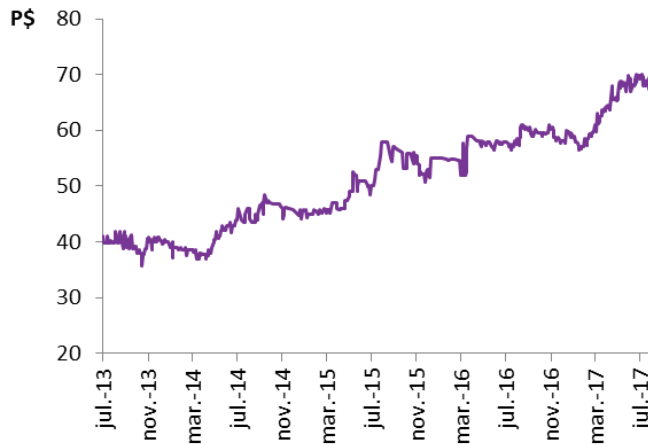


Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ*



BUY			
Target price 2018-IV:		Under review	
Close price (28/07/2017):		P\$69.47	
Dividend Next12m (P\$)		P\$2.5	
Total appreciation (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.

Table 1. 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.

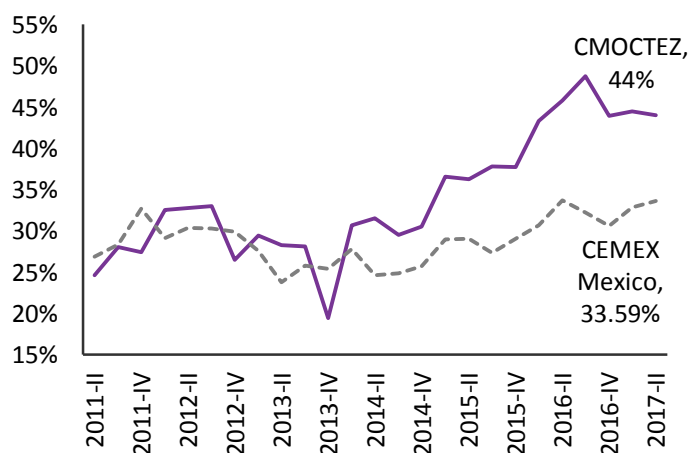
Table 2. Operating results

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

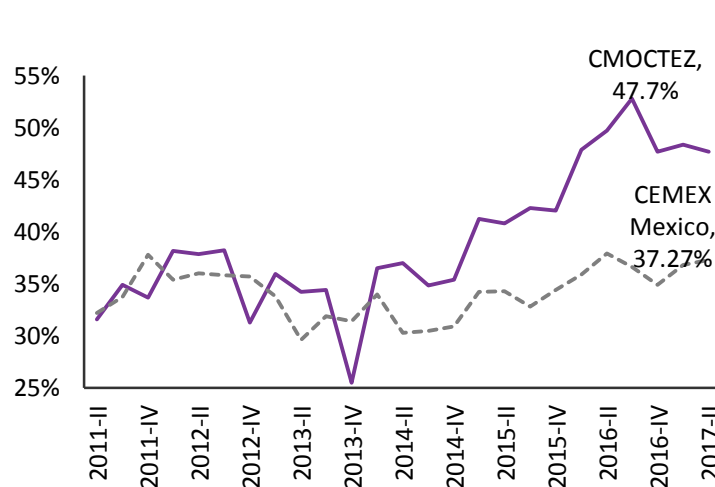
Margins topped peers. Once again, although lower, CMOCTEZ's operating and EBITDA margins were better than CEMEX México's, reflecting superior efficiency levels to the competition. The spread between both companies' margins remains wide. For comparison reasons, margins exclude other expenses and income.

Chart 1. Quarterly operating margin, 2017-II



Source: Signum Research and company data

Chart 2. Quarterly EBITDA margin, 2017-II



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

Manuel González

Héctor Romero

Head of Research / *Telecom and Media*

Ismael Capistrán

Chief Economist

Armando Rodríguez

Research Manager/ *Real Estate Market, Energy, Housing
Sector and Mining Sector*

Cristina Morales

Senior Equity Research Analyst / *Beverages, Staples and Retail*

Ana Tellería

Senior Quantitative Analyst / *Fixed Income and Financial Sector*

Lucía Tamez

Junior Equity Research Analyst / *Airlines, Airports and
Industrial Sector*

Manuel González

Junior Equity Research Analyst / *Infrastructure and fixed
income*

Ricardo Pérez

Karla Mendoza

Graphic Design

Powered by



www.signumresearch.com
Tel. +52 (55) 6237.0861/ 62 / 63
info@signumresearch.com

 @Signum_Research

 Signum Research

General Analysis Report

The information contained in this document, file or e-mail prepared by personnel of Punto Casa de Bolsa, S. A. de C.V. (PCB), aimed at customers in general residing in the Mexican territory, is sent and/or published solely for the purpose of providing information and analysis, based on information available to the public, obtained from sources considered reliable, but whose accuracy and veracity cannot be guaranteed. Investors should not take this document and its content (report) as the sole factor in the investment decision making since these materials do not constitute an offer to buy, sell or subscribe securities, nor to participate in any strategy of operation, for which the client must determine their actions according to their profile and investment needs. The name(s) of the persons responsible for the analysis and their location data are in the body of the document, file, e-mail or analysis report sent. The opinions contained in this document exclusively reflect the point of view of PCB personnel responsible for their preparation, who receive compensation exclusively on the profitability and utility generated by PCBs, that is, they do not receive any kind of remuneration from the issuers, officials or personnel thereof, who the content of this document, file, e-mail or analysis report make reference to. PCB, its promotion staff and those responsible for the preparation of this document, mail or analysis report, could hold investments at the close of the last quarter, directly or through interposing person, in securities or derivative financial instruments whose underlying would be securities object of this document, file, e-mail or analysis report, which may represent one percent or more of its securities portfolio, investment portfolio or the aforementioned percentage of the issuance or underlying values in question. The directors, the general manager and the managers that occupy the next lower level to these ones in PCB, respectively, in turn, could act with some of these characters in the transmitters of the values material of the present document, file, e-mail or report of analysis. This report has been prepared by PCB staff and is subject to change without notice. PCB and its employees are under no obligation to update or rectify the information contained in this document, in which historical information is distinguished from that which has the character of estimates, as well as the main assumptions of the latter. PCB makes no express or implied warranty that such information is accurate or complete and, therefore, PCB and its employees shall not be subject to any related claims. This document, file, e-mail or analysis report mentions the changes that may have been made in the sense of the analysis regarding the same securities or derivative financial instruments during the last 12 months, except for the Information based solely on volume and price analysis, in which case such mention is made only with respect to the change from the previous immediate recommendation. The information and analyzes contained in this document are not intended to provide tax, legal, or investment advice and may not fit the specific circumstances of the reader. Each investor must determine for himself whether an investment in any of the securities mentioned in this document is appropriate and should consult his own tax, legal, investment or other advisers to determine it. This document, file, e-mail or analysis report may mention several securities, some of which may not qualify for sale in certain countries or for certain investors. This document, file, e-mail or analysis report may not be reproduced, reprinted, edited, sold or distributed, in whole or in part, without prior written authorization from Punto Casa de Bolsa, S.A. Of C.V.