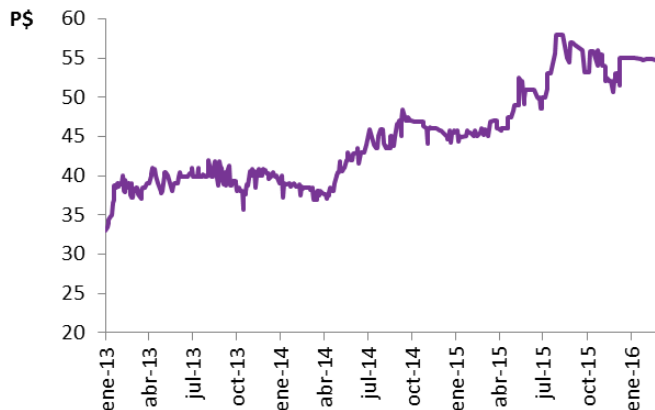


## Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ\*



BUY	
Target price 2016-IV:	P\$ 65.00
Precio Cierre (08/03/2016):	P\$ 52.30
Dividend Est.	P\$ 2.05
Total appreciation (with dividends)	28.20%
Market cap. (million P\$):	46,040.31
Average Trading Volume (YTD, million)	4.40
Float (%)	nd
Max 3M	P\$ 55.00
Min 3M	P\$ 51.50
Chg % 3M	0.58%
P/U 2016E	14.50x
VE/EBITDA 16E	8.68x
ROIC	51.61%
ROE	30.53%

### Analysis

Corporación Moctezuma reported revenues and EBITDA that fell short of our estimates. Nevertheless, revenues and EBITDA continued their double-digit growth path registering growth rates of +10.20% y/y and +27.56% y/y, respectively, which resulted in an EBITDA margin of 40.09%.

Although revenues came in below our estimates in absolute terms, the gross margin rose by 70 bp, but the EBITDA margin was 90 bp below our estimate. We note that in 2015-IV, operating profit decreased because the other expenses/income item was negative by PS\$53.87 million, which caused the operating margin to decrease to 35.77%. We are assessing whether this could be due to seasonality, as in prior quarters growth was fairly strong. Stripping out that item, the EBITDA margin would be 42.03%.

We believe that the company's double-digit growth spate has lost steam, at least for 2016, but should resume in 2017 when its second production line in Veracruz comes on stream. While, we estimate EBITDA growth may rise above 10% for a couple a quarters on 2016 due to ongoing oil price weakness (as reflected in around six months of lower Petcoke costs and around four months of lower electricity costs, by our estimates), it will be partially offset by the exchange rate effect.

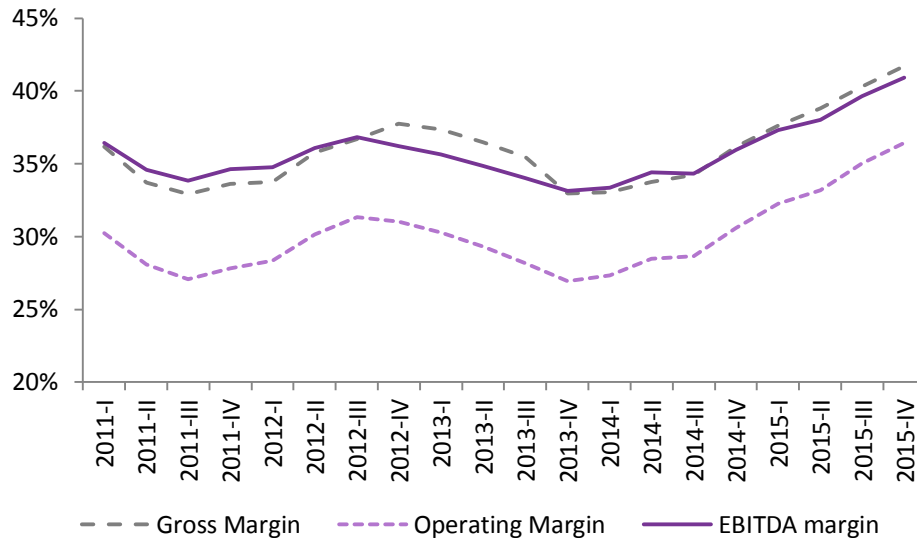
Table 1. 2015-IV Results and 2016 Projections

2015-IV	Sales	Δ% y/y	CAPEX	Δ% y/y	Sales 2016-I est.	Δ% y/y	Sales 2016 acum. est.	Δ% y/y
Cement	2,169.85	10.11%	260.86	197.08%	2,212.35	5.07%	8,904.15	2.30%
Concrete	603.33	10.52%	115.53	66.02%	606.94	6.36%	2,508.90	8.07%
Corporate	0.13	0.00%	6.35	nd	0.13	0.00%	0.52	0.00%
<b>Consolidated</b>	<b>2,773.31</b>	<b>10.20%</b>	<b>382.74</b>	<b>143.17%</b>	<b>2,819.42</b>	<b>5.34%</b>	<b>11,413.56</b>	<b>3.51%</b>

Source: Signum Research with company data  
Signum Research Projections

Revenues ended the quarter at P\$11,026.30 billion year-on-year, +20.03% above the same 2014 period. EBITDA totaled P\$4,511.94 billion, +36.63% y/y, with an EBITDA margin of 40.92%. Moctezuma's LTM margins have displayed a rising trend since early 2014, which we expect to continue as long as low oil prices continue to put downward pressure on costs and the company invests in technology to make production processes more efficient.

Graph 1. LTM Margins



Source: Signum Research with company data

Once again, the company recorded growth rates of above 20% in all key valuation metrics. Margins posted triple-digit growth rates in basis points. Our 2016-1 estimates for those metrics are positive and rising with an EBITDA margin of 42.52%.

**We expect the company to end the year with EBITDA of P\$4,980.57 million, +10.39% y/y and an EBITDA margin of 43.64%, +272 bp y/y.**

Table 2. Key valuation metrics

2015-IV	P\$ Mn	Δ% y/y	Margin	Δ basis points y/y	2016-I Est	Est 2016-I Margin
Gross profit	1,188.71	27.98%	42.86%	596	1,224.44	43.43%
Operating profit	991.97	32.52%	35.77%	603	1,074.24	38.10%
Net profit	717.24	24.77%	25.86%	302	768.00	27.24%
EBITDA	1,111.68	27.56%	40.09%	546	1,198.76	42.52%

Source: Signum Research with company data  
Signum Research Projections

**In 2015-IV, Moctezuma undertook its second largest capital investment, which represented 49.03% of total 2015 CAPEX** and, as table 1 shows, implied y/y growth of +143.17%. Total CAPEX for the year amounted to P\$780.61 million, 76.68% of which was channeled to the cement segment and 20.72% to the concrete business. CAPEX was largely used to for the expansion of the Apazapan facility in Veracruz.

**As mentioned in previous reports, Moctezuma has more than enough cash to meet its CAPEX needs**, and therefore our cash flow estimate after CAPEX is remains positive, although we expect it to become negative following the dividend distribution in 2016 and part of 2017.

**2016 is set to be a challenging year for the company, not least because of the slowdown in the construction sector and government spending and housing subsidy cuts.** Indeed, based on INEGI's most recent gross fixed income index, our cyclical indicator suggests the sector will enter a recessionary phase due to less investment in imported machinery and equipment and a contraction in non-residential construction, where growth shows no signs of picking up.

**Regarding residential construction, as mentioned, CONAVI's housing subsidy suffered a cutback. However, while lower, these resources usually give the housing sector a temporary boost during the first half of the year that also appears to be related to higher cement prices during the same period.**

We believe that higher margin estimates led us to overestimate revenues and EBITDA. We have consequently made adjustments to our sales volume estimates to take that circumstance and our 2016 projections into account. However, due to the slump in oil prices (the Mexican oil mix has fallen below its US\$30 per barrel support) and the peso/dollar exchange rate, which has risen above P\$18/US\$, we made some adjustments to margins. Our target price is still P\$65.00 per share.

### Final remarks

**We rate the report as good. We maintain our BUY rating with an end-2016 target price of P\$65.00 per share. We would emphasize that Moctezuma is still one of the most profitable stocks on the Mexican Stock Exchange that also offers additional returns in the form of dividends. The Annexes below contain the details of our main estimates and valuation.**

Table 3. Profitability rates, LTM figures

2015-IV	Rate	Δ basis points q/q
ROE*	30.53%	64
ROA**	24.69%	54
ROIC ***	51.61%	867

Source: Signum Research

\*ROA= Net Profit /Total Assets

\*\*ROIC = NOPLAT/Invested Capital

### Analyst

Armelia Reyes

Annex 1. Estimates for main variables

**CORPORACIÓN MOCTEZUMA, S.A.B. DE C.V.**

(Million Pesos)

Target Price 2016-IV	P\$ 65.00
Close Price 08/03/16	P\$ 52.30
Shares outstanding (million)	880.31
Market capitalization	46,040.31

Multiples	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E
VE / EBITDA	13.41x	9.55x	8.68x	6.91x	6.17x	5.66x	5.14x	4.80x
P/EPS	22.71x	16.10x	14.50x	11.83x	11.32x	10.86x	10.31x	10.25x
P/B	5.45x	4.82x	4.22x	3.57x	3.08x	2.70x	2.38x	2.14x
Dividend yield	3.82%	3.82%	3.96%	4.16%	4.36%	4.58%	4.81%	5.05%
Operating indicators	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E
Revenues	9,186.38	11,026.31	11,413.56	13,629.54	14,671.75	15,291.99	15,779.60	16,224.30
EBITDA	3,302.42	4,511.95	4,980.57	6,157.17	6,591.15	6,797.56	7,060.50	7,097.85
EBITDA Margin	35.95%	40.92%	43.64%	45.18%	44.92%	44.45%	44.74%	43.75%
Net Income	2,026.97	2,859.32	3,175.48	3,891.31	4,068.72	4,240.31	4,465.97	4,492.81
EPS	P\$ 2.31	P\$ 3.25	P\$ 3.62	P\$ 4.43	P\$ 4.64	P\$ 4.83	P\$ 5.09	P\$ 5.12
Net Debt	(1,759.21)	(2,941.31)	(2,797.85)	(3,505.04)	(5,369.09)	(7,583.01)	(9,747.08)	(11,944.93)
Net Debt/EBITDA	(0.53x)	(0.65x)	(0.56x)	(0.57x)	(0.81x)	(1.12x)	(1.38x)	(1.68x)
Δ% Revenues	15.42%	20.03%	3.51%	19.42%	7.65%	4.23%	3.19%	2.82%
Δ% EBITDA	25.19%	36.63%	10.39%	23.62%	7.05%	3.13%	3.87%	0.53%
Δ% Net Income	37.18%	41.06%	11.06%	22.54%	4.56%	4.22%	5.32%	0.60%
Δ% EPS	37.14%	40.89%	11.32%	22.55%	4.60%	4.25%	5.35%	0.64%
ROE	23.68%	30.53%	29.88%	31.34%	28.16%	25.58%	23.73%	21.33%
ROIC	38.50%	51.61%	49.84%	51.94%	52.67%	53.64%	55.27%	55.08%
ROA	18.89%	24.69%	24.47%	26.23%	24.01%	22.26%	21.09%	19.24%

Source: Signum Research

Annex 2. Valuation

**CORPORACIÓN MOCTEZUMA, S.A.B. DE C.V.**

Discounted Free Cash Flows Model

Million pesos	2017E	2018E	2019E	2020E	2021E	Perp.
<b>EBIT</b>	<b>5,499</b>	<b>5,707</b>	<b>5,886</b>	<b>6,127</b>	<b>6,145</b>	<b>6,360</b>
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Operating taxes	(1,650)	(1,712)	(1,766)	(1,838)	(1,844)	(1,908)
NOPLAT	3,849	3,995	4,120	4,289	4,302	4,452
Depreciation	659	885	912	933	953	988
Changes in working capital	(2,107)	(2,020)	(1,860)	(2,111)	(2,065)	(2,106)
CAPEX	(1,415)	(581)	(606)	(623)	(639)	(652)
<b>Free Cash Flow</b>	<b>985</b>	<b>2,278</b>	<b>2,566</b>	<b>2,488</b>	<b>2,551</b>	<b>2,682</b>
<b>Perpetuity rate</b>						<b>3.9%</b>
PV explicit period (2016 - 2020E)						8,368
Perpetuity value						59,889
PV of the Perpetuity						36,907
Theoretical Enterprise Value						45,274
Net Debt						(11,945)
Theoretical Market Value						57,219
Shares Outstanding						880
<b>Theoretical Price per share</b>						<b>P\$ 65.00</b>
Current market price per share						<b>P\$ 52.30</b>
Dividend yield est.						<b>3.96%</b>
<b>Potential yield (including dividends)</b>						<b>28.2%</b>
Average Debt cost						14.0%
Long term tax rate						30.0%
Debt cost including tax shield						9.8%
Equity Cost						8.4%
Market risk premium						6.0%
Risk Free Rate						6.0%
Beta						0.40
% Total Debt						0%
% Equity						100%
<b>WACC</b>						<b>8.40%</b>

Source: Signum Research

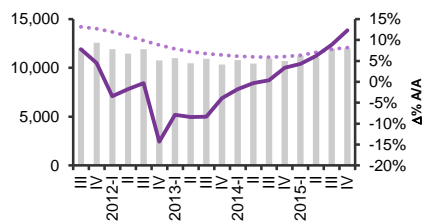
CAGR 5Y	Δ% A/A	Δ% T/T	Balance Sheet	2014-IV	2015-I	2015-II	2015-III	2015-IV
0.0%	12.3%	0.6%	<b>Total Assets</b>	<b>10,698</b>	<b>11,256</b>	<b>11,095</b>	<b>11,952</b>	<b>12,018</b>
13.7%	67.6%	1.0%	Cash and Cash Equivalents	1,773	2,136	2,019	2,943	2,972
-3.2%	4.2%	4.2%	PP&E (net)	6,242	6,174	6,177	6,246	6,506
1.1%	10.0%	10.3%	<b>Total Liabilities</b>	<b>2,221</b>	<b>2,087</b>	<b>2,121</b>	<b>2,213</b>	<b>2,442</b>
8.4%	26.1%	28.2%	Current Liabilities	1,022	895	935	1,004	1,288
-0.3%	13.0%	-1.7%	<b>Stockholder's Equity</b>	<b>8,477</b>	<b>9,169</b>	<b>8,974</b>	<b>9,739</b>	<b>9,576</b>
16.8%	116.5%	28.4%	<b>Total Debt</b>	<b>14</b>	<b>15</b>	<b>17</b>	<b>24</b>	<b>30</b>

CAGR 5Y	Δ% A/A	Δ% T/T	Income Statement	2014-IV	2015-I	2015-II	2015-III	2015-IV
7.2%	10%	n/a	<b>Net Revenues</b>	<b>2,517</b>	<b>2,676</b>	<b>2,741</b>	<b>2,836</b>	<b>2,773</b>
3.4%	0%	n/a	<b>Cost of Sales</b>	<b>1,588</b>	<b>1,589</b>	<b>1,609</b>	<b>1,642</b>	<b>1,585</b>
13.8%	28%	n/a	<b>= Gross Income</b>	<b>929</b>	<b>1,087</b>	<b>1,132</b>	<b>1,194</b>	<b>1,189</b>
			Gross Margin	36.9%	40.6%	41.3%	42.1%	42.9%
15.3%	33%	n/a	<b>= Operating Income</b>	<b>749</b>	<b>981</b>	<b>988</b>	<b>1,055</b>	<b>992</b>
			Operating Margin	29.7%	36.7%	36.0%	37.2%	35.8%
14.8%	32%	n/a	<b>= Income Before Taxes</b>	<b>760</b>	<b>993</b>	<b>1,001</b>	<b>1,079</b>	<b>1,004</b>
			Earnings Before Taxes Marg.	30.2%	37.1%	36.5%	38.1%	36.2%
20.5%	25%	n/a	<b>= Net Income</b>	<b>575</b>	<b>691</b>	<b>686</b>	<b>765</b>	<b>717</b>
			Net Margin	22.8%	25.8%	25.0%	27.0%	25.9%
13.1%	28%	n/a	<b>EBITDA</b>	<b>872</b>	<b>1,106</b>	<b>1,113</b>	<b>1,182</b>	<b>1,112</b>
			EBITDA Margin	34.63%	41.33%	40.59%	41.67%	40.09%

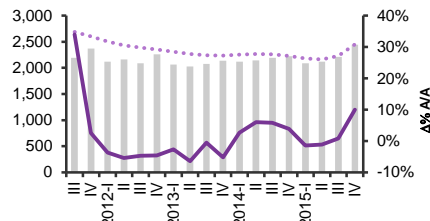
CAGR 5Y	Δ% A/A	Δ% T/T	Cummulative 12 Months Data	2014-IV	2015-I	2015-II	2015-III	2015-IV
8.8%	20.0%	2.4%	<b>Net Revenues</b>	<b>9,186</b>	<b>9,749</b>	<b>10,254</b>	<b>10,770</b>	<b>11,026</b>
12.6%	42.9%	6.5%	<b>= Operating Income</b>	<b>2,810</b>	<b>3,144</b>	<b>3,401</b>	<b>3,772</b>	<b>4,016</b>
			Operating Margin	30.6%	32.3%	33.2%	35.0%	36.4%
12.7%	41.1%	5.2%	<b>= Net Income</b>	<b>2,027</b>	<b>2,254</b>	<b>2,430</b>	<b>2,717</b>	<b>2,859</b>
			Net Margin	22.1%	23.1%	23.7%	25.2%	25.9%
11.3%	36.6%	5.6%	<b>EBITDA</b>	<b>3,304</b>	<b>3,639</b>	<b>3,897</b>	<b>4,272</b>	<b>4,512</b>
			EBITDA Margin	35.97%	37.33%	38.01%	39.66%	40.92%

### Balance Sheet

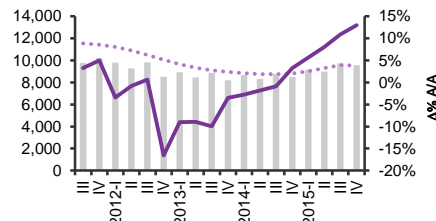
#### Total Assets



#### Total Liabilities

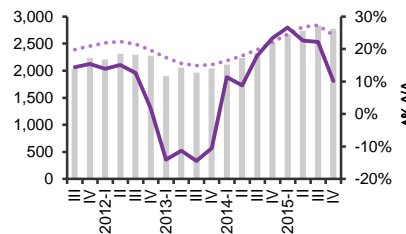


#### Stockholder's Equity

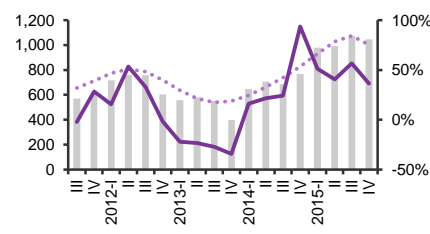


### Quarterly Income Statement

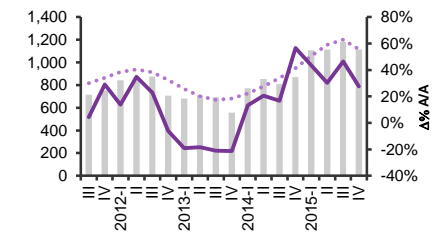
#### Revenues



#### Operating Income

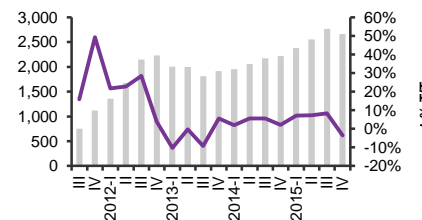


#### EBITDA

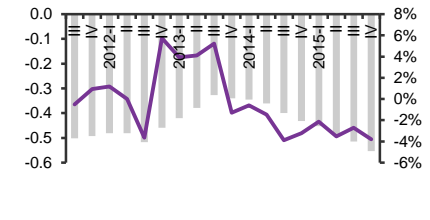


### Other relevant information 12M

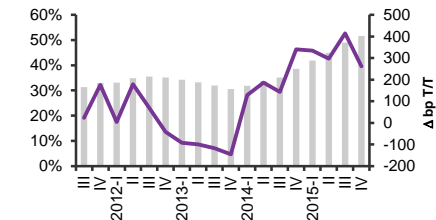
#### Free Cash Flow to the Firm



#### Net Debt/EBITDA



#### ROIC = EBITDA/Capital Invertido



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