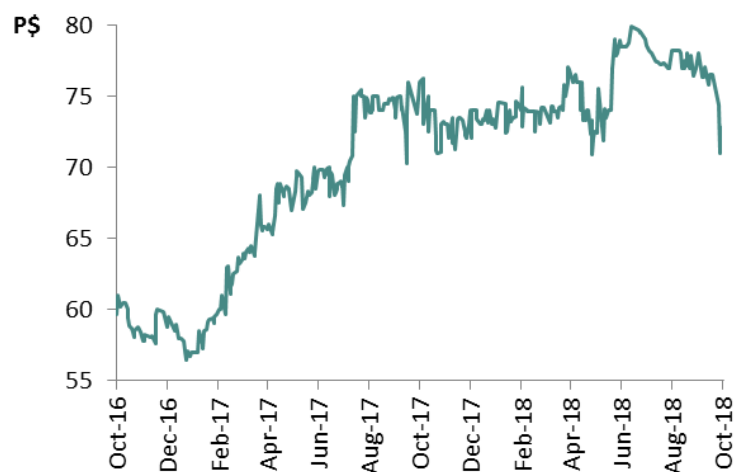


Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ *



HOLD			
Target Price 2019-IV:		Under review	
Close price (24/10/18):		P\$ 72.82	
Market cap. (million P\$):		64,104	
Average Trading Volume (YTD, million)		4.59	
Float (%)	22.7%	P/E	14.0x
Max 3M	P\$ 79.90	P/B	6.0x
Min 3M	P\$ 71.86	ROIC	64.9%
Chg % 3M	8.54%	ROE	42.2%
P\$ million	2018-III	2017-III	YoY
Revenue	3,626.0	3,575.6	1.4%
EBITDA	1,642.5	1,747.6	-6.0%

Executive summary

- The results of Corporación Moctezuma during the third quarter of 2018 showed higher revenues but a decrease in operating income, net income, EBITDA and their respective margins.
- In its annual comparison, sales in the cement division, its main source of revenue, grew + 2.9%, equivalent to P\$84.7 million.
- Despite the increase in costs and expenses, CMOCTEZ continues with a better EBITDA margin than its main comparables: CEMEX México and Grupo Cementos de Chihuahua (GCC).

Corporación Moctezuma, S.A.B. de C.V.

Analysis

Bad report. The results of Corporación Moctezuma during the third quarter of 2018 showed higher revenues but a decrease in operating income, net income, EBITDA and their respective margins.

Higher sales of cement and concrete boosted revenues. In its annual comparison, sales in the cement division grew +2.9%, equivalent to P\$84.7 million. On the other hand, sales in the concrete division decreased by P\$ 34.2 million (-5.6%) to P\$575.4 million. Sales in the corporate segment remained at the same level (P\$137 thousand). Total sales were P\$3,626.0 million, higher by +1.4% than those presented in the same period of the previous year.

Table 1. Results by business segment

2018-III	Net Sales (P\$ million)	Δ% YoY	% Representative of total revenue	CAPEX (P\$ million)	Δ% YoY
Cement	3,050.51	2.9%	84.1%	78.82	-20.6%
Concrete	575.37	-5.6%	15.9%	18.87	-59.0%
Corporate	0.14	0.0%	0.0%	7.07	531.6%
Total	3,626.02	1.4%	100.0%	104.77	-28.4%

Source: Signum Research with company's information

Higher production costs affected gross profit. The cost of sales increased +7.44% compared to those observed in 2017-III, which caused the gross profit to decrease by -4.83%, totaling P\$1,671.7 million. The gross margin was placed at 46.1%, -302.0 p.b. lower than the one observed in the same quarter of the previous year.

Increase in sales and administrative expenses decreased operating income. Derived from higher sales expenses (+4.15%) and administrative expenses (+7.79%), operating income was P\$1,502.3 million with an operating margin of 41.43%. Compared with the report presented in 2017-III, operating income decreased by -7.02%, while the margin decreased by -376.0 p.b. The EBITDA for the quarter decreased by -6.02% to P\$ 1,642.5 million, the EBITDA margin was 45.3% (-358.0 p.b.)

Increase in financial expenses impairs net income. Financial expenses for the quarter were P\$83.8 million (vs. P\$4.4 million in 2017-III). This increase resulted in a decrease in net income of -14.64% YoY, totaling P\$1,025.8 million. The net margin was 28.3%, -535.0 p.b. YoY.

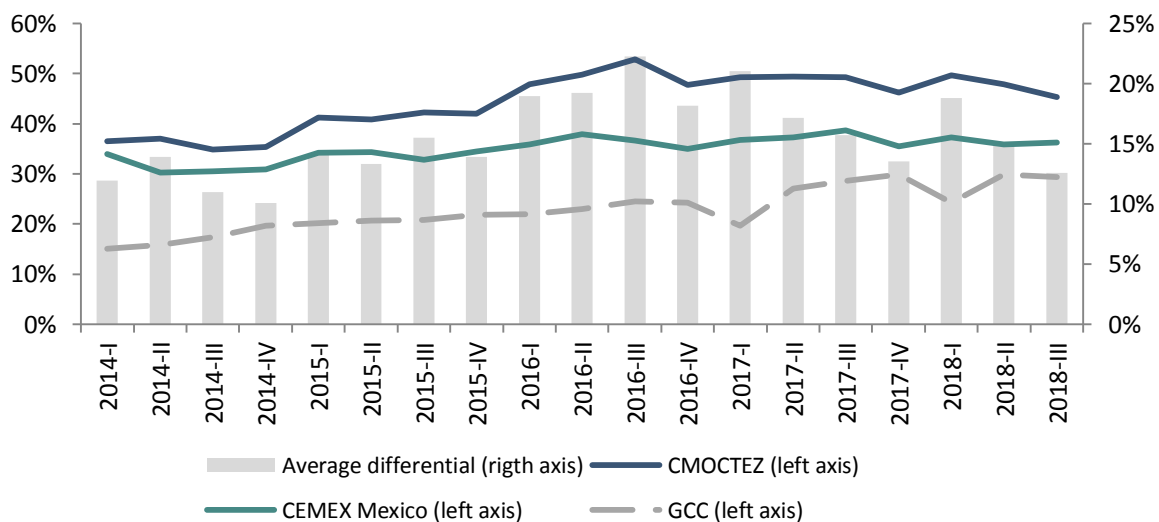
Table 2. Operational results

	2018-III	P\$ Millions	Δ% YoY	Margin	Δ basis points YoY
Gross Profit	\$	1,671.68	-4.8%	46.1%	-302
Operating Income	\$	1,502.29	-7.0%	41.4%	-376
Net Profit	\$	1,025.79	-14.6%	28.3%	-532
EBITDA	\$	1,642.49	-6.0%	45.3%	-358

Source: Signum Research with company's information

Consistent better EBITDA margin than its main comparables. Despite the increase in costs and expenses, CMOCTEZ continues with a better EBITDA margin than its main comparables: CEMEX México and Grupo Cementos de Chihuahua (GCC). In 2018-III Corporación Moctezuma obtained an EBITDA margin of 45.3%, while CEMEX México and GCC generated an EBITDA margin of 36.2% and 29.3% respectively. It is worth mentioning that the average differential presented by CMOCTEZ in this quarter compared to its main comparables is the smallest one since 2014-IV, however this is due to better efficiencies of its peers and not to CMOCTEZ's productive inefficiencies.

Graph 1. EBITDA margin: CMOCTEZ vs its main peers



Source: Signum Research with company's information

Cash decreased -5.7% in comparison to December 2017, due to the distribution of dividends and the operation of the business itself. It's worth mentioning that the company's products present a high profit margin, which has allowed it to maintain a constant dividend policy. It's also important to mention that, on average, CMOCTEZ has distributed dividends that represent a dividend yield of 6.2%, based on the closing price of the year prior to the distribution.

Despite the decrease presented in the last quarters, Moctezuma continues with good levels in the main profitability metrics.

Table 3. Profitability indicators

2018-III	Rate	Δ basis points QoQ
ROE*	42.2%	-188
ROA*	35.0%	-280
ROIC **	64.9%	-663

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 2018-IV. As we mentioned in the last report, the second half of the year presents great challenges for the company in the face of political transition, trade frictions and increases in interest rates. In addition, the volatility of the exchange rate coupled with increases in the price of raw materials and fuels and the uncertainty of investments in infrastructure such as the New International Airport of Mexico City complicate the outlook for the construction industry in Mexico.

Despite this, we believe that, given this panorama, the CMOCTEZ administration will focus on recovering the productive efficiency it had presented in previous quarters. Given the observed results, we keep our recommendation of HOLD, and we submit our target price to revision.

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Em M P * 25/10/18

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REPORT'S KEY

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|--------------------------|---|
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E = Economic
Rf = Fixed Income
Nt = Technical Note
M = Market
Em= Company
Fb= REITS |
| (2) Geography | M = Mexico
E = United States
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