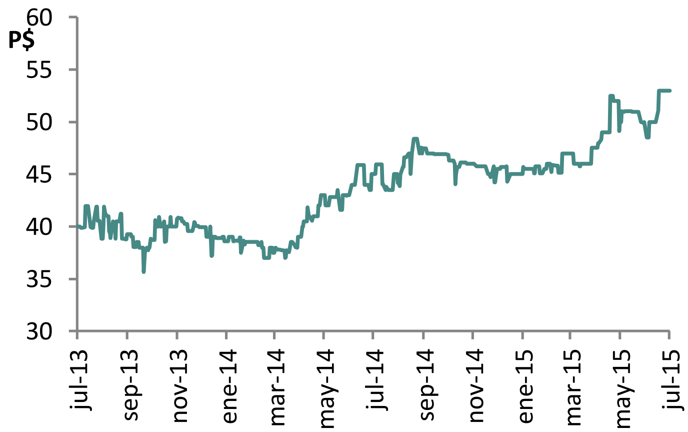
Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ

WITHOUT RECOMMENDATION	
Target Price to 2016-IV:	NA
Closing Price (27/07/2015):	P$ 53.00
Shares Outstanding (millions):	880.3
Market Capitalization (millions):	P$ 46,657

Max 1m	P$ 53.00	Max 3 m	P$ 53.00
Min 1m	P$ 48.50	Min 3 m	P$ 47.50
Chg% 1m	6.0%	Chg% 3m	11.6%
Max 12m	P$ 53.00	P/E	19.4x
Min 12m	P$ 43.50	EV/EBITDA	11.5x
Chg% 12m	17.8%	P/BV	5.3x

STOCK PRICE: CMOCTEZ *



Executive Summary

- Consolidated revenues were P$2,740.8 million (+22.6% YoY). The good operating performance, sales growth, cost and expenses efficiencies, resulted on double digit income growth.
- The CAPEX for the first half of the year was P$185.9 million. Mainly used for the construction of the second line of cement production in the plant of Apazapan, Veracruz.
- The EBITDA margin increased +370 YoY basis points and in our cash flow margin estimate, the growth was +270 basis points.
- Cash and Cash Equivalents increased +101.3% YoY and Net Working Capital decreased -6.44% YoY, by P$1,929 million.
- The company has a negligible debt of P$17 million.
- In terms of profitability, CMOCTEZ is one of our favorite companies for the year.
- We rate this report as excellent.

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Drivers

Company revenues were boosted by higher sales in all of its segments. According to the company, the positive sales performance is due to higher volumes and prices. Domestic sales represented 99% of total sales (+121.2% YoY) and were the main driver for growth, although it is worth mentioning that this year the company entered into new markets (Belize and Panama), so export sales advanced significantly (+76.1 YoY, to P$19.2 million).

Exhibit 1. Results by segment, figures in millions of pesos

2015-II	Sales	Δ% YoY	CAPEX	Δ% YoY
Cement	2,202.4	23.2%	97.3	111.7%
Concrete	538.3	20.2%	23.9	13.9%
Corporate	0.1	n.a.	3.1	n.a.
Consolidated	**2,740.8**	**22.6%**	**124.3**	**83.9%**

Source: Signum Research with company information

CAPEX during the first half of the year was P$185.9 million. During 2015-II, the CAPEX was P$124 million, distributed as follows: 78% for the cement division, 19% concrete production and 3% corporate. **The funds were destined, mainly, to the construction of the second line of cement production in the plant of Apazapan, Veracruz. It is worth mentioning that due to the significant cash position, the CAPEX is usually financed with its own resources.**

Results

Consolidated earnings amounted to P$2,740.8 million (+22.6% YoY). The good operating results, sales growth, cost and expenses efficiencies, resulted on double digit income growth. EBITDA increased +34.8% and it showed its second consecutive quarter with a level higher than P$1,000 million.

Exhibit 2. Main value metrics.

2015-II	Millions P$	Δ% YoY	Margin	Δ basis points YoY
Gross income	1,132	37.5%	41.29%	449
Operating income	993	40.7%	36.21%	466
Net Income	686	34.6%	25.02%	224
EBITDA	1,118	34.8%	40.78%	370
12M Free Cash Flow*	2,568	28.0%	25.04%	104

Source: Signum Research with company information

*The percentage change is from quarter to quarter

In terms of margins, there were three digit increases in basis points for all the observed metrics in the table above. The EBITDA margin increased +370 YoY basis points and in our cash flow estimate the growth was +270 basis points.

Costs increased +13.87% YoY, as a consequence of higher production and administrative expenses, but they were compensated by lower energy costs (electricity and oil commodities). The growth was lower than the one in sales so the gross margin increased +37.5% YoY.

Analysis

The company has shown a solid growth during the year. Sales depend totally on the construction industry and especially, on the housing sector, therefore we estimate that a large proportion of its sales come from the sale of cement sacks.

In the last months, the construction sector has presented significant signs of growth, despite the budgetary cuts announced at the beginning of the year. Our Signum Cyclical Indicator of fixed gross investment is in the recovery phase but with high probabilities of surpassing the threshold that separates it from the expansion phase. Along with this, according to data of the INEGI and the same index of fixed gross investment, residential construction drives the increase on investment.

Additionally, according to information of the CONAVI, the number of subsidies applied in June was +80.74% higher than in 2014, and in advance of the budget, 54.44% has been applied, when in 2014 in the same month, only 30.29% was applied. This, along with a higher participation of the private sector in the investment on infrastructure explains the increase in the domestic volume.

Currently the company has an annual production capacity of 6.4 million tons of cement. The increase in capacity with the plant of Apazapan for 2017 will be of 1.3 million, so we estimate that the market share of CMOCTEZ will increase to 11.3% (currently 10.5%).

In operating terms, one of the main items affecting net income is taxes (in 2015-II the effective tax rate was 29.6%), which increased +39.43% YoY during the quarter. The company has achieved greater fiscal efficiencies since 2014-IV, when the effective tax rate declined below the 30% observed before. **There is still much to do in the fiscal area, although the company has lower rates than its peers such as CEMEX, but higher rates than construction companies.**

It is also worth highlighting the growth in Cash and Cash Equivalents (+101.3% YoY), which represent 44% of the current assets and leads to high liquidity ratios: the current ratio was 4.86x in 12M figures and the acid test was 4x. **These results might not be completely positive as the excess of liquidity creates inefficiencies (too much cash implies "stagnated" money that does not generate flow and therefore has an opportunity cost). The positive side is that it enables investments of capital, acquisitions, expansions and even a higher negotiation power with suppliers, without the need of external financing,** apart from the fact that CMOCTEZ pays dividends twice a year.

Another remarkable aspect of the quarter was the decrease in Net Working Capital[1] (NWC), -6.44% YoY, by P$1,929 million. The reduction of working capital reflects efficiency, as it represents the flow the company needs to operate in the short term, this is, the flow that enables the company to continue its operations. If this flow decreases, the operating cycle of the company speeds up and the flow generation increases. **Regarding CMOCTEZ, declines in NWC have been observed since 2013-III and we expect that the continuous efficiencies will still reflect during the next quarters.**

The operating cycle also reflects the improvement, as of 2015-II, it was 76 days, when in 2014-II it was close to 100 days.

Net debt is negligible, at P$17 million (which corresponded to the acquisition of transport through capital lease). It also outstands that close to 70% of the total liabilities in 2015-II was due to deferred and payable taxes.

In terms of profitability, CMOCTEZ is seen as one of our favorite companies for the year, as the company has presented double digit figures of ROE, ROA and ROIC since 1997. **In 2015-II, the main indexes of profitability showed three digit growths in basis points.**

Exhibit 3. Profitability rates, 12M figures

2015-II	Rate	Δ basis points YoY
ROE	27.46%	836
ROA*	22.10%	678
ROIC **	39.12%	950

Source: Signum Research

*ROA= (Net Income + interest (1-tax rate)/Total Assets.

**ROIC = EBITDA/Invested Capital.

Conclusion

We rate this report as excellent. The operating efficiencies and increase in volume resulted in double digit sales growth. We will start covering the company in the next months with our T.P. for the end of 2016-IV. **The return for investors has not come only through the stock price increase but through dividend payments twice a year.**

Analyst

Armelia Reyes

[1] Net Working Capital: Clients + Inventories - Suppliers

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