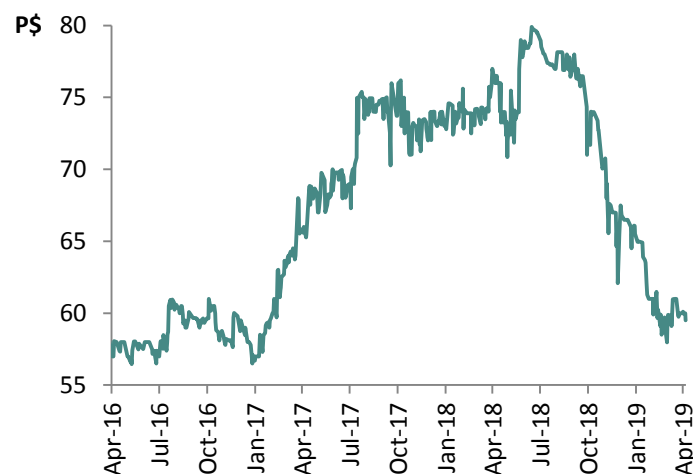


Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ *



BUY			
Target Price 2019-IV:		P\$ 75.00	
Close price (26/02/19):		P\$ 60.35	
Estimate Dividend (in P\$)		P\$ 5.80	
Total Potential (with dividends)		33.9%	
Float (%)	22.7%	P/U	12.7x
Max 3M	P\$ 66.50	EV/EBITDA	8.0x
Min 3M	P\$ 57.96	ROIC	47.7%
Chg % 3M	-10.27%	ROE	33.6%
P\$ million	2019-I	2018-I	YoY
Revenue	3,282.0	3,480.1	-5.7%
EBITDA	1,459.5	1,726.6	-15.5%

Executive summary

- Corporación Moctezuma presented the results corresponding to the first quarter of 2019 in the outstanding results in revenues and costs related to sales.
- Derived from higher sales costs and operating expenses, operating income was P\$1,316.0 million with an operating margin of 40.1%.
- 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).
- According to our analysis of profitability of the capital issuers of the Mexican Stock Exchange, until 2018-IV Corporación Moctezuma remained the most profitable company, measured in terms of the ROIC.

Corporación Moctezuma, S.A.B. de C.V.

Analysis

Negative report. Corporación Moctezuma presented its results corresponding to the first quarter of 2019, in which a decrease in revenues and an increase in costs related to sales stand out. Additionally, the expansion of operating expenses caused the EBITDA to have a notable contraction in its annual comparison.

Income affected by lower sale of cement. In the annual comparison, net sales in the cement division contracted -6.8% YoY, equivalent to -P \$ 204.3 million. On the other hand, sales in the concrete division increased by +P\$6.3 million (+1.3% YoY) to P\$492.7 million. Sales in the corporate segment remained at the same level (P \$ 137 thousand). Total sales were P\$3,282.0 million, -5.7% below those presented in the same period of the previous year.

Table 1. Results by business segment

2019-I	Net Sales (P\$ million)	Δ% YoY	% Representative of total revenue	CAPEX (P\$ million)	Δ% YoY
Cement	2,789.13	-6.8%	85.0%	36.22	13.7%
Concrete	492.73	1.3%	15.0%	1.46	3.5%
Corporate	0.14	0.0%	0.0%	0.00	0.0%
Total	3,281.99	-5.7%	100.0%	37.68	13.3%

Source: Signum Research with company's information

Higher price of inputs affected the gross profit. The cost of sales increased + 3.7% with respect to those observed in 2018-I, which together with lower revenues, caused the gross profit to decrease by -15.3%, standing at P\$1,456.8 million. The gross margin was placed at 44.4%, lower at -501 b.p. compared to that observed in the same quarter of the previous year.

Higher administration expenses increased the impact on operating income. Derived from higher operating expenses (+5.0%), operating income was P\$1,316.0 million with an operating margin of 40.1%. Compared to the report presented in 2018-I, operating income decreased by -17.2%, while the margin contracted by -559 p.b. The EBITDA for the quarter decreased by -15.5% and stood at P\$1,459.5 million with an EBITDA margin of 44.5% (-515 p.b.).

Net profit benefited by the financial result. The financial result of the period was positive in P\$606 thousand, which compares with the loss presented in the same quarter of the previous year of P\$55.8 million in this same item. However, a gain in the profit sharing of joint ventures for P\$1.1 million (vs. a P\$520 thousand loss in 2018-I) decreased the effect of the comprehensive financing result. These factors resulted in a decrease in net income of -15.0% YoY, standing at P\$924.8 million. The net margin was 28.2%, -310 b.p. YoY.

Table 2. Operational results

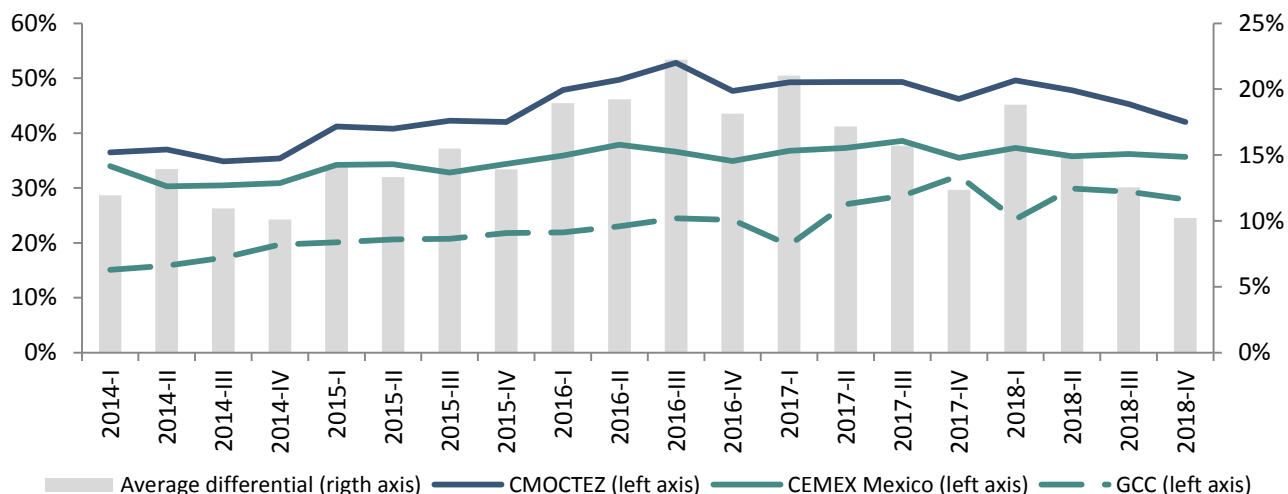
2019-I	P\$ Millions	Δ% YoY	Margin	Δ basis points YoY
Gross Profit	1,456.84	-15.3%	44.4%	-501
Operating Income	1,315.97	-17.2%	40.1%	-559
Net Profit	924.85	-15.0%	28.2%	-310
EBITDA	1,459.46	-15.5%	44.5%	-515

Source: Signum Research with company's information

Better EBITDA margin than comparable main ones. 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 2019-I Corporación Moctezuma obtained an EBITDA margin of 44.4%, while CEMEX México and GCC generated an EBITDA margin of 36.1% and 23.4%, respectively.

CMOCTEZ in this quarter compared to its main peers showed a notable recovery with respect to the previous quarter. However, generally the first quarter is the period in which the company has a better EBITDA margin. We believe that the recent reduction in the price of Petcoke could help an expansion in margins in the remainder of the year.

Graph 1. EBITDA margin: CMOCTEZ vs its main peers



Source: Signum Research with company's information

Cash increased + 33.3% compared to December 2018, when it stood at P \$ 2,822 million, originated by 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, without considering the performance due to the appreciation of the stock, CMOCTEZ has a dividend yield of 9.7%, based on the last closing price.

In spite of the decreases presented in the last quarters, the company continues with good levels in the main profitability metrics.

Table 3. Profitability indicators

2019-I	Rate	Δ basis points YoY
ROE*	40.0%	-457
ROA*	32.9%	-366
ROIC **	49.9%	-448

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.

Prospects for 2019. We consider that the almost null investment in public infrastructure as well as the delay in the publication of the National Housing Policy were significant factors in the decrease in cement sales during the quarter reported. Unfortunately, we believe that these factors could continue during the second quarter of this year and that the recovery in sales could occur until the second half of 2019.

However, we consider that, in the face of a recent decrease in the prices of certain energy products and a low comparative base, the second half of the year could present a notable expansion in margins.

It should be mentioned that, according to our analysis of profitability of the capital issuers of the Mexican Stock Exchange, until 2018-IV Corporación Moctezuma remained the most profitable company, measured in terms of the ROIC. **For these reasons, we recommend BUY with a target price of P \$ 75.00 towards the end of 2019.**

Analista

Manuel González

Héctor Romero

CEO

hector.romero@signumresearch.com

Armando Rodríguez

Research Manager / Real Estate Market, Energy and Housing
Sector armando.rodriguez@signumresearch.com

Cristina Morales

Senior Equity Research Analyst / Staples and Retail
cristina.morales@signumresearch.com

Alberto Carrillo

Senior Equity Research Analyst / Food and Beverages
alberto.carrillo@signumresearch.com

Manuel González

Senior Equity Research Analyst / Fixed income and Telecom
manuel.gonzalez@signumresearch.com

Carlos García

Jr. Equity Research Analyst / Mining Industry and Infrastructure
carlos.garcia@signumresearch.com

Andrés Nieto

Jr. Equity Research Analyst / Airports
andres.nieto@signumresearch.com

Daniel Espejel

daniel.espejel@signumresearch.com

Alain Jaimes

alain.jaimes@signumresearch.com

David Cardona

david.cardona@signumresearch.com

Andrea Lara Cid

andrea.laracid@signumresearch.com

Karla Mendoza

Mathieu Domínguez

Graphic Design

Iván Vidal

Information systems

Em M P * 30/04/19

1 2 3 4 5

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



Tel. 62370861/ 62370862
Info@signumresearch.com

Este documento y la información, opiniones, pronósticos y recomendaciones expresadas en él, fueron preparados por Signum Research como una referencia para sus clientes y en ningún momento deberá interpretarse como una oferta, invitación o petición de compra, venta o suscripción de ningún título o instrumento ni a tomar o abandonar inversión alguna. La información contenida en este documento está sujeta a cambios sin notificación previa. Signum Research no asume la responsabilidad de notificar sobre dichos cambios o cualquier otro tipo de actualización del contenido.

Los contenidos de este reporte están basados en información pública, disponible a los participantes de los mercados financieros, que se ha obtenido de fuentes que se consideran fidedignas pero sin garantía alguna, ni expresan de manera explícita o implícita su exactitud o integridad.

Signum Research no acepta responsabilidad por ningún tipo de pérdidas, directas o indirectas, que pudieran generarse por el uso de la información contenida en el presente documento.

Los documentos referidos, así como todo el contenido de www.signumresearch.com no podrán ser reproducidos parcial o totalmente sin la autorización explícita de Signum Research S.A. de C.V.