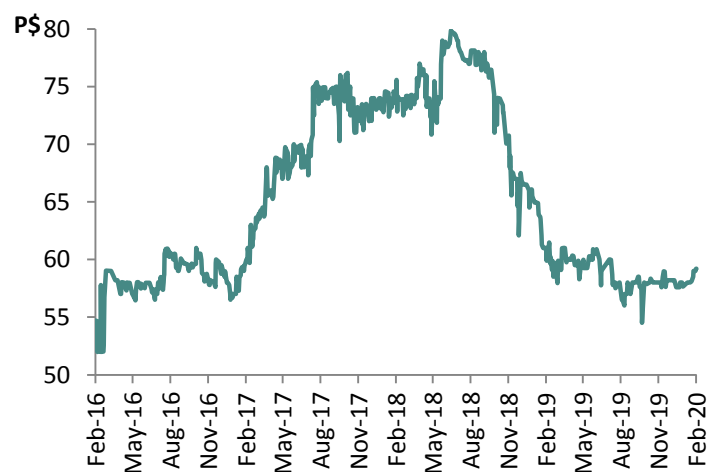


Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ *



BUY			
Target Price 2020-IV:		P\$ 63.15	
Close price (24/10/19):		P\$ 59.20	
Estimate Dividend (in P\$)		P\$ 5.00	
Total Potential (with dividends)		15.1%	
Max 3M	P\$ 58.99	P/U	15.3x
Min 3M	P\$ 54.50	EV/EBITDA	9.2x
Chg. % 3M	-0.34%	ROIC	61.4%
P\$ million	2019-IV	2018-IV	YoY
Revenue	3,036	3,279	-7.4%
EBITDA	1,306	1,379	-5.3%

Executive summary

- Corporación Moctezuma had results affected by the domestic economic landscape, where the lack of infrastructure projects has caused less dynamism in the construction industry. The foregoing directly influenced a decrease in revenue.

Corporación Moctezuma, S.A.B. de C.V.

Analysis

Weak Report. Corporación Moctezuma had results affected by the domestic economic landscape, where the lack of infrastructure projects has caused less dynamism in the construction industry. The foregoing directly influenced a decrease in revenue.

Strong percentage contraction in concrete sales. The quarterly revenues of Corporación Moctezuma totaled P\$3,035.5 million, a variation of -7.4%, below those obtained in the same quarter of the previous year. By division, the revenues obtained from the sale of concrete decreased -16.2% YoY, while revenues from the sale of cement decreased -5.6% YoY.

Table 1. Results by business segment

2019-IV	Net Sales (P\$ million)	Δ% YoY	% Representative of total revenue	CAPEX (P\$ million)	Δ% YoY
Cement	2,561.16	-5.6%	84.4%	240.61	273.0%
Concrete	474.11	-16.2%	15.6%	10.78	-23.8%
Corporate	0.23	66.9%	0.0%	3.96	-71.2%
Total	3,035.49	-7.4%	100.0%	255.36	176.4%

Source: Signum Research with company's information

Stable price of supplies. The cost of sales decreased by -7.3% YoY; however, as a percentage of total sales, it represented 56.3%, a level slightly higher than that presented in 2018-IV (+6.9 b.p.). Gross profit decreased by -7.6% y / y, standing at P\$1,326.7 million. Gross margin was placed at 43.7%, lower by -6.9 b.p. compared to that observed in the same quarter of the previous year.

Operating profit. As a result of a positive flow derived from other expenses line of P\$15.7 million, which was compared with the negative flow of -P\$24.1 million presented in the same period of the previous year, the operating profit was P\$1,161.3 million with an operating margin of 38.3%. Compared to the report presented in 2018-IV, operating income decreased by -6.1%, while the margin increased by +55.2 b.p. EBITDA for the quarter decreased by -5.4% and stood at P\$ 1,304.6 million, with an EBITDA margin of 43.0% (+94.2 b.p.).

Net profit. The financial result for the period ended up in a loss of -P\$20.2 million, compared with the profit presented in the same quarter of the previous year of P\$89.2 million. On the other hand, the total net income was P\$799.9 million, -16.9% compared to 2018-IV, and the net margin was 26.4%, -299.4 b.p. a/a.

Table 2. Operational results

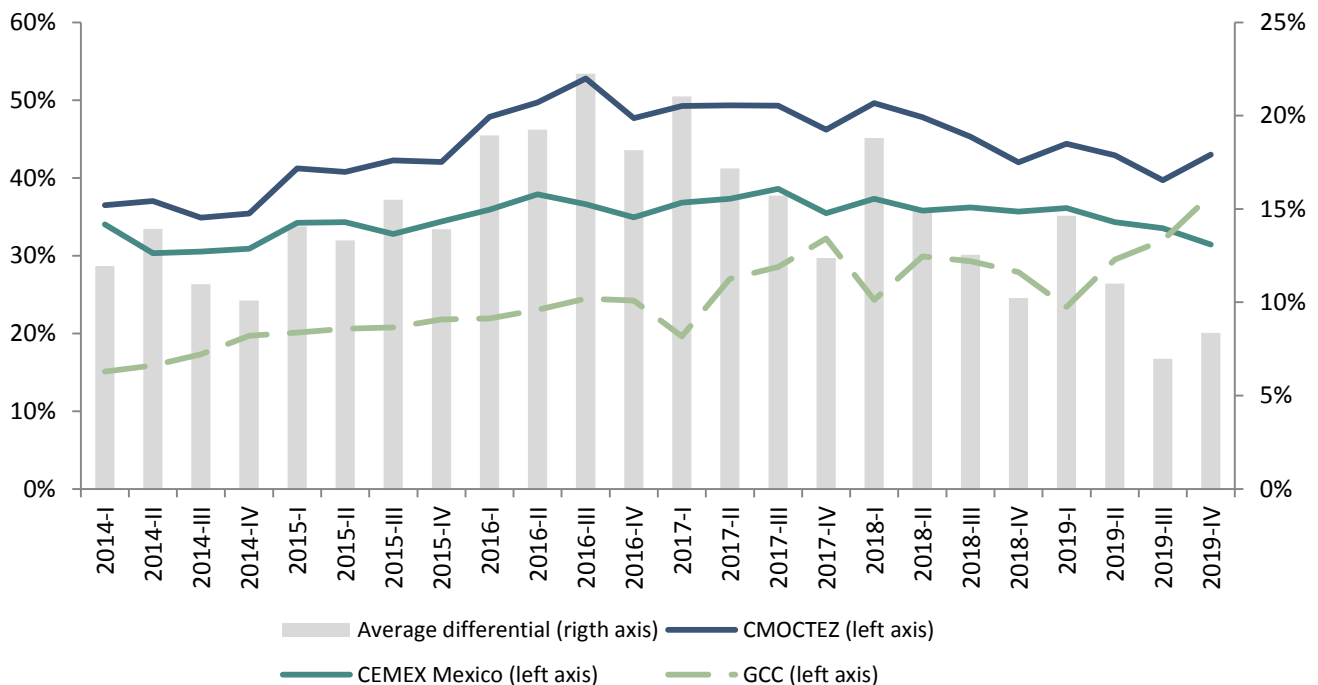
	2019-IV	P\$ Millions	Δ% YoY	Margin	Δ basis points YoY
Gross Profit	\$	1,326.74	-7.6%	43.7%	-6.9
Operating Income	\$	1,161.29	-6.1%	38.3%	55.2
Net Profit	\$	799.90	-16.9%	26.4%	-299.4
EBITDA	\$	1,304.57	-5.4%	43.0%	94.2

Source: Signum Research with company's information

High profitability compared to peers. Historically, Corporación Moctezuma reflects a higher EBITDA margin compared with other companies, such as CEMEX México and Grupo Cementos de Chihuahua (GCC). During 2019-IV Corporación Moctezuma obtained an EBITDA margin of 43.0%, while CEMEX Mexico and GCC generated an EBITDA margin of 31.4% and 37.8%, respectively.

It is important to mention that the differential average presented by CMOCTEZ in this quarter was the second lowest presented since 2014. We consider that this fact does not represent a loss in efficiency of the company, but that comparable companies begin to reduce their costs and expenses. Additionally, it is important to mention that the company's high dependence on the Mexican market, specifically the central and southern part of the country, has reduced sales growth and, indirectly, the company's margins as a business with scale economies.

Graph 1. EBITDA margin: CMOCTEZ vs. its main peers



Source: Signum Research with company's information

Cash decreased by -25.2% compared to December 2018, positioning at P\$2,110.6 million, originated by the business's own operation and the payment of dividends. It is worth mentioning that the company's products have a high profit margin, which has allowed it to maintain a constant distribution policy.

It is important to say that, without considering the yield due to the expected appreciation of the share, CMOCTEZ has an estimated dividend yield of 8.6%, based on the last market closing price.

We consider it pertinent to emphasize that, despite the annual decrease in revenues, the company has attractive levels in the main profitability metrics. According to the profitability analysis of the companies listed on the Mexican stock market, Corporación Moctezuma was placed as the second most profitable Mexican public company, measured through the ROIC.

Table 3. Profitability indicators

2019-IV	Rate	Δ basis points YoY
ROE*	37.0%	-626
ROA*	30.1%	-519
ROIC **	61.4%	-852

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.

2020 Outlook. As we have mentioned before, we believe that there are currently no obvious catalysts that could boost the domestic construction industry in the short term. However, the possible decrease in the reference interest rate of Banco de México, as well as the recent creation of mortgage loans with lower interest rates, could boost residential construction and partially reactivate the demand for Corporation Moctezuma products.

Despite the challenging outlook for the construction industry in Mexico, we retain our BUY recommendation with a target price of P\$63.15 per share.

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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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