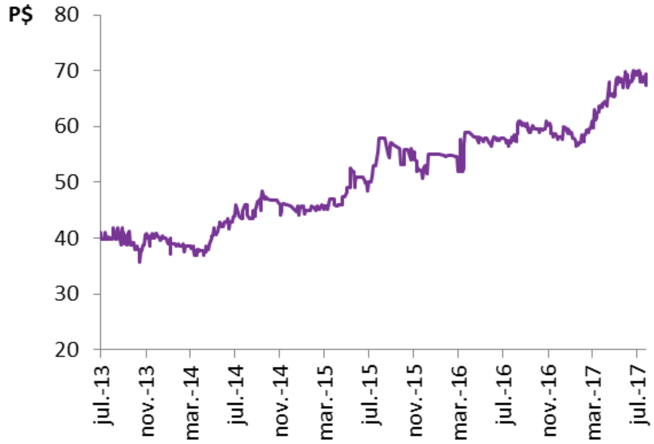
Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ*



BUY			
Target price 2018-IV:			**Under review**
Close price (28/07/2017):			P$69.47
Dividend Next12m (P$)			P$2.5
Total apreciation (with dividends)			na
Market cap. (million P$):			60,837
Average Trading Volume (YTD, million)			5.46
Float (%)	32.8%	P/U 2017E	14.2x
Max 3M	P$ 70.00	EV/EBITDA 17E	8.5x
Min 3M	P$ 65.27	**ROIC**	**69.8%**
Chg % 3M	5.1%	**ROE**	**41.5%**

Analysis

Solid results. CMOCTEZ reported double-digit year-on-year sales growth for the tenth time in 12 quarters and double-digit EBITDA growth for the fourteenth time in a row. Revenues amounted to MXN\$3.831.8 bn (+18.5% Y/Y). Growth was driven by increases in both segments, cement mainly (+22.4% y/y), and to a lesser extent concrete (+0.7% y/y).

We attribute most of the growth to the start-up of the second production line at the Apazapan facility in Veracruz, which increased installed capacity by +21.5%. Following its completion, we expect ongoing decreases in CAPEX (-67.2% y/y) at least during 2017.

Table1. Results by business segment, figures in millions of MXN$

2017-II	Revenues	Δ% y/y	CAPEX	Δ% y/y
Cement	3,248.8	22.4%	97.7	-68.9%
Concrete	582.9	0.7%	23.2	-54.2%
Corporate	0.1	5.4%	0.4	-91.4%
Consolidated	**3,831.8**	18.5%	**121.3**	**-67.2%**

Source: Signum Research and company data

Operating profit totaled MXN$1.703.3 bn (+15.7% y/y) and EBITDA MXN$1.844.5 bn (+15.4%). Likewise, the net profit of the controlling stake rose +10.8% y/y to MXN$1.245 bn.

As we expected, this quarter margins were lower owing to a rise in certain input prices such as gasoline (higher transportation costs) and electricity rates, among others. The company also recorded foreign exchange losses. Therefore, the operating and EBITDA margins decreased -105 and -129 bp y/y, respectively.

Table 2. Operating results

2017-II	Million P$	Δ% y/y	Margin	Δ basis points y/y
Gross Profit	1,682.6	4.1%	43.9%	105
Operating Profit	1,703.3	15.7%	44.5%	- 105
Controlling Net Profit	1,245.5	10.8%	32.5%	- 225

Source: Signum Research and company data

Margins topped peers. Once again, although lower, CMOCTEZ's operating and EBITDA margins were better than CEMEX México's, reflecting superior efficiency levels to the competition. The spread between both companies' margins remains wide. For comparison reasons, margins exclude other expenses and income.

Chart 1. Quarterly operating margin, 2017-II

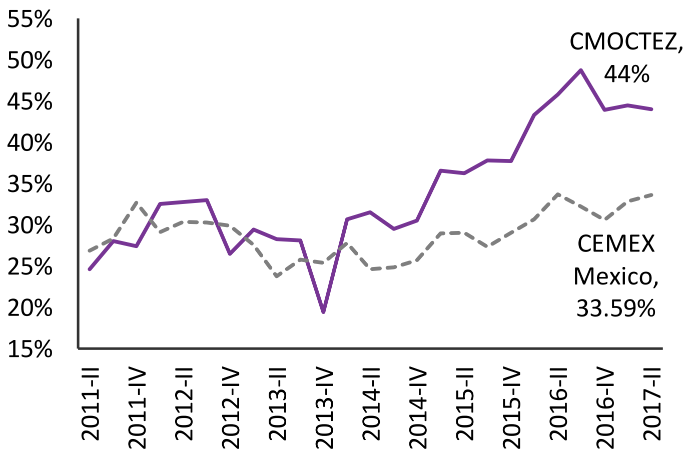
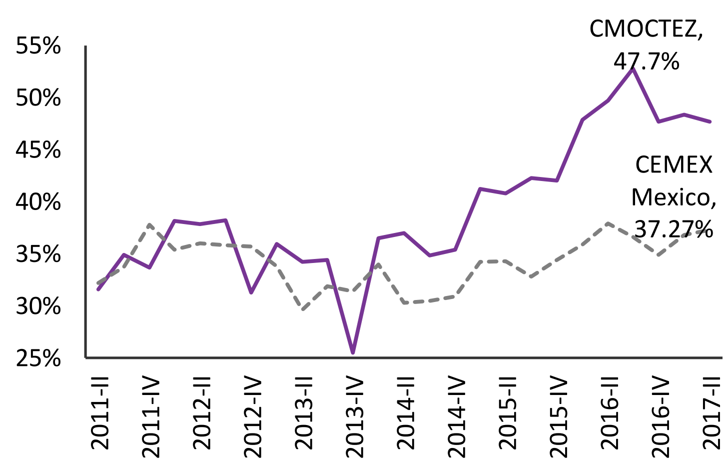


Chart 2. Quarterly EBITDA margin, 2017-II



Source: Signum Research and company data

Cash decreased -27% y/y due to the dividend payout and operations. We would stress that Moctezuma is a cash cow, which has enabled it to maintain a dividend policy. Net debt remained negative for the quarter.

Given the completion of the company's largest project and reduction in capex, we estimate stronger cash flow generation in the coming quarters, so the dividend policy should continue with a dividend yield of between 4% and 6%.

We would also highlight the strong increase in profitability, as reflected in indicators like ROIC, ROE and ROA, which were much higher compared to 2017-I.

Table 3. Profitability Indicators

2017-II	Rate	Δ basis points q/q
ROE	41.52%	154
ROA*	33.85%	126
ROIC **	69.81%	130

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

2017-2S outlook. We estimate that given comparison bases and oil prices, Moctezuma could record another quarter of double-digit sales and EBITDA growth followed by relatively more modest growth rates in the out-years. Also, if energy costs continue to trend higher, there could be a quarter in which EBITDA is lower.

The construction industry environment in Mexico should become more complicated in the second half of 2017 due to exchange rate volatility, higher raw material and fuel prices as well as uncertainty regarding foreign investment.

Although our model incorporates that outlook, and company fundamentals and estimates justify a BUY rating on the stock (with a higher target price), we would like to have management's view before publishing our new target price.

Management mentioned a number of strategic points it will be implementing going forward in order to cement its solid financial position.

- Growth led by the construction of plants equipped with more cutting-edge, efficient, and sustainable technology (although no additional investments have been announced to date)
- Rollout of the aggregates business
- Improvement in its market position

Analyst

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Financial
Quarterly Report

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