Corporación Moctezuma, S.A.B. de C.V.

CMOCTEZ*

BUY			
Target price 2017-IV:			**P$ 64.00**
Close price (28/02/2017):			P$ 60.00
Dividend Est.			P$ 3.00
Total apreciation (with dividends)			11.7%
Market cap. (million P$):			52,819
Average Trading Volume (YTD, million)			4.25
Float (%)	32.8%	P/U 2016E	13.9x
Max 3M	P$ 60.02	VE/EBITDA 16E	8.3x
Min 3M	P$ 56.50	**ROIC**	**63.9%**
Chg % 3M	3.79%	**ROE**	**38.4%**

Analysis

CMOCTEZ posted an excellent report that surpassed our quarterly expectations in all consolidated operating headings, which displayed YoY double-digit growth rates.

Q416 sales amounted to MXN$3.390 billion (+22.2% YoY). Double-digit revenue growth can be attributed to a large increase in cement segment sales (+28.6% YoY), despite lower growth at the concrete division.

2016 was a record year for the company that surpassed already excellent 2015 results.

CapEx was much lower during the quarter due to the completion of the second cement production line in Apazapan, and we expect the same effect for the rest of the year due to high 2016 comparison bases.

Table 1. Results by Business Segment

2016-IV	Sales	Δ% YoY	CAPEX	Δ% YoY	Sales 2017E	Δ% YoY
Cement	2,791.2	28.6%	201.1	-22.9%	11,574.3	12.76%
Concrete	598.5	-0.8%	68.0	-41.1%	2,484.5	7.0%
Corporative	0.1	6.2%	3.6	-43.7%	0.5	0.0%
Consolidated	**3,389.9**	22.2%	**272.7**	**-28.8%**	**14,059.4**	**11.7%**

Source: Signum Research and company data

Operating profit totaled MXN$1.348 billion (+35.8% YoY) and EBITDA grew +45.4% YoY totaling MXN$1.617 billion. The EBITDA calculation did not consider an asset impairment reserve amounting to MXN$140 million, which is not considered cash outflow either. Net profit rose +42% YoY to MXN$1.1019 billion, resulting in three-digit point margin expansion.

Table 2. Operating Results

2016-IV	Million of P$	Δ% YoY	Margin	Δ basis points YoY	2017E	Margin 2017E
Gross Income	1,682.6	41.6%	49.6%	678	6,387	45.4%
Operating Income	1,347.6	35.8%	39.8%	399	5,584	39.7%
Controlling Interest Net Income	1,019.2	42.0%	30.1%	418	4,053	28.8%
EBITDA	1,616.8	45.4%	47.7%	761	6,262	44.5%

Source: Signum Research and company data

Better margins compared to its peers. Once again the company posted relatively better operating margins and EBITDA for the quarter compared to CEMEX México, reflecting Moctezuma's superior operating efficiencies compared to the competition. Although both margins expanded compared to the comparable quarter, they weakened compared to the first half of the year, mainly due to higher energy and transportation costs. For comparable reasons, margins exclude other expenses and income.

Chart 1. Quarterly Operating Margin

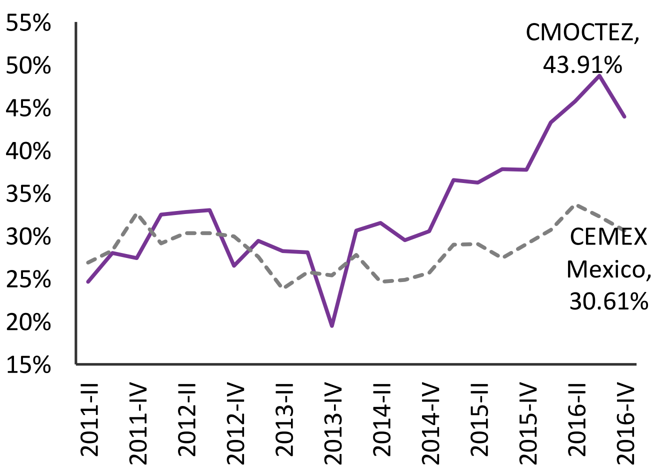
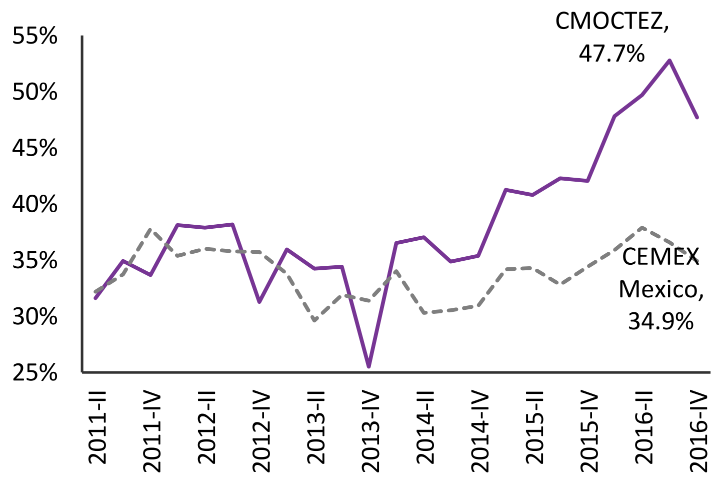


Chart 2. Quarterly EBITDA margin



Source: Signum Research and company data

With respect to the balance sheet, cash rose +10.3% YoY. Moctezuma is a cash cow, which has enabled the company to maintain a negative net debt/EBITDA ratio (-0.5x at the close of Q416) and an incremental cash balance despite capacity expansion investments and large dividend payouts during the quarter (P$2.5 per share). **We forecast a 2017 dividend of MXN$3 per share payable in two equal parts of MXN$1.5 in Q217 and Q417.**

We would also highlight Moctezuma's relatively stronger profitability, as reflected in its ROIC, ROE, and ROA indicators, all of which were significantly higher vs. Q316.

Table 3. Profitability Increases

2016-IV	Rate	Δ basis points QoQ
ROE	38.44%	240
ROA	31.34%	185
ROIC	63.92%	286

Source: Signum Research, ROA and ROE are calculated using consolidated balance sheet figures and 12M averages. ROIC is calculated as EBITDA/invested capital.

Our MSE aggregate profitability analysis based on a sample of 90 companies, showed CMOCTEZ to be the most profitable company in terms of ROIC, and the fourth most profitable in terms of ROE as at Q316. Furthermore, Q416 results suggest that CMOCTEZ will likely maintain its ranking.

Chart 3. MSE Profitability, 2016-III ROIC

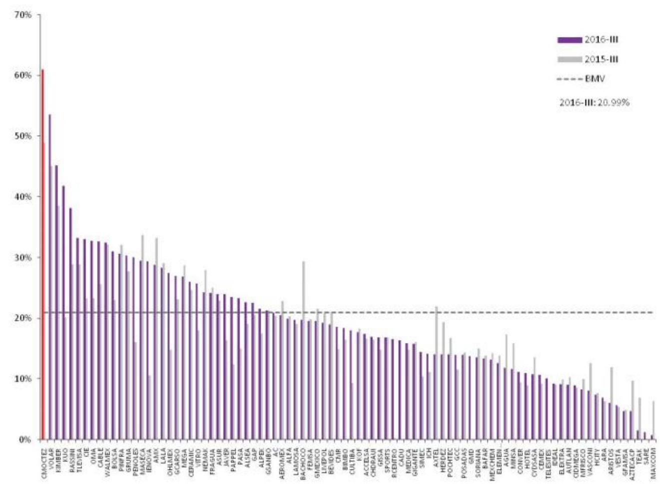
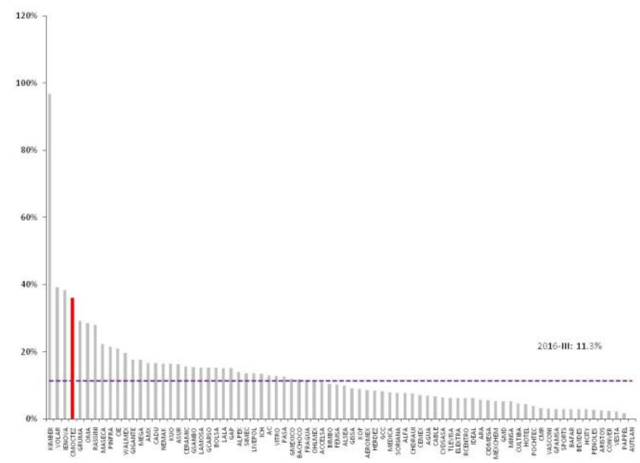


Chart 4. MSE Profitability, 2016-III ROE



Source: Signum Research

2017 Outlook. The second production line at the Apazapan plant, which has an annual cement capacity of 1.375 million tons, came on line in November 2016. As a result, in 2017 we expect the company to maintain double-digit revenue growth rates. However, margins may not behave similarly, as they could be impacted by higher raw material prices, exchange rate depreciation, and higher transportation costs associated with the rise in gasoline prices.

New target price. Higher interest rates have a big impact on the company's valuation because as it is almost 100% equity, it is very sensitive to the share cost, which increases when risk-free rates go up. Our valuation includes a higher risk-free rate of 7.7% derived from a weighted average cost of capital of 10.1%.

Furthermore, as Moctezuma participates in a pro-cyclical industry, and in view of lower expected GDP growth in the out years and the capacity expansion as of Q117, we have adjusted our growth expectations in terms of both price and volume. We also incorporated lower expected margins for the same reasons.

This yielded a target price of MXN$64 per share, which including an expected 2017 dividend of MXN$3 per share translates into potential upside of 11.6%, so our rating is BUY. Our target price could be on the conservative side, as it implies a forward EV/EBITDA multiple of 8.3x, compared to a historical average of 9.3x. The DFC model can be checked on the annex.

Final remarks

Moctezuma posted an excellent report that topped our estimates and the outlook for the company remains upbeat. Furthermore, as the company has completed a period of capital investment, we expect higher cash flow going forward, which should also be underpinned by the capacity increase.

Analyst

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Discounted Free Cash Flows Model

Million pesos	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**Perp.**
EBIT	5,642	5,960	6,400	6,882	7,050	7,466
Tax rate	28.10%	28.10%	28.10%	28.10%	28.10%	28.10%
Operating taxes	(1,585)	(1,675)	(1,798)	(1,934)	(1,981)	(2,098)
NOPLAT	4,057	4,285	4,601	4,948	5,069	5,368
Depreciation	901	946	978	1,026	1,047	1,108
Changes in working capital	(2,572)	(2,735)	(2,622)	(3,005)	(2,418)	(2,561)
CAPEX	(469)	(499)	(519)	(550)	(564)	(597)
Free Cash Flow	1,916	1,997	2,438	2,420	3,134	3,319
Perpetuity rate						5.9%
PV explicit period (2018 - 2022E)						9,079
Perpetuity value						78,989
PV of the Perpetuity						44,349
Theoretical Enterprise Value						53,428
Net Debt						(3,248)
Minority Interest						43
Theoretical Equity Value						56,632
Shares Outstanding						885
Theorethical Price per share						**P$ 64.00**
Current market price per share						**P$ 60.00**
Dividend yield est. 2017						**5.00%**
Potential yield (including dividends)						**11.67%**
VE/EBITDA Objetivo						**8.30x**
P/U Objetivo						**13.88x**
Average Debt cost						9.3%
Long term tax rate						30.0%
Debt cost including tax shield						6.5%
Equity Cost						10.1%
Market risk premium						6.0%
Risk Free Rate						7.7%
Beta						0.40
% Total Debt						0%
% Equity						100%
WACC						**10.10%**

Source: Signum Research

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