

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



BUY			
Target Price 2021-IV:		P\$62.00	
Close Price (30/10/2020):		P\$ 55.00	
Dividend Est. (in P\$)		P\$ 5.00	
Total appreciation (with Dividends)		21.8%	
Market cap. (million P\$):		47,954	
Max Trim	P\$ 55.00	P/U	12.0x
Min Trim	P\$ 46.00	VE/EBITDA	8.3x
Chg % Trim	-0.27%	P/VL	4.6%
P\$ million	2020-III	2019-III	Δ% YoY
Income	3,754.5	3,175.3	18.2%
EBITDA	1,747.1	1,260.5	38.6%

Executive Summary

- Corporación Moctezuma (ticker: CMOCTEZ) reported excellent results during the third quarter of 2020 due to an annual growth in income and an annual expansion in the EBITDA margin, due to the discipline that the company maintains in costs and expenses.
- Net sales totaled P\$3,754.5 million, reporting an increase of + 18.2% YoY compared to the P\$3,175.3 million obtained in 2019-III.
- EBITDA had an annual increase of + 38.6% YoY and amounted to P\$1,747.1 million, with an EBITDA margin of 46.5% higher by +680 b.p. compared to the same period of the previous year.

Analysis

Excellent Report: Corporación Moctezuma (ticker: CMOCTEZ) reported excellent results during the third quarter of 2020 due to an annual growth in income and an annual expansion in the EBITDA margin, due to the discipline that the company maintains in costs and expenses.

Growth in Revenues. Net sales totaled P\$3,754.5 million, reporting an increase of + 18.2% YoY compared to the P\$3,175.3 million obtained in 2019-III. During the third quarter of 2020, sales from cement were P\$3,352.5 million, which represented an increase of + 24% YoY compared to the same period of the previous year and the sales obtained from concrete was P\$402.00 million, which corresponds to a decrease of -14.8% YoY

Table 1. Quarterly results by business segment

2020-III	Net sales (P\$million)	Δ% YoY	% Representative of total revenues	CAPEX (P\$ million)	Δ% YoY
Cement	\$ 3,352.50	24.0%	89%	\$ 160.54	62%
Concrete	\$ 402.00	-14.8%	11%	\$ 19.89	17%
Corporative	\$ -	n.a	0%	-	0%
Total	\$ 3,754.50	18.2%	100%	\$ 180.43	46%

Source: Signum Research with company's information

Gross profit. Gross profit in the third quarter was P\$1,734.4 million, showing an increase of + 34.1% YoY. Cost of sales represented 53.8% of consolidated net sales compared to 59.3% in the third quarter of 2019. With this, the gross margin had an increase of +550 b.p. YoY, going from 40.7% to 46.2%.

Operating Profit and EBITDA. Operating expenses maintain a downward trend, with which the operating profit for the third quarter of 2020 grew by + 45.1% YoY to reach P\$1,593.14 million. The operating margin went from 34.6% to 42.4%, which represents an increase of +780 b.p.

EBITDA had an annual increase of + 38.6% YoY and amounted to P\$1,747.1 million, with an EBITDA margin of 46.5% higher by +680 b.p. compared to the same period of the previous year.

Net profit. Consolidated net income ended at P\$1,115.9 million in the third quarter of 2020, which implied an increase of + 42.4% YoY.

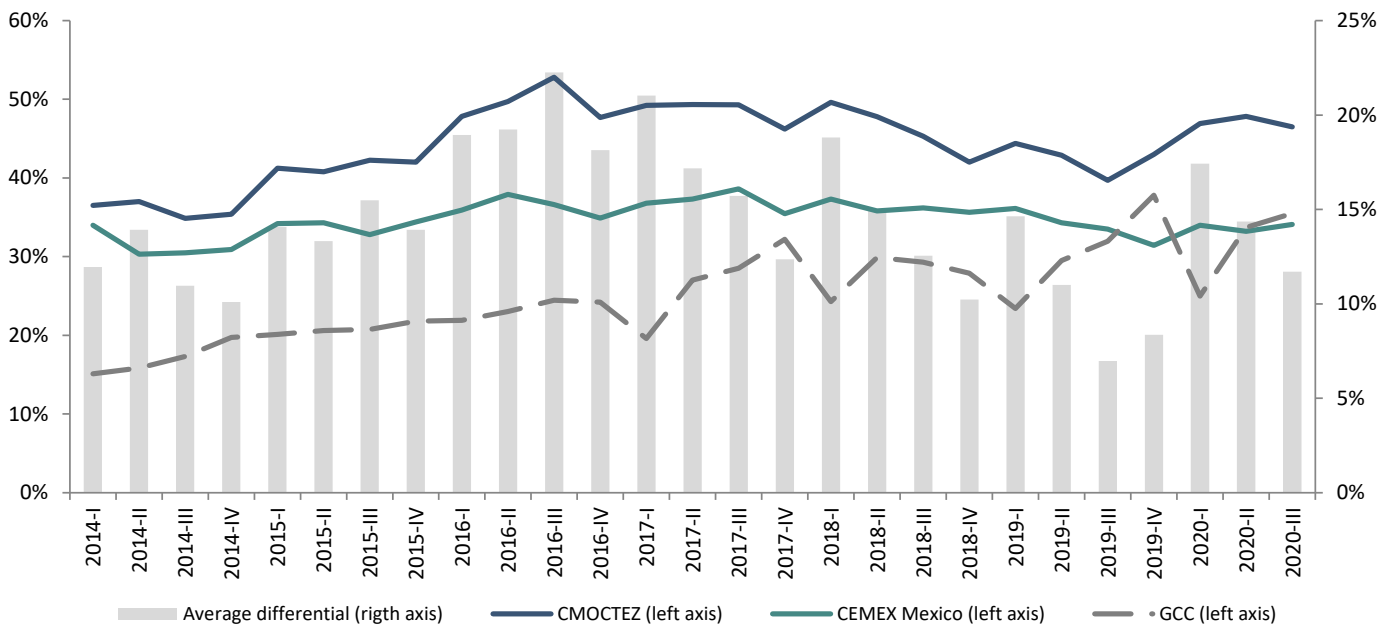
Table 2. Operating results

2020-III	P\$million	Δ% YoY	Margin	Δ basis points YoY
Gross Profit	\$ 1,734.40	34.1%	46.2%	550
Operating Income	\$ 1,593.14	45.1%	42.4%	780
Net Profit	\$ 1,115.90	42.4%	29.7%	500
EBITDA	\$ 1,747.10	38.6%	46.5%	680

Source: Signum Research with company's information

Corporación Moctezuma reflects an EBITDA margin higher than comparable companies in the sector. Additionally, the company maintains stability in its high level of profitability, while CEMEX and GCC (Grupo Cementos de Chihuahua) have greater volatility. In the third quarter of 2020, the EBITDA Margin of Corporación Moctezuma was 46.5%, while that of CEMEX México was 34.1% and that of Grupo Cementos de Chihuahua (GCC) was 35.5%.

Graph 1. EBITDA margin vs. Main Peers



Source: Signum Research with company's information

At the end of the third quarter of 2020, cash grew by + 62.7% YoY compared to the end of December 2019, reaching P\$3,435 million. The company has an estimated dividend of P\$5.00 per share, which implies a dividend yield of 9.09%

Table 3. Profitability Indicators

	2020-III	Rate	Δ Basis points YoY
ROE*		38.4%	460
ROA*		31.4%	290
ROIC**		45.8%	630

Source: Signum Research

*ROA y ROE are calculated with consolidated data and using 12M average on balance

**ROIC is calculated as EBITDA/Invested Capital



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Outlook for the rest of the year. After a drop-in economic activity in the second quarter of the year, the third quarter of the year shows a sequential recovery as economic reactivation plans begin to be activated. We expect the demand for cement and concrete to be more dynamic in line with this economic recovery, which will strengthen the company's operating results. Based on these expectations, we sustain our buy recommendation with a target price of P\$62.00 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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