

# GCC

Quarterly Report

October 26, 2022

## Sound strategy reduces pressure on profitability

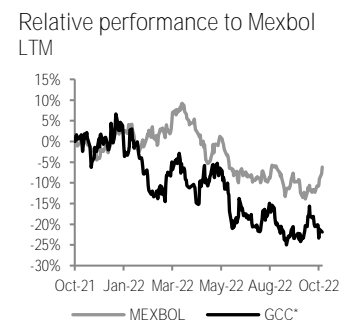
- During 3Q22, the company showed a solid advance in revenues due to higher volumes and product prices, as well as a lower-than-expected contraction in margins
- GCC reiterated its 2022e EBITDA guidance and trades at an attractive valuation (5.0x vs. 6.2x sector median), although we believe volatility in the stock could continue in the face of economic challenge

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**Positive demand and pricing backdrop mitigates cost pressures.** GCC's revenues benefited from annual increases in US cement and ready-mix volumes of 2.2% and 7.7%, respectively, supported by increased activity in the oil and gas sector. Meanwhile, in Mexico, ready-mix volumes continued to increase 2.4% y/y, although cement volumes declined 3.2% y/y, driven by higher demand from the residential sector and the construction of both maquiladora plants and industrial warehouses. Overall, prices were better in local currency terms, and in Mexico in dollar terms as well. As a result, sales grew 11.8% y/y to \$353 million, in line with estimates. On the other hand, EBITDA rose 6.6% y/y to \$117 million, with the margin declining 160bps y/y to 33.3%, due to higher production costs, higher fuel costs in Mexico, higher freight costs, and a less favorable sales mix. This margin exceeded our expectations, reflecting lower pressure from higher product prices and expense control. On a net basis, majority income increased 18.4% y/y, due to operating performance and higher financial income. **Demand should remain solid for the year-end.** Once again, the company reiterated its 2022e EBITDA guidance based on favorable market dynamics and a strategy focused on efficiencies and cost and expense control. While we reiterate our positive view for the cement company due to solid fundamentals, highlighting a healthy financial position (-0.6x ND/EBITDA) and an attractive valuation, current challenges, and the possibility of a recession in 2023 could impact growth, which will continue to generate volatility in the stock price.

BUY	
Current Price	\$118.32
PT	\$183.00
Upside Potential	54.7%
Max – Min LTM (\$)	166.0 – 112.1
Market Cap (US\$m)	1,960.4
Shares Outstanding (m)	329.4
Float	49%
Daily Turnover US\$m	39.6
Valuation metrics LTM	
FV/EBITDA	5.0x
P/E	12.0x
MSCI ESG Rating*	N.A.



Financial Statements				
USD, million	2020	2021	2022E	2023E
Revenue	938	1,039	1,161	1,228
Operating Income	188	232	268	281
EBITDA	308	338	365	396
EBITDA Margin	32.9%	32.5%	31.5%	32.3%
Net Income	130	150	187	203
Net Margin	13.8%	14.4%	16.1%	16.6%
Total Assets	2,138	2,224	2,459	2,726
Cash	562	683	707	738
Total Liabilities	965	914	962	1,026
Debt	655	556	520	520
Common Equity	1,173	1,310	1,497	1,700

Source: Banorte

Valuation and Financial metrics				
	2020	2021	2022E	2023E
FV/EBITDA	6.7x	5.4x	4.9x	4.4x
P/E	15.3x	13.1x	10.5x	9.6x
P/BV	1.7x	1.5x	1.3x	1.0x
ROE	11.1%	11.4%	12.5%	12.0%
ROA	6.1%	6.7%	7.6%	7.5%
EBITDA/ interest	8.6x	9.5x	9.4x	10.2x
Net Debt/EBITDA	0.3x	-0.4x	-0.5x	-0.5x
Debt/Equity	0.6x	0.4x	0.3x	0.3x

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## GCC – Results 3Q22

USD, million

Concept	3Q21	3Q22	Var %	3Q22e	Diff % vs Estim.
Revenue	315	353	11.8%	353	-0.1%
Operating Income	85	93	9.4%	88	5.8%
Ebitda	110	117	6.6%	113	3.9%
Net Income	59	70	18.4%	62	13.0%
<b>Margins</b>					
Operating Margin	26.9%	26.4%	-0.6pp	24.9%	1.5pp
Ebitda Margin	34.9%	33.3%	-1.6pp	32.0%	1.3pp
Net Margin	18.6%	19.7%	1.1pp	17.4%	2.3pp
EPS	\$0.18	\$0.21	18.4%	\$0.19	13.0%

## Income Statement (Million pesos)

Year	2021	2022	2022	Change	Change
Quarter	3	2	3	% y/y	% q/q
Net Revenue	315.4	320.1	352.8	11.8%	10.2%
Costs of goods sold	206.7	220.9	236.0	14.2%	6.8%
Gross profit	108.8	99.2	116.7	7.3%	17.7%
General expenses	23.8	23.8	23.8	-0.1%	-0.2%
Operating Income	85.0	75.3	93.0	9.4%	23.4%
Operating Margin	26.9%	23.5%	26.4%	(0.6pp)	2.8pp
Depreciation	25.0	23.9	24.3	-2.9%	1.6%
EBITDA	110.1	99.5	117.4	6.6%	18.0%
EBITDA Margin	34.9%	31.1%	33.3%	(1.6pp)	2.2pp
Interest Income (Expense) net	(5.7)	(3.9)	(0.1)	-97.8%	-96.7%
Interest expense	8.2	8.0	6.9	-16.7%	-14.7%
Interest income	2.0	3.9	6.3	217.1%	58.9%
Other income (expense)	0.0	0.0	0.0	N.A.	N.A.
Foreign exchange gain (loss)	0.5	0.2	0.5	-10.2%	93.0%
Unconsolidated subsidiaries	0.7	0.9	0.9	37.9%	-0.1%
Income before taxes	79.9	72.4	93.8	17.4%	29.5%
Income taxes	21.2	19.3	24.2	14.4%	25.6%
Discontinued operations	0.0	0.0	0.0	N.A.	N.A.
Consolidated Net Income	58.7	53.1	69.5	18.4%	30.9%
Non-controlling interest	0.0	0.0	0.0	N.A.	N.A.
Net Income	58.7	53.1	69.5	18.4%	30.9%
Net Margin	18.6%	16.6%	19.7%	1.1pp	3.1pp
EPS	0.177	0.160	0.210	18.4%	30.9%

## Balance Sheet (Million pesos)

Total Current Assets	944.0	978.2	1,064.5	12.8%	8.8%
Cash & Short Term Investments	632.1	645.3	732.0	15.8%	13.4%
Long Term Assets	1,283.5	1,296.5	1,307.6	1.9%	0.9%
Property, Plant & Equipment (Net)	937.4	957.5	971.2	3.6%	1.4%
Intangible Assets (Net)	63.1	59.9	58.2	-7.7%	-2.8%
<b>Total Assets</b>	<b>2,227.6</b>	<b>2,274.7</b>	<b>2,372.1</b>	<b>6.5%</b>	<b>4.3%</b>
Current Liabilities	357.8	226.2	239.2	-33.1%	5.7%
Short Term Debt	176.8	7.4	9.7	-94.5%	31.1%
Accounts Payable	144.4	183.9	192.0	33.0%	4.4%
Long Term Liabilities	590.4	697.6	718.3	21.7%	3.0%
Long Term Debt	418.4	510.2	510.3	22.0%	0.0%
<b>Total Liabilities</b>	<b>948.2</b>	<b>923.9</b>	<b>957.5</b>	<b>1.0%</b>	<b>3.6%</b>
<b>Stockholders' Equity</b>	<b>1,279.4</b>	<b>1,350.8</b>	<b>1,414.6</b>	<b>10.6%</b>	<b>4.7%</b>
Non-controlling interest	0.6	1.0	1.0	51.8%	0.1%
<b>Total Equity</b>	<b>1,278.8</b>	<b>1,349.9</b>	<b>1,413.6</b>	<b>10.5%</b>	<b>4.7%</b>
Liabilities & Equity	2,227.6	2,274.7	2,372.1	6.5%	4.3%
Net Debt	(36.9)	(127.7)	(212.0)	474.8%	66.0%

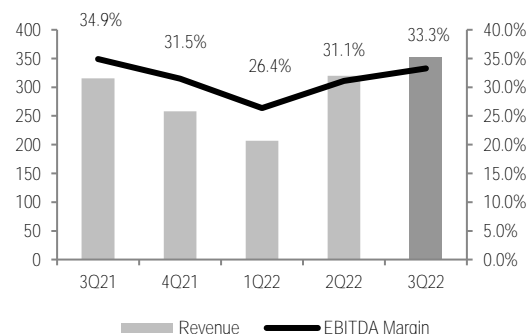
## Cash Flow

CF from Operating Activities	113.0	69.6	118.5
CF from Investing Activities	(10.6)	(22.8)	(21.2)
CF from Financing Activities	(60.0)	(42.4)	(8.1)
Change in Cash Balance	(3.2)	0.7	(2.6)
CF from Operating Activities	39.2	5.0	86.7

Source: Banorte, MSE.

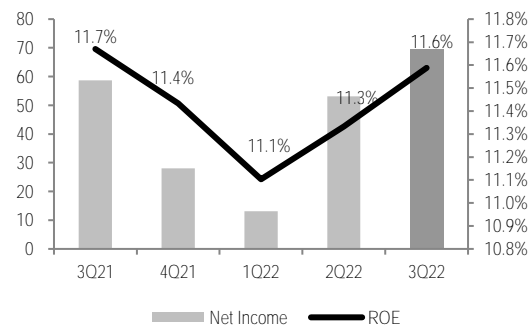
## Revenue & EBITDA Margin

USD, million



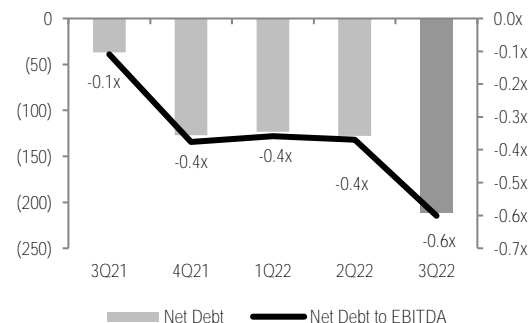
## Net Income & ROE

USD, million



## Net Debt & Net Debt to EBITDA ratio

USD, million



Volume and price variation per product for the 3Q22  
 Percentage – y/y variation

Region	Volume		Price*	
	Cement	Concrete	Cement	Concrete
US	2.3%	7.7%	12.2%	4.2%
Mexico	-3.2%	2.4%	13.5%	7.9%

Source: GCC, Banorte.

\* Local currency.

GCC – Revenue, EBITDA and EBITDA Margin per region for the 3Q22  
 USD, million

Region	Revenue	Var y/y	EBITDA	Var y/y	EBITDA Margin	Var y/y
US	269	10.4%	97	9.3%	36.2%	-0.4pp
Mexico	84	16.8%	20	-4.6%	24.5%	-3.0pp
Consolidated	353	11.8%	117	6.6%	33.3%	-1.6pp

Source: GCC, Banorte.

## Certification of Analysts.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldivar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia 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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	<b>Reference</b>
<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
GCC *	07/27/2021	BUY	\$183.00
GCC *	04/27/2021	BUY	\$173.00
GCC *	01/13/2021	BUY	\$150.00
GCC *	10/22/2019	BUY	\$126.00

## 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, Social and Governance (ESG) metrics.

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