S.A.U.) y de las empresas comprendidas en la consolidación tomados en su conjunto.

La formulación de las presentes Cuentas Anuales Consolidadas ha sido aprobada por el Consejo de Administración en su reunión del día 13 de marzo de 2019, y posteriormente serán presentadas para su aprobación por su Accionista Único, Global Infraco Silver Spain, S.L.

Dichas Cuentas Anuales Consolidadas están extendidas en 91 hojas (incluidos balance de situación consolidado, cuenta de pérdidas y ganancias consolidada, estado de ingresos y gastos reconocidos en el patrimonio neto consolidado, estado de cambios en el patrimonio neto consolidado, estado de flujos de efectivo consolidado, memoria y anexos I a IV de la memoria), todas ellas firmadas por el Secretario del Consejo de Administración, firmando en esta última hoja nº 92 todos los Consejeros.





Michael Kulper
Executive Director
Joined in 2013



Aaron McGovern
Investment Director
Joined in 2014

D. Michael John Roy Kulper

D. Juan Luis Osuna Gómez





Kittredge Zuk
Director, Asset Management
Joined in 2011

D. Kenneth Frederick Daley

D. Aaron Wai-Yan Lehane McGovern

Dña. Kittredge Murphy Zuk

D. Pablo Olivera Masso (Secretario no Consejero)