Financial

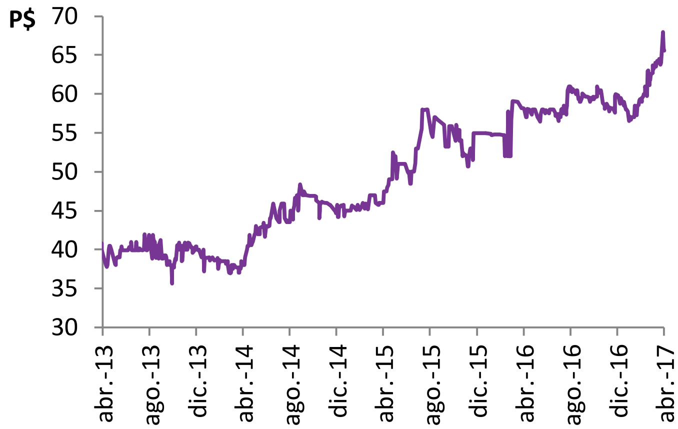
Quarterly Report

April 24, 2017

▲ Target Price ▲ Rating ▲ Estimates

Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ*



BUY			
Target price 2017-IV:			**P$ 64.00**
Close price (20/04/2017):			P$ 65.54
Dividend 2017 (en P$)			P$ 4.00
Total apreciation (with dividends)			3.8%
Market cap. (million P$):			57,396
Average Trading Volume (YTD, million)			5.06
Float (%)	32.8%	P/U 2017E	13.9x
Max 3M	P$ 68.00	VE/EBITDA 17E	8.3x
Min 3M	P$ 56.50	**ROIC**	**67.1%**
Chg % 3M	14.80%	**ROE**	**39.6%**

Analysis

CMOCTEZ reported excellent results that surpassed our quarterly estimates in all consolidated operating headings, which posted double-digit YoY growth rates.

Sales on 2017-I totaled MXN$3.713 billion (+30.4% YoY). Double-digit revenue growth can be attributed to very strong growth in the cement segment (+35.8% YoY), and a YoY rebound of +7.7% in the concrete segment.

The coming on line of the second production plant in Apazapan, Veracruz, which increased installed capacity by +21.5%, has a positive impact on the quarter. The project's termination resulted in a strong decrease of -66.5% YoY in CapEx for the quarter, to MXN$92.5 mn.

Table 1. Results by segment, numbers in millions of MXN$

2017-I	Sales	Δ% YoY	CAPEX	Δ% YoY
Cement	3,125.5	35.8%	85.0	-68.4%
Concrete	587.6	7.7%	7.1	11.3%
Corporate	0.1	6.2%	0.3	-44.9%
Consolidated	**3,713.2**	30.4%	**92.5**	**-66.5%**

Source: Signum Research and company data

Operating profit totaled MXN$1.656 billion (+35.0% YoY) and EBITDA grew +32.7% YoY totaling MXN$1.8 billion. Likewise, net profit from the controlling company's share rose +26.8% YoY, totaling MXN$1.135 million.

We highlight the fact that despite higher energy and transportation costs, CMOCTEZ managed to increase operating and EBITDA margins (by +152.0 bp YoY and +85.5 bp YoY, respectively). However, the natural lag between oil and Petcoke prices as well as electricity rates, could put margins under greater pressure in coming quarters.

Table 2. Operating Results

2017-I	Millions of P$	Δ% YoY	Margin	Δ basis points YoY
Gross profit	1,775.6	31.2%	47.8%	30
Operating profit	1,656.4	35.0%	44.6%	152
Controlling company net profit	1,135.1	26.8%	30.6%	- 85
EBITDA	1,800.1	32.7%	48.5%	85

Source: Signum Research and company data

Balance sheet cash increased +16.1% compared to the end of 2016. As mentioned previously, CMOCTEZ is a cash cow, which has enabled it to maintain an ongoing dividend policy. On April 4th, the company decreed a dividend of MXN$4 per share, the highest ever, from 2013, 2015 and 2016 retained earnings. The first installment of MXN$3 per share will be paid on April 24th, and the second, amounting to MXN$1 per share, will be paid on July 10, 2017. Shareholders will receive around P$3.6 per share following the deduction of income tax.

Given the completion of the company's largest project and subsequent reduction in capital expenditure, we estimate an increase in cash flow in coming quarters, and therefore expect the dividend policy to continue with a dividend yield of between 4% and 6%.

The strong increase in profitability –based on indicators like ROIC, ROE, and ROA–, which registered strong growth vs. 2016-IV, is also worth highlighting.

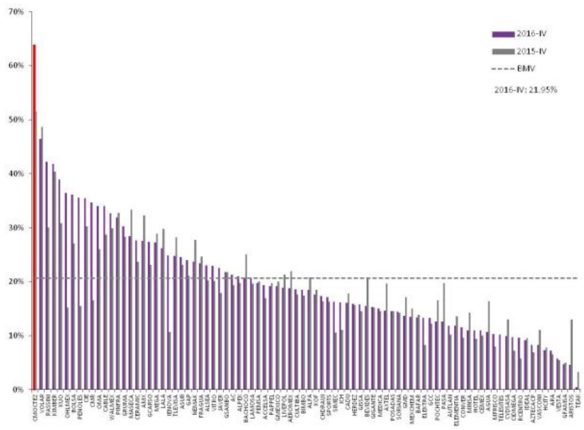
Table 3. Profitability Indicators

2017-I	Rate	Δ basis points QoQ
ROE	39.60%	116
ROA*	31.97%	66
ROIC **	67.14%	170

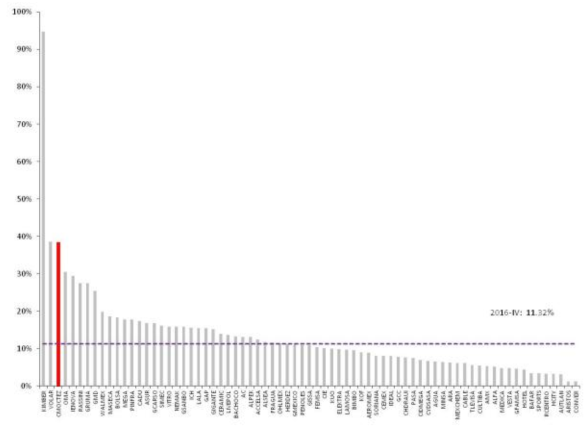
Source: Signum Research, *ROA and ROE are calculated using consolidated numbers and 12m balance sheet averages. **ROIC is calculated as EBITDA/invested capital.

Based on an analysis of MSE aggregate profitability, which considers a sample of 90 companies, CMOCTEZ is the most profitable in terms of ROIC terms and the third most profitable in terms of ROE at 2016-IV. Going by 2017-I results, the company will very likely maintain its ranking in our analysis.

Graph 3. Profitability of the MSE, ROIC 2016-IV



Graph 4. Profitability of the MSE, ROE 2016-IV



Source: Signum Research

2017 Outlook. As a result of the coming on stream of the second production line in Apazapan, over the next two quarters, we expect the company to maintain double-digit revenue growth rates. However, margins may remain under pressure from energy prices, peso depreciation, and higher transportation costs due to higher gasoline prices.

The oil price is something to keep an eye on, as Petcoke, which is derived from oil and is also quoted in dollars, is one of the company's main inputs. However, in the past, CMOCTEZ has shown strength in the face of challenge, so impact on profitability could be moderate. We look forward to hearing management's point of view in order to better reflect the situation in our estimates.

Higher interest rates have a strong impact on the company's valuation, since as capitalization is almost 100%, it is very sensitive to the cost of equity, which increases as risk-free rates rise. Our valuation includes a higher risk-free rate of 7.7% derived from a weighted average cost of capital of 10.1%.

In light of these excellent operating numbers, we will review our model to align valuation with the company's results and outlook. As we remain upbeat on the stock, we maintain our BUY rating.

Final remarks

CMOCTEZ posted an excellent report. Results topped our estimates and prospects remain bright. Furthermore, as the company has completed a period of capital expenditure, cash flow should increase going forward driven also by greater production capacity. **Our target price is under review.**

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