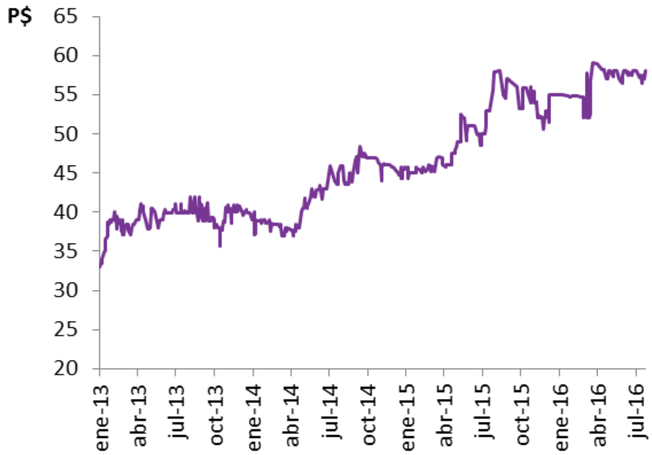
Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ*



BUY			
Target price 2017-IV:			**P$ 66.20**
Close price (29/07/2016):			P$ 57.95
Dividend Est.			P$ 2.06
Total apreciation (with dividends)			17.8%
Market cap. (million P$):			51,014
Average Trading Volume (YTD, million)			9.9
Float (%)	22.7%	P/U 2016E	13.1x
Max 3M	P$ 58.05	VE/EBITDA 16E	7.7x
Min 3M	P$ 56.45	**ROIC**	**58.9%**
Chg % 3M	1.7%	**ROE**	**35.0%**

Analysis

CMOCTEZ posted an excellent second quarter report. Results more than surpassed our expectations, which had been conservative due to the outlook. Sales, EBITDA, and operating profit registered record high levels. We expect these quarterly results and better prospects to have a positive impact on the share price and recommend investors buy and/or build on their positions.

The main driver was the cement division where revenues rose +20.6% YoY. In this segment, where according to INEGI prices rose +14.03% YoY (+4.22% QoQ), we estimate that volume rose +5.7% YoY, while in the concrete segment, where prices rose +7.6% YoY, we estimate that volume slipped -1.25% YoY.

Growth in capital expenditure has been strong due to the capacity expansion at the Apazapan facility in Veracruz, which should come on line in the first half of 2017.

Upbeat outlook for 2H-2016. Our outlook for the second half of the year is currently brighter underpinned by better prospects for the construction and housing sector. Thus, we are forecasting revenue growth of 14.5% YoY, and 13.3% YoY for the full year. Our estimate could be on the conservative side, as based on 12M and 2016-II figures, growth was 14.02%, and management will rethink its cost-expense savings strategy and business plan for maintaining or improving 2015 performance, which wasn't bad.

Table 1. Results by business segment

2016-II	Sales	Δ% YoY	CAPEX	Δ% YoY	Sales 2016-IIIE est.	Δ% YoY	2016 accum. est.	Δ% YoY
Cement	2,655.3	20.6%	314.4	223.1%	2,607.2	17.1%	10,074.7	15.7%
Concrete	579.1	7.6%	50.6	112.2%	640.1	5.1%	2,419.6	4.2%
Corporate	0.1	0.0%	4.6	50.8%	0.1	0.0%	0.516	0.0%
Consolidated	**3,234.5**	**18.0%**	**369.7**	**197.5%**	3,247.5	14.5%	12,494.8	13.3%

Source: Signum Research and companyy data, Signum Research estimates

Main operating headings posted double-digit growth, especially net profit, which jumped +63.1% YoY. Margins hit a ten-year high, despite the effect of lower energy prices being partially offset by peso depreciation against the dollar. We have raised our margin estimates to reflect more stable oil prices and a peso/dollar exchange rate, as we believe they are sustainable (albeit at lower levels) in the medium term.

Table 2. Operating Results

2016-II	Millions of MXN$	Δ% YoY	Margin	Δ basis points YoY	2016-III Est.	2016-III Margin Est.
Gross profit	1,616.7	42.9%	50.0%	869	1,599	49.2%
Operating profit	1,471.7	49.0%	45.5%	947	1,464	45.1%
Net profit	1,124.2	63.1%	34.8%	961	1,068	32.9%
EBITDA	1,598.9	43.7%	49.4%	884	1,608	49.5%

Source: Signum Research and companyy data, Signum Research estimates

Once again, CMOCTEZ posted higher operating margins and EBITDA than CEMEX México, reflecting greater efficiencies compared to its main rival. For comparison reasons, margins exclude other expenses and revenues.

Chart 1. Quarterly operating margin

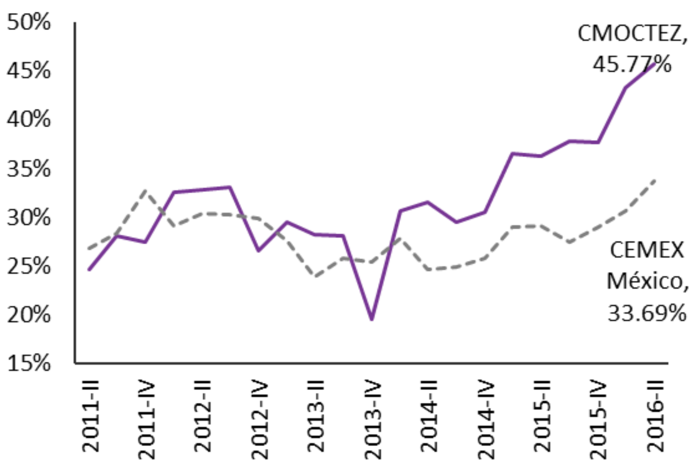
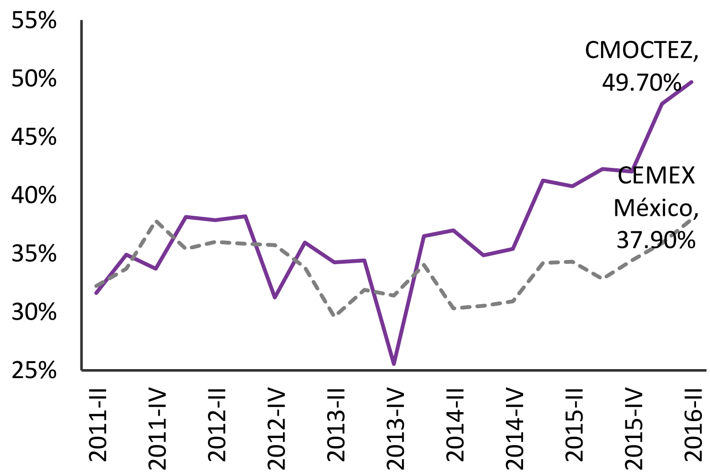


Chart 2. Quarterly EBITDA margin



Source: Signum Research with company data

The net margin was a 7-year high, driven by more financial income as well as a lower effective tax rate. In previous reports, we mentioned the high tax rates the company was reporting (around 30%), which we attributed to low debt. This quarter the tax rate was 26.6% (vs 31.5% in 2015-II), suggesting better tax management, as there was a slight change in net debt/EBITDA (-0.6x in 2016-II vs -0.5x in 2015-II).

Balance sheet cash rose +56.8% YoY (+6.5% vs. 2015-IV). As mentioned, CMOCTEZ is a cash cow, which has enabled it to maintain a negative net debt/EBITDA ratio and increase cash despite investments in capacity increases and an attractive dividend payment this quarter (P$1.5 per share).

The company also reported strong growth in profitability based on indicators like ROIC, ROE, and ROA, which registered very strong growth compared to 2016-I.

Table 3. Profitabiity indicators

2016-II	Rate	Δ basis points QoQ
ROE	34.99%	335
ROA	28.51%	280
ROIC *	58.86%	469

Source: Signum Research, ROA and ROE are calculated using total non-majority numbers and 12M balance sheet averages. ROIC is calculated as EBITDA/capital expenditure.

According to our aggregate profitability analysis of the MSE based on a sample of 90 companies, CMOCTEZ was the most profitable in terms of ROIC, and the second most profitable in terms of ROE at end 2016-I. Based on 2016-II results, it is highly likely that CMOCTEZ will retain this ranking, which will be apparent once all MSE companies have reported.

Chart 3. MSE profitability, 2016-I ROIC

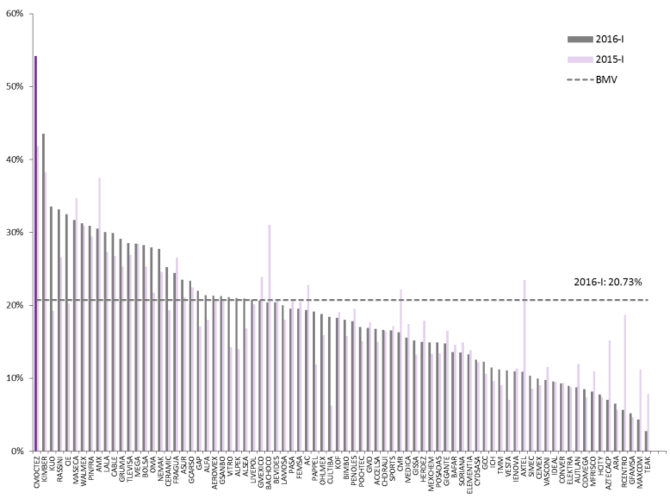
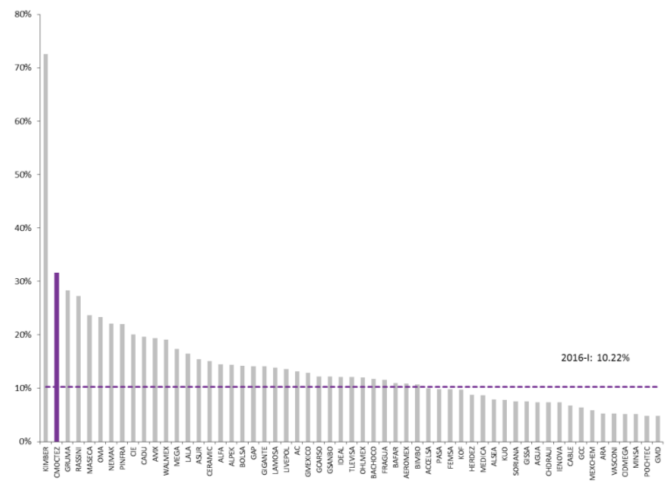


Chart 4. MSE profitability, 2016-I ROE



Source: Signum Research

Final remarks

The report was excellent. Results surpassed our estimates and the second half outlook improved. We maintain our BUY rating on the stock with an end-2017-IV target price of P$66.2 per share.

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