



Peruvian Corporate Credit Indicators: Second-Quarter 2019

Issuers Well Positioned to Face Potential Slowdown

Adequate Liquidity: Fitch Ratings forecasts limited negative rating actions on corporates in Peru (BBB+/Stable) during the remainder of 2019, despite a more challenging business environment, as most issuers maintain adequate liquidity and moderate leverage levels. Issuers' sufficient liquidity, on average, is reflected by satisfactory interest coverage ratios, limited debt principal payments due during 2019–2020, and readily available access to credit in the local market. Fitch forecasts median net adjusted leverage for Peruvian corporates remaining stable in the 3.0x–3.5x range during 2019–2021 from 3.3x in 2018. Our Peruvian corporate ratings universe contains 88% of issuers with Stable Outlooks, 8% with Negative Outlooks and 4% with Positive Outlooks. This continues to reflect issuer-specific factors rather than broad economic trends. Peruvian corporate issuers are rated in the 'BBB' to 'BB' rating categories.

Political Uncertainty Increases: President Martin Vizcarra presented a constitutional reform project on July 28 proposing to shorten legislative and presidential terms, while moving the 2021 general election to July 2020. As President Vizcarra does not control a working majority in Congress, it is unlikely the proposal will be approved. However, the political discussion on the proposal means the confrontation between the executive and legislative powers will continue to worsen in the next few months. This announcement increases the risks of higher political uncertainty and deterioration in business confidence and could result in negative effects on investment and consumption decisions.

Trade War Brings Volatility: The escalation of the trade dispute between the U.S. and China, Peru's two most important commercial partners, could bring additional volatility to Peru's economic activity in second-half 2019. The conflict could trigger a slowdown in the global economy, reducing the demand and prices for mining products. Peru's mining sector accounts for approximately 60% of the country's total exports. Mining exports dropped approximately 11.1% yoy during the six months ended June 30, 2019 compared with the same period of 2018. Peru reached GDP growth rates of 2.5% and 4.0% in 2017 and 2018, respectively. Fitch expects Peru to sustain annual growth rates of 3.5% and 3.7% in 2019 and 2020, respectively. GDP growth was 0.63% in May 2019 and the economy expanded 2.60% from June 2018 to May 2019, while January to May 2019 economic growth was 1.45%.

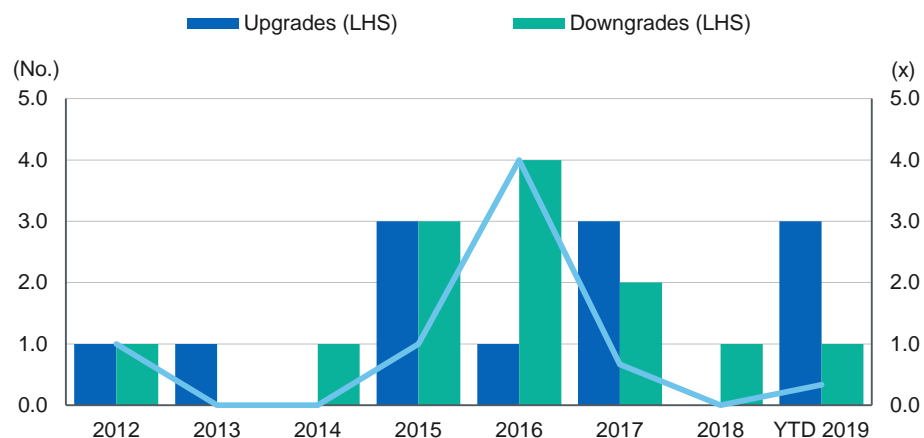
Interest Rates Reduced, Lending Stable: The Central Reserve Bank of Peru, or Banco Central de Reserva del Peru (BCRP) reduced the reference interest rate to 2.50% from 2.75% in August 2019, after rates were unchanged for 16 consecutive months. Currently, interest rates are at their lowest level since August 2010. The decision reflects the BCRP's view there is a greater risk domestic demand will not recover as expected during second-half 2019. Primary economic activity indicators show negative performance as a result of transitory supply shocks, while non-primary activity shows signs of less dynamism. Lending levels remain at healthy growth rates. Peru's lending levels in the corporate, consumer and mortgage segments reached growth rates of 6.0%, 13.2%, and 9.0%, respectively, as of the LTM ended June 30, 2019.

Recent Rating Activity: Fitch affirmed CTM's Long-Term (LT) Foreign Currency (FC) and Local Currency (LC) Issuer Default Ratings (IDRs) at 'BBB-' in July 2019. The Rating Outlook was revised to Positive from Stable and reflects our view CTM will continue to strengthen its credit profile in line with a rating level of 'BBB'. Fitch upgraded Lindley's LT FC and LC IDRs to 'A' from 'A-' in July 2019 and revised the Rating Outlook to Stable from Positive. Lindley's ratings take into account the improvement of credit metrics and the strengthening of operational, strategic and legal ties between Lindley and the parent company AC Bebidas, S. de R.L. de C.V. (A/Stable). AC Bebidas owns 99.78% of Lindley's shares and in September 2018 AC Bebidas acquired the remaining 38.52% equity shares of Lindley from The Coca-Cola Company (A/Stable). Fitch upgraded Atic's LT FC and LC IDRs to 'B' from 'B-' and the senior unsecured notes of subsidiary, Ajecorp B.V., to 'B'/RR4' from 'B-'/RR4' in July 2019. The Rating Outlook for Atic was revised to Stable from Positive.

Recent Issuance Activity: Fitch assigned a 'BBB-' rating to Intercorp's senior notes issuances. The company issued USD325 million in unsecured notes due in 2029 and PEN300 million in unsecured notes due in 2029. Proceeds from the issuances will be used primarily for debt refinancing.

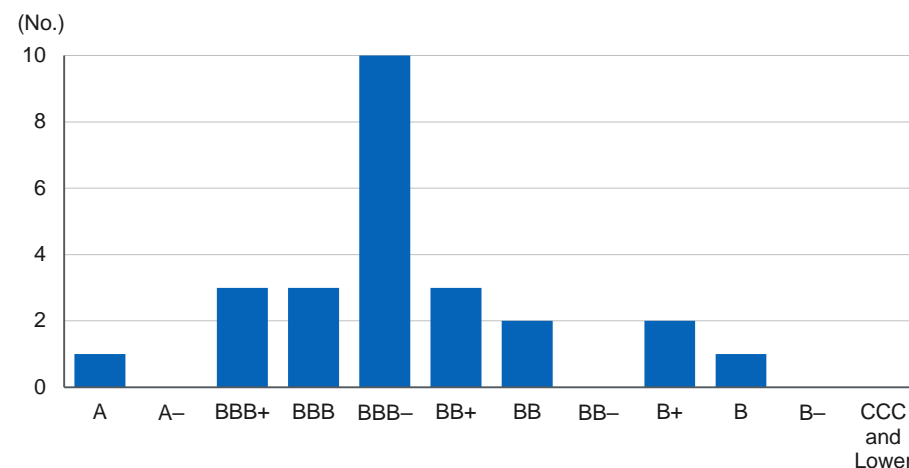
Peruvian Corporates: Rating Portfolio

Downgrades and Upgrades — International Scale



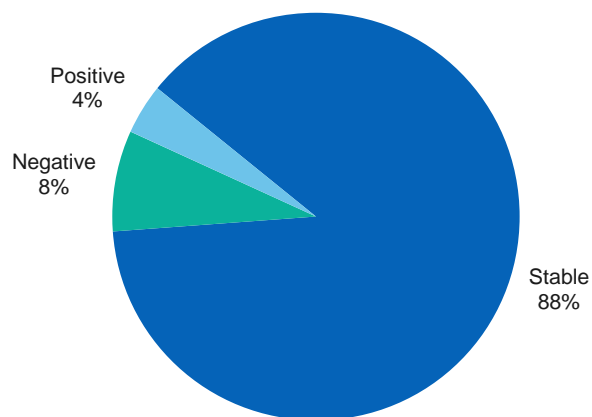
Note: Excludes multiple rating actions on the same issuer.
Source: Fitch Ratings, Fitch Solutions.

Peruvian Corporates Ratings Distribution — International Scale
(As of July 2019)



Source: Fitch Ratings, Fitch Solutions.

Ratings Outlook/Watch — International Scale
(As of July 2019)



Source: Fitch Ratings, Fitch Solutions.

Peruvian Corporates: Sector Risks Profile

Key Risks for Peruvian Corporates In 2019

- Exposure to commodity prices.
- Depressed internal demand and consumption.
- FX depreciation.

Source: Fitch Ratings, Fitch Solutions.

Peruvian Corporate Ratings: Outlook by Sector

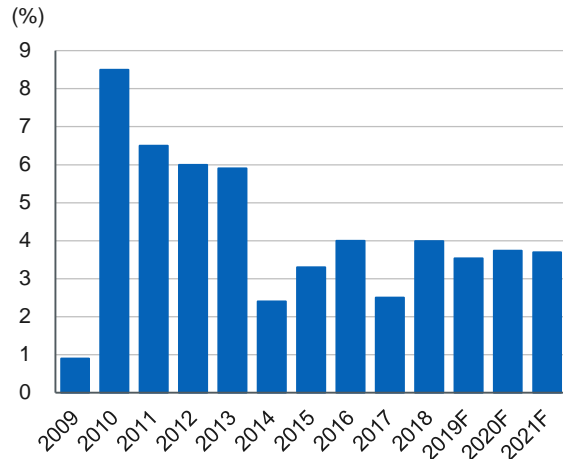
Sector	International Scale (%)	Sector Outlook	Issuers' Ability to Withstand Challenges In 2019	Key Factors
Metals & Mining	20	➡	Medium to Strong	Highly exposed to commodities cycle. Moderate to strong capital structures.
Electric Power	12	➡	Medium	Oversupply and regulatory risks. Moderate capital structures.
Food & Beverage	16	➡	Medium	Increased competition. Moderate to weak capital structures.
Retail	20	➡	Medium	Low business penetration and increasing middle-class purchasing power.
Oil & Gas – Midstream & Downstream	12	➡	Strong	Cash flow stability and supportive regulation. Strong capital structures.
Oil & Gas – Upstream	8	➡	Medium	Low commodity prices. Capital structures under pressure.
Sugar & Ethanol	4	➡	Medium	Exposure to commodity prices. High leverage.
Building Materials & Construction	4	➡	Medium to Strong	Home and infrastructure deficits would boost demand. Adequate capital structure.
Real Estate	4	➡	Medium	Potential growth. High capex would temporarily increase leverage.

Note: ➡ – Stable Outlook.

Source: Fitch Ratings, Fitch Solutions.

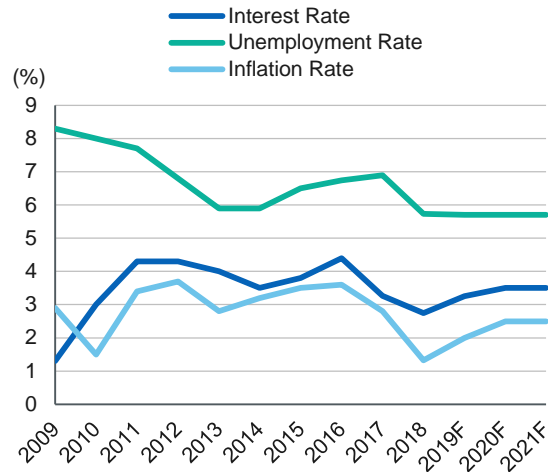
Peruvian Corporates: Key Macro Variables

Peruvian GDP Growth



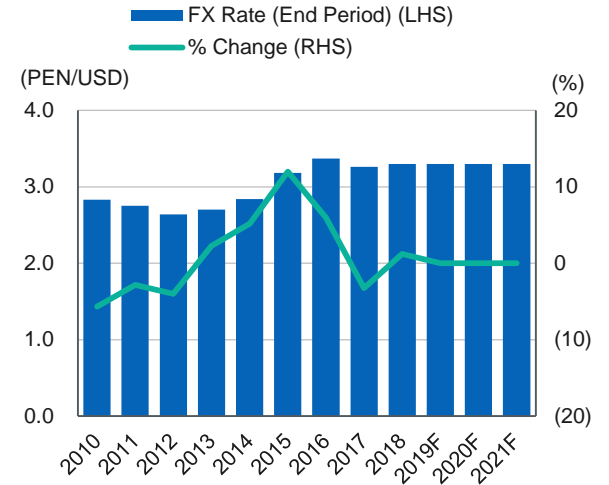
F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Unemployment, Inflation and Interest Rates



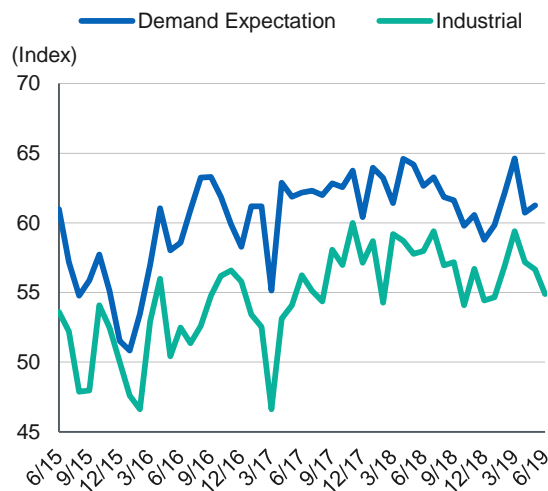
F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

FX Rate



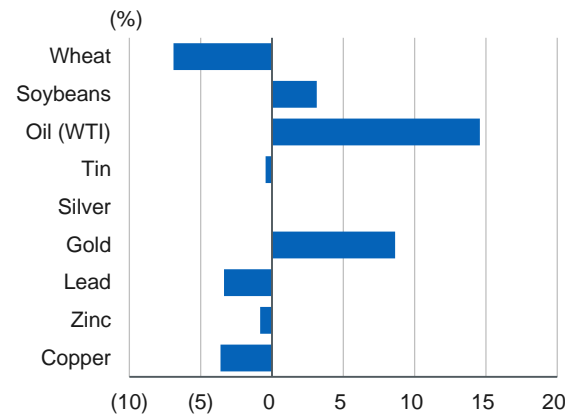
F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Confidence Indicators



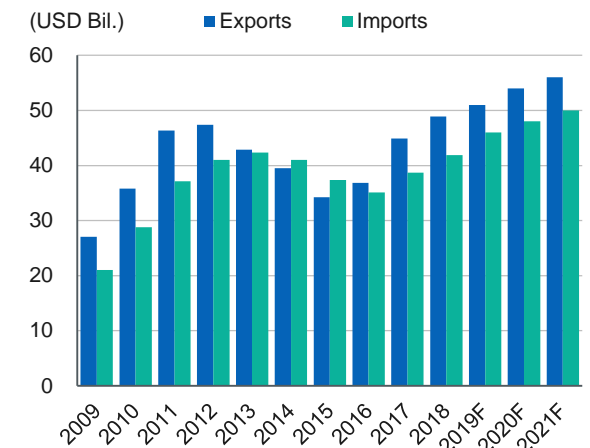
Source: Banco Central de Reserva del Peru.

Key Commodity Price Changes (YTD June 30, 2019)



WTI – West Texas Intermediate.
Source: Bloomberg, Banco Central de Reserva del Peru, Ministerio de Energia y Minas.

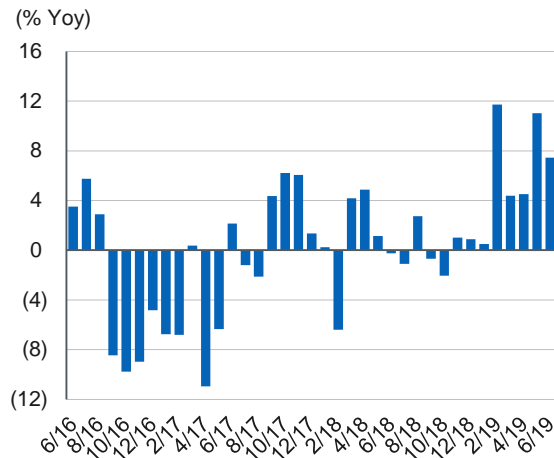
Exports Versus Imports



F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

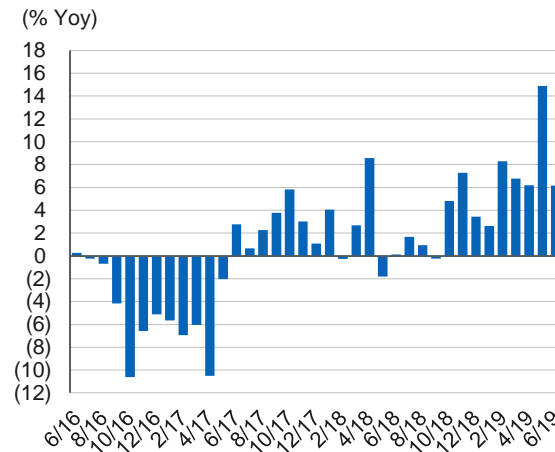
Peruvian Corporates: Industrial Indicators

Cement Production



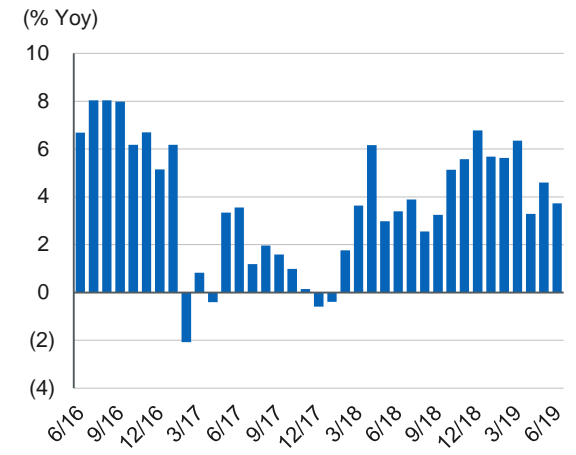
Source: Fitch Ratings, Fitch Solutions, Asociacion de Productores de Cemento.

Cement Consumption



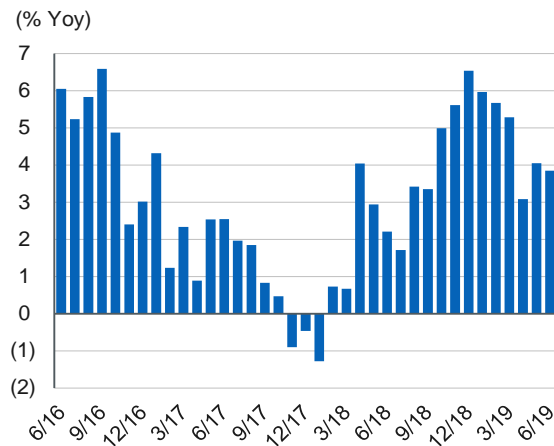
Source: Fitch Ratings, Fitch Solutions, Asociacion de Productores de Cemento.

Energy Production



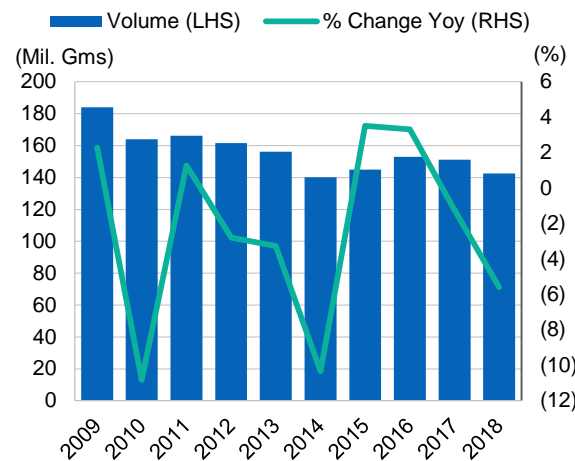
Source: Fitch Ratings, Fitch Solutions, Comite de Operacion Economica del Sistema.

Maximum Energy Power Demand



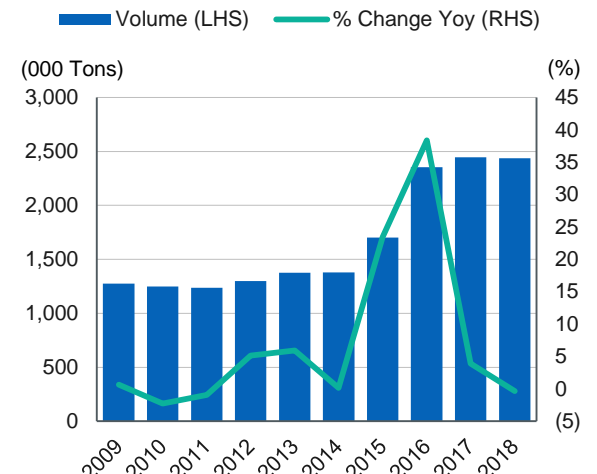
Source: Comite de Operacion Economica del Sistema.

Gold Production



Source: Fitch Ratings, Fitch Solutions, Ministerio Energia y Minería.

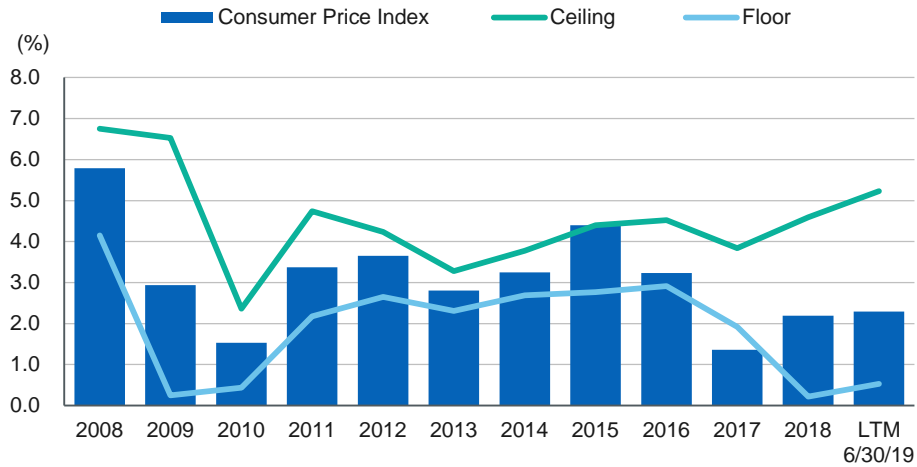
Copper Production



Source: Fitch Ratings, Fitch Solutions, Ministerio Energia y Minería.

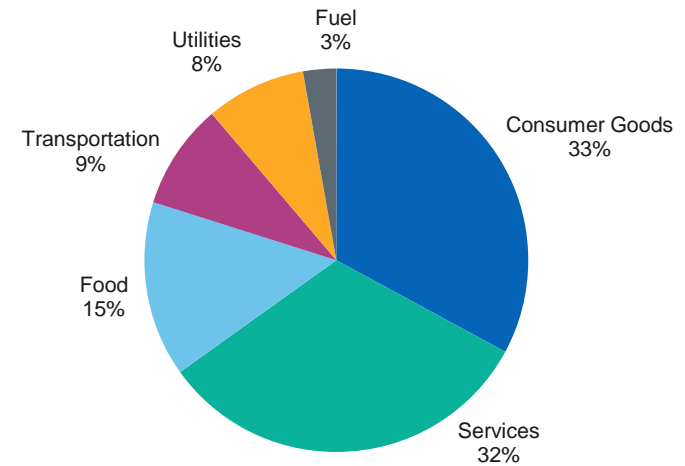
Peruvian Corporates: Inflation

Consumer Price Index and Inflation Target



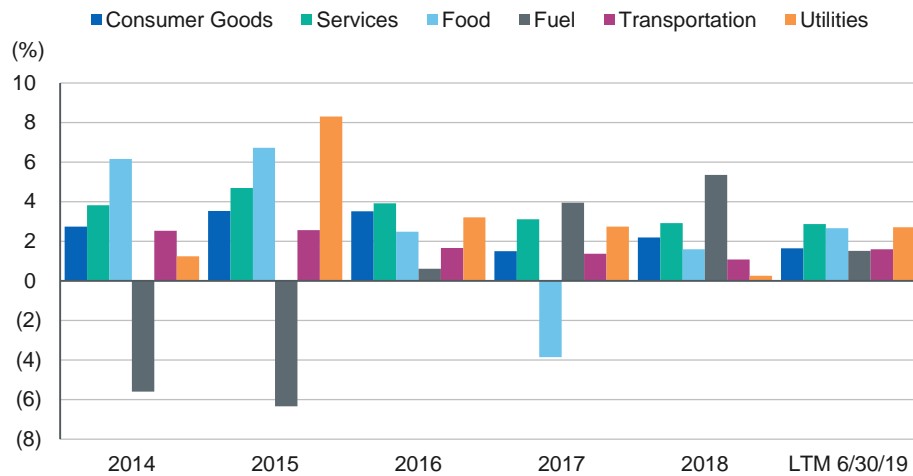
Source: Fitch Ratings, Fitch Solutions, Banco Central de Reserva del Peru.

Consumer Price Index Breakdown — Weight by Group



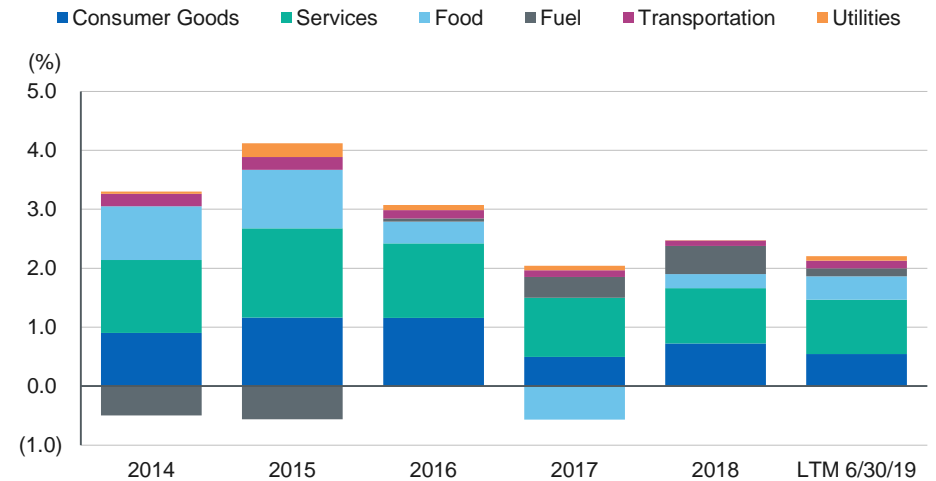
Source: Fitch Ratings, Fitch Solutions, Instituto Nacional de Estadística e Informática.

Consumer Price Index Breakdown — Inflation By Group



Source: Fitch Ratings, Fitch Solutions, Instituto Nacional de Estadística e Informática.

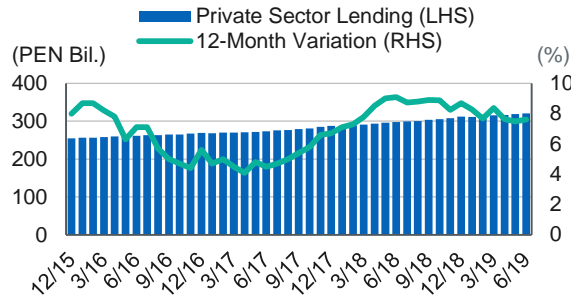
Consumer Price Index Breakdown — Weight By Group



Source: Fitch Ratings, Fitch Solutions, Instituto Nacional de Estadística e Informática.

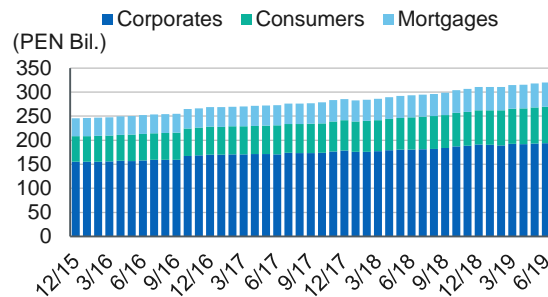
Peruvian Corporates: Credit Overview

Private Sector Lending



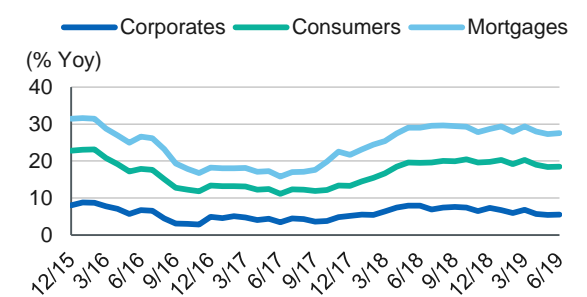
Source: Banco Central de Reserva del Peru.

Corporates and Households Lending



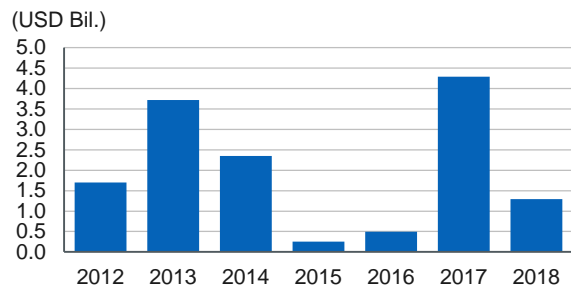
Source: Banco Central de Reserva del Peru.

Corporates and Households Lending Growth



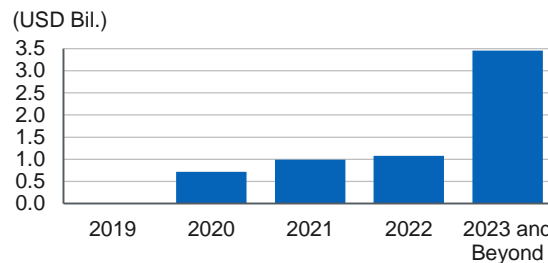
Source: Banco Central de Reserva del Peru.

Cross-Border Issuances — Fitch Portfolio



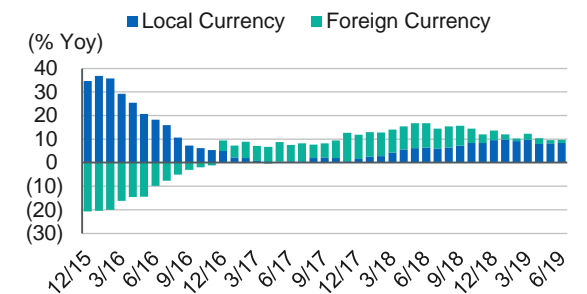
Source: Fitch Ratings, Fitch Solutions.

Cross-Border Bond Maturities — Fitch Portfolio



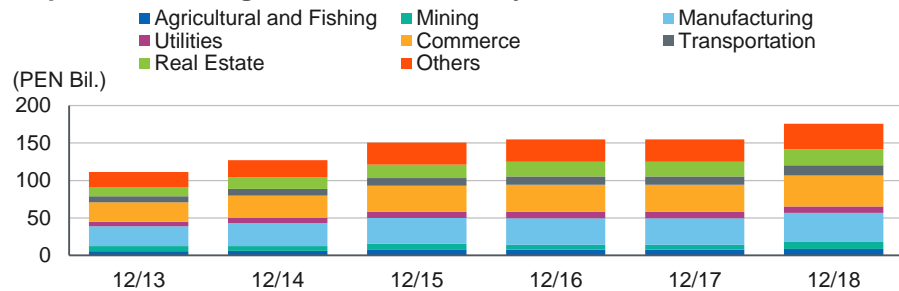
Source: Fitch Ratings, Fitch Solutions.

Corporates Lending Growth by Currency



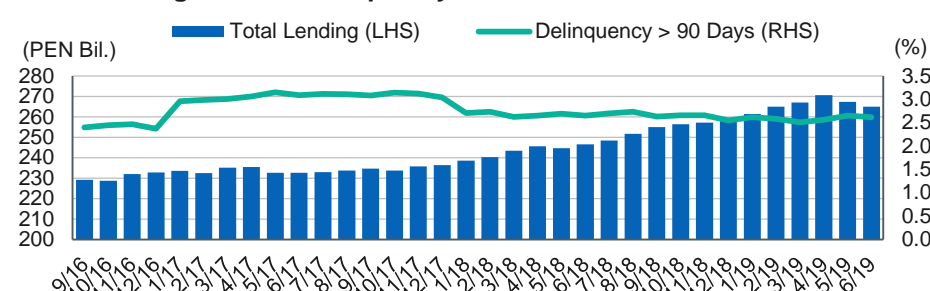
Source: Banco Central de Reserva del Peru.

Corporates Lending — Disbursements by Sectors



Source: Superintendencia de Banca y Seguros.

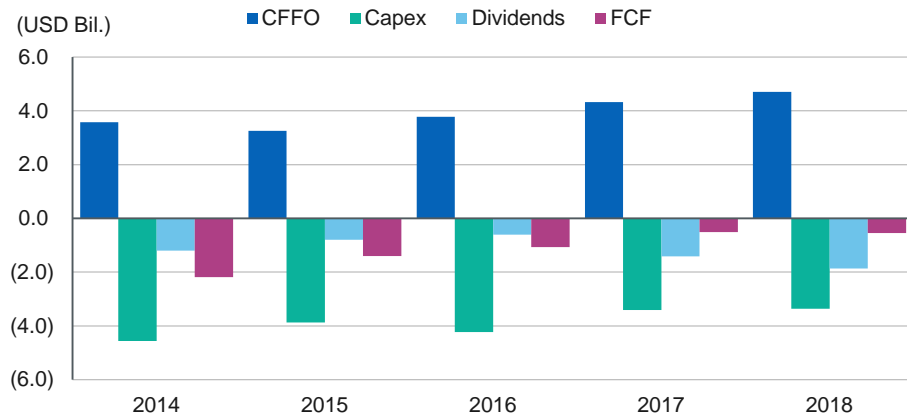
Total Lending Versus Delinquency



Source: Superintendencia de Banca y Seguros.

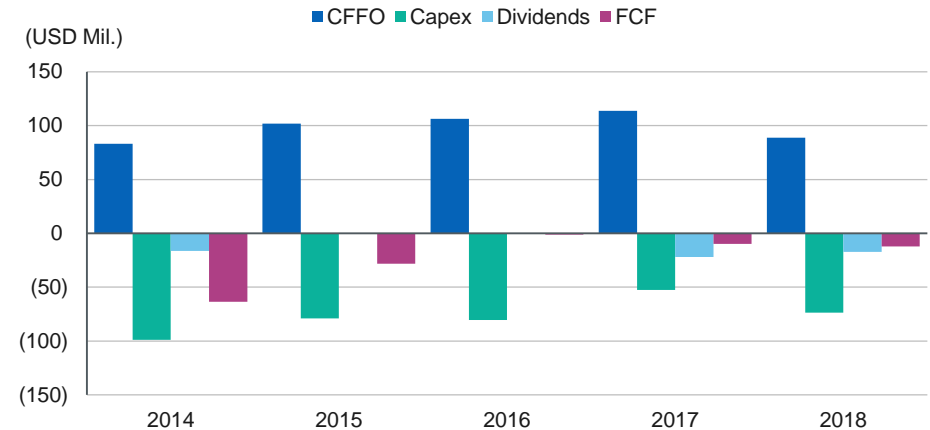
Peruvian Corporates: Financial Profile

Aggregate Cashflow Performance — Peruvian Corporate International Ratings — Fitch Portfolio



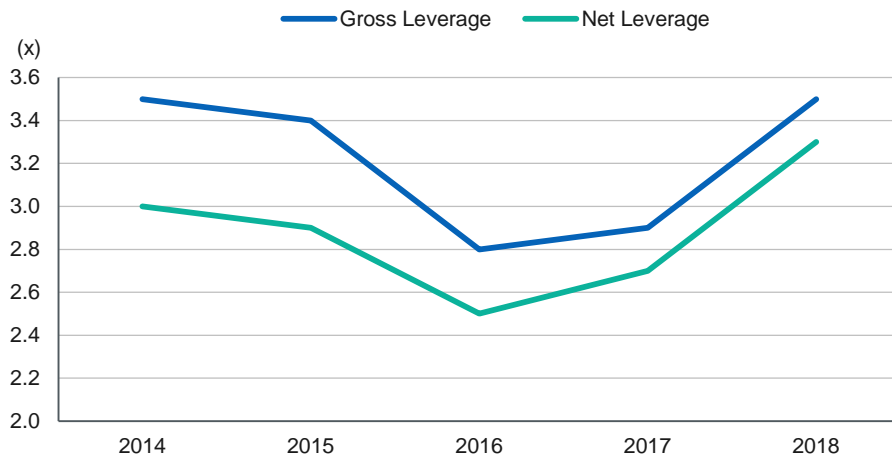
CFFO – Cash flow from operations.
Source: Fitch Ratings, Fitch Solutions.

Median Cashflow Performance — Peruvian Corporate International Ratings — Fitch Portfolio



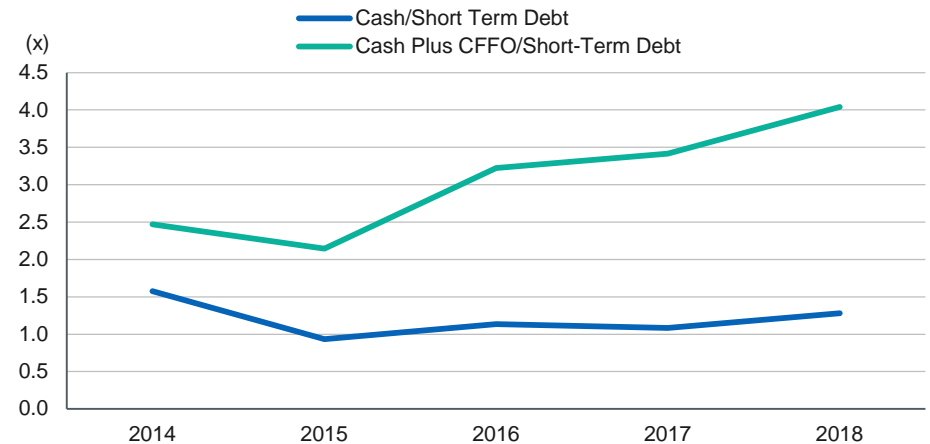
CFFO – Cash flow from operations.
Source: Fitch Ratings, Fitch Solutions.

Median Leverage — Peruvian Corporate International Ratings — Fitch Portfolio



Source: Fitch Ratings, Fitch Solutions.

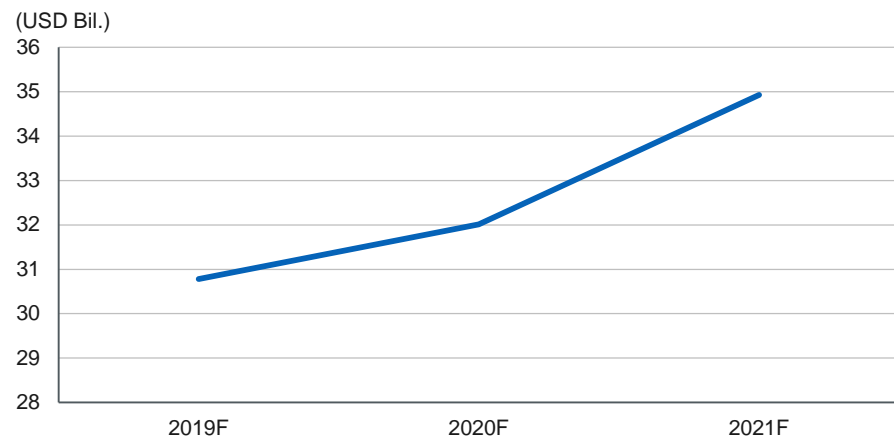
Median Leverage — Peruvian Corporate International Ratings — Fitch Portfolio



CFFO – Cash flow from operations.
Source: Fitch Ratings, Fitch Solutions.

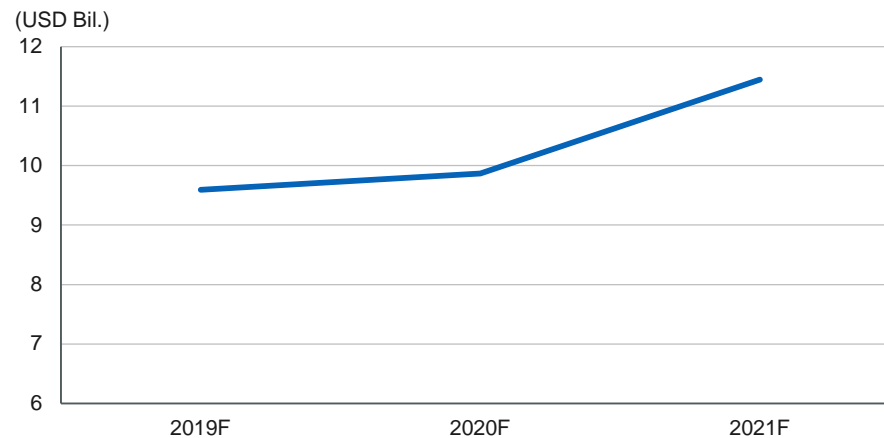
Peruvian Corporates: Fitch Forecasts

Aggregate Projected Revenue



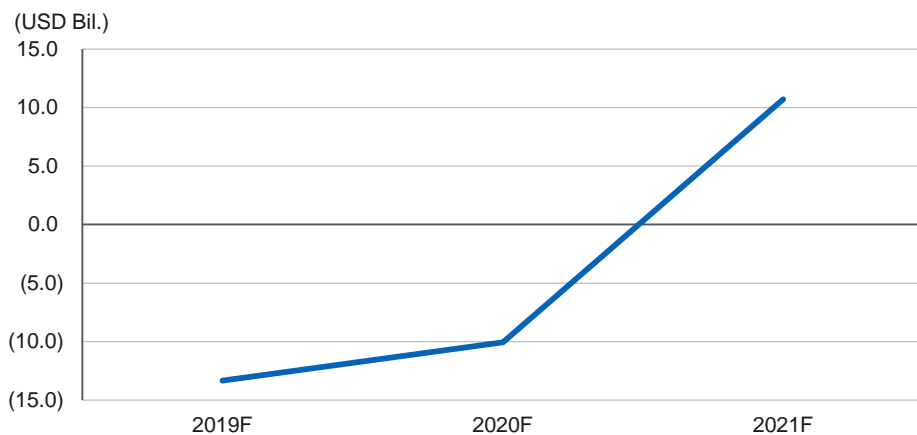
F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Aggregate Projected EBITDA



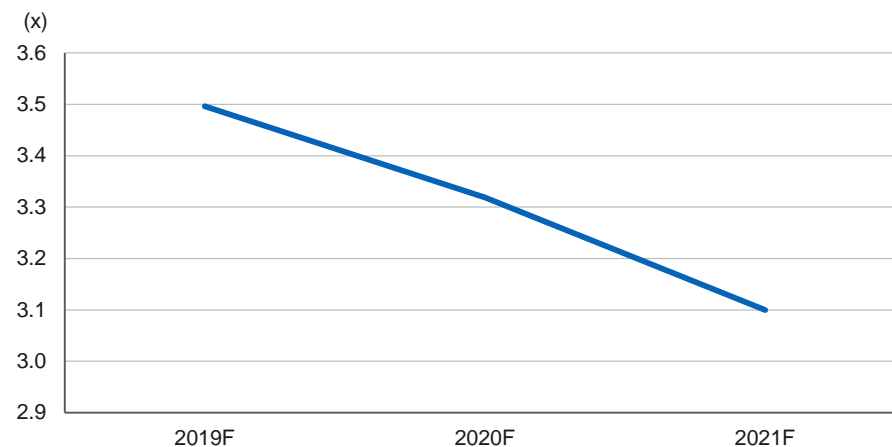
F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Aggregate Projected FCF



F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Median Projected Net Leverage



F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Peruvian Corporates: Key Statistics

(USD Mil.)		EBITDAR		Cash Flow From Operations		Net Debt/EBITDA ^a (x)		2018		
Company Name	LT IDR	2018	2019F	2018	2019F	2018	2019F	Cash and Marketable Securities	Short- Term Debt	Total Debt
Alicorp S.A.A.	BBB	309	410	234	221	2.2	2.6	310	275	981
CAMPOSOL Holding Plc	B+	150	169	78	125	1.7	1.9	41	37	301
Cementos Pacasmayo S.A.A.	BBB-	112	126	62	78	2.7	1.9	15	104	309
Compania de Minas Buenaventura S.A.A	BBB-	349	520	341	474	1.8	0.4	369	141	1,057
Consortio Transmantaro S.A. (CTM)	BBB-	170	178	95	138	4.7	4.7	24	91	822
Corporacion Azucarera del Peru S.A.	B+	45	107	(39)	34	11.5	4.7	13	88	496
Corporacion Lindley S.A.	A	178	193	122	134	2.7	2.3	32	49	504
Fenix Power Peru S.A.	BBB-	36	41	17	22	9.1	7.8	24	17	349
Gas Natural de Lima y Callao S.A.	BBB	161	164	82	110	2.9	3.3	21	20	493
Grupo Embotellador Atic, S.A.	B	129	158	66	84	4.8	3.4	39	19	644
Hunt Oil Company of Peru L.L.C., Sucursal del Peru	BBB	330	235	170	151	1.7	2.3	45	0	592
InRetail Pharma S.A.	BB+	261	297	151	124	4.7	3.7	152	62	1,321
InRetail Real Estate Corp.	BB+	103	107	80	75	5.4	5.6	50	12	591
Intercorp Peru Ltd	BBB-	102	113	75	86	3.7	3.7	34	65	399
Kallpa Generacion S.A.	BBB-	287	278	225	216	3.6	3.9	50	7	1,079
Minsur S.A.	BBB-	262	267	236	132	0.1	3.7	662	48	697
Nautilus Inkia Holdings LLC	BB	523	526	359	232	5.4	5.0	205	101	2,922
Nexa Resources Peru S.A.A.	BBB-	282	362	232	252	(1.2)	(1.1)	682	0	346
Orazul Energy Peru S.A.	BB	91	113	55	57	5.3	5.1	50	0	540
Peru LNG S.R.L.	BBB-	145	197	41	110	5.2	4.5	90	14	946
Petroleos del Peru — Petroperu S.A.	BBB+	266	321	(242)	204	16.1	13.0	529	1,673	4,821
San Miguel Industrias PET S.A.	BB+	88	92	27	65	4.5	13.0	35	112	428
Southern Copper Corporation (SCC)	BBB+	3,556	3,799	2,235	2,542	1.4	1.3	909	0	5,960
Transportadora de gas del Peru, S.A. (TGP)	BBB+	489	494	348	364	1.9	1.8	168	10	1,116
Volcan Compania Minera S.A.A.	BBB-	289	278	224	206	2.4	2.4	80	0	781

^aEBITDA measures for airline, retail and other companies with material rents and leases expenses were adjusted to EBITDAR. LT IDR – Long-Term Issuer Default Rating. F – Forecast.

Source: Fitch Ratings, Fitch Solutions.

Special Report
Outlooks

Peru

[2019 Fitch Ratings Outlooks](#)

Related Research

[Latin American Oil & Gas Netback Peer Comparison \(August 2019\)](#)[Latin American Comparative Statistics Book \(Five Years of Credit Metrics of 217 Corporate Cross-Border Issuers\) \(July 2019\)](#)[Latin American Corporate Bond Maturities and Issuance Trends \(Local Market Lending Offsets Slowdown in Cross-Border Borrowing\) \(July 2019\)](#)[Latin American Non-Food Retail Peer Comparison \(July 2019\)](#)[Latin America Mining Peer Comparison \(June 2019\)](#)

Analysts

Jose Vertiz
+1 212 908-0641
jose.vertiz@fitchratings.com

Jay Djemal
+1 312 368-3134
jay.djemal@fitchratings.com

Latin America Corporate Finance Team Directory

United States — Fitch Ratings, Inc.

Daniel R. Kastholm, CFA	Managing Director, Regional Group Head		daniel.kastholm@fitchratings.com	+1 312 368-2070
Joe Bormann, CFA	Managing Director, Deputy Regional Group Head		joe.bormann@fitchratings.com	+1 312 368-3349
Lucas Aristizabal	Senior Director	Energy (Oil & Gas), Electric-Corporate, Utilities	lucas.aristizabal@fitchratings.com	+1 312 368-3260
Jay Djemal	Senior Director	Head of Credit Research	jay.djemal@fitchratings.com	+1 312 368-3134
Debora Jalles	Director	Chemicals, Health Care, Transportation	debora.jalles@fitchratings.com	+1 312 606-2338
Johnny DaSilva	Director	Property & Real Estate, Food, Beverage & Tobacco	johnny.dasilva@fitchratings.com	+1 212 612-0367
Jose Vertiz	Director	Property & Real Estate, Retail	jose.vertiz@fitchratings.com	+1 212 908-0641
Saverio Minervini	Director	Energy (Oil & Gas), Utilities	saverio.minervini@fitchratings.com	+1 212 908-0364
Gilberto Gonzalez, CFA	Associate Director	Building Materials & Construction, Chemicals, Auto & Related	gilberto.gonzalez@fitchratings.com	+1 312 606-2310
Paula Bunn	Associate Director	Energy (Oil & Gas), Utilities	paula.bunn@fitchratings.com	+1 312 368-3218
Lincoln Webber, CFA, CAIA	Associate Director	Energy (Oil & Gas), Utilities	lincoln.webber@fitchratings.com	+1 646 582-3523
Phillip Wrenn	Associate Director	Metals & Mining, Building Materials & Construction	phillip.wrenn@fitchratings.com	+1 312 368-2075
Sul Ahmad, CFA	Associate Director	Technology and Media	sul.ahmad@fitchratings.com	+1 312 368-3348
Danny Patel	Senior Analyst	Property & Real Estate, Transportation, Technology, Media, & Telecommunications	danny.patel@fitchratings.com	+1 312 368-5461
Brian Lively	Associate Analyst	Electric-Corporate, Utilities, Energy (Oil & Gas)	brian.lively@fitchratings.com	+1 312 368-3129
Caroline Rudge	Associate Analyst	Chemicals, Health Care, Metal & Mining, Building Materials	caroline.rudge@fitchratings.com	+1 312 368-3311
Adriana Bueno	Administrator	General Sector	adriana.bueno@fitchratings.com	+1 312 368-5455

Brazil — Fitch Ratings Brazil Ltda.

Ricardo Carvalho	Senior Director, Head of Brazilian Corporates		ricardo.carvalho@fitchratings.com	+55 21 4503-2627
Mauro Storino	Senior Director	Technology, Media, & Telecommunications, Utilities	mauro.storino@fitchratings.com	+55 21 4503-2625
Fernanda Rezende	Senior Director	Natural Resources, Property/Real Estate	fernanda.rezende@fitchratings.com	+55 21 4503-2619
Gisele Paolino	Director	Transportation, Retail	gisele.paolino@fitchratings.com	+55 21 4503-2624
Gustavo Mueller	Director	Water/Wastewater Utility, Environmental Services	gustavo.mueller@fitchratings.com	+55 21 4503-2632
Renato Donatti	Director	Retailing, Transportation, Health Care	renato.donatti@fitchratings.com	+55 11 4504-2215
Claudio Miori	Director	Food, Beverage and Tobacco, Natural Resources	claudio.miori@fitchratings.com	+55 11 4504-2207
Alexandre Garcia	Associate Director	Building Materials & Construction, Telecommunications	alexandre.garcia@fitchratings.com	+55 11 4504-2616
Rafael Cintra	Associate Director	Electric-Corporate, Utilities, Energy (Oil & Gas)	rafael.cintra@fitchratings.com	+55 11 4504-2205
Renato Mota, CFA, CAIA	Associate Director	Transportation	renato.mota@fitchratings.com	+55 21 4503-2629
Tatiana Thomaz	Associate Director	Health Care, Retailing, Diversified Services	tatiana.thomaz@fitchratings.com	+55 21 4503-2605
Vitor Martins, CFA	Associate Director	Diversified Services, Food, Beverage & Tobacco, Natural Resources	vitor.martins@fitchratings.com	+55 11 4504-2603
Wellington Senter	Associate Director	Electric-Corporate, Corporates	wellington.senter@fitchratings.com	+55 21 4503-2606
Natalia Brandao	Senior Analyst	Property/Real Estate, Building Materials & Construction	natalia.brandao@fitchratings.com	+55 21 4503-2631
Leonardo Coutinho	Analyst	Water/Wastewater Utility, Transportation	leonardo.coutinho@fitchratings.com	+55 21 4503-2630
Tathiana Simoes	Analyst	General Sector	tathiana.simoes@fitchratings.com	+55 21 3957-3617
Rafael Faro	Analyst	General Sector	rafael.faro@fitchratings.com	+55 21 3957-3616
Pedro Gonzalez	Research Analyst	General Sector	pedro.gonzalez@fitchratings.com	+55 21 4503-2634

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Latin America Corporate Finance Team Directory (Continued)

Central America — Fitch Costa Rica Calificadora de Riesgos, S.A.

Erick Pastrana	Associate Director	Central American Corporates	erick.pastrana@fitchratings.com	+506 2106-5184
Eduardo Trejos	Associate Director	Central American Corporates	eduardo.trejos@fitchratings.com	+506 2106-5185

Chile — Fitch Chile Clasificadora de Riesgos Limitada

Rina Jarufe	Senior Director, Head of Chilean Corporates		rina.jarufe@fitchratings.com	+56 22 499-3310
Alejandra Fernandez	Director	Building Materials & Construction, Water/Wastewater Utility	alejandra.fernandez@fitchratings.com	+56 22 499-3323
Rodolfo Schmauk	Director	Food, Beverage & Tobacco, Forestry Products	rodolfo.schmauk@fitchratings.com	+56 22 499-3341
Andrea Jimenez	Associate Director	Retailing, Property & Real Estate	andrea.jimenez@fitchratings.com	+56 22 499-3322
Francisco Mercadal	Associate Director	Telecommunications, Transportation	francisco.mercadal@fitchratings.com	+56 22 499-3340
Jose Ramon Rio	Associate Director	Utilities, Electric-Corporates	jose.rio@fitchratings.com	+56 22 499-3316
Andrea Rojas	Analyst	Healthcare, Diversified Manufacturing	andrea.rojas@fitchratings.com	+56 22 499-3337
Constanza Vatter	Analyst	General Sector	constanza.vatter@fitchratings.com	+56 22 499-3318
Tomas Honorato	Analyst	Utilities, Electric-Corporates	tomas.honorato@fitchratings.com	+56 22 499-3314

Colombia — Fitch Ratings Colombia

Natalia O'Byrne	Senior Director, Head of Colombia Corporates		natalia.obyrne@fitchratings.com	+57 1 484-6770 x1100
Jorge Yanes	Director	Electric-Corporate Corporates, Building Materials & Construction	jorge.yanes@fitchratings.com	+57 1 484-6770 x1170
Jose Luis Rivas	Director	Food, Beverage & Tobacco, Energy (Oil & Gas)	joseluis.rivas@fitchratings.com	+57 1 484-6770 x1016
Julian Robayo	Associate Director	Water/Wastewater Utility, Telecommunications, Transportation	julian.robayo@fitchratings.com	+57 1 484-6770 x1120
Rafael Molina	Associate Director	Water/Wastewater Utility, Natural Gas & Electric-Corporate, Corporates	rafael.molina@fitchratings.com	+57 1 484-6770 x1010
Ana Maria Vargas	Senior Analyst	Electric-Corporate, Utilities, Energy (Oil & Gas)	anamaria.vargas@fitchratings.com	+57 1 484-6770 x1830
Luis Felipe Idarraga	Senior Analyst	Water/Wastewater Utility, Food, Beverage & Tobacco	luis.idarraga@fitchratings.com	+57 1 484-6770 x1026
Juan David Medellin	Analyst	Natural Resources, Food, Beverage & Tobacco	juandavid.medellin@fitchratings.com	+57 1 484-6770 x2002

Mexico — Fitch Mexico S.A. de C.V.

Alberto Moreno	Senior Director, Co-Head of Mexican Corporates		alberto.moreno@fitchratings.com	+52 81 8399-9100 x1133
Sergio Rodríguez, CFA	Senior Director, Co-Head of Mexican Corporates		sergio.rodriguez@fitchratings.com	+52 81 8399-9100 x1135
Rogelio Gonzalez	Director	Food, Beverage & Tobacco, Chemicals	rogelio.gonzalez@fitchratings.com	+52 81 8399-9100 x1134
Maria Pia Medrano	Director	Retailing, Consumer, Property & Real Estate	mariapia.medrano@fitchratings.com	+52 55 5955-1600 x2115
Alberto de los Santos	Associate Director	Auto & Related, Diversified Manufacturing	alberto.delossantos@fitchratings.com	+52 81 8399-9100 x1110
Diana Cantu	Associate Director	Diversified Manufacturing, Food Beverage & Tobacco, Retailing	diana.cantu@fitchratings.com	+52 81 8399-9100 x1171
Velia Valdes	Associate Director	Telecommunications, Media & Entertainment, Water/Waste Utility	velia.valdes@fitchratings.com	+52 81 8399-9100 x1149
Oscar Alvarez	Analyst	General Sector	oscar.alvarez@fitchratings.com	+52 81 8399-9100 x1504

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