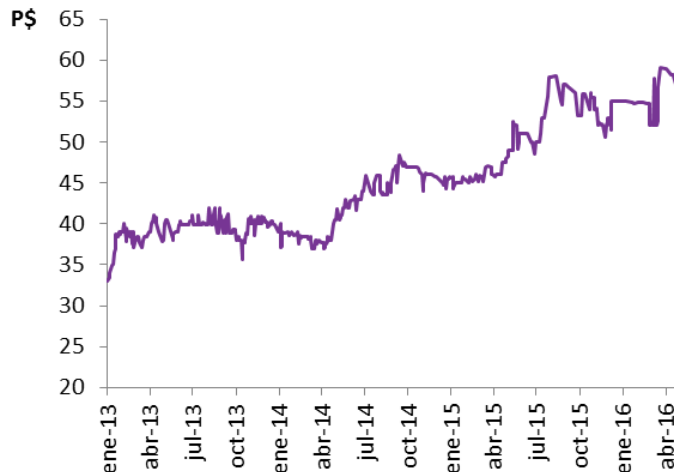


## Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ\*



BUY	
Target price 2016-IV:	P\$ 65.60
Close price (28/04/2016):	P\$ 57.00
Dividend Est.	P\$ 3.00
Total appreciation (with dividends)	20.4%
Market cap. (million P\$):	50,178
Average Trading Volume (YTD, million)	10.2
Float (%)	22.7%
Max 3M	P\$ 59.04
Min 3M	P\$ 51.98
Chg % 3M	4.2%
P/U 2016E	13.2x
VE/EBITDA 16E	7.8x
ROIC	nd
ROE	31.6%

### Analysis

**Good report. With the exception of revenues, Cementos Moctezuma's results topped our estimates.** Consolidated sales rose +6.4% y/y to P\$2.847.9 bn, while the EBITDA margin was 47.6% (+630 bp y/y), a level not seen since 2006.

The main driver was the cement segment (+9.3% y/y), which despite displaying strong growth fell short of our estimate. We attribute this to lower volume (we estimate that cement chain volume decreased -3% y/y and concrete volume -12.6% y/y), as our model assumes that CMOCTEZ is an industry price follower. The concrete segment decreased -4.4% y/y.

Table 1. 2016-I by Segment, 2016-II and 2016 estimates, million P\$

2016-I	Revenues	Δ% a/a	CAPEX	Δ% y/y	Revenues 2016-II E	Δ% y/y	Revenues 2016E acum.	Δ% y/y
Cement	2,302.0	9.3%	269.1	463.4%	2,404.6	9.2%	9,432.1	8.4%
Concrete	545.8	-4.4%	6.4	-44.3%	549.5	2.1%	2,396.7	3.2%
Corporate	0.1	0.0%	0.6	-75.2%	0.1	0%	0.5	0.0%
<b>Total</b>	<b>2,847.9</b>	<b>6.4%</b>	<b>276.1</b>	<b>347.3%</b>	<b>2,954.2</b>	<b>7.8%</b>	<b>11,829.2</b>	<b>7.3%</b>

Source: Signum Research with company's information

\*Estimates Signum Research

**Good results stemmed from margin expansion, which was higher estimated.** An ongoing decrease in energy prices (electricity, fuels, and coke) and higher cement prices have translated into greater operating efficiency despite a rise in some fixed costs and expenses related to sales, advertising, donations, and the payroll.

Table 2. Main 2016-I profitability indicators with 2016-II estimates, million P\$

2016-I	Million P\$	Δ% y/y	Margin	Δ basis points a/a	2016-II*	Margin 2016-II*
Gross Income	1,353.0	24.4%	47.5%	688	1,344	45.5%
Operating Income	1,227.2	25.0%	43.1%	642	1,182	40.0%
Controlling net Income	894.9	29.4%	31.4%	558	840	28.4%
EBITDA	1,356.3	22.6%	47.6%	630	1,313	44.4%

Source: Signum Research with company's data

\*Estimates Signum Research

Despite higher taxes (+15.3% y/y), net profit rose +29.4% y/y to P\$894.9 mn driven by an increase in interest earned and a forex gain.

It should be born in mind that CMOCTEZ is a cash cow (cash grew +13.7% q/q, despite heavy capital outlays related to the expansion of the Veracruz plant, which likely consisted of cash generated during the quarter) which has enabled the company to maintain a negative net debt/ EBITDA ratio. However, high liquidity and low debt can prove detrimental over the long term, as idle cash does not generate any value other than interest earned, and almost no debt implies a higher WACC<sup>1</sup> as well as a higher tax base, as the company forfeits a tax benefit from interest deduction.

**Consequently, we believe CMOCTEZ could be looking to make a short-term acquisition or capital expansion, although management has made no comment as yet.**

As mentioned in previous reports, we think 2016 will be a complicated year due to construction industry weakness, as a number of indicators show the industry remains in a trough. We have made some adjustments to our volume estimates to take account of this, as we prefer to be conservative until there are signs of recovery. We therefore expect modest 2016 consolidated sales growth of +7.3%.

With respect to margins, we have raised our profitability curve slightly due to improved expectations. As it is debatable whether margins observed this quarter can be sustained, the increases to our 2016-II estimates place them below this quarter's.

#### Final remarks

CMOCTEZ posted a good report and we expect the company to remain one of the MSE's most profitable due to operating efficiencies and higher margins. We maintain our BUY rating and have raised our end 2016-IV target price 60 cents to P\$65.6.

#### Analyst

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<sup>1</sup> WACC = *Weighted Average Cost of Capital*

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