

Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ *



HOLD			
Target Price 2020-IV:		Under review	
Close price (24/10/19):		P\$ 57.95	
Estimate Dividend (in P\$)		n.d.	
Total Potential (with dividends)		n.d.	
Max 3M	P\$ 58.70	P/U	14.8x
Min 3M	P\$ 56.00	EV/EBITDA	9.0x
Chg % 3M	-4.75%	ROIC	62.9%
P\$ million	2019-III	2018-III	YoY
Revenue	3,175.4	3,626.0	-12.4%
EBITDA	1,260.6	1,642.5	-23.3%

Executive summary

- Corporación Moctezuma presented its results for the third quarter of 2019 in which they reiterated a decrease in revenues and an increase in operating expenses.
- Derived from higher operating expenses, operating income was P\$1,098.1 million with an operating margin of 34.6%.
- Despite the increase in costs, CMOCTEZ again presented a better EBITDA margin than its main comparables: CEMEX Mexico and Grupo Cementos de Chihuahua (GCC).

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Analysis

Weak Report. Corporación Moctezuma presented results affected by a lower dynamism of the construction industry, which results in a decrease in revenues affected by the sale of cement. Costs related to the production of important advances, which entails a significant contraction in margins.

Income affected by lower sales of cement and concrete. In the annual comparison, revenues from the sale of cement presented a greater annual adjustment, decreasing P\$346.9 million (-11.4% YoY), followed by the concrete segment, whose sales were reduced by P\$103.7 million (-18.0% YoY).

Table 1. Results by business segment

2019-III	Net Sales (P\$ million)	Δ% YoY	% Representative of total revenue	CAPEX (P\$ million)	Δ% YoY
Cement	2,703.64	-11.4%	85.1%	98.87	25.4%
Concrete	471.68	-18.0%	14.9%	16.99	-10.0%
Corporate	0.05	-66.4%	0.0%	7.56	6.8%
Total	3,175.37	-12.4%	100.0%	123.41	17.8%

Source: Signum Research with company's information

Higher input prices. The cost of sales decreased by -3.7% YoY. However, as a percentage of total sales they increased from 46.1% to 59.3%. The foregoing, coupled with lower income, caused gross profit to decrease by -22.7% YoY, reaching P\$1,293.0 million. Gross margin was placed at 40.7%, lower at -538 bp. compared to the one observed in the same quarter of the previous year.

Operating profit. Derived from expenses accounted for in the line of other expenses for P\$10.9 million, which is compared with the negative amount of -P\$5.5 million presented in the same period of the previous year, operating profit was P\$1,098.0 million with an operating margin of 34.6%. Compared to the report presented in 2018-III, operating income decreased by -26.9%, while the margin contracted by -685 bp. EBITDA for the quarter decreased by -23.3% and stood at P\$1,260.6 million, with an EBITDA margin of 39.7% (-560 bp.).

Net profit. The financial result for the period resulted in a loss of -P\$48.4 million, which compares with the profit presented in the same quarter of the previous year of P\$40.0 million in this same item. Net income totaled P\$783.8 million, -23.6% compared to 3Q18. The net margin was 24.7%, -361 bp. YoY.

Table 2. Operational results

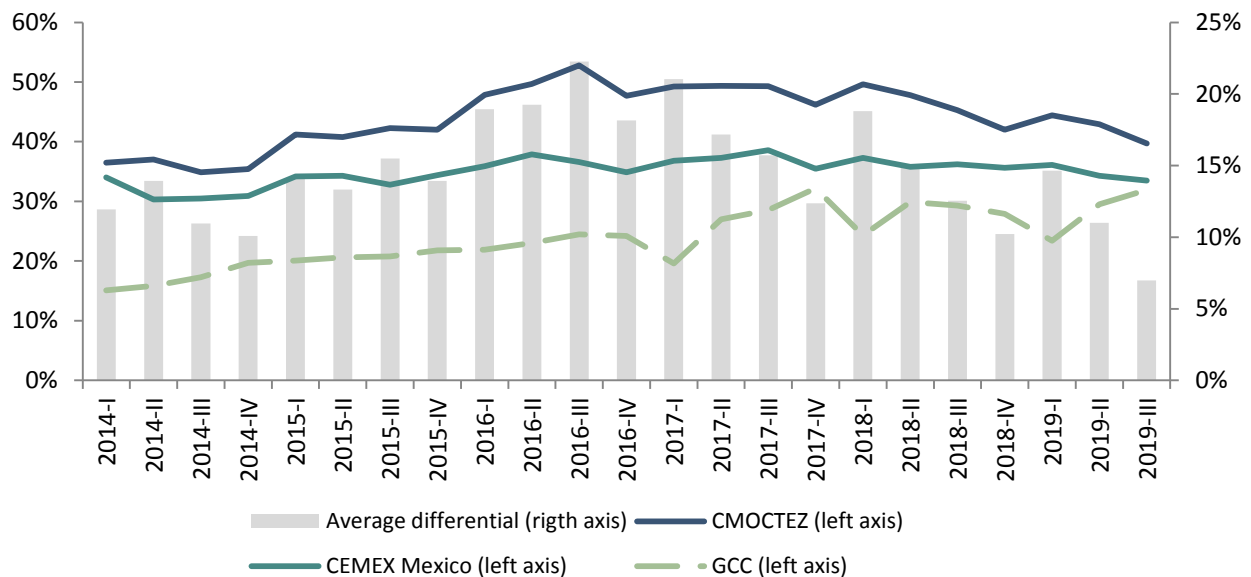
	2019-III	P\$ Millions	Δ% YoY	Margin	Δ basis points YoY
Gross Profit	\$	1,293.00	-22.7%	40.7%	-538.3
Operating Income	\$	1,098.05	-26.9%	34.6%	-685.1
Net Profit	\$	783.81	-23.6%	24.7%	-360.6
EBITDA	\$	1,260.56	-23.3%	39.7%	-559.9

Source: Signum Research with company's information

High profitability compared to peers. Historically, Corporación Moctezuma reflects an EBITDA margin higher than those of Cemex México and Grupo Cementos de Chihuahua (GCC). During 2019-III Corporación Moctezuma obtained an EBITDA margin of 39.7%, while CEMEX Mexico and GCC generated an EBITDA margin of 33.5% and 32.0%, respectively.

It is important to mention that the average differential presented by CMOCTEZ in this quarter was the lowest presented since 2014. This event could be generated by the company's high dependence on the Mexican market, where demand for products is declining and companies of this industry have a strong operating lever.

Graph 1. EBITDA margin: CMOCTEZ vs its main peers



Source: Signum Research with company's information

Cash increased by + 8.3% compared to December 2018, by positioning at P \$ 3,055.3 million, originated by the business's own operation and by the payment of a single dividend, distributed in April. Despite the decreases presented in recent quarters, the company continues with attractive levels in the main profitability metrics.

Table 3. Profitability indicators

2019-III	Rate	Δ basis points YoY
ROE*	36.2%	-666
ROA*	29.7%	-528
ROIC **	62.9%	-935

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.

4Q19 Outlook. We believe that there are currently no catalysts that could boost the construction industry in the short term. It should be mentioned that large infrastructure works take time to require inputs such as concrete or cement after starting their construction project, so we could expect that the effect generated by the construction of the next airport in Santa Lucia will take time to be reflected.

However, we believe that, in an environment of restrictive monetary policy, next year could encourage a recovery in demand and thus better results from the issuer.

Given the unfavorable prospects for the construction industry in Mexico, we keep our recommendation in HOLD and keep our objective price under review, waiting to know the management's strategy in the challenging environment.

Analyst

Armando Rodríguez

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

Carlos García

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

Daniel Espejel

Jr. Equity Research Analyst / Housing
daniel.espejel@signumresearch.com

Alain Jaimes

Jr. Equity Research Analyst / Industrials
alain.jaimes@signumresearch.com

David Cardona

Jr. Equity Research Analyst / Food and Beverages
david.cardona@signumresearch.com

Andrea Lara Cid

Jr. Equity Research Analyst / Real Estate Market
andrea.laracid@signumresearch.com

Manuel Zegbe

manuel.zegbe@signumresearch.com

Karla Mendoza

Mathieu Domínguez
Graphic Design

Iván Vidal

Information systems

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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



Tel. 62370861/ 62370862
Info@signumresearch.com

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