



November 1, 2004

**GRUPO INDUSTRIAL SALTILLO, S.A. de C.V.
GISSA*/BMV**

CONTINUING COVERAGE: GISSA faces economic challenges by maintaining and adapting strategies.

Investment Recommendation: MARKET OUTPERFORM

Price: \$18.40

IPC: 12,076.08

IMC30: 232.75

DJIA: 10,522.23

- Castech, a company of GISSA was awarded as Supplier of the Year 2003 by General Motors for its excellent performance, quality, service, technology, and price.
- The automotive metal mechanical division launched operations of an iron plant, CIMETECH, located in Irapuato, Guanajuato, with a US\$ 51 million investment, increasing production volume at 57% compared to 2003.
- VITROMEX, a ceramic tiles plant, started operations in Chihuahua. This investment of US\$ 42 million will allow to meet actual demand and increase production capacity by 20%.
- GISSA will start important agreements with Toyota and Nissan in 2005.
- GISSA issued Ps\$ 2,160 million graded "mxAA" (national scale).
- It is recognized as one of the top 20 most ethical companies in Latin America
- Accumulated investments by the end of the third quarter amounted to US\$ 58 million in maintenance and construction of currently operating new plants.

Our target price is \$21.88

Valuation	2003A	2004E	2005E	2006E
EPS	\$0.75	\$1.16	\$2.77	\$2.30
P / E	29.03x	18.82x	7.90x	9.50x
EBITDA*	\$4.56	\$7.23	\$9.11	\$7.12
P / EBITDA	4.80x	3.03x	2.40x	3.07x

Market Capitalization

Stock Data

Shares Outstanding (000)	286,129	52-Week Range:	\$17.56 - \$22.31
Market Cap (M)	\$5,293	12-Mo. Stock Performance: ^	5.956%
Enterprise Value (M)**	\$7,033	Dividend declared on 06/05/04	\$0.60
6-Mo. Avg. Daily Volume:	86,042	Book Value Per Share	\$18.40
		Beta	0.87

All amounts are as of the date of the report as reported by BMV, and Infosel Inversionista.

*EBITDA is based on operating income plus depreciation and amortization, divided by the number of shares outstanding.

** Equity Market Capitalization is based on market price for the number of shares outstanding.

All amounts in Mexican pesos .

*** Enterprise value is based on market capitalization adjusted for long-term debt, minority interest, cash, and short-term investments.

*Performance is based on ending prices and dividends for the November 2003 to November 2004 period.

Analysts:

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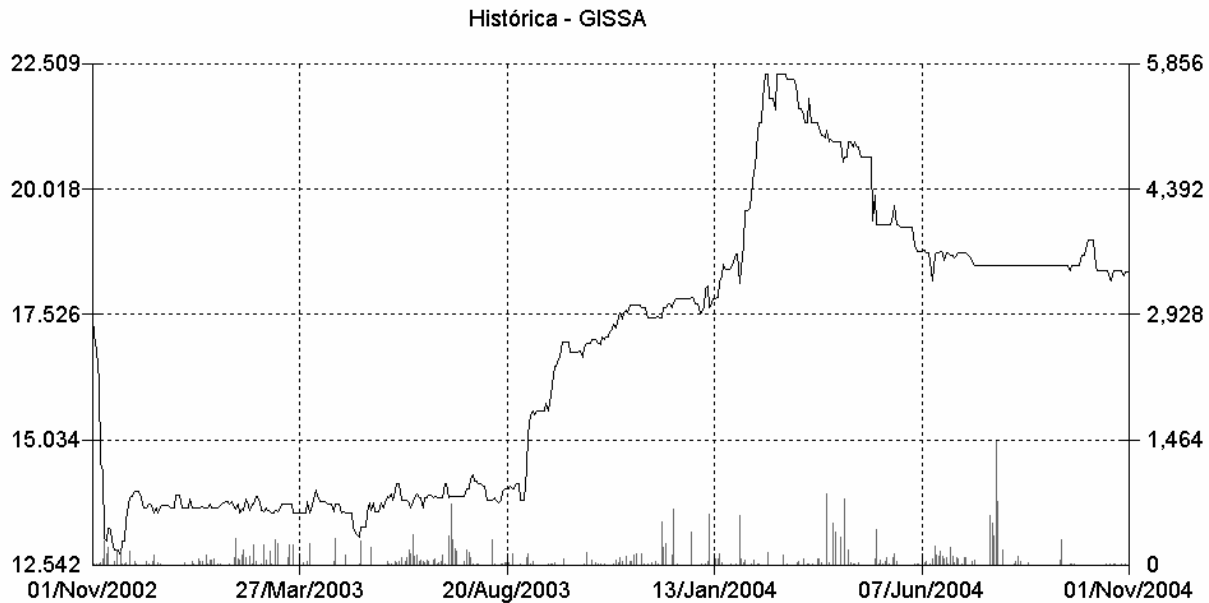
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STOCK PRICE PERFORMANCE



Source: Infosel Financiero

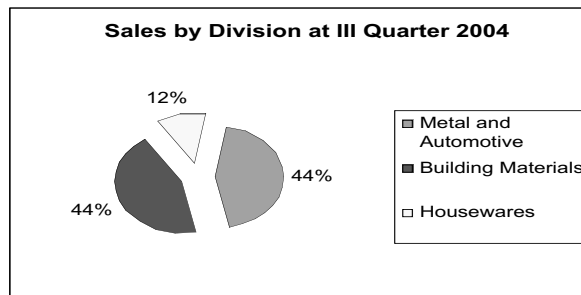
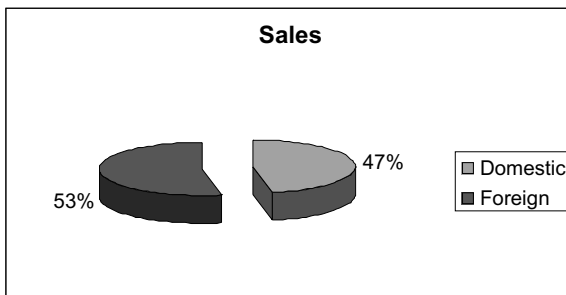
COMPANY DESCRIPTION

Grupo Industrial Saltillo, S.A. is a Mexican holding company with three business divisions. Founded in 1928 when Isidro López Zertuche and his brothers Carlos and Ricardo started a laminated metal products factory. In 1975 the company name was changed to its current name and in 1985 the legal form was changed to variable capital. In 1976 it became a listed company in the Mexican Stock Exchange (BMV) with the ticker symbol GISSA and current series *. Its ADRs trades at the over the counter market since March 2000 under the name GISQY. The company has joint ventures with foreign companies Nork Hydro Aluminum, Metal Technologies, and NPL.

GISSA have subsidiaries in several locations across the country and employs 11,071 people.

The company is a conglomerate of three business units:

- Metal mechanical
- Building Materials
- Housewares



Source: GISSA

Metal Mechanical Division

This business includes the manufacturing of gray cast iron, ductile iron, and aluminum for monoblocks, motor heads and auto parts. The automotive metal mechanical has the following companies:

1. *Castech*: Aluminum blocks and heads for internal combustion engines.
2. *Cifunsa*: Iron engine blocks and heads for diesel and gasoline motors.

Tech Matec and *Ditemsa*: The first manufactures automation systems for manufacturing processes and the second produces plastic injection moldings and tools. They help round up *Castech* and *Cifunsa* operations.

In order to supply General Motors, a new plant of *Castech* starts operations in 2005 with a US\$ 20 million investment. This project –employing 200 people- will support *Castech*'s growth by increasing exports to Canada and Australia; for this last country, daily exports account for 1,200 motor heads and 600 aluminum blocks.

As for *Cifunsa*, the group invested US\$ 11 million in June 2004, to expand the heart pack area for Toyota, a new GISSA customer.

The strategy of this division is focus on developing new customers such as Toyota, Nissan, Ford and VW, a business increase with John Deere and Caterpillar as well as an increase of the performance and focus on larger margins products.

During the third quarter of 2004, this division contributed with 44% of consolidated sales, an increase of 68% versus 2003 and 25% against third quarter of 2003 and a 15% as compared to the second quarter of 2004. All of this was due to its US customers, John Deere and Caterpillar, the consolidation of the EV-6 project with GM and the start of the new automotive ductile iron plant.

Accumulated nine months sales had an increase of 45% versus last year's same period. However, EBITDA fell 14% as compared to the second quarter but a growth of 23% year to year.

Building Materials Division

This division manufactures ceramic tiles, water and air heaters, as well as markets bathroom fixtures, with two companies:

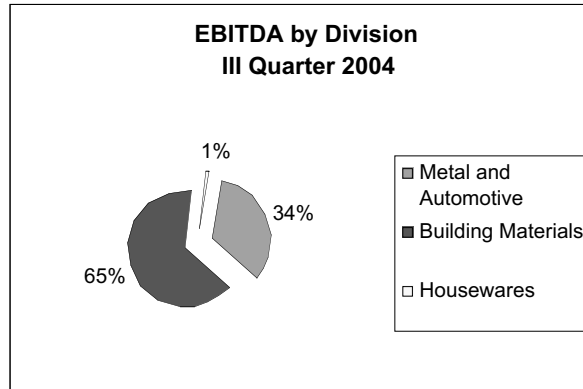
1. *Vitromex*: Manufactures and markets ceramic tiles and bathroom fixtures. Sales for the domestic market through Vitromex and Artemis brands and the US market with Vitromex USA and St. Thomas Creations brands.
2. *CINSA Boilers*: Manufactures water heaters with three brands for different market niches: Cinsa Boilers, Cal-o-Rex, and Heat Master.

In August 2004, a new VITROMEX plant was opened in Chihuahua, with an investment of US\$ 42 million. It was planned to begin operations until 2005, but an increasing demand forced the start of operations ahead of schedule.

Since 1998, the ceramic tiles, bathroom fixtures, and water heaters segment has invested an amount of US\$ 110 million for the manufacturing plants located in the states of Guanajuato and San Luis Potosí.

This division strategy is focused on developing new products, migrate operations to more efficient plants and an increased regional penetration as well as an increase in exports.

At the third quarter of 2004, revenues of this division were 44% of net consolidated sales. Comparing results of this quarter with the same period in 2003 revenues grew up 5% however, operating income decreased 10%, due to increases in raw materials costs, the start up of the Chihuahua plant, and an unexpected provision of US\$ 0.9 million, as well as the re-launching of some bathroom fixtures brands in the US market.



Source: GISSA

Housewares Division

This division manufactures and markets stainless steel, steel enamel, and aluminum kitchenware as well as ceramic ware, through four subsidiaries:

1. *Cinsa*: Stainless steel, steel enamel, novacero, and aluminum kitchenware and tableware.
2. *Enasa*: Stainless steel, porcelain, and enamel steel non stick kitchenware, pots, and pans.
3. *Esvimex*: High quality enamel for the ceramic industry.
4. *Santa Anita*: Household and institutional ceramic ware.

During the last two years, GISSA has been forced to lower prices due to the intense competition by increasing imports of Chinese and South American products. In order to maintain competitiveness and increase profitability margins, the conglomerate has increased quality standards and streamlined production processes.

On the other hand, *Enasa* will invest a million dollars in the development of a new production line, which will strengthen the production of non stick pans.

At the third quarter of 2004, this division sales were 12% of consolidated net revenues (Ps\$ 234 million). Comparing the third quarter of 2004 with the same period of 2003, division sales decreased 3%, operating losses amounted to Ps\$ 10 million, and EBITDA decreased 92% year-to-year.

GISSA Overall Strategies

- Implementation of a quality model for goals and objectives achievement: transformation map towards a competitive organization, supported by tools such as Kaizen and information technologies.

- Leading edge technology, world class quality standards, strong distribution channels, and growth by means of capital investment.
- Focus on business identified as core businesses due to their growth and profitability potential.

Board of Directors

<i>Name</i>	<i>Function</i>
Ernesto López de Nigris	Co-Chairman
Juan Carlos López Villarreal	Co-Chairman
Felipe César Mellado Flores	Secretary
Adán Elizondo Elizondo: member of Board of Directors of Grupo Cydsa, S.A.	Proprietary Commissary
Antonio Madero Bracho: Founder and Chief Executive Officer of Board of Directors of San Luis Corporation and member of several boards of directors.	Director
Eugenio Clariond Reyes Retana: Chairman of Board of Grupo IMSA and member of other boards of directors.	Director
Julián Dávila: Private Investor	Director
Guillermo Elizondo López: Regional Advisor of Grupo Financiero HSBC, S.A. de C.V.	Director
Eduardo López Alanís: Private Investor and member of Board of Directors of Compañía Hotelera de Norte S.A.	Director
Armando López Recio: Chairman of Board of Directors of Compañía Inmobiliaria Mágnam S.A., Chairman of Board of Directors of Compañía Agroindustrial Makike, S.A.	Director
Andrés Marcelo Sada Zambrano: member of Board of Directors of Valores Corporativos, S.A. de C.V. and Grupo Cydsa, S.A. de C.V	Director
José Antonio Fernández Carvajal: General Manager and Chairman of Board of Directors of FEMSA and Coca Cola Femsa, among others.	Director
José Luís Berrondo Ávalos: member of board of HSBC and Grupo Mabe, S.A.	Director
Claudio X. González: Chairman and General Manager of Kimberly Clark de México and member of several boards of directors.	Director

Board of Officers

Juan Carlos López Villarreal	Co-Chief Operations Officer
Ernesto López de Nigris	Co-Chief Operations Officer
Emilio del Bosque	Corporate Supplying President
Rodolfo Fernández González	Ceramic Tiles and Bathroom Fixtures Business President
José Manuel Garza Martínez	Foundry Iron Business President
Marco Antonio Barraza Valdez	Foundry Aluminun Business President
Guillermo Triana Flores	Water Heaters Business President
Marcelo Rodríguez Segovia	Housewares Business President
Francisco Guzmán Alvarez	Human Resources President
Felipe César Mellado Flores	Corporate Services President

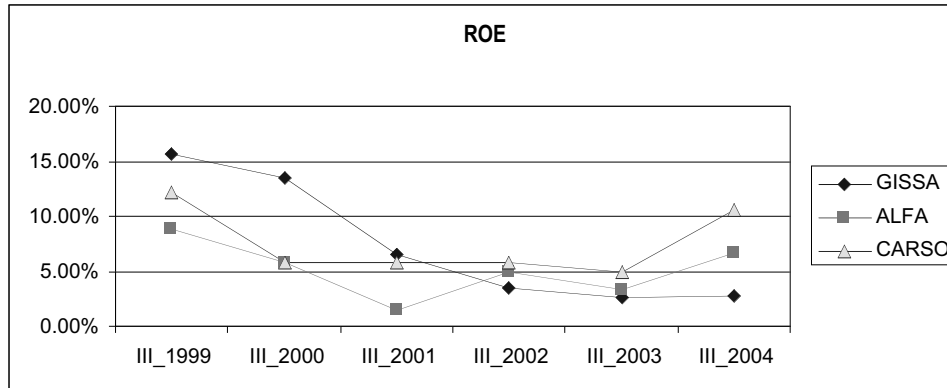
Source: GISSA prospectus, February 2004

Corporate Governance

GISSA implemented in 2002 measures promoting a transparency culture, good management practices, and optimization of the corporate structure, which improved the group performance. In 2003 GISSA was acknowledged as one of the top twenty ethical companies in Latin America in a survey conducted by Management & Excellence agency.

Financial Summary

GISSA consolidated sales at the third quarter of 2004 were Ps\$6,181 million, an increase of 18.2% year to year; 47% of total sales are domestic and the remaining 53% are exports. During the last quarter, GISSA made investments of US\$18 million for new projects and maintenance.

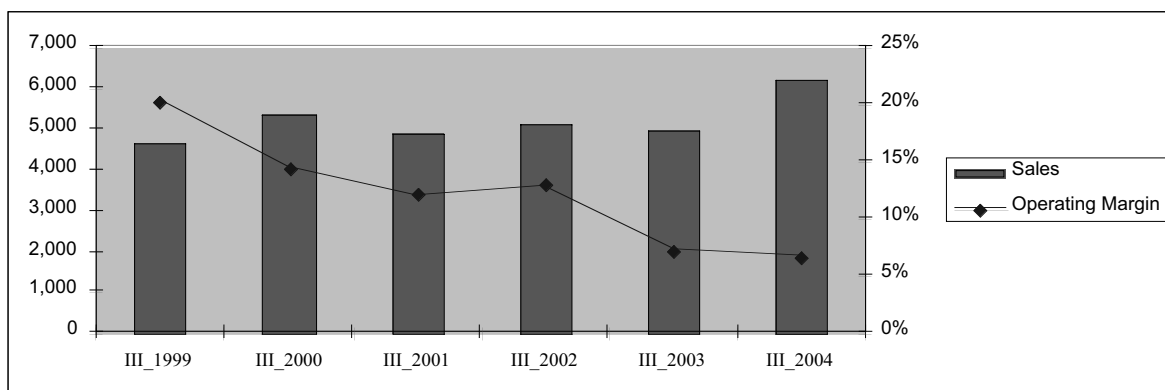


Source: Prepared with information from Infosel Inversionista

Metal Mechanical Division grew 68% compared to same period of last year, due to a strong demand of diesel blocks and heads, the consolidation of the US and Australia exports project of aluminum blocks and heads, and the increase in production of iron auto parts. Recovery of the US economy is other variable that explains this division performance; sales of this division account for 44% of consolidated net revenues.

Sales for last quarter of 2004 are also expected to improve due to the demand of steel blocks and heads by Chrysler, as well as new orders placed by Toyota, a client with whom GISSA recently signed an agreement.

Net Sales in thousands of Constant Mexican Pesos at September 2004



Source: Prepared with information from Infosel Inversionista

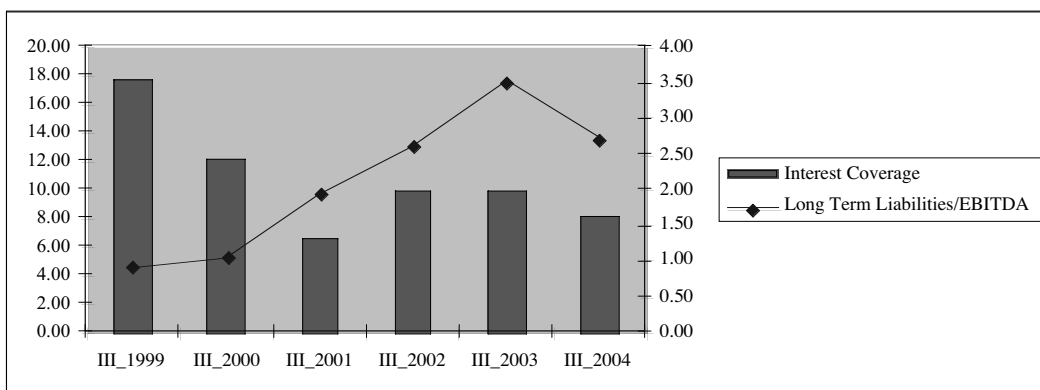
On other hand, Building Materials Division increased revenues in 5% compared to the same period of 2003. Performance of the water heaters and ceramic tiles business is outstanding; revenues increased for these businesses in 12 and 7%, respectively, due to the economic recovery of the Mexican and US markets.

The scenario for this division is positive due to several factors, among them, increased sales pushed by the federal government housing program, consolidation of ceramic tiles marketing strategies, the increase in water heaters and ceramic tiles exports to US, all this supported by the lowest interest rates in modern history of Mexico. Recently, this economic sector has experienced the greatest historical growth.

GISSA opened in June 2004 the VITROMEX plant in Chihuahua, which will increase production capacity by 20%. This will allow meeting the existing demand of ceramic tiles.

Consolidated cost of sales had an increase of 23.5% compared to the same period of 2003, due to, among other reasons: exchange fluctuation from operations in some of the divisions of the group, as well as the increase in some commodities; steel and iron scrap had price increases of 60% during the year. This was the cause of operating income decrease by 19% compared to 2003. Steps to correct inefficiencies in the plant capacity utilization and reduction of implicit costs have been taken. EBITDA was Ps\$905 millions, an increase of 9% compared to the same period of 2003.

It is important to mention that the Company has taken steps towards correction of inefficiencies in plant utilization thereby reducing implicit costs.



Source: Prepared with information from Infosel Inversionista

INDUSTRY ANALYSIS

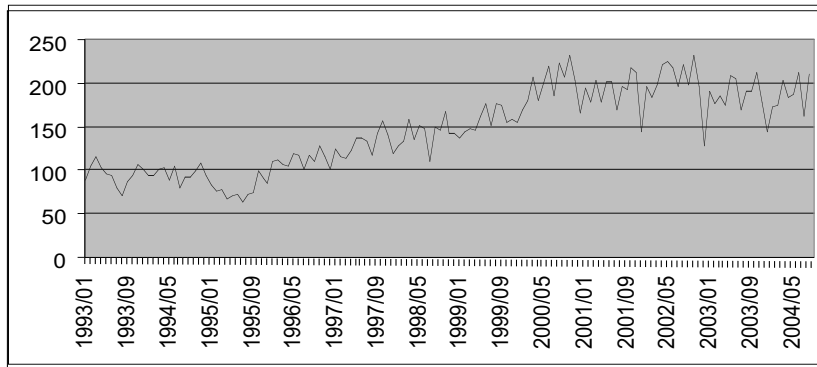
Metal-Mechanical Industry

This industry is cyclical and its performance depends basically on automobiles demand. Since the US is one of the largest consumers, this industry is tightly related with the economic growth of that country.

This industry is under several risks, challenges, and threats. One of the most important is the constant variation on manufacturing costs (iron, steel, energy, natural gas) prices, together with the permanent capital investment needs to keep a competitive position in the market.

Recently, the Mexican Automotive Industry Association stated that the production of January-August 2004 increased 9% (146,065 units), 4.4% lower than that for the same period in 2003. In August, export units were 110,050, accounting for 79% of total production. Although the number of units of last year has not been exceeded, recovery in the following months is expected.

Car Production Units Index



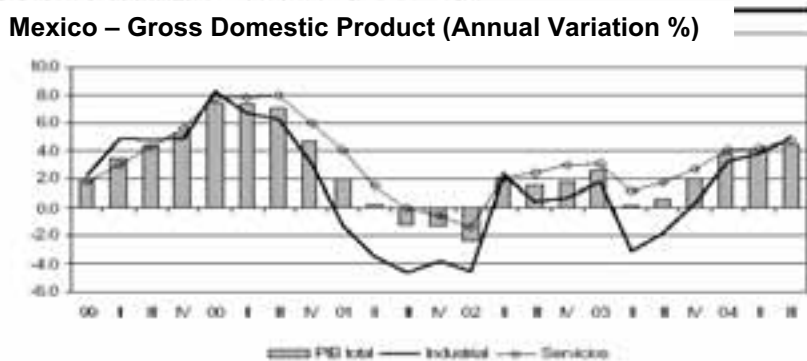
Source: INEGI

According to a CEPAL study, automotive industry shows great challenges, but it could double its capacity by 2010, provided increased competitiveness through innovation, logistics development, and labor training.

In this area, GISSA has continued to invest strongly in its iron and aluminum blocks manufacturing plants, and given that the automotive industry is growing, this division is expected to generate the largest portion of revenues in the group.

In this regard, last March, the Secretary of Economy authorized a decrease in customs duties for steel imports from countries with whom Mexico does not have free trade agreements. This will benefit GISSA by allowing an increase of its suppliers' portfolio and improving operating margins thanks to raw materials costs reduction.

As of the third quarter, Mexican economy shows a GDP growth of 4.4%, compared to same period of 2003. This increase is explained by a high performance of industrial activity, which includes outstanding improvement of manufacturing activity (5.0%). An increase in exports and improvement in employment levels had a favorable effect on this industry.



Source: INEGI and Santander

That, as well as the US economy strength. According to Banamex, the US economy has performed according to the beginning of 2004 analysts expectations with an increase of the GDP greater than last year's 3%. Such increase was achieved notwithstanding higher oil prices and the fact that at the second semester there were not important fiscal aids. Analyst's expectations set end of year GDP growth at 4.4%.

The industrial sector has been benefited by this set of conditions, as is the case of the car manufacturing sector. For example, from the first to the second semester of 2004, there was an increase greater than 15%

in the light vehicle and it is expected a slight increase for the next year. This is also supported by an increase in car loans due to lower interest rates and better economic conditions as mentioned before.

Altogether , this imply growth opportunities for GISSA, since more than 50% of its sales are exports.

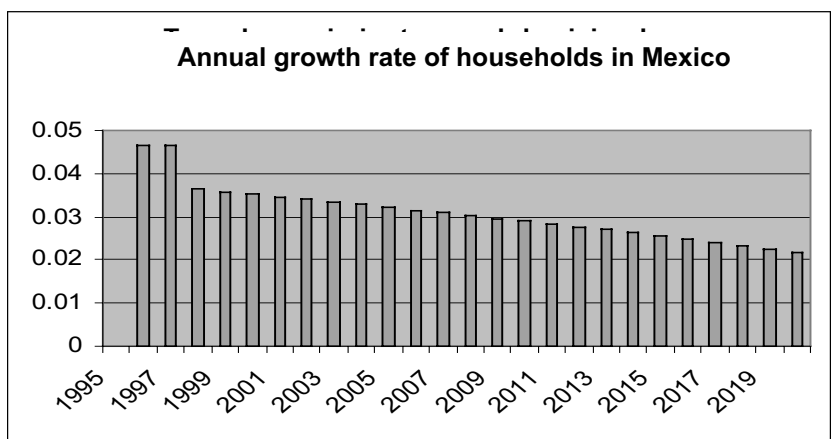
However, Brazil is a latent threat in the production of specialized auto parts, and intends to expand to markets such as Germany, Hungry, and Argentina, projecting exports of US\$ 100 million by 2007. But actual pressure comes from the fact that the American market prompted Sabo Company to invest US\$ 10 million in Brazil to build a second facility that will serve General Motors, which is GISSA’s main client.

Construction Industry

GISSA is an active participant in the building material sector, that has enjoyed a dynamic behavior in the last years.

Due to demographic tendencies and plans that support housing construction, Mexican government forecasts that housing demand will grow during the next twenty five years, and is planning to build approximately twenty million houses. According to INEGI’s projections for 2005, federal support will amount to Ps\$ 126.3 million, both for financing the acquisition and house improvements, which represents an actual growth of 4.5% compared to current year.

This industry has grown considerably; according to Lloyd’s economic report, listed companies in the house construction industry experienced a 55% growth as of June 2004. During April-June 2004 alone, 21,116 houses were built, and by the end of the year, an above 14% growth for the housing industry is expected.



Source: CONAPO

On another hand, INEGI forecasts that demand for houses during 2004 – 2006 will be around 2.1 million units, while 1.1 million households will require repair and maintenance. Demand is focused mainly in five states: Estado de Mexico 21.2%, Baja California 7%, Veracruz 6.9%, Jalisco 6.6%, and D.F. 5.8%.

Although the construction industry in Mexico appears promising, it is not feasible to stimulate the housing purchases without the necessary economic conditions that include attractive interest rates. For example, mortgage loans rates in Mexico, both medium and long-term, have decreased dramatically to below 15%. Last year, only 489 thousand houses were purchased through some form of financing and by the end of the year this amount is expected to reach 575 thousand units. Another factor is about the tax benefits for financial expenses on individuals mortgages, together with fierce competition among banks and other financial institutions.

It is important to mention that in Mexico, financing for the purchase of low value houses is dominated by INFONAVIT, who has granted 1.8 million loans in the last three years and plans to increase credits 11.1% per year during the next five years. If this rate continues, INFONAVIT will be the largest mortgager in North America.

Anticipating the mortgage bonanza, several participants appear to be interested in opportunities that the market of housing loans will offer. A clear example is that Grupo BBVA Bancomer acquired last September, 100% of Hipotecaria Nacional, the largest private mortgage company in Mexico.

Hipotecaria Su Casita, another important mortgage company in the country, started offering mortgages in Mexican pesos through its office in Denver, Colorado. This will allow Mexican residents in the US to finance the acquisition of a house for their relatives in Mexico. Money transfers sent to Mexico by Mexican residents in the US are an estimated US\$ 13.3 million and are directed to purchasing non essential goods instead of acquiring a house. This represents an attractive potential market.

On the other hand, goods and services offered increased 5.8% in actual terms from April to June 2004 due to imports.

Also, wholesale and retail sales have grown 11.1% and 8.2% respectively, compared to the previous quarter. This was due to middle class consumption financed by personal loans. The largest demand was in chemical, electric material, and home products.

Based on the above and according to housing industry forecasts, prosperity and several opportunity areas are foreseen for the Vitromex division in the medium and long term.

Home Products Industry

This division accounts for the smallest share of the group's revenues (12%). Due to its low production and marketing costs, China is a threat not only for GISSA, but for the Mexican industry in general.

China's competitive advantage endangers the Mexican domestic industry. Therefore, Mexican government has taken drastic measures, such as increasing compensatory quotas for the imports of Asian tableware, which in the current year were 95.06%-99.81%, compared to 23%-26% rates prevailing in 1992.

On the other hand, final goods and services consumer expenditures grew 5.4% from April to June, 2004 in real terms, including home products, communication, financial services, etc.

Macroeconomic Issues

During the year, inflation was higher than expected –particularly August, September, and October. The increase was due to increments in energy and vegetables (tomato) prices. Also, there were considerable increase in utilities along the rise of international prices of raw materials and energy; domestic gas prices, oil, and several raw materials are based on international prices. October is the latest inflation rate known, with an increase of 0.69 percent equivalent to an annual rate of 5.40 percent.

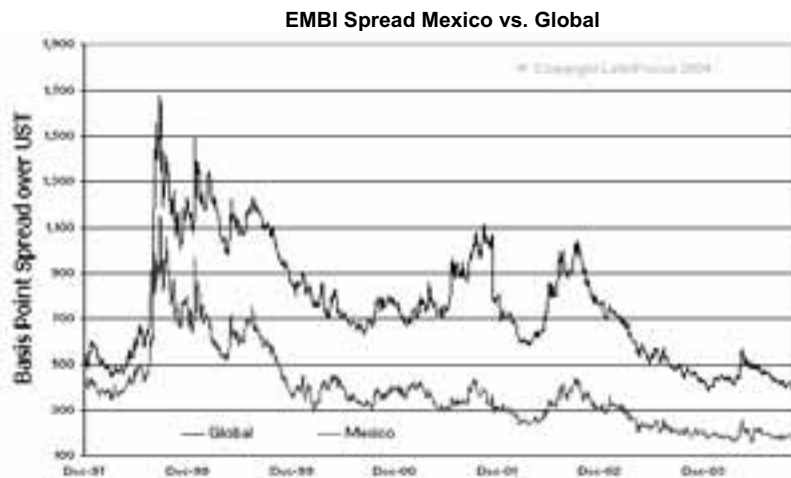


Source: A NYMEX Natural Gas Future contract

According to Banxico's latest survey, an increase in consumer prices of 0.62 percent and 0.37 percent are expected for November and December. Analysts estimate an inflation rate of 5.18 percent for 2004, and a underlying inflation rate of 3.85 percent. Inflation for 2005 is expected to be between 3.5 and 4.4 percent, and is estimated in 3.93 for 2006.

Concept	SHCP		Private Industry		Banamex		Banxico	CEESP
	2004	2005	2004	2005	2004	2005	2005	2005
GDP (% annual actual)	4.0	3.8	4.02	3.72	4.3	3.7	4.1	3.9
Inflation (% annual)	3.9	3.0	5.18	4.19	5.4	4.4	3.9	3.6
Cetes 28 (% at Dec)	7.7	7.8	8.09	8.33	8.3	9.0	7.9	7.4
Exchange Rate Dec	11.3	11.6	11.54	11.95	11.4	11.9	11.91	11.55
Fiscal deficit (% of GDP)	0.3	0.1	0.32	0.29	N.A.	N.A.	0.4	0.2
Mexican oil mex dpb)	29.2	23	31.72	29.08	N.A.	N.A.	26.5	26
GDP US (% annual actual)	4.4	3.7	4.3	3.49	N.A.	N.A.	3.6	3.9

The latest CETES rate for 28 days is 8.36 percent, the highest in the last 18 months; this adds to nine weeks of interest rates increases in a row.



Source: JP Morgan Securities Inc., Emerging Markets Research

An important issue is the urgent necessity of a tax reform, to modernize the tax system and make energy production a more competitive industry, and a key element in industries such as GISSA.

PEER GROUP ANALYSIS

◆ ALFA

ALFA is a Mexican conglomerate consisting of five business units: aluminum auto parts, telecommunications, steel, food, and petrochemical y synthetic fiber. Through its subsidiary Nemark, ALFA has an important international position as leader in the production of aluminum motor heads. ALFA owns manufacturing plants both in Mexico and other countries, and exports to more than 45 countries. Consolidated sales for third quarter is Ps\$ 41,746 million. It employs 30,193 people. Ticker symbols: ALFAA (BMV) and XALFA (Latibex).

◆ CARSO

CARSO is a group of domestic companies that participate in the automotive, construction, energy and telecommunications industries. This group also manufactures aluminum, copper, and PVC products, and has operations in the chemical and mining industries. The group competes in the retail arena with department stores such as Sanborns, Sears, and music stores, as well as the bakery chain El Globo. In the consumer arena, Porcelanite, a direct competitor of GISSA, manufactures tiles. Cigatam manufactures and markets tobacco. The group's consolidated sales for Ps\$ 49,070 million, at the end of September 2004. This group employed 72,594 people. BMV ticker symbol: GCARSOA1.

◆ DESC

Companies that compete in four sectors: auto parts, chemical, food, and real estate. In the first business, DESC manufactures a range of products, from pistons, steel rims, traction axels, and motor trains. It is positioned as the largest independent manufacturer in Mexico. In the chemical business, DESC produces synthetic rubber, methyl methacrylate, polystyrene, decorative laminates and chipboard. The food division includes processed food and pig farms. Finally, the real estate business has ambitious project for the construction of corporate buildings and housing areas. At the end of the third quarter in 2004, DESC had consolidated sales were Ps\$ 17,387 million, and employed 13,854 people. Ticker symbols: DESCA, DESCB (BMV); DES (NYSE).

Information of competitors at 3rd Quarter 2004

	Sales in Pesos (M)	% change in sales 3Q03/3Q04	Operating margin (%)	EBITDA in Pesos (M)	Liability/ Stockholders' Equity	ROE %
GISSA:	2,248	25	6.2	303	1.02	2.80
Metal mechanical	1,020	68	10	104		
Construction	993	5	13	196		
Home products	234	(3)	(4)	3		
ALFA:	14,695	20.5	9.2	1,868	1.43	6.66
Nemark	2,570	9	10.4	407		
CARSO:	17,173	17.9	12.5	2,756	1.23	10.53
Porcelanite	917	10	19.5	258		
DESC:	6,165	12	4.5	592	1.13	N/A

Source: Prepared with information from GISSA, Santander Investments, and Infosel Reports.

Securities Exchange Information

Company:	Enterprise value (Million of Mexican pesos)	Market capitalization (Million of Mexican pesos)	Trading activity	EV/EBITDA	P/EBITDA	P/EPS
GISSA *	7,033	5,265	6.94/Medium	7.77	5.82	23.27
ALFA A	35,485	26,130	9.34/High	6.55	4.83	10.77
CARSO A1	52,249	43,076	8.54/High	6.49	5.35	11.08
DESC B	13,876	6,161	5.70/Low	7.94	3.53	N/A

Source: Prepared with information from Finsat, El Financiero at November 1, 2004

Divisions' Competitors

Division:	Product:	Market share % in Mexico:	Market rank:	Competitors and market share %:
Automotive metal mechanical	Iron blocks and heads (gasoline)	14	2 (US)	N/A
	Iron blocks and heads (diesel)	19	2 (US)	N/A
	Aluminum blocks and heads	6	3 (US)	Nemak 40 Teksid 10
Construction products	Ceramic tiles and walls	22	2 (Mexico)	Porcelanite 36 Lamosa 11 Interceramic 11
	Water heaters	60	1 (Mexico)	Magamex 15
	Bathroom fixtures	19	2 (Mexico)	Ideal Standard 19 Lamosa 18 Orion 6
Home products	Kitchenware	48	1 (Mexico)	
	Tableware	23	1 (Mexico)	El Ánfora

STRATEGIC ANALYSIS

Metal and Automotive Division

Competitors	DESC and NEMAK (ALFA)
<i>Strengths</i>	Experienced manufacturers of motor heads, leading edge technology, adapts easily to change, flexible production and is globally positioned. They have several clients for its production of steel parts.
<i>Opportunities</i>	Diversifying clients and international growth.
<i>Weaknesses</i>	Economic situation tightly related to US, showing a dependency. Limited client portfolio, constant technology changes. Only one client in the aluminum parts manufacturing business.
<i>Threats</i>	Clients have start building their own manufacturing plants. Price of some raw materials is set by the international market, causing constant variation and a need for hedging from events that would have a direct impact on costs. Required capital investment is very high.

Building Materials Division

Competitors	LAMOSA, PORCELANITE and INTERCERAMIC
<i>Strengths</i>	Competitive product design and innovation departments, favorable market expectations, leading edge technology, highly qualified labor.
<i>Opportunities</i>	Growing Mexican market for the construction business, untapped market, expansion in international markets.
<i>Weaknesses</i>	Strong competition in domestic market.
<i>Threats</i>	High costs in human resources and working capital, due to constant innovation in design and materials.

Housewares Division

Competitors	El Ánfora
<i>Strengths</i>	Few domestic competitors and good market position.
<i>Opportunities</i>	Manufacturing in China in order to reduce costs provided compensatory quotas are not applied.
<i>Weaknesses</i>	Manufacturing costs and lack of strategies, unlike competitors.
<i>Threats</i>	Chinese products competing in the market, compensatory quotas.

INVESTMENT THESIS

Market leadership: GISSA holds leadership in many businesses.

Financial soundness: Notwithstanding some difficulties at some divisions, due to outside factors, they have financial soundness and growth in sales.

Client development: Asian car companies' contracts allow GISSA to hedge risks among car companies

Consistent investment: During 2004, GISSA has invested US\$ 58 million, with a portion employed in plants' maintenance and the remaining for new plants construction. Opening of the VITROMEX and CIMETECH plants are part of this strategy.

Indebtedness: According to our projections, total debt ratio will reach its maximum level by the end of this year (53%), and starting next year it will gradually decrease to 39%, mainly by the return of investment in plants, and revenues that will be generated with the increased capacity.

Strong management: Measures related to corporate governance that were implemented in 2002 are consolidating the image of the group and strengthening its principles of austerity, labor ethics, and commitment.

Quality: GISSA holds important agreements with global clients that endorse product quality of the conglomerate from Saltillo. GISSA operations follows world class quality standards and information technology that support the organization's competitiveness. GISSA has also set continuous improvement practices through the Kaizen quality model.

RISK ANALYSIS

◆ *Volatility in input prices*

GISSA uses raw materials -such as steel, copper, aluminum, and gas- that have international set prices therefore, its manufacturing costs structure is affected by these variations. These costs cannot be controlled, but their repercussions can be attenuated.

◆ *Government Reforms*

Lack of legal reforms, specially in the electric sector, inhibits performance to the companies that are part of GISSA. Energy has a high impact into operative costs.

Stagnation affecting the energy reform has a negative repercussion in GISSA's (and other manufacturing companies) competitiveness. Dependency on energy has a direct impact on operating costs.

◆ *Concentration of Clients*

A GISSA plant located in the outer limits of Saltillo is focused in manufacturing motor heads and hearts, and total production is destined to only one client: General Motors. This dependency is a risk for the company, because its sales and exports are important to the group. Diversifying clients should be considered.

◆ *Investment Requirements*

GISSA participates in very competitive markets that demand consistent capital investment. If competitors continue to enter, prices of products would decrease, and therefore, operating margins would also decrease.

◆ *Cyclical Demand of Products*

Products offered by GISSA show cyclical demand. This is due to economic situation of the countries in which GISSA is present. Many factors are not under the control of GISSA and this has a strong impact on the capital investments required to stay competitive.

INVESTMENT SUMMARY

Target price valuation was calculated using the discounted cash flows method or relative valuation. The target price obtained was \$21.88, therefore we are rating the stock as MARKET OUTPERFORM.

GISSA

Quarterly and Annual Income Statements

** Thousands of Mexican pesos of purchasing power as of

	2004 E			2005 E			2006 E					
	31-Mar-04	30-Jun-04	30-Sep-04	31-Dec-04	31-Mar-05	30-Jun-05	30-Sep-05	31-Dec-05	31-Mar-06	30-Jun-06	30-Sep-06	
Net sales	7,620,235	7,316,179	1,937,288	2,023,617	2,262,927	2,627,424	8,851,256	2,473,869	3,076,733	10,712,592	2,877,914	2,847,009
Cost of sales	5,447,399	5,388,249	1,545,052	1,707,393	1,767,591	1,748,321	6,768,358	1,781,372	2,047,298	7,604,664	2,072,314	2,111,902
Gross profit	2,172,837	1,927,930	392,236	316,224	495,336	879,102	2,082,898	692,496	1,029,436	3,107,928	805,600	735,106
Operating costs	1,219,536	1,245,215	257,738	176,849	355,155	456,538	1,246,280	328,505	534,609	1,593,715	382,158	377,152
Operating income	953,301	682,716	134,498	139,375	140,181	422,564	836,618	363,992	494,826	1,514,214	423,442	357,954
Interest expense, net	427,232	64,901	(31,673)	108,414	(12,635)	37,935	101,641	34,680	28,615	129,464	39,971	30,507
Operating income, net of interest expense	526,069	517,815	166,171	30,961	153,016	384,629	734,977	329,312	466,211	1,384,750	383,470	327,448
Other	105,257	95,503	1,759	20,772	20,962	43,492	43,492	-	-	-	-	-
Income before income taxes	420,812	422,312	164,412	10,190	132,054	384,629	691,286	329,312	466,211	1,384,750	383,470	327,448
Provision for income taxes	168,847	192,537	61,298	3,777	55,624	191,023	311,722	114,473	128,005	573,012	133,299	114,573
Net income	251,964	229,774	103,114	6,412	76,431	193,607	379,564	214,839	234,672	811,738	250,171	212,875
Net income for continuous operations	246,531	231,485	104,722	8,400	78,007	193,607	374,391	214,839	234,672	811,738	250,171	212,875
Net income before extraordinary items	246,531	231,485	104,722	8,400	78,007	193,607	374,391	214,839	234,672	811,738	250,171	212,875
Net income	246,531	231,485	104,722	8,400	78,007	193,607	374,391	214,839	234,672	811,738	250,171	212,875
Net income of minority interest	8,695	15,888	12,606	520	17,991	10,649	41,666	4,075	12,470	19,022	4,741	(1,498)
Net income of majority interest	237,836	215,618	92,216	7,880	60,017	182,957	332,726	210,764	222,201	792,716	245,430	214,373

SELECTED COMMON SIZE AMOUNTS (% of sales)

Net sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Gross profit	28.51%	26.35%	20.25%	15.63%	21.89%	33.46%	23.53%	27.99%	25.82%	27.83%	27.99%	25.82%
Operating income	12.51%	9.33%	6.94%	6.89%	6.19%	16.08%	9.45%	14.71%	12.57%	12.81%	14.13%	12.81%
Net income	3.31%	3.14%	5.32%	0.32%	3.38%	7.37%	4.29%	8.68%	7.32%	6.73%	7.58%	7.48%
Net income	3.24%	3.16%	5.41%	0.42%	3.45%	7.37%	4.23%	8.68%	7.32%	6.73%	7.58%	7.48%
YEAR TO YEAR CHANGE												
Net sales	-1.29%	-3.99%	5.93%	24.53%	24.89%	28.15%	20.98%	27.70%	24.12%	17.12%	16.33%	13.35%
Gross profit	1.26%	-11.27%	-6.16%	10.30%	-0.22%	20.95%	8.04%	76.55%	105.09%	48.88%	16.33%	13.35%
Operating income	-9.59%	-28.36%	-17.81%	252.50%	-19.23%	38.10%	22.54%	170.63%	128.58%	142.26%	17.10%	13.35%
Income before income taxes	-49.94%	0.36%	N/A	-94.24%	N/A	N/A	N/A	100.30%	2676.56%	131.95%	21.21%	15.74%
Net income	-53.13%	-6.10%	N/A	-92.35%	N/A	N/A	N/A	105.15%	2089.56%	128.56%	21.21%	15.74%
Net income of majority interest	-52.05%	-9.34%	175.07%	-92.60%	602.85%	172.56%	54.31%	128.55%	2250.81%	190.75%	16.45%	15.72%

GISSA

Quarterly and Annual Statements of Changes in Financial Position

** Thousands of Mexican pesos of purchasing power as of

	2004 E				2005 E				2006 E				
	31-Mar-04	30-Jun-04	30-Sep-04	31-Dec-04 E	FA 2004 E	31-Mar-05 E	30-Jun-05 E	30-Sep-05 E	31-Dic-05 E	FA 2005 E	31-Mar-06 E	30-Jun-06 E	30-Sep-06 E
September 2004	2003 A	2002 A											
Net income	246,531	231,485	104,722	113,122	191,130	182,957	174,499	174,499	222,201	792,716	245,430	214,373	199,476
(+/-) Items not generating or requiring resources	682,896	737,346	122,178	306,980	450,016	243,380	284,479	288,366	288,366	1,119,914	291,871	300,651	305,206
Cash flow from operations	929,427	968,832	226,900	420,103	641,146	426,347	478,978	462,865	510,567	1,912,630	537,301	515,024	504,683
Resources generated from (used in) operating activities	947,984	919,603	50,414	147,311	311,258	59,471	193,056	193,056	515,634	1,784,544	433,483	337,144	521,301
Resources generated from (used in) financing activities	476,716	(41,346)	613,363	(307,080)	(428,173)	1,206,772	(478,564)	(478,564)	(496,667)	(1,482,919)	(24,609)	(505,595)	(406,222)
Resources generated from (used in) investing activities	(1,006,562)	(900,211)	(21,962)	(431,944)	(576,402)	(1,152,540)	(62,224)	(62,224)	(43,300)	(725,299)	(304,695)	(195,586)	(118,768)
Net increase (decrease) in cash and cash equivalents	418,018	(21,954)	451,816	(693,317)	(693,317)	113,702	(378,249)	(66,282)	(24,332)	(423,674)	103,978	(263,838)	(3,689)
Cash and cash equivalents at beginning of the period	1,009,437	1,427,455	1,405,413	1,405,404	1,405,501	825,885	871,074	492,825	426,543	685,989	402,211	506,189	242,352
Cash and cash equivalents at end of the period	1,427,455	1,405,501	1,857,229	813,691	712,182	825,885	492,825	426,543	402,211	262,316	506,189	242,352	238,663

The Latin America Burkenroad Reports are financial analysis of companies listed in the Mexican Stock Exchange, and capital budgeting of medium and small companies. They are elaborated by students of the Bachelor of Financial Management and Accounting & Finance, under the supervision of professors from the Accounting and Finance Department of ITESM, Monterrey Campus.

The ITESM, Instituto de Estudios Superiores de Administración de Venezuela (IESA), and Universidad de los Andes de Colombia, along with Tulane University, carry out the Latin America Burkenroad Program. This project is granted by the Multilateral Investment Fund of the Interamerican Development Bank. This program enriches human capital by providing training in financial analysis techniques, and also intends to facilitate access of companies to financing sources by providing financial information to investors and financial institutions.

The reports prepared by this program, evaluate financial conditions and investment opportunities in Latin American companies. Financial reports of listed companies are distributed to national and foreign investors through publications and financial information systems such as Infosel Financiero and Finsat, among others. Investment capital budgeting reports, are distributed only to beneficiary companies for future private presentations to financial institutions or potential investors. Investment plans and financial situation, of the analyzed companies are presented to the financial community in an Annual Meeting.

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