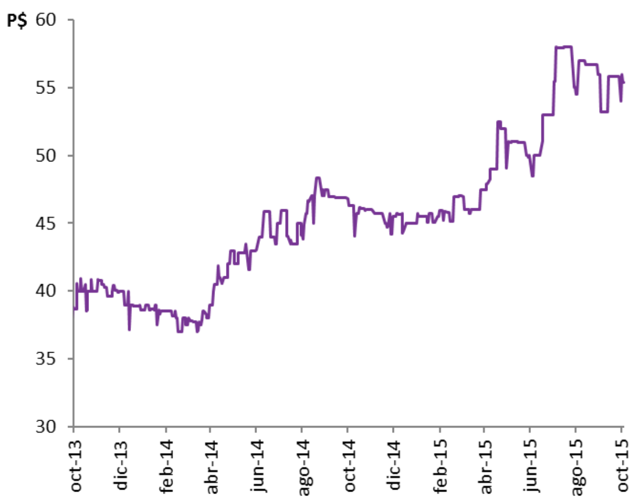
Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ*



BUY			
2016-IV Target Price:			**P$ 70.50**
Closing Price (30/10/2015):			**P$ 55.40**
Upside Potential			27.3%
Shares Outstanding (millions):			880.3
Market Capitalization (millions):			P$ 48,769
Max Quarter	P$ 58.00	P/E	18.4x
Min Quarter	P$ 53.25	EV/EBITDA	11.0x
Chg % Quarter	-0.2%	P/B	5.1x
ROE	29.9%	**ROIC**	42.8%

Drivers

Revenues and EBITDA were in line with our estimates. For 2015-IV, we estimate sales growth of 15.3% y/y. If this materializes, it will imply revenue growth of 21.4% y/y for 2015, or P$11.153.8 billion. However, our estimates are subject to updates to our price database.

We attribute strong sales growth to increases in the company's two main drivers:

i) **Sales volume:** we estimate that the cement volume grew +15.2% y/y in metric tons and concrete +10.8% y/y.

ii) **Price:** According to INEGI data, in 2015-III, the cement price index rose +3.03% q/q, its strongest increase year to date, while the concrete price index rose +3.35% q/q.

Although domestic revenues continue to account for 99% of total sales (+22.3 % y/y) and were the main growth engine, revenues from exports also posted solid growth (+81.8% y/y, reaching P$17.5 million) as the company made incursions into Belize and Panama.

Table 1. Results and estimates by segment, figures in millions.

2015-III	Sales	Δ% y/y	Estimated Sales 2015-III*	Δ% y/y	Estimated Sales 2015-IV*	Δ% y/y
Cement	2,226.30	21.60%	2,248.70	22.90%	2,310.10	17.20%
Concrete	609.3	24.60%	585.8	19.70%	590.6	8.20%
Corporate	0.1	n.a.	0.1	0%	0.1	0%
Consolidated	**2,835.80**	**22.30%**	**2,834.60**	**22.20%**	**2,900.80**	**15.30%**

Source. Signum Research with company data

So far this year, CMOCTEZ has used P$397.8 million in capex. In 2015-III, CAPEX amounted to P$211.9 million, and was mainly used at the cement division (91% of quarterly CAPEX). **Most of the funds were used for the construction of the second cement production line at the Apazapan plant in Veracruz**. For the rest of the year and until 2017, there will be substantial increases in CAPEX due to the Veracruz investment.

As the company has a large amount of cash, capital investments are usually financed with own resources. We estimate that quarterly cash flow will be large enough to undertake the capital investments corresponding to each quarter, and will even be positive, and that the net debt/EBITDA ratio will consequently remain in negative territory and become lower quarter on quarter.

Results

Consolidated revenues totaled P$2.835.8 billion (+22.3% y/y). Solid operating results, sales growth, and cost and operating expense efficiencies resulted in the margin expanding 600 basis points. EBITDA alone rose +46.4% y/y, its third straight quarter of growth, and amounted to over P$1 billion. We estimate that 2015-IV margins will remain unchanged vs. 2015-III. Our 2015 EBITDA estimate is P$4.604 billion (2015-IV: P$1.2037 billion, or +38.1% y/y), or a y/y increase of +39.3%.

Table 2. Main value metrics

2015-III	Millions of P$	∆% y/y	Margin	∆ basis points y/y	Est. Margin 2015-III	Est. Margin 2015-IV
Gross Profit	1,194	43.70%	42.10%	629	42.50%	42.30%
Operating Income	1,055	54.40%	37.20%	774	37.20%	37.10%
Net Income	765	59.90%	26.97%	635	n.d.	n.d.
EBITDA	1,182	46.40%	41.67%	687	41.60%	41.50%
Cash Flow 12M*	2,764	8.30%	25.67%	78	n.d.	n.d.

Source. Signum Research with company data
*Quarter on quarter percentile change

CMOCTEZ posted triple-digit increases in margins in basis points in almost all of the metrics mentioned in the table above. The company's EBITDA margin rose +687 basis points y/y, and the cash flow margin +78 basis points.

Costs rose +10.28% y/y, due to greater production and revenues, but were offset by lower energy costs (both electricity and oil-based inputs). Indeed, we estimate that energy costs rose by around P$113 million q/q. As sales growth surpassed the rise in energy costs, the gross margin increased +43.7% y/y.

Analysis

CMOCTEZ has posted solid growth rates so far this year. Sales depend entirely on the construction industry, the housing sector in particular.

In recent months, the construction sector has shown strong signs of growth despite the budget cuts announced at the beginning of the year. According to INEGI data, based on original figures and annual terms, **residential construction has registered sustained growth since May 2014,** and we expect the construction industry to continue benefitting from housing. According to Signum's cyclical indicator, investment in fixed assets expanded for two straight months in July. Given that the economic cycle of this industry is around two years, it should mark the beginning of an uptrend for the cement industry.

We expect the company to face serious challenges in terms of competition. Pricing and brands play a key role in setting companies apart in an industry that offers many substitutes. Management's ability to secure institutional clients will also be a key.

Large cement companies are making capital investments to boost annual capacity. Such is the case of Elementia and the brand Cementos Fortaleza. This company recently used most of the proceeds from its recent public offering to increase cement capacity at its Tula plant by 1.5 million tons. Another player is CEMEX, which due to its high indebtedness (a net debt/EBITDA of 7.02x as at 2015-III) has been forced to sell unproductive assets (located mainly in other countries), but remains a leading player in the Mexican market with ongoing pricing power. In fact, the recent strong increase in the price of cement and concrete can be mostly attributed to the strategy of this player, which offset a lower sales volume with higher prices. Another big player that is actively expanding is Cementos Cruz Azul.

In operating terms, one of the main headings affecting net income is taxes (in 2015-III, the effective tax rate was 29.6%) which rose by almost 50% in the quarter. **This strong increase in taxes reflects a higher tax base. In light of this, the company's strategy of not using debt for funding seems misguided, as it loses the tax benefit of interest deduction, and given its financial structure, debt would be a cheaper means of funding than stock issuances.** At the end of 2015-III, deferred interest and interest payable represented 66.7% of total debt.

There is another issue that explains the company's low debt ratio: excess liquidity. In 2015-III, Cash and Equivalents increased again (+68.83% y/y), representing 54.5% of current assets, and resulted in fairly high liquidity ratios: the current ratio was 4.92x and the acid-test ratio 4.1x based on LTM figures**. As explained in our previous report, excess liquidity send a negative signal to the market, as too much cash implies "idle money" that is not generating cash flow and is therefore losing value. Investors gain from this situation, as value is generated not only through stock appreciation, but also dividends.**

In terms of profitability, CMOCTEZ continues to post the most representative growth rates of the Mexican Stock Exchange, and as such, is shaping up to be one of our top picks. In 2015-III, the company's main profitability indices registered triple-digit growth rates in basis points vs. 2015-II based on LTM numbers.

Table 3. Profitability rates, 12M figures

2015-III	Rate	Δ basis points t/t
ROE	29.89%	243
ROA*	24.15%	207
ROIC **	42.78%	288

Source. Signum Research
***ROA= (Net Income)/Total Assets**
**** ROIC = EBITDA/Invested Capital**

Conclusion

We rate the report excellent. Operating efficiencies and higher sales volumes have translated into double-digit profit growth. In the coming months, we will be initiating coverage of the stock. **A preliminary valuation based on discounted cash flows resulted in a 2016-IV target price of P$70.5 and a BUY rating.**

Analyst

Armelia Reyes

CMOCTEZ

Cemento y Materiales

In millions of P$ current prices

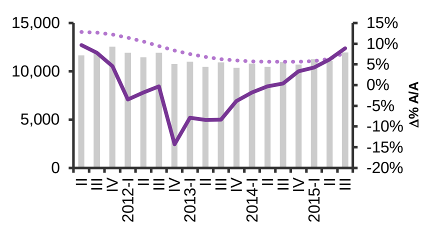
CAGR 5Y	Δ% A/A	Δ% T/T	Balance Sheet	2014-III	2014-IV	2015-I	2015-II	2015-III
1.5%	**8.9%**	**7.7%**	**Total Assets**	**10,978**	**10,698**	**11,256**	**11,095**	**11,952**
21.2%	68.8%	45.7%	Cash and Cash Equivalents	1,743	1,773	2,136	2,019	2,943
-3.4%	0.5%	1.1%	PP&E (net)	6,217	6,242	6,174	6,177	6,246
6.1%	**0.8%**	**4.4%**	**Total Liabilities**	**2,195**	**2,221**	**2,087**	**2,121**	**2,213**
8.4%	19.6%	7.4%	Current Liabilities	840	1,022	895	935	1,004
0.6%	**10.9%**	**8.5%**	**Stockholder's Equity**	**8,783**	**8,477**	**9,169**	**8,974**	**9,739**
nd	43.8%	36.1%	**Total Debt**	**16**	**14**	**15**	**17**	**24**

CAGR 5Y	Δ% A/A	Δ% T/T	Income Statement	2014-III	2014-IV	2015-I	2015-II	2015-III
9.4%	**22%**	**n/a**	**Net Revenues**	**2,320**	**2,517**	**2,676**	**2,741**	**2,836**
7.9%	**10%**	**n/a**	**Cost of Sales**	**1,489**	**1,588**	**1,589**	**1,609**	**1,642**
11.6%	**44%**	**n/a**	**= Gross Income**	**831**	**929**	**1,087**	**1,132**	**1,194**
			Gross Margin	35.8%	36.9%	40.6%	41.3%	42.1%
12.3%	**54%**	**n/a**	**= Operating Income**	**683**	**749**	**981**	**988**	**1,055**
			Operating Margin	29.5%	29.7%	36.7%	36.0%	37.2%
11.9%	**57%**	**n/a**	**= Income Before Taxes**	**689**	**760**	**993**	**1,001**	**1,079**
			Earnings Before Taxes Marg.	29.7%	30.2%	37.1%	36.5%	38.1%
12.2%	**60%**	**n/a**	**= Net Income**	**478**	**575**	**691**	**686**	**765**
			Net Margin	20.6%	22.8%	25.8%	25.0%	27.0%
11.1%	**46%**	**n/a**	**EBITDA**	**807**	**872**	**1,106**	**1,113**	**1,182**
			EBITDA Margin	34.79%	34.63%	41.33%	40.59%	41.67%

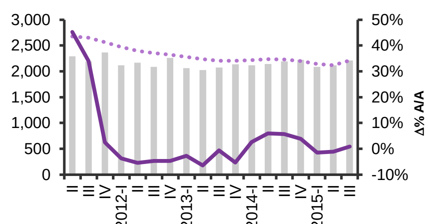
CAGR 5Y	Δ% A/A	Δ% T/T	Cummulative 12 Months Data	2014-III	2014-IV	2015-I	2015-II	2015-III
9.4%	**23.6%**	**5.0%**	**Net Revenues**	**8,710**	**9,186**	**9,749**	**10,254**	**10,770**
11.7%	**51.2%**	**10.9%**	**= Operating Income**	**2,494**	**2,810**	**3,144**	**3,401**	**3,772**
			Operating Margin	28.6%	30.6%	32.3%	33.2%	35.0%
10.3%	**59.6%**	**11.8%**	**= Net Income**	**1,703**	**2,027**	**2,254**	**2,430**	**2,717**
			Net Margin	19.6%	22.1%	23.1%	23.7%	25.2%
10.7%	**42.9%**	**9.6%**	**EBITDA**	**2,989**	**3,304**	**3,639**	**3,897**	**4,272**
			EBITDA Margin	34.32%	35.97%	37.33%	38.01%	39.66%

Balance Sheet

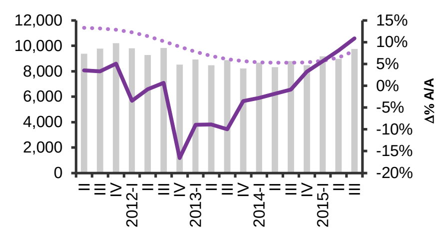
Total Assets



Total Liabilities

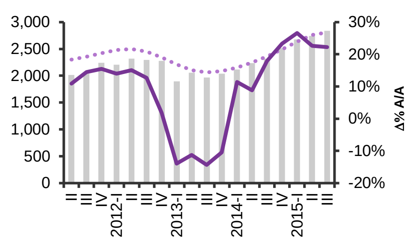


Stockholder's Equity

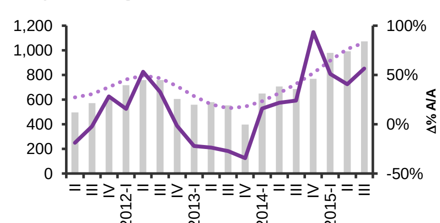


Quarterly Income Statement

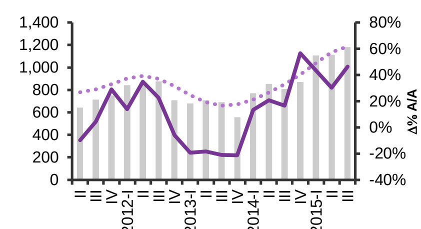
Revenues



Operating Income

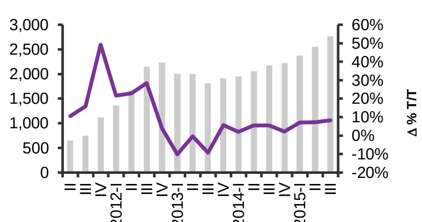


EBITDA

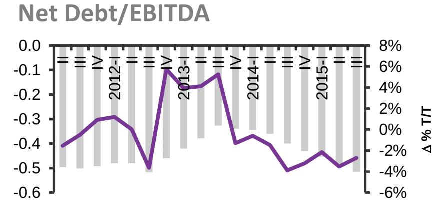


Other relevant information 12M

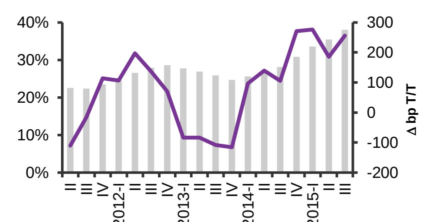
Free Cash Flow to the Firm



Net Debt/EBITDA



ROIC



Level Change Softened data

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