

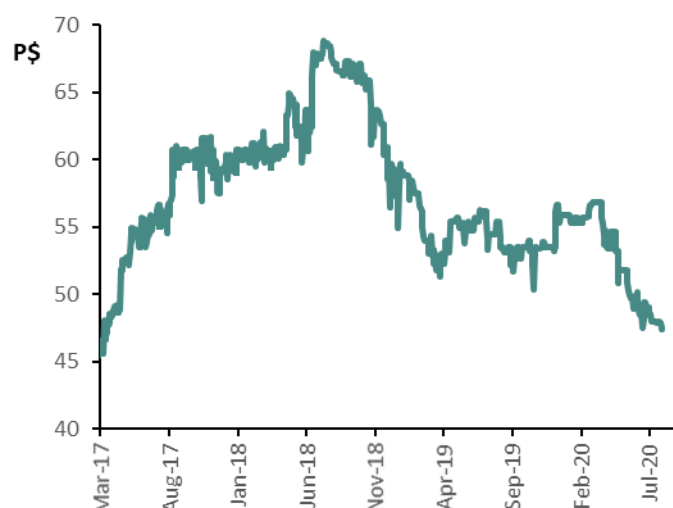
▲ Target price

▲ Recommendation

▲ Forecasts

CORPORACION MOCTEZUMA, S.A.B. DE C.V.

CMOCTEZ*



BUY			
Target price 2021-IV:		P\$ 52.30	
Close price (29/07/2020):		P\$ 47.39	
Dividend Est.		P\$ 4.00	
Total appreciation (with dividends)		18.80%	
Market cap. (million P\$):		41,583.48	
Max 3M	P\$ 54.69	P/U	11.3X
Min 3M	P\$ 47.50	VE/EBITDA	7.0x
Chg % 3M	-9.4%	ROIC	64.8%
P\$ Millon	2020-II	2019-II	YoY
Income	3,098.95	3,295.17	-5.95%
EBITDA	1,481.74	1,412.21	4.92%

Executive summary

- Corporación Moctezuma (Ticker symbol: CMOCTEZ) presented mixed results influenced by a contraction in concrete sales and lower costs of sales.
- The company's quarterly revenues totaled P\$3,098.9 million (-5.95% YoY), mainly due to the general contraction of the Mexican construction industry.
- The financial result resulted in a net loss of -P\$55.14 million compared to the net profit generated of P\$10.24 million in the quarter of the previous year.

CORPORACION MOCTEZUMA, S.A.B. DE C.V.

Analysis

Regular report. Corporación Moctezuma (Ticker symbol: CMOCTEZ) presented mixed results influenced by a contraction in concrete sales and lower costs of sales.

Percentage contraction in concrete sales. Corporación Moctezuma's quarterly revenues totaled P\$3,098.9 million, which represented a decrease of -5.95% compared to the same period of the previous year, mainly caused by the general contraction in the Mexican construction industry. By division, the income obtained from cement sales increased +0.2%, however, the income obtained from the sale of concrete decreased -40.9% YoY.

Table 1. Results by business segment

2020-II	Net Sales (P\$ millions)	Δ% YoY	% Representative of total revenue	CAPEX (P\$ millions)	Δ% YoY
Cement	\$ 2,807.55	0.20%	86.1%	\$ 62.79	-37.8%
Concrete	\$ 291.40	-40.92%	8.9%	\$ 21.88	-63.9%
Corporate	\$ -	n.a.	0.0%	-	0.0%
Total	\$ 3,098.95	-5.95%	100.0%	\$ 84.67	-48.9%

Source: Signum Research with company's information

Cost of sales decreased -13.95% YoY; however, as a percentage of total sales, it represented 51.8%, a lower level than the one presented in 2019-II (56.6%). Gross profit increased +4.5% YoY, reaching P\$1,492.9 million. Gross margin stood at 48.17%, higher by +482 bps compared to that observed in the same quarter of the previous year.

Operating profit and EBITDA. Derived from a reduction in both selling expenses (-13.76% YoY) and administrative expenses (-11.73% YoY), operating profit amounted to P\$1,325.83 million with an operating margin of 42.78%. Compared to the report presented in 2019-II, operating profit increased +5.48% YoY, in turn, operating margin increased +463 bps EBITDA for the quarter increased +4.92% YoY, reaching P\$1,481.7 million, with an EBITDA margin of 47.81% (+496 bps)

Net profit. The financial result ended in a net loss of -P\$55.14 million compared to the net profit generated of P\$10.24 million in the quarter of the previous year. Net income totaled P\$864.81 million, that is, a variation of -2.84% compared to 2019-II.

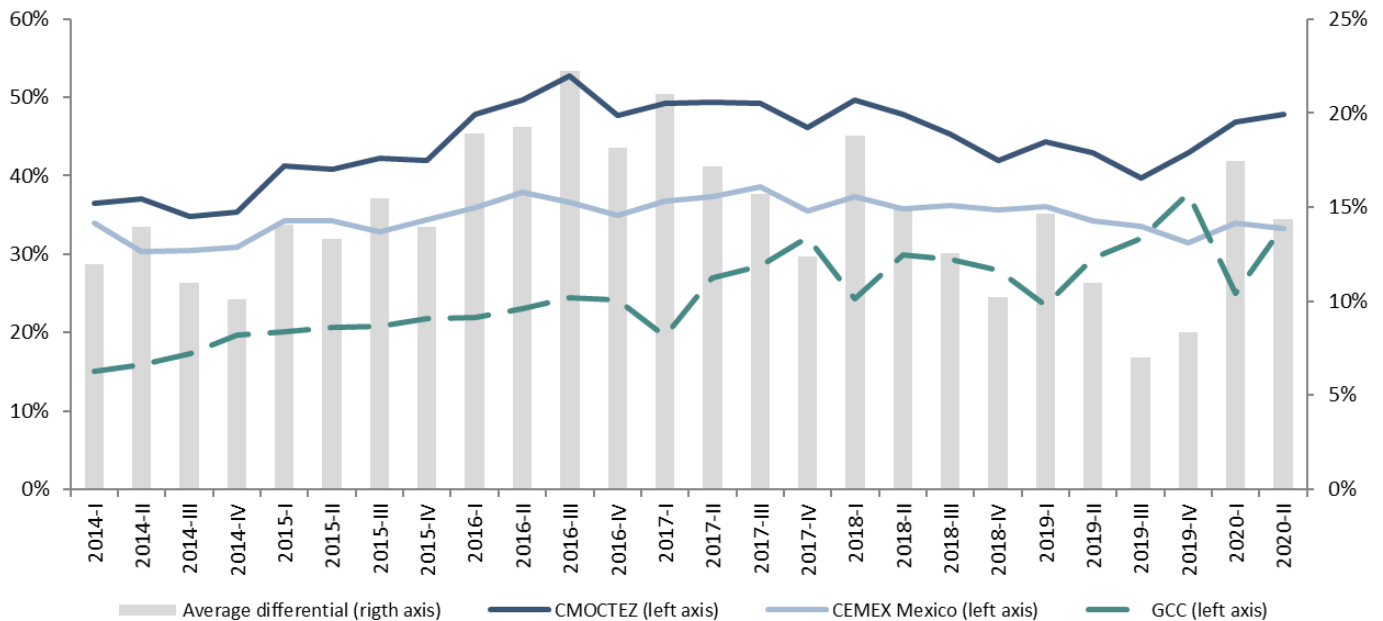
Table 2. Operational results

2020-II	P\$ Millions	Δ% YoY	Margin	Δ basis points YoY
Gross Profit	1,492.9	+4.50%	48.17%	+482
Operating Profit	1,325.8	+5.48%	42.78%	+463
Net Profit	864.8	-2.84%	27.90%	+90
EBITDA	1,481.7	+4.92%	47.81%	+496

Source: Signum Research with company's information

High profitability compared to peers. Historically, Corporación Moctezuma reflects an EBITDA margin higher than its peers such as CEMEX México and Grupo Cementos de Chihuahua (GCC). During 2020-II Corporación Moctezuma obtained an EBITDA margin of 47.81%, while CEMEX México and Grupo Cementos Chihuahua (GCC) generated an EBITDA margin of 33.2% and 33.7%, respectively. The recovery in the EBITDA margin was due to the fact that selling costs, as a percentage of total sales, decreased -4.8% compared to the same quarter of the previous year.

Chart 1. EBITDA margin: CMOCTEZ vs. its peers



Source: Signum Research with company's information

Cash and cash equivalents decreased -1.76% compared to 2019-II, positioning at P\$2,391.6 million, this decrease was generated by the operation of the business itself and by the payment of dividends in June 2020. Because the company does not have financial debt, the leverage ratio is negative.

We consider it pertinent to emphasize that CMOCTEZ continues presenting high levels of profitability metrics. Considering the last closing price and an estimated annual dividend of P\$4.00, the company has an estimated dividend yield of 8.44%.

Table 3. Profitability indicators

	2020-II	Rate	Δ basis points YoY
ROE*		31.45%	209
ROA*		38.83%	321
ROIC**		64.78%	228

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.



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2020 CMOCTEZ Outlook. We consider that the effects of the pandemic have been reflected in the results of this quarter. Going forward we expect a moderate recovery in the construction industry in conjunction with the Mexican economy. Therefore, we reaffirm our BUY recommendation with a target price of P\$52.30 per share towards the end of 2021-IV.

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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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