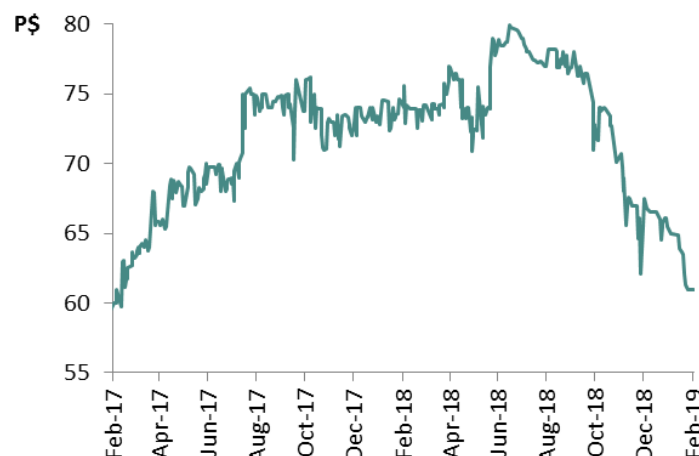


Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ *



HOLD			
Target Price 2019-IV:		Under review	
Close price (26/02/19):		P\$ 61.00	
Market cap. (million P\$):		53,699	
Average Trading Volume (YTD, million)		2.50	
Float (%)	22.7%	P/E	12.3x
Max 3M	P\$ 77.00	EV/EBITDA	7.8x
Min 3M	P\$ 62.09	ROIC	64.9%
Chg % 3M	-14.36%	ROE	42.3%
P\$ million	2018-IV	2017-IV	YoY
Revenue	3,279.4	3,514.9	-6.7%
EBITDA	1,378.5	1,623.7	-15.1%

Executive summary

- The results presented by Corporación Moctezuma for the fourth quarter of 2018 showed a drop in revenues and an increase in sales costs.
- However, the reduction in operating expenses helped reduce the impact on EBITDA.
- It is worth mentioning that the company's products present a high profit margin, which has allowed it to maintain a constant policy of distributions.

Corporación Moctezuma, S.A.B. de C.V.

Analysis

Negative report. The results presented by Corporación Moctezuma corresponding to the fourth quarter of 2018 showed a fall in revenues and an increase in sales costs. However, the reduction in operating expenses helped reduce the impact on EBITDA.

Income affected by lower sales of cement and concrete. In the annual comparison, sales in the cement division contracted by -7.5% YoY, equivalent to -P\$219 million. Similarly, sales in the concrete division decreased by -P\$15.7 million (-2.7% YoY) to P\$566.0 million. Sales in the corporate segment remained at the same level (P\$136 thousand). Total sales were P\$3,279.4 million, -6.7% below those presented in the same period of the previous year.

Table 1. Results by business segment

2018-IV	Net Sales (P\$ million)	Δ% YoY	% Representative of total revenue	CAPEX (P\$ million)	Δ% YoY
Cement	2,713.25	-7.5%	82.7%	64.51	-68.0%
Concrete	565.99	-2.7%	17.3%	14.15	-45.5%
Corporate	0.14	0.0%	0.0%	13.74	199.8%
Total	3,279.38	-6.7%	100.0%	92.40	-60.2%

Source: Signum Research with company's information

Higher production costs affected gross profit. The cost of sales increased +6.2% with respect to those observed in 2017-IV, which together with lower revenues, caused the gross profit to decrease -19.3%, standing at P\$1,432.6 million. The gross margin was 43.7%, lower by -682 b.p. compared to that observed in the same quarter of the previous year.

Lower administrative expenses reduced the impact on operating income. As a result of lower administrative expenses (-21.8%), operating income was P\$1,236.5 million with an operating margin of 37.7%. Compared to the report presented in 2017-IV, operating income decreased by -16.8%, while the margin contracted by -459 b.p. EBITDA for the quarter decreased -15.1% to P\$1,378.5 million with an EBITDA margin of 42.0% (-419 b.p.).

Net income affected by the financial result. The financial result of the period was positive in P\$89.2 million, which is compared with the income presented in P\$117.3 million in this same item. However, a gain in the profit sharing of joint ventures for P\$172 thousand (vs. a P\$12.6 million loss in 2017-IV) decreased the effect of the Comprehensive Financing Result. These factors led to a decrease in net income of -15.1% YoY, standing at P \$ 962.3 million. The net margin was 29.3%, -291 b.p. a / a.

Table 2. Operational results

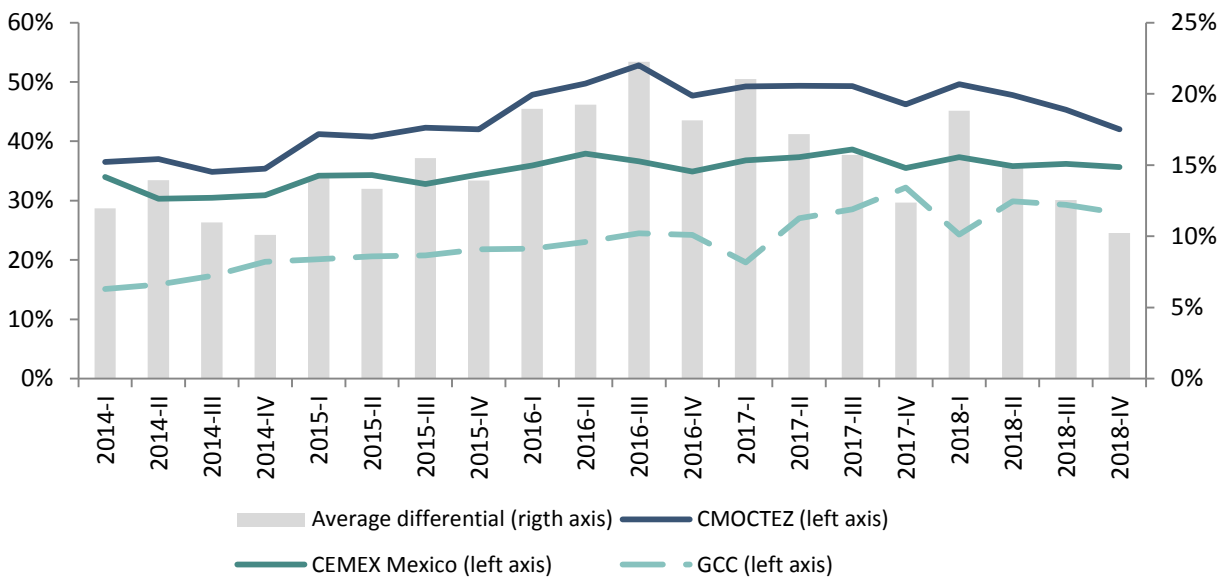
	2018-IV	P\$ Millions	Δ% YoY	Margin	Δ basis points YoY
Gross Profit	\$	1,432.59	-19.3%	43.7%	-682
Operating Income	\$	1,236.51	-16.8%	37.7%	-459
Net Profit	\$	962.34	-15.1%	29.3%	-291
EBITDA	\$	1,378.51	-15.1%	42.0%	-419

Source: Signum Research with company's information

Better EBITDA margin than its main peers. Despite the increase in costs, CMOCTEZ once again presented a better EBITDA margin than its main peers: CEMEX México and Grupo Cementos de Chihuahua (GCC). In 2018-IV Corporación Moctezuma obtained an EBITDA margin of 42.0%, while CEMEX México and GCC generated an EBITDA margin of 35.6% and 27.9% respectively.

It is worth mentioning that the average differential presented by CMOCTEZ compared to its main peers is the smallest one since 2014-IV. If this trend continues in the CMOCTEZ margins, this differential could be further reduced in 2019 as CEMEX's strategic asset sale plan, as well as the modernization of some GCC plants could boost margins of these two companies.

Graph 1. EBITDA margin: CMOCTEZ vs its main peers



Source: Signum Research with company's information

Cash decreased -16.2% with respect to December 2017, when it was positioned at P\$2,822 million, originated by the distribution of dividends and the operation of the business itself. It is worth mentioning that the company's products have a high profit margin, which has allowed it to maintain a constant policy of distributions.

It is important to mention that, on average, CMOCTEZ has distributed dividends representing a yield of 6.4%, based on the closing price of the year prior to the distribution of the same.

Despite the decreases presented in recent quarters, the company continues with good levels in the main profitability metrics.

Table 3. Profitability indicators

2018-IV	Rate	Δ basis points QoQ
ROE*	42.3%	+7
ROA*	34.1%	-84
ROIC **	66.3%	+144

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 2019. CMOCTEZ participates in an industry whose cycles are linked to economic growth, so we anticipate that this year will present great challenges. The current economic environment of high interest rates (which reduces long-term investments, mainly infrastructure), volatility of the exchange rate, increases in the price of raw materials and fuels; and the uncertainty of investments due to the lack of definition of a trade agreement between Mexico, the United States and Canada complicates the outlook of the construction industry in Mexico. Given the results observed and the challenging year to come, our recommendation is to HOLD.

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REPORT'S KEY

(1) Approach	S = Sectorial E = Economic Rf = Fixed Income Nt = Technical Note M = Market Em= Company Fb= REITS
(2) Geography	M = Mexico E = United States L = Latin America G = Global
(3) Temporality	P = Periodic E = Special
(4) Degree of difficulty	* = Basic ** = Intermediate *** = Advanced
(5) Publication date	DD/MM/YY



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