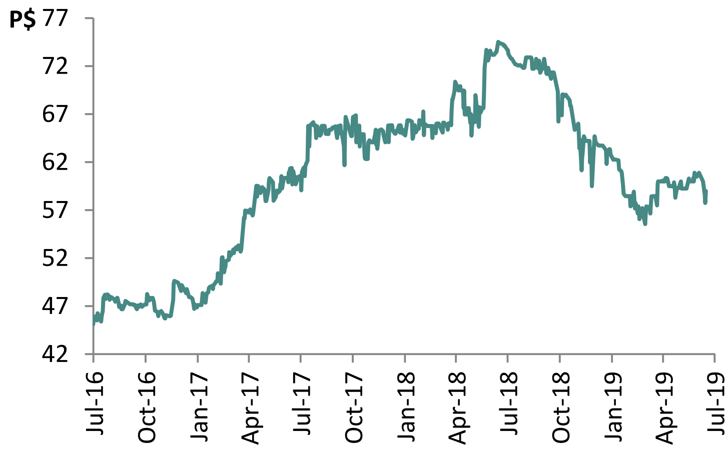
Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ *



HOLD			
Target Price 2019-IV:			**Under review**
Close price (26/07/19):			P$ 59.00
Estimate Dividend (in P$)			P$ 5.80
Total Potential (with dividends)			n.d.
Max 3M	P$ 63.35	P/U	13.7x
Min 3M	P$ 55.54	EV/EBITDA	7.7x
Chg % 3M	-15.10%	**ROIC**	**47.3%**
P$ million	2019-II	2018-II	YoY
Revenue	3,295.2	3,798.9	-13.3%
EBITDA	1,412.2	1,814.4	-22.2%

Executive summary

- Corporación Moctezuma presented its results for the second quarter of 2019, which again highlights a decline in revenues and an increase in operating expenses.
- Derived from higher operating expenses, operating income was P$1,257.0 million with an operating margin of 38.1%.
- Despite the increase in costs, CMOCTEZ again presented a better EBITDA margin than its main peeers: CEMEX Mexico and Grupo Cementos de Chihuahua (GCC).

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Analysis

Negative report. Corporación Moctezuma presented its results corresponding to the second quarter of 2019, which again highlights a decline in revenues and an advance in operating expenses. Additionally, although the costs related to sales decreased, they did not do so in the same proportion of income, which caused an adverse effect on the generation of EBITDA.

Income affected by lower sales of cement and concrete. In the annual comparison, net sales in the cement division contracted by -13.3% YoY, equivalent to -P$430.6 million. In the same way, sales in the concrete division decreased by –P$73.1 million (-12.9% YoY) to settle at P$493.2 million. Sales in the corporate segment remained at the same level (P$136 thousand). Total sales were P$3,295.2 million, -13.3% below those presented in the same period of the previous year.

Table 1. Results by business segment

2019-II	Net Sales (P$ million)	Δ% YoY	% Representative of total revenue	CAPEX (P$ million)	Δ% YoY
Cement	2,801.82	-13.3%	85.0%	100.99	121.9%
Concrete	493.22	-12.9%	15.0%	60.58	-26.3%
Corporate	0.14	0.0%	0.0%	4.24	-23.6%
Total	**3,295.17**	**-13.3%**	**100.0%**	**165.80**	**24.4%**

Source: Signum Research with company's information

Higher price of inputs affected gross profit. Sales costs decreased -5.0% compared to those observed in 2018-II. However, as a percentage of sales, they increased by +493.8 b.p. YoY. The above, together with lower income, caused gross profit to decrease by -22.1% YoY, standing at P$1,428.6 million. Gross margin was placed at 43.4%, lower by -494 b.p. compared to the one observed in the same quarter of the previous year.

Higher administration expenses increased the impact on operating income. Derived from higher operating expenses (+ 16.1%), operating income was P$1,257.0 million with an operating margin of 38.1%. Compared to the report presented in 2018-II, operating income decreased by -25.0%, while the margin contracted by -596.8 b.p. EBITDA for the quarter decreased by -22.2% and stood at P$1,412.2 million, with its corresponding margin of 42.9% (-490.4 b.p.).

Net income affected by a lower financial result. The financial result for the period was positive in P$10.4 million, which compares with the profit presented in the same quarter of the previous year of P$108.2 million in this same item. In addition to this, a loss derived from the participation in the results of joint ventures for -P$92 thousand (vs. a gain of P$9.0 million in 2018-II) diminished the effect of the comprehensive financing result. These factors resulted in a decrease in net income of -30.2% YoY, standing at P$890.1 million. The net margin was 27.0%, -657.0 b.p. YoY.

Table 2. Operational results

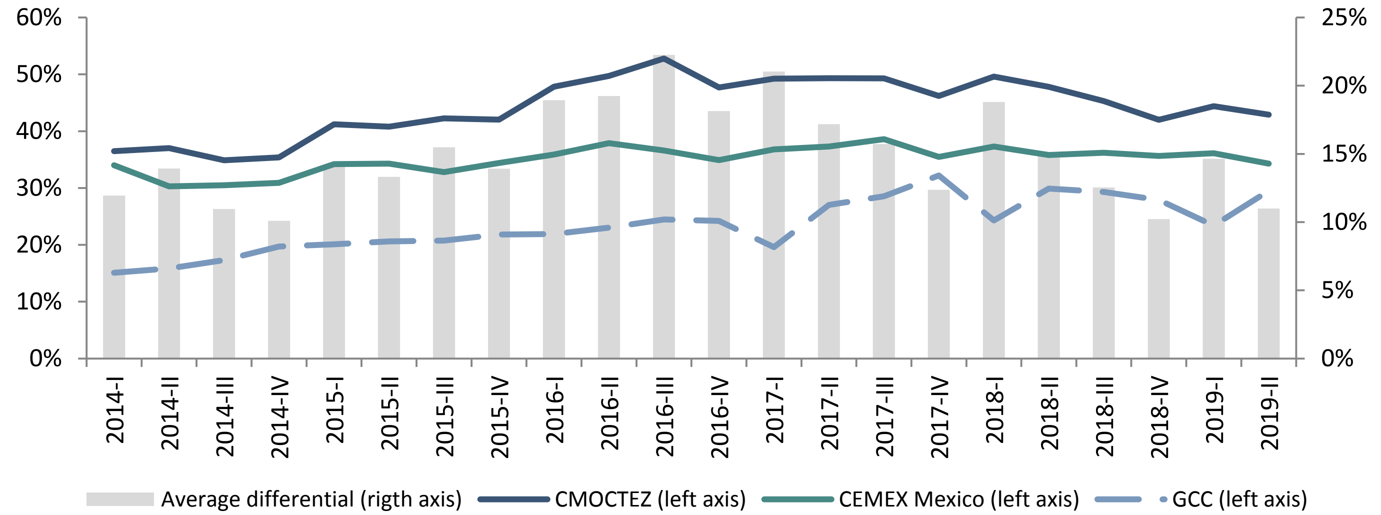
2019-II	P$ Millions		Δ% YoY	Margin	Δ basis points YoY
Gross Profit	$	1,428.56	-22.1%	43.4%	-494
Operating Income	$	1,256.98	-25.0%	38.1%	-597
Net Profit	$	890.05	-30.2%	27.0%	-657
EBITDA	$	1,412.21	-22.2%	42.9%	-490

Source: Signum Research with company's information

Higher EBITDA margin than its main peers. Despite the increase in costs, CMOCTEZ again presented a better EBITDA margin than its main peers: CEMEX Mexico and Grupo Cementos de Chihuahua (GCC). During 2019-II Corporación Moctezuma obtained an EBITDA margin of 42.9%, while CEMEX Mexico and GCC generated an EBITDA margin of 34.3% and 29.5%, respectively.

It should be mentioned that the average differential presented by CMOCTEZ in this quarter was the lowest among those presented in the second quarters of the last five years. We believe that the dependence on the Mexican market, which in recent times has led to a higher price of electric energy in addition to the high international price of fuels, has affected Corporación Moctezuma to a greater extent.

Graph 1. EBITDA margin: CMOCTEZ vs its main peers



Source: Signum Research with company's information

Cash decreased -13.7% compared to December 2018, when it was positioned at P$2,434 million, originated by the business's own operation. It is worth mentioning that the company's products have a high profit margin, which has allowed it to maintain a constant distribution policy.

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

Table 3. Profitability indicators

2019-II	Rate	Δ basis points YoY
ROE*	36.8%	-831
ROA*	30.2%	-664
ROIC **	64.2%	-928

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 the second half of 2019. We believe that the almost zero investment in public infrastructure, as well as the notable slowdown in the construction subsector, caused a significant drop in demand for building inputs. Unfortunately, we believe that these factors could continue towards the end of the year.

However, we believe that, given a change of discourse in monetary policy and at a low comparative basis, the second half of the year could present a notable expansion in margins.

Given the unfavorable prospects for the construction industry in Mexico, we changed our recommendation to HOLD while we reviewed our target price.

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Em	M	P	*	26/07/19

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
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(3) Temporality	P = Periodic E = Special
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