

# CEMEX (Buy)

**Current price: \$8.74, PT: \$14.00**

## Flash: Cemex Day with no surprises

At **CEMEX Day**, the company outlined its growth strategy focused on profitable and bolt-on investments. This, alongside its sustainability and digital innovation strategies, positions the company for long-term growth. Over the past few years, the business model has proven to be resilient, which is remarkable. Based on proforma numbers, from 2019 to 2022 (LTM as of September) sales have shown compound annual growth of 6%, EBITDA of 5%, return on capital employed (ROCE) increased from 9.8% to 12.7%, and leverage level reduced from 4.2x to 2.8x.

Among the most important points, we mention the following:

**Medium-term strategic priorities are maintained.** The company will continue to advance in its sustainability agenda with more ambitious decarbonization objectives, grow EBITDA with a better margin (>20% vs. 17.5% accumulated as of September), obtain investment grade rating (they consider they are already close), and optimize the portfolio towards growth.

**2023 still represents important challenges.** For the following year, uncertainty will continue, particularly in terms of costs, and one of the most relevant aspects will be to observe demand evolution given economic challenges. In the meantime, the company will focus on developing its portfolio growth projects and keep trying to recover margins. Related to the latter, the pricing strategy, which has driven sales in 2022 and mitigated cost inflation, will continue to be a supporting factor for revenues and profitability. On the other hand, CEMEX noted that demand dynamics for building materials are positive in the mid-term based on fiscal stimulus packages, mainly in the US and Europe, related to infrastructure and green spending (lower carbon emissions in the economy). It would also benefit from construction boost in the industrial and commercial sector, in the face of relocation, seeking lower costs and redefinition of trade relationships due to supply chain constraints and geopolitical tensions. Mexico, the US, and Europe would be best positioned to take advantage of the reshoring trends.

**Focus on profitable growth with relevant investments.** The cement company expects to invest around \$1.6 billion in 2022-2026 period, focused on growth, mainly in the US and Europe. Practically half would be for cement capacity expansion and the other half for bolt-on investments focused on improving profitability. It should be noted that the company expects these investments to translate into \$740 million in EBITDA (representing 27% of its 2022 guidance of \$2.7 billion). CEMEX mentioned that this will be financed through asset recycling and cash flow generation, and that it will make a balanced capital allocation between deleveraging and growth.

November 17, 2022

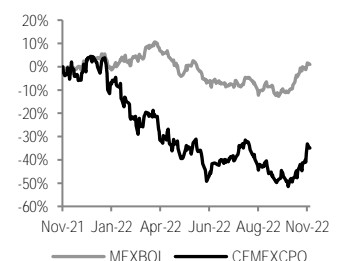
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BUY	
Current Price	\$8.74
PT	\$14.00
Dividend	60.2%
Dividend Yield (%)	US\$4.49
Upside Potential	US\$6.60
Max – Min LTM (\$)	10
Market Cap (US\$m)	14.19 – 6.48
Shares Outstanding (m)	6,539.6
Float	14,488
Daily Turnover (\$ m)	90%
Valuation metrics LTM	242.5
FV/EBITDA	
P/E	5.4x
MSCI ESG Rating*	5.7x

Relative performance to MEXBOL LTM



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**Boost in more sustainable operations**, which would translate into savings and efficiencies. The company continues to lead the industry in sustainability changes and announced more aggressive targets, including a 47% reduction in CO<sub>2</sub> per ton of cementitious material and increasing clean energy consumption to 65% by 2030. It also continues to increase the use of alternative fuels (currently 34%, +9pp vs. 2020) and to offer a wider range of sustainable products and solutions in response to new market trends, and to promote the circular economy in its operations, with a focus on recycling waste. On the other hand, it will continue to drive the Urbanization Solutions business, which has shown the highest growth, focused on 4 areas: performance materials, industrialized construction, circularity (waste reuse) and related services.

**Focus on digitalization which would be integrated into the business strategy.** CEMEX reiterated the relevance of digital innovation, as it represents a more effective and efficient way to operate and offer better customer service. On the commercial side, CEMEX Go (60% of global orders) is the first global digital solution that covers the end-to-end journey for all customers and businesses. Meanwhile, it will continue to encourage the use of artificial intelligence to optimize production, costs, and minimize CO<sub>2</sub> emissions, as well as the digitization of global administrative services and virtual service centers to enable new and more efficient ways of working.

**Our view for the company's outlook remains positive in the long run, but with significant challenges in the short term.** Following the comments and information provided by the company, we consider that CEMEX's fundamentals remain solid in the long-term and we highlight the attractive valuation (5.4x FV/EBITDA vs. 6.9x sector median), as well as the better financial position (leverage of 2.8x as of 3Q22). However, we continue to mention that the complex environment, with cost pressures which will still be reflected by year-end, as well as lower global economic activity, with the possibility of a recession in 2023, could continue to generate stock price volatility. We will be revising our expectations for the cement company based on our updated outlook and assessment of economic challenges.

**By region**, executives indicated the characteristics and aspects that are influencing and will be relevant in the markets going forward:

- **Mexico (24.2% of sales and 37.8% of EBITDA L12M)**. Bagged cement demand has been affected by the normalization of demand, the temporary loss of market share, and inflation impact on consumption; however, fundamentals remain solid given expected population growth and housing shortages. Meanwhile, the industrial and commercial sector would continue to benefit from nearshoring opportunities and a greater dynamism in tourism-related demand. In infrastructure, airports and rural roads projects will be supported. Pricing strategy continues (announced an increase in the price of bagged cement in October) to boost margins.

- **US (32.5% of sales and 25.1% of EBITDA L12M)**. The company estimates compound annual volume growth for 2023-2026 of 4% to 6%. While the residential sector would show a slowdown for the next year, housing shortages, population growth and migration should continue to drive demand. In infrastructure, a solid outlook is foreseen considering the expected ~\$1.2 billion spending from the “*Infrastructure Investment & Jobs Act*” and healthy finances in its major markets. And in industrial and commercial, investments are expected to continue given the great dynamism in manufacturing, clean energy projects, and the redefinition of global supply chains. The strategy of increasing prices supported by supply and demand dynamics, together with the normalization of imports and lower inflationary cost pressures, should be reflected in higher profitability.

- **Europe, Asia, Middle East, and Africa (32.6% of sales and 23.5% of EBITDA L12M)**. Interesting growth prospects, due to expected investments in public and private projects (more than €2 billion by 2030) in Europe that would benefit demand, coupled with high utilization rates, as well as better margins from reinvestment in complementary projects. Diversified portfolio is positioned for growth in the green economy, with Europe leading the way in climate action.

- **Central, South America and the Caribbean (10.7% of sales and 13.6% of EBITDA L12M)**. Despite the rebalancing of bagged cement and the decline in market share due to higher prices, medium-term outlook is favorable. This is due to the company's flexible and expanding geographic footprint, which represents a competitive advantage in the current supply chain context, as well as increased demand in the housing sector, tourism, and trends such as nearshoring, besides resilient construction. It is worth mentioning that the company will continue to actively implement its product pricing strategy.

## Certification of Analysts.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitina Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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	Reference
<b>BUY</b>	When the share expected performance is greater than the MEXBOL estimated performance.
<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	When the share expected performance is lower than the MEXBOL estimated performance.

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### History of PT and Ratings

Stock	Date	Rating	PT
CEMEX CPO	28/04/2022	BUY	\$14.00
CEMEX CPO	29/07/2021	BUY	\$22.50
CEMEX CPO	29/04/2021	BUY	\$19.50
CEMEX CPO	12/01/2021	BUY	\$14.50

### MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD	AVERAGE			LEADER		

\*The MSCI ESG Rating is an indicator that evaluates companies in Environment, Society and Governance (ESG) metrics.

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