

CEMEX (HOLD, PT2020 \$7.50)

Flash: Defines “Operation Resilience” strategy

In a virtual conference held today, CEMEX announced the strategy called "Operation Resilience" to face the current difficult situation, due to the impact of the COVID-19 with its consequent impact on the global economy, and where it establishes certain objectives towards 2023 both of its operations and the level of leverage.

The company has effectively responded to the pandemic, which has been very relevant to ensuring business continuity. This, prioritizing the health and safety of employees, improving the customer experience with its "One CEMEX" commercial model through digital platforms, minimizing financial risk and preserving liquidity.

Operation Resilience. The main points of the strategy in which the cement company will concentrate its efforts are:

- **Enhancing margins**, through operational performance and disciplined cost containment. The cost reduction initiatives in 2020 are US\$280 million which is equivalent to > 200pb in the EBITDA margin.
- **Optimizing the portfolio for EBITDA growth**, through strategic asset divestments to optimize and streamline its portfolio, as well as complementary investments in the core businesses in the portfolio. As part of the portfolio optimization, CEMEX indicated its preference for greater vertical integration of its products and services in attractive metropolises, mainly in the US and Europe. In doing so, it seeks to be better positioned and more resilient in creating value. In addition, we must mention the expectation of better performance in developed markets due to the implementation of additional stimuli to boost economies.
- **Achieving an investment grade capital structure**, which remains a top priority. The company is pursuing an active strategy to strengthen the financial position to promote future growth. In this regard, it sent a proposal to improve the conditions of its 2017 financing agreement with several financial institutions, with a response deadline of October 9. Thus, the company would not have significant maturities until mid 2023.
- **Leverage sustainability as a competitive advantage.** CEMEX is focused on a more sustainable business and has a plan to address long-term decarbonization goals. The company has achieved a 22% reduction in CO₂ emissions per ton of cement compared to 1990, and by 2030 it expects a 35% reduction (compared to the same base period). On the other hand, there is a possibility that it will deliver concrete with zero CO₂ emissions by 2050.

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Document for distribution among public

A better performance is expected in 2H20. The company highlighted a V-shaped recovery in cement demand volumes to date (after the biggest impact in April), in most of its regions, as well as advances in product prices. In the US, the sector that has most driven demand is residential, while in Mexico, volumes are mainly supported by self-construction. As a result, CEMEX estimates a better 2H20, with an EBITDA 2020E of US\$2.35 billion (-1.2% vs. 2019), which is above our expectations. On the other hand, it plans to redistribute cash (which at 2Q20 amounted to US\$2.8 billion) to pay off around US\$3.0 billion of debt in 2H20, which could close the year with similar or slightly higher leverage than in 2019 (4.2x).

Set targets to 2023. CEMEX will continue to focus its efforts on additional savings for 2021-2023. Thus, it set an EBITDA margin target for 2023 of $\geq 20\%$ (vs. 18.1% in 2019). Likewise, it continues to focus on achieving an investment-grade capital structure, for which reason it defined a leverage target $\leq 3.0x$ for 2023. This would be achieved through growth in EBITDA, cash flow generation, and resources from asset divestitures to reduce debt.

Positive Implication: Undoubtedly the favorable news is the fastest recovery to date in the demand for its products, in a difficult environment due to the pandemic. As a result, the cement company's estimates for 2020 are higher than our estimates. We also believe that the definition of a strategy to address the current situation and lay the foundations for future growth is positive. However, uncertainty remains due to the global economic slowdown, which could affect demand for volumes.

Certification of Analyst.

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentin III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalia Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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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HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
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History of PT and Ratings

Stock	Date	Rating	PT
CEMEX CPO	07/27/2020	Hold	\$7.50
CEMEX CPO	04/30/2020	Under Review	Under Review
CEMEX CPO	10/24/2019	Hold	\$8.50

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