Actinver | Institutional Research

Cement:

MX: Equity Research

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3Q24: Bad Weather Negatively Impacted Results

We Reiterate Our Outperform Ratings

- **Although the environment was challenging, with bad weather conditions and volume contraction, the Cement Industry's quarterly results came in line with our estimates. Higher costs were partially compensated by the companies' efficiencies; however, this was not enough to compensate for the sector's margin contraction.**
- **Total revenues in 3Q24 decreased 6% YoY, while total EBITDA dropped 11% YoY, practically in line with our expectations. In that context, CEMEX posted the highest EBITDA contraction (-13% YoY), while GCC's EBITDA performance accounted for a 2% YoY gain. Please note that the sector's solid financial position remained strong, with low leverage debt ratios.**
- **We reiterate our positive outlook for the sector since current prices offer an attractive potential upside for long-term investors supported by appealing valuations. Our Outperform rating is reiterated for CEMEX and GCC, while our 12M price target in CEMEX was reduced to P$14.0 (from P$14.5), and GCC's remained unchanged at P$210.0 per share.**

3Q24 in a Nutshell. Although we were anticipating a weak quarterly result, the performance of CEMEX was slightly lower than our estimates, while GCC results came better than our projection at the EBITDA level. Total revenues in 3Q24 for the sector dropped 6%, while total EBITDA was down 11% YoY (vs. our -10% expectation). In that context, CEMEX posted the highest EBITDA drop (-13% YoY), while GCC's EBITDA performance accounted for a 2% YoY gain. It is worth noting that the implicit margin expansion in GCC was a positive surprise, reflecting the company's operating leverage and favorable price environment.

CEMEX's EBITDA margin during the quarter was 18.3% (vs. 19.7% in 3Q23). In GCC, the EBITDA margin was 40.7%, a new high record in its quarterly EBITDA margin results.

We reiterate our positive outlook in the sector. After updating our financial models, we reiterate our 12M price target for GCC, while we are reducing our PT in CEMEX to P$14.0 from P$15.0 to reflect more challenging 4Q25 results. However, current prices offer an attractive potential upside for long-term investors supported by appealing valuations, and, in our view, most of the negative is priced into the shares. Our Outperform rating is reiterated for CEMEX and GCC. Cement is one of the most relevant commodities worldwide, especially for emerging economies. In the U.S., cement consumption has presented a positive trend from the bottom level of 71 million metric tons in 2010 to a level of close to 120 million metric tons by the end of 2023, while in Mexico, construction is among the top six drivers of the economy.

CEMEX	Outperform
Local Ticker:	CEMEX CPO
Last Price:	P$ 10.5
Price Target 12M:	P$ 14.0
Expected Return:	34.0%
Dividend Yield:	1.2%
Total Return:	35.2%
Liquidity:	High
Market Cap. (P$ M)	153,625
Enterprise Value (P$ M):	303,050
52-Week Price Range (P$):	(10.4 - 15.3)
Free Float:	95%
Avg. Daily Trade (P$ M):	662.8

GCC	Outperform
Local Ticker:	GCC *
Last Price:	P$ 166.4
Price Target 12M:	P$ 210.0
Expected Return:	26.2%
Dividend Yield:	1.0%
Total Return:	27.2%
Liquidity:	High
Market Cap. (P$ M)	54,533
Enterprise Value (P$ M):	46,947
52-Week Price Range (P$):	(140.8 - 208.5)
Free Float:	48%
Avg. Daily Trade (P$ M):	71.8

Source: Cemex, GCC, Actinver

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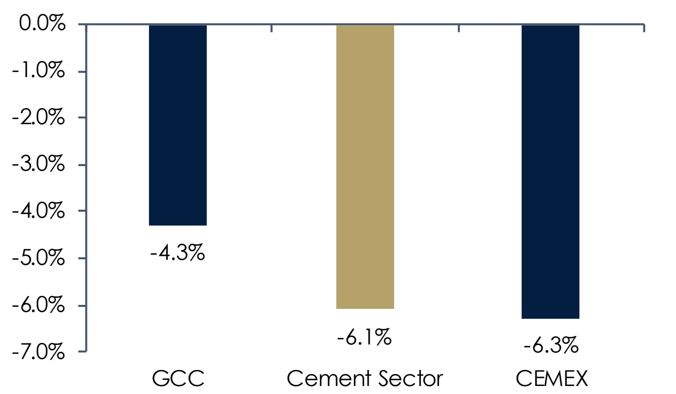
Cement 3Q24 Results

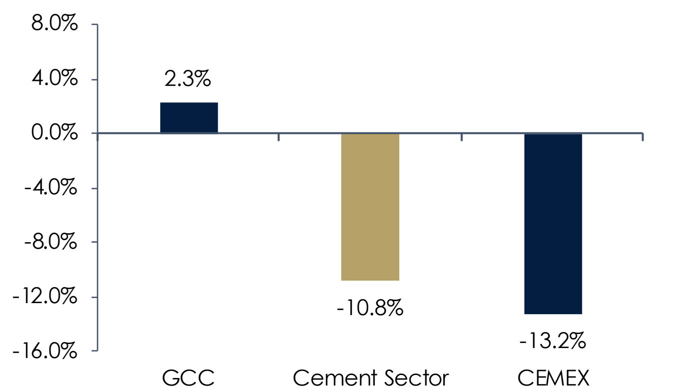
Figures in US$ M, Otherwise Stated	3Q23A Revenue	3Q24A Revenue	2Q24A Revenue	% YoY	% QoQ	3Q23A EBITDA	3Q24A EBITDA	2Q24A EBITDA	% YoY	% QoQ	3Q23A Net Income	3Q24A Net Income	2Q24A Net Income	% YoY	% QoQ
Cement Sector	**$ 4,780**	**$ 4,488**	**$ 4,498**	***-6.1%***	***-0.2%***	**$ 1,020**	**$ 909**	**$ 877**	***-10.8%***	***3.7%***	**$ 232**	**$ 513**	**$ 344**	***121.5%***	***49.2%***
Cement Sector	**$ 4,780**	**$ 4,488**	**$ 4,498**	***-6.1%***	***-0.2%***	**$ 1,020**	**$ 909**	**$ 877**	***-10.8%***	***3.7%***	**$ 232**	**$ 513**	**$ 344**	***121.5%***	***49.2%***
CEMEX	$ 4,364	$ 4,090	$ 4,138	-6.3%	*-1.1%*	$ 861	$ 747	$ 743	-13.2%	*0.5%*	$ 126	$ 406	$ 254	222.2%	*59.6%*
GCC	$ 416	$ 398	$ 360	-4.3%	*10.5%*	$ 159	$ 162	$ 134	2.3%	*21.1%*	$ 106	$ 107	$ 90	*1.5%*	*19.7%*

Source: Actinver

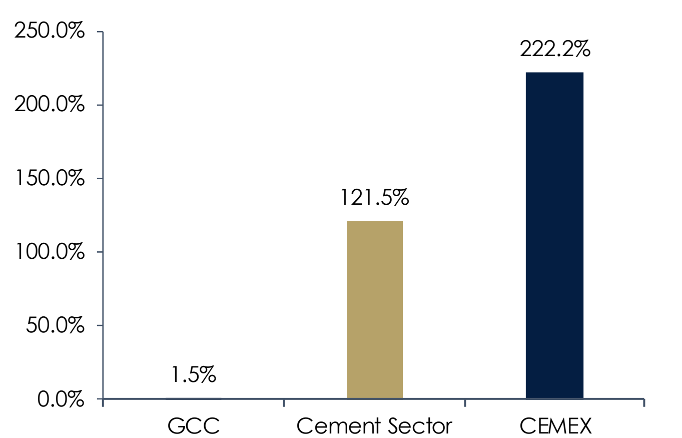
Revenue Growth 3Q24 YoY



EBITDA Growth 3Q24 YoY



Net Income Growth 3Q24 YoY



CEMEX 3Q24: Bad weather negatively impacted results.

Total revenues decreased by 6% YoY to US$4.1 Bn, while EBITDA dropped 13% YoY (or -9% on a like-to-like basis) to US$746 M below the consensus estimate of US$813 M, and slightly below our US$765 M estimate. On the other hand, the net profit of US$406 M compares positively vs. the US$126 M in 3Q23. The higher net income was driven primarily by a lower effective tax rate and the gain from the sale of CEMEX's operations in Guatemala.

CEMEX's EBITDA margin during the quarter was 18.3% (vs. 19.7% in 3Q23), implying a 1.0 pp. contraction vs. consensus and +0.4 pp. above our estimate. Total EBITDA contraction during the quarter was generally attributable to volumes (-4% on cement) and higher costs, partially offset by higher prices in local currencies. The company estimates that bad weather conditions negatively impacted close to US$33 M in Operating EBITDA, a little less than half of the like-to-like Operating EBITDA shortfall in the quarter.

On a like-to-like basis, total revenues and EBITDA dropped 5% and 8% in Mexico, and 4% in the EE.UU. CEMEX estimates that bad weather negatively impacted these regions by US$8 M in Mexico and US$17 M in the EE.UU.

The company's cash position 3Q24 amounted to US$422 M., with no significant debt maturities until 2026 (~US$145 M in 2024 and ~US$517 M in 2025). CEMEX's total net debt in 3Q24 was US$7.1 Bn. The Net Debt to EBITDA ratio was 2.22x (vs. 2.13x in 2Q24).

CEMEX (CX) reduced its 2024 EBITDA guidance, expecting a low-to single-digit decrease (below the company's previous guidance of a low-to mid-single-digit increase). The cost per ton of cement produced will decline by a high single digit.

During the quarter, the net FX fluctuation reduced by close to US$34 million in the company’s consolidated EBITDA, mainly explained by the peso depreciation of 13%. According to our estimates, under the current environment, in Mexico’s EBITDA, for each unit of peso depreciation, the implicit contraction in the quarterly EBITDA is close to US$18 million, considering the company’s 3Q24 results, in which mentioned that bat weather negatively impacted Mexico by US$8 million, while the change on like to like basis was an 8% contraction (vs. the reported 20% reduction in total EBITDA in Mexico). As a result, if we consider that the FX exchange will close to $20.00 at the end of the year, the FX impact anticipated by the 4Q23 in Mexico will be close to US$40 million.

CEMEX 3Q24 Results

Figures In US$ Millions, Otherwise Noted

CEMEX 3Q24 Results Review

Consolidated Estimates	3Q24A	3Q23A	2Q24A	YoY	QoQ	3Q24E	A/E
Total Revenues (US$ M)	4,090	4,364	4,138	-6.3%	-1.1%	4,274	-4.3%
Mexico	1,136	1,361	1,314	-16.5%	-13.6%	1,215	-6.5%
EE.UU.	1,335	1,394	1,234	-4.2%	8.2%	1,372	-2.7%
Europe	970	934	808	3.8%	19.9%	985	-1.6%
SCAC	311	319	304	-2.5%	2.3%	334	-6.7%
EBITDA (US$ M)	747	861	743	-13.2%	0.5%	765	-2.3%
EBITDA Margin	18.3%	19.7%	18.0%	-1.5%	0.3%	17.9%	0.4%
Operating Income (US$ M)	428	557	666	-23.2%	-35.7%	452	-5.2%
Majority Net Income (US$ M)	406	126	254	N.A.	59.6%	216	87.8%
EPS	0.03	0.01	0.02	N.A.	59.9%	0.01	87.8%

Source: Actinver

On the other hand, CX's top management mentioned that the US$2.2 Bn proceeds from divestment assets in 2024 will be focused on investments in the US market. The company considers that nearly 90% of total EBITDA will be generated in the EE.UU., Europe, and Mexico post-divestments during the coming years. In addition, the contribution from the close to US$3.0 Bn pipeline investment in projects to execute during the coming years will continue to ramp up for more than US$700 million of EBITDA by 2028 (currently close to US$325 M and represents 10% of total EBITDA in 2023). The projects to be invested will generate additional synergies in the company's existing portfolio, a positive catalyst in the medium term.

In Mexico, top management still sees healthy demand for ready-mix products, mainly in projects linked to nearshoring and infrastructure. Furthermore, they anticipate positive demand from the federal government's housing program and the announcement of ten economic corridors. On the cost side, the increase in energy costs is expected to be reversed in 2025, as CX's operations will migrate to a new power supply.

In EE.UU., the company sees the US fiscal stimulus and expansionary monetary policy as positive demand drivers in the coming years. On the other hand, Europe is currently at its inflection point since cement volume and EBITDA increased for the first time after more than two years of contractions.

As we previously mentioned, we are reducing our 12M PT to P$14.0/CPO. Our new estimates consider a 6% annual sales growth from 2020-2025, with Mexico and the U.S. contributing the most to this performance.

In contrast, we anticipate a margin contraction at the EBITDA level, with an implicit 18.9% EBITDA margin (vs. 19.1% previous estimate) by the end of 2025. Total EBITDA will reach US$3.2 Bn by the end of 2025, reflecting a more conservative outlook. Please note that our current estimates are fairly conservative given the company's goal to achieve a 20% EBITDA margin again in the medium-long term. Our Outperform rating is reiterated, given CEMEX's attractive valuation trading at 36% discount vs. its last five years average (6.4x) at 4.1x 2025E EV/EBITDA, with a 53% discount compared to global peers.

CEMEX - Operating Estimates Summary

	2020	2021	2022	2023	2024e	2025e	CAGR 20-25
P&L (US$m)							
Total Revenues	**12,912**	**14,608**	**15,629**	**16,554**	**16,413**	**17,145**	**5.8%**
U.S.	3,994	4,355	5,038	5,338	5,256	5,619	7.1%
Mexico	2,812	3,466	3,843	5,060	5,150	5,185	13.0%
SAC	1,430	1,663	1,605	1,218	1,336	1,474	0.6%
Europe	2,982	3,351	3,389	3,654	3,536	3,775	4.8%
Asia, Middle East and Africa	1,409	1,476	1,540	1,094	896	857	-9.5%
Others	286	297	214	191	241	236	-3.8%
EBITDA	**2,460**	**2,892**	**2,694**	**3,149**	**3,074**	**3,235**	**5.6%**
EBITDA Margin	19.0%	19.7%	17.2%	19.2%	18.9%	18.9%	
U.S.	747	762	762	1,040	1,032	1,134	8.7%
Mexico	931	1,163	1,133	1,488	1,509	1,516	10.3%
SAC	372	431	382	229	254	284	-5.2%
Europe	392	446	425	534	477	531	6.2%
Asia, Middle East and Africa	237	230	245	135	110	104	-15.2%
Others	-219	-168	-253	-276	-308	-335	8.8%
Net Income	-1,467	753	858	182	1,112	1,358	N.A.

Source: Actinver

Company Profile (CEMEX CPO)

Industry	Cement	Country	MEX
Last Price (MXN):	10.45	**Rating**	**Outperform**
Price Target (12M)	**14.00**	Mkt. Cap (USD mn):	7,661
Dividend Yield	1.2%	Mkt. Cap (MXN mn):	153,625
Total Return	**35.1%**	Number of CPOs (Mn)	14,701

Company Description

CEMEX produces, distributes, and sells cement, ready-mix concrete, aggregates, and urbanization solutions. The company operates 60 cement plants globally, primarily in Mexico and the U.S. CEMEX's operations span the Americas, the Caribbean, Europe, Africa, the Middle East, and Asia, with a trading network in nearly 100 countries. Their comprehensive portfolio reflects their focus on the entire construction value chain, offering high-quality products.

Investment Thesis - Positives

i) Attractive valuation with a significant discount against its historical average; ii) Solid financial position. During the 1H24, CEMEX reached its investment grade rating again after S&P Ratings and Fitch Ratings upgraded CEMEX's long-term rating to BBB- from BB+; iii) Appealing Free Cash Flow generation; iv) Gradual EBITDA margin expansion targeting a level close to 20%.

Investment Thesis - Risk Factors

i) Exposure to price variations due to investors' sell-offs. CEMEX is one of the shares with the highest liquidity in the Mexican market. ii) Lower economic growth. A lower economic growth in the regions where CEMEX participates could generate weak results, mainly in Mexico and the U.S., as these two countries represent approximately 41% and 29% of the company's EBITDA, respectively.

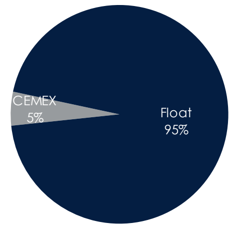
Income Statement (US$ Million)

	2020	2021	2022	2023	2024e	2025e
Revenues	12,970	14,653	15,674	17,388	16,744	17,145
YoY Change	-1.2%	13.0%	7.0%	10.9%	-3.7%	2.4%
U.S. Revenues	3,994	4,355	5,038	5,338	5,256	5,619
MX Revenues	2,812	3,466	3,843	5,060	5,150	5,185
Total Operating Costs	13,406	13,014	14,574	15,539	14,889	15,247
Cost of Sales	8,792	9,935	10,828	11,527	11,162	11,780
Operating Expenses	2,836	2,956	3,275	3,748	3,642	3,122
Other Income (Expenses)	-1,779	-123	-471	-265	-85	-345
Operating Income (EBIT)	-436	1,639	1,099	1,849	1,856	1,898
Operating Margin	*-3.4%*	*11.2%*	*7.0%*	*10.6%*	*11.1%*	*11.1%*
EBITDA	2,460	2,892	2,694	3,347	3,161	3,235
YoY Change	3.4%	17.6%	-6.9%	24.3%	-5.6%	2.3%
EBITDA Margin	*19.0%*	*19.7%*	*17.2%*	*19.2%*	*18.9%*	*18.9%*
Net Financial Expenses	888	737	355	498	840	543
Pretax Profit (EBT)	-1,274	957	776	1,449	1,103	1,452
Taxes	52	151	209	1,250	204	436
Minority Interest	21	26	26	16	20	19
Majority Net Income	-1,467	753	858	182	1,112	1,358
Adjusted Net Margin	*-11.3%*	*5.1%*	*5.5%*	*1.0%*	*6.6%*	*7.9%*
EPS	-0.10	0.05	0.06	0.01	0.08	0.09

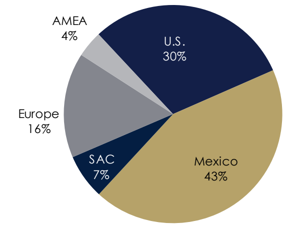
Balance Sheet (US$ Million)

	2020	2021	2022	2023	2024e	2025e
Total Assets	27,425	26,650	26,447	28,433	29,990	32,093
Current Assets	4,235	4,225	4,526	5,005	7,401	7,735
Cash & Equivalents	950	613	495	624	1,844	1,910
Receivables	1,533	1,521	1,644	1,751	1,733	1,821
Inventories	971	1,261	1,669	1,789	1,763	1,893
Long Term Assets	23,191	22,425	21,922	23,428	22,588	24,358
PP&E	10,170	10,202	10,156	11,272	10,679	12,569
Intangibles	10,253	9,763	9,293	9,531	9,373	9,290
Total Liabilities	18,474	16,379	15,539	16,317	15,524	15,650
Current Liabilities	5,353	5,380	5,547	6,786	6,254	6,537
Suppliers	2,566	2,762	2,966	3,109	3,011	3,178
Long Term Liabilities	13,121	10,999	9,992	9,532	9,271	9,113
Consolidated Equity	8,952	10,271	10,909	12,116	14,465	16,443
Controlling Interest	8,075	9,827	10,501	11,765	14,147	16,105
Minority Equity	877	444	408	351	318	338
TOTAL DEBT	10,598	8,555	8,147	7,486	7,299	7,027
NET DEBT	9,648	7,942	7,652	6,862	5,455	5,117
Net Debt / EBITDA	**3.9x**	**2.7x**	**2.8x**	**2.1x**	**1.7x**	**1.6x**

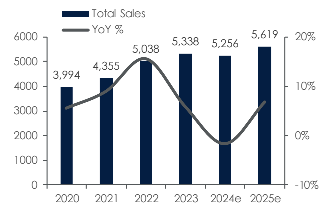
Share Holders Structure



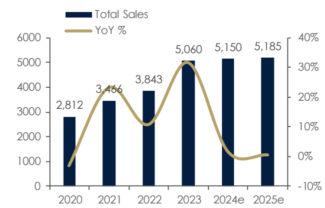
2023 EBITDA Mix



U.S. Revenues



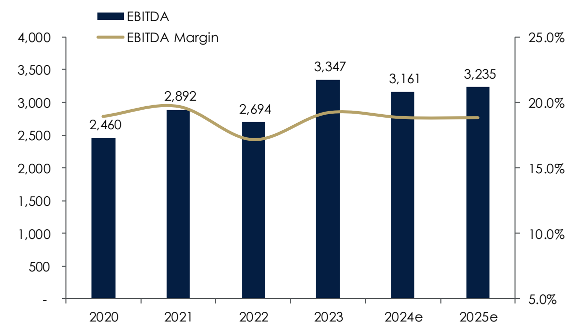
MX Revenues



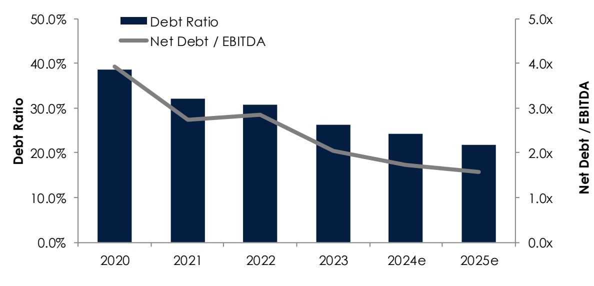
Valuation Metrics

	2020	2021	2022	2023	2024e	2025e
EV / EBITDA	7.4x	6.5x	4.8x	5.1x	4.3x	4.1x
Price / Earnings	-5.2x	13.9x	5.6x	53.4x	6.9x	5.7x
Price / BV	0.9x	1.0x	0.4x	0.8x	0.5x	0.5x
ROE	-16.4%	7.3%	7.9%	1.5%	7.7%	8.3%

EBITDA Performance (US $Mn)

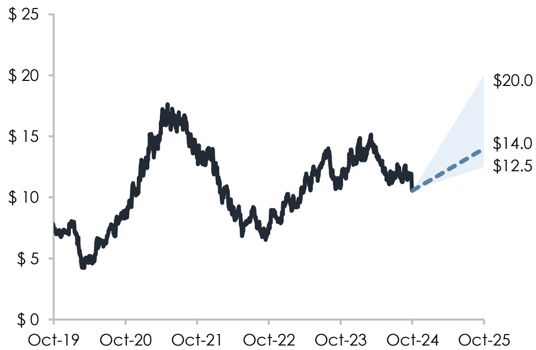


Leverage



Valuation: Methodologies & Key Assumptions

CEMEX: Valuation Sensitivity & Price Target

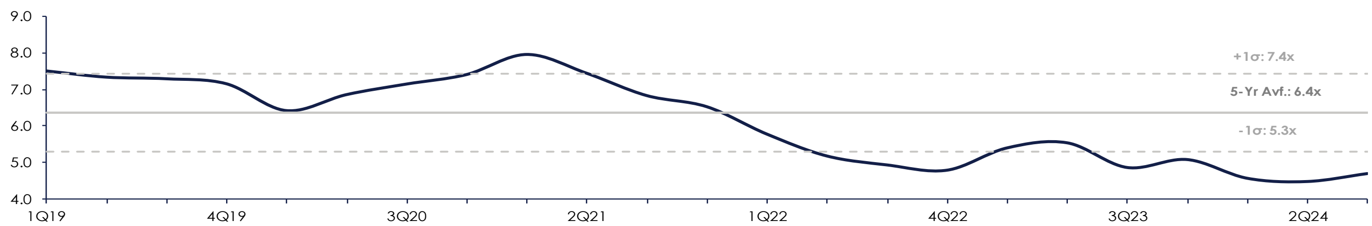


Our CEMEX's 12M price target of P$14.0 /CPO was determined through a blended valuation methodology consisting of: i) discounted cash flows (DCF) and ii) target multiple.

For each method, an 80% and 20% weight, respectively, was applied.

With a P$12.5 /CPO fair value via DCF and a P$20.0 /CPO fair value through a multiple valuation, we obtained our CEMEX's 12M price target of P$14.0 /CPO.

CEMEX's Historical EV/EBITDA Multiple



Source: Si Bolsa, Actinver

Macro Forecasts

Mexico's GDP of +1.5% in 2024 and +1.7% in 2025; U.S. GDP of +2.4% in 2024 and +2.0% in 2025; year-end local inflation at 4.4% in 2024 and 3.7% in 2025; year-end FX at P$19.3 /US$ in 2024 and P$19.9 in 2025; local reference rate at 10.0% for YE2024 and 8.75% by YE2025.

Qualitative input

The disruptions in supply chains during 2023 due to the conflict between Russia and Ukraine are expected to gradually fade away. On the other hand, we expect favorable structural tailwinds related to nearshoring, especially as the persistent arrival of new manufacturing companies (relocating their operations to Mexico) continues driving strong demand for industrial space (outpacing supply), gradually supporting the cement and ready-mix demand. Furthermore, we anticipate higher dynamism in the U.S. market supported by large manufacturing plants associated with the CHIPS Act and the Infrastructure Investment and Jobs Act.

Valuation assumptions

We are using a 15.3% cost of equity (Ke) based on Damodaran's model: i) adjusted risk-free rate (RFR) of 5.6% based on an 9.3% Mx 10-YR sovereign bond (RFR); ii) adjusted equity risk premium (adj. ERP) of 7.8% based on an Mx ERP of 7.4% in US$ and a long-term inflation spread of 1.30%; and iii) a 1.3 adjusted Beta. We use a perpetuity growth rate of 3%. Our multiple valuation methodology applied a 6.5x target EV/EBITDA multiple (in line with CX's last 5-year average) to our 2025 EBITDA forecasts.

The EBITDA Margin Expansion Continues

GCC posted positive results, above our estimates at the EBITDA level. Although revenues decreased by 4% YoY, higher prices in cement and ready-mix and cost contention were the main drivers behind a 2.6 pp EBITDA margin expansion, reaching a 40.7% level.

GCC
Grupo Cementos de Chihuahua

Revenues of US$398 M (-4% YoY) were driven by a 17% contraction in Mexico and a +1% YoY gain in revenues in EE.UU. In Mexico (24% of total sales), the volume of cement was down by 9% YoY, while local currency's cement prices gained 6% YoY. Please note that excluding the peso depreciation against the US dollar, Mexico's total sales would decrease 9% YoY. On the other hand, in the EE.UU. (76% of total sales), cement volumes dropped 5%, while cement prices advanced 6% YoY, being the most dynamic segment the oil and gas sectors.

Margins surprised to the upside, with the EBITDA margin reaching 40.7% at around P$162 M, 4% above our US$157 M estimate and 3% above the consensus projection. Lower fuel and production costs, decreased freight costs, and favorable selling prices mainly explained the better-than-expected margin performance. Furthermore, the company mentioned optimizing its fuel and energy consumption costs. GCC's flexible fuel strategy continues to pay positively, allowing the company to switch fuels across its network. In addition, top management commented that they had implemented strong cost controls in managing labor and administrative expenses. The total savings in total costs during the quarter was close to US$4 M.

Lastly, the controlling net profit reached US$107 M, 2% higher than the US$106 M net profit reported in 3Q24, due to higher interest income and lower financial expenses. The company's cash position at the end of 3Q24 was US$897 M, with a negative net debt to EBITDA ratio of 0.8x.

According to management, cement demand started to show signs of stabilization during September. They anticipate that this trend will continue throughout the rest of the year and into 2025 as interest rate momentum starts to decrease. GCC considers that the US market hit its lowest point during the quarter. On the other hand, the oil and gas sector continues to be a strong performer. The company implemented a US$15 per ton price rise on July 1.

Potential M&A's. The company continues discussions with potential targets within the cement sector, looking for targets that are aggregates-led companies and options located within GCC's footprint. However, top management highlighted that as a second option, they are also looking at assets bordering its markets, which implies a new potential network to be developed that will not be immediately connected to GCC's current network.

GCC 3Q24 Review

Figures In US$ Millions, Otherwise Noted

Consolidated Estimates	3Q24A	3Q23A	2Q24A	YoY	QoQ	3Q24E	A/E
Total Revenues (US$ M)	398	416	360	-4.3%	10.5%	399	-0.2%
EE.UU.	302	300	253	0.7%	19.4%	307	-1.6%
Mexico	97	117	108	-17.2%	-10.3%	92	4.5%
Cost of Sales	232	249	220	-6.8%	5.9%	238	-2.4%
Operating Expenses	28	31	32	-9.4%	-10.2%	40	-29.0%
EBITDA (US$ M)	162	159	134	2.3%	21.1%	157	3.6%
EBITDA Margin	40.7%	38.1%	37.1%	2.6%	3.6%	39.2%	1.5%
Operating Income (US$ M)	134	133	107	0.5%	25.3%	121	10.7%
Majority Net Income (US$ M)	107	106	90	1.5%	19.7%	105	1.9%
EPS	0.33	0.32	0.27	1.2%	19.7%	0.32	1.8%

Source: Actinver