

Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ *



HOLD			
Target Price 2018-IV:		Under review	
Close price (27/07/2018):		P\$ 78.51	
Dividend Est.		na	
Total appreciation (with dividends)		na	
Market cap. (million P\$):		69,113	
Average Trading Volume (YTD, million)		4.19	
Float (%)	22.7%	P/E	14.7x
Max 3M	P\$ 79.00	P/B	6.0x
Min 3M	P\$ 70.85	ROIC	37.5%
Chg % 3M	7.25%	ROE	41.2%
P\$ million	2018-II	2017-II	YoY
Revenue	3,798.9	3,831.8	-0.9%
EBITDA	1,814.4	1,844.5	-1.6%

Executive summary

- The results of Corporación Moctezuma corresponding to the second quarter of 2018 showed an increase in Gross Profit and Net Income, as well as in their respective margins.
- Despite lower sales of cement and concrete in its annual comparison, compared to the previous quarter, a recovery in revenues can be seen.
- The EBITDA was reduced by -1.6% YoY and was placed at P\$1,814.4 million, obtaining an EBITDA margin of 47.8% (-37.6 b.p. YoY).

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Analysis

Regular report. The results of Corporación Moctezuma corresponding to the second quarter of 2018 showed an increase in Gross Profit and in Net Income, as well as in their respective margins. However, they showed reductions in Operating Profit and EBITDA.

Lower sales of cement and concrete. Again we observe lower net sales in its two main divisions: cement and concrete. Sales of the cement division were P\$3,232.4 million, which represented a marginal decrease of -0.5% with respect to the same period of the previous year. The sales of the concrete division were P\$566.3 million, -2.9% lower than those obtained in 2017-II. On the other hand, the net sales of the corporate segment did not change and remained at the same level of the previous year (P\$140,000). Total sales were P\$3,798.9 million, lower by -0.9% than those presented in the same period of the previous year.

It is worth mentioning that a recovery in revenues can be seen since, despite the annual decrease of these in the cement and concrete segments, they were higher than those presented the previous quarter by +8.0% and +16.4%, respectively.

Table 1. Results by business segment

2018-II	Net Sales (P\$ million)	Δ% YoY	% Representative of total revenue	CAPEX (P\$ million)	Δ% YoY
Cement	3,232.44	-0.5%	85.1%	45.52	-53.4%
Concrete	566.28	-2.9%	14.9%	82.23	254.6%
Corporate	0.14	0.0%	0.0%	5.55	1291.0%
Total	3,798.85	-0.9%	100.0%	133.30	9.9%

Source: Signum Research with company's information

Efficiencies in production raise gross profit. Due to a higher production efficiency during 2018-II, the cost of sales decreased by -1.8% YoY, which resulted in Gross Profit of P\$1,834.5 million, +0.2% higher than the same period from the previous year. The gross margin increased by +49.3 b.p. and it was placed in 48.3%.

Operating income was P\$1,675.8 million with an operating margin of 44.1%. When comparing these figures with those reported in 2017-II, a negative variation is observed in -1.6% and -33.7 b.p., respectively. These movements were derived from higher operating expenses (+16.2% YoY), as well as a reduction in revenues accounted for within the line Other expenses (income) net. The EBITDA was reduced by -1.6% YoY and was placed at P\$1,814.4 million, while the EBITDA margin was 47.8% (-37.6 b.p. YoY).

Financial result boosts net profit. Net income was P\$1,275 million, +2.5% higher than that obtained in 2017-II. This increase was mainly derived from the profit obtained from the financial result, which in turn was a consequence of the depreciation of the Mexican peso against the dollar (4.6% YoY) and against the Euro (13.3% YoY). As a result, the consolidated net margin was 33.6%, which represents an increase of +109 b.p.

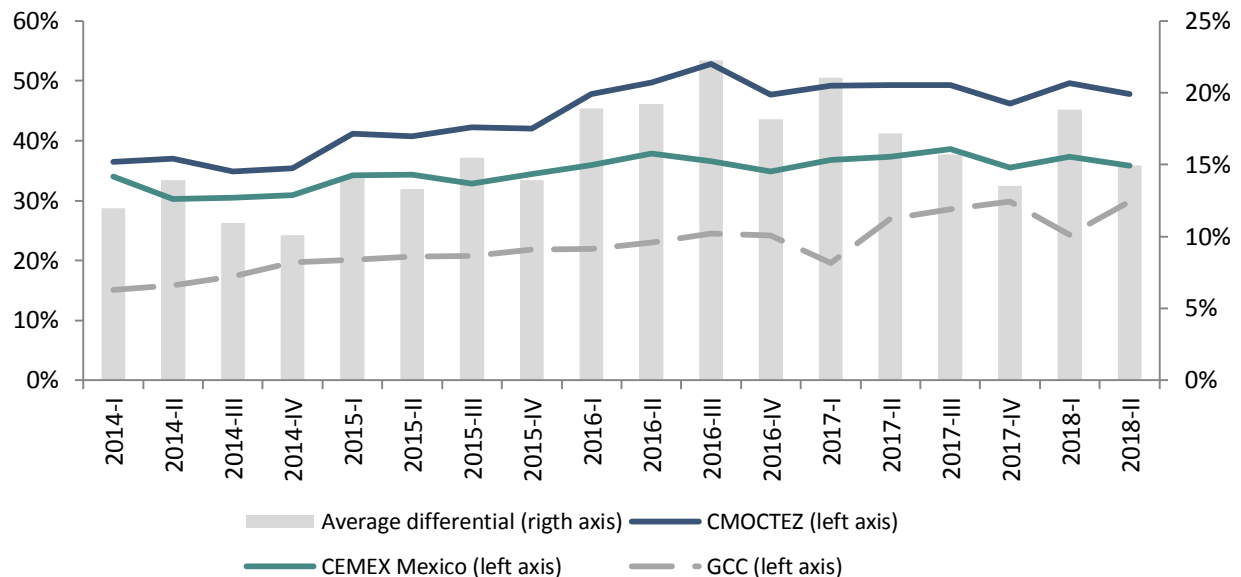
Table 2. Operational results

	2018-II	P\$ Millions	Δ% YoY	Margin	Δ basis points YoY
Gross Profit		\$ 1,834.52	0.2%	48.3%	49
Operating Income		\$ 1,675.84	-1.6%	44.1%	-34
Controlling Company Net Profit		\$ 1,274.64	2.3%	33.6%	105
EBITDA		\$ 1,814.38	-1.6%	47.8%	-38

Source: Signum Research with company's information

Better EBITDA margin than its main peers. In this quarter, the company achieved an EBITDA of 47.8%, its main peers: CEMEX Mexico and GCC, generated a margin of 35.8% and 29.9%, respectively. The differential that Moctezuma maintains with these companies evidences the greater efficiencies that it presents in comparison with the industry.

Graph 1. EBITDA margin: CMOCTEZ vs its main peers



Source: Signum Research with company's information

Cash decreased -6.6% YoY due to the distribution of dividends and the operation of the business itself. We reiterate that the company's products present a high profit margin, which has allowed it to maintain a constant dividend policy. The two dividends distributed in the first half of the year, together represent a dividend yield of 4.7%, based on the closing price of 2017.

Despite the decrease presented in 2018-II, Moctezuma continues with high levels in the main profitability metrics.

Table 3. Profitability indicators

2018-II	Rate	Δ basis points QoQ
ROE*	45.0%	+45
ROA*	39.3%	+538
ROIC**	71.9%	+787

Source: Signum Research, * ROA and ROE are calculated with consolidated figures and use 12M averages on the balance sheet. ** ROIC is calculated as EBITDA / invested capital.

Perspectives for the second half of 2018. We believe that the second half of the year will present great challenges in the face of the political situation, trade frictions and increases in interest rates. There is a complex environment for the construction industry worldwide but above all in Mexico, with a high volatility of the exchange rate, an increase in prices of raw materials and fuels, and uncertainty about foreign investment.

Despite that, we believe that the management of CMOCTEZ has endeavored to make production processes more efficient, which helps the company to achieve and maintain high operating flow margins. We will submit our target price to revision, keeping, for the moment, our previous recommendation to HOLD.

Analyst

Carlos García

Héctor Romero

CEO

hector.romero@signumresearch.com

Martín Lara

Senior Equity Research Analyst / *Media and Telecommunications*

martin.lara@signumresearch.com

Armando Rodríguez

Research Manager/ *Real Estate Market, Energy, Housing Sector and Mining Sector*

armando.rodriguez@signumresearch.com

Cristina Morales

Senior Equity Research Analyst / *Beverages, Staples and Retail*

cristina.morales@signumresearch.com

Manuel González

Senior Equity Research Analyst / *Fixed Income and Financial Sector*

manuel.gonzalez@signumresearch.com

Carlos García

Junior Equity Research Analyst / *Mining Sector*

carlos.garcia@signumresearch.com

Alan Hernández

Junior Equity Research Analyst / *Industrial Sector*

alan.hernandez@signumresearch.com

Ingrid Juseppe

ingrid.juseppe@signumresearch.com

Alejandra Abarca

alejandra.abarca@signumresearch.com

Daniel Espejel

daniel.espejel@signumresearch.com

Andrés Nieto

andres.nieto@signumresearch.com

Karla Mendoza

Mathieu Domínguez

Graphic Design

Iván Vidal

Information systems

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(3) Temporality	P = Periodic E = Special
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Tel. 62370861/ 62370862
Info@signumresearch.com

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