Building Materials

2024: Above inflation pricing, lower costs US infra, US/MX nearshoring. Buy Cemex

Industry Overview

08 February 2024

Equity
Americas
Building Materials

Carlos Peyrelongue >>
Research Analyst
Merrill Lynch (Mexico)
+52 55 5201 3276
carlos.peyrelongue@bofa.com

Daniel Rojas Vielman >>
Research Analyst
Merrill Lynch (Mexico)
+52 55 5201 6248
daniel.rojas2@bofa.com

Alan Macias >>
Research Analyst
Merrill Lynch (Mexico)
+52 55 5201 3433
alan.macias@bofa.com

Four key themes to keep in mind for 2024:

#1 Strong fundamentals to profit from nearshoring in the US & Mexico, as well as the rise of US infrastructure spending. BofA Global Research expects slower growth and inflation for 2024 across most of the world, i.e., a 'soft landing'. Accordingly, central banks are likely to cut rates and most economies should avoid recession. In this context, we see cyclicals (Cemex) well positioned, delivering margin expansion in 2024, strong FCF generation ('24-'25 avg FCF before expansion capex of 11%) , and 7.3% 2024 EBITDA growth. Cemex (CX) should earns back Investment Grade and potentially start a dividend/buyback program.

#2 We expect above inflation cement pricing. 2023 was a solid year for prices (up 8.2% yoy in the US through December and up 6.1% yoy in Mexico through December), strong numbers, but still below the stellar 2022 increments. For 2024, the industry faces the challenge of normalizing growth; nevertheless, the industry should still manage to post above-inflation growth. CX already announced prices increase for January 2024, CX pointed to an increase in 85% of its US footprint (roughly a 5% increase by our estimates). The possibility of additional summer increments adds upside risk.

#3 Input costs are decreasing, allowing for margin expansion. Energy and electricity costs are the most volatile costs a cement producer faces and CX is no exception. Even as energy prices are off their 2022 highs, and traced downward in 2023, for 2024 we should see average full year energy input costs decreasing slightly. This in line with the lower petcoke prices we are seeing in the market, stable-to-lower coal prices, and lower diesel prices. See pages 9-10.

#4 Volume growth rebounds in 2024. Cement volume growth has been marginally up in the last 12m. The latest data from Inegi points to marginal growth in 2023, up 1.2% through Nov in Mexico. In the US, volumes were down 3% yoy through Oct. For 2024 we see a rebound for volumes in the US (+2.0% yoy) driven by the Infra and Industrial & Commercial sectors, both increasing 5%. BofA estimates that 77% of federal funds authorized in legislation (CHIPS act, IIJA) has not yet been spent. In Mexico we see volumes increasing 3%, also driven by Infra and the I&C sector (nearshoring).

CX offers further attractive upside…

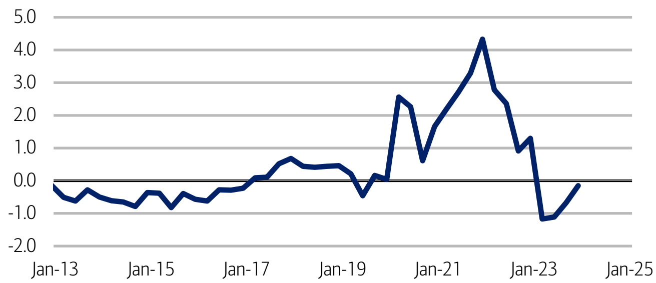
We reiterate our Buy on CX as it lies at the doorstep of a cyclical growth opportunity, propelled by infrastructure spending in the US and nearshoring in US & MX.

Timestamp: 08 February 2024 02:00AM EST

Contents

Eight key charts for 2024

Exhibit 1: With supply chains back to normal...
Fed's Global Supply Chain Pressure Index (Stand. Dev.)



Source: BofA Global Research, Bloomberg

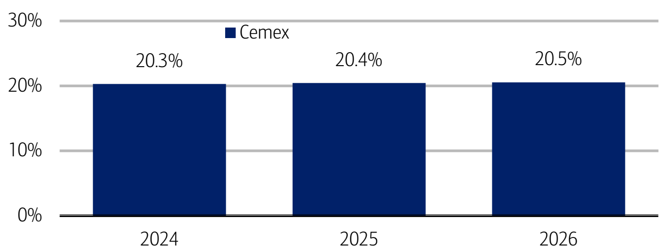
BofA GLOBAL RESEARCH

Exhibit 2: ...and ebbing energy prices ...
Bloomberg Energy Subindex

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

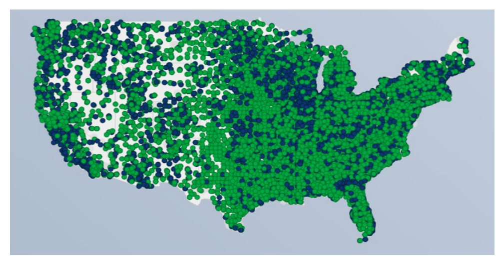
Exhibit 3: ...margins are poised to expand
EBITDA margin



Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

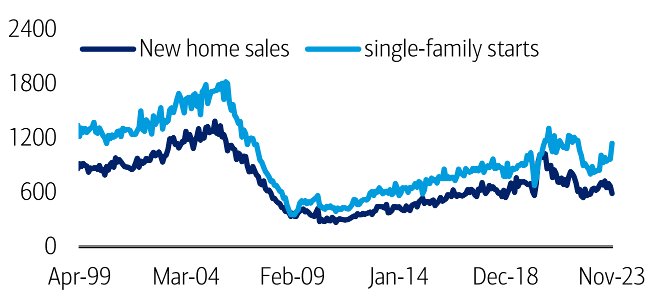
Exhibit 4: ...and projects from US Infra Bill are popping up everywhere...
Bipartisan Infrastructure Bill –$640bn in announcements have been made



Source: White House: GSA D2D -Green dots: Formula Driven awards, Blue Dots: Discretionary

BofA GLOBAL RESEARCH

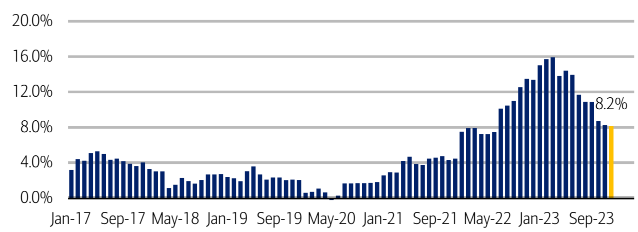
Exhibit 5:...and maybe the US housing stops being a large drag ...
US housing starts (SAAR; 1,000s units)



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

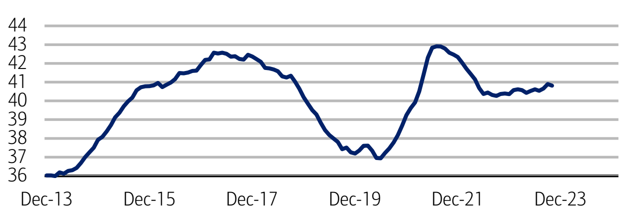
Exhibit 6: ...and prices remain above inflation, but still...
US Cement PPI, through December 2023



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 7: ...Mexico cement volumes remain weak ...
Mexico Cement Volumes (Mn tons, Last 12m)



Source: Inegi

BofA GLOBAL RESEARCH

Exhibit 8: ... but AMLOs projects could provide some support
Selection of priority projects in Mexican budget (Million)

Priority Projects 2024	222,667 MXN	12,370 USD
Tren Maya	120,000	6,667
Proyectos relacionados con CONAGUA	39,475	2,193
Proyectos relacionados con SICT	35,133	1,952
Desarrollo del Istmo de Tehuantepec	21,059	1,170
Tren Interurbano Mexico-Toluca	4,000	222
Ampliación línea 1 de Tren lechería-Jaltocan-AIFA	2,000	111

Source: BofA Global Research. Note: AMLO refers to Mexican President Andrés Manuel López Obrador.

BofA GLOBAL RESEARCH

Four themes to keep in mind in 2024

#1 Strong fundamentals to profit from nearshoring in the US & MX, as well as the rise of US Infrastructure spending

The start of easing cycle should add fuel to cycle in 2H24

BofA Global Research expects slower growth and inflation for 2024 across most of the world—see The RIC Report: Year Ahead 2024. Accordingly, central banks are likely to cut rates and most economies will avoid recession. A decelerating growth environment should allow for a ´Soft Landing´ followed by recovery in 2025.

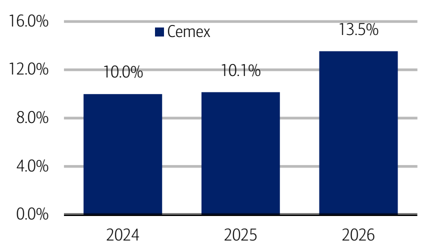
A context of interest rate cuts and easier policy in 2024 should support equity markets, with cyclical assets well positioned in 2024. We see the sector preparing for a structural cyclical tailwind for the next 5-10 years, propelled by relevant fiscal stimulus and infrastructure spending in the US (US$2 trillion) and Europe (>US$2.0 trillion).

Other actions that the companies in our space are taking, or will benefit from, include:

- **US government "dry power" still has plenty to run**: BofA Global Research estimates that 77% of federal funds authorized in legislation (CHIPS act, IIJA and ESSER) have not yet been spent.
- **Nearshoring in Mexico is driving investment.** The Ministry of Economy, as of late last year, identified over 363 nearshoring related announcements, with investments reaching over US$106bn dollars. It's not only existing firms expanding their North America footprint, but new entrants, such as Copenhagen Infrastructure Partners, LGMG Group and Jetour from China, HY2GEN AG from Germany, and Quanta Computers from Taiwan.
- **Reshoring to the US is driving a manufacturing renaissance.** In the US, a manufacturing renaissance is being driven because of strategic geopolitical reasons. Our analysts anticipate this investment should spur growth of US manufacturing capex. Andre Obin, our US Industrials analyst sees that broad technology and policy changes in the US are driving manufacturing capex investments. Electrification and green energy are examples of technology changes with ramping volumes. US policy is supporting reshoring of critical industries (e.g., semiconductors, pharma) and new markets (e.g., carbon capture). All of this will require incremental capex.

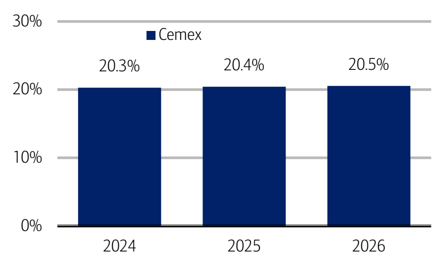
In this context, we see the companies under coverage (Exhibit 9 through Exhibit 11) endowed with solid fundamentals that support this growth opportunities.

Exhibit 9: FCF Yield (ex-growth capex, %)
Cash flow generation capacity is very robust



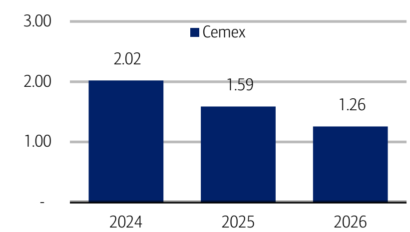
Source: BofA Global Research estimates
BofA GLOBAL RESEARCH

Exhibit 10: EBITDA margin (%)
With margin expansion going forward



Source: BofA Global Research estimates
BofA GLOBAL RESEARCH

Exhibit 11: Net Debt / EBITDA (x)
Leverage remains manageable for CX



Source: BofA Global Research estimates
BofA GLOBAL RESEARCH

#2 We expect above inflation pricing

2023 was a strong year for prices (up 8.2% yoy in the US through December and up 6.1% yoy in Mexico through December), strong numbers indeed, but still below the stellar 2022 increments. For 2024, the industry faces the challenge of normalizing growth ahead, but in our view, the industry should still manage to post above-inflation growth.

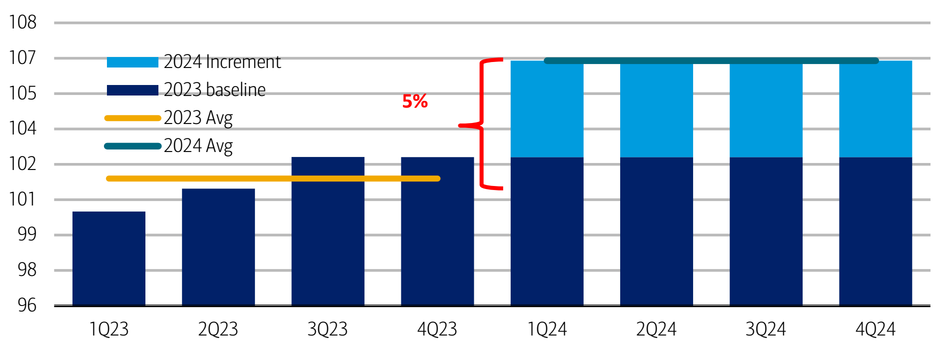
Will the industry be successful at pushing aggressive, above inflation, pricing increases going forward? We think so. CX has already announced prices increase for January 2024. CX pointed to an increase in 85% of its US footprint (roughly a 5% increase). As such, achieving above pricing increments seems likely.

The US faces a more challenging 2024: 1% carryover and 4% increase for 2024

Prices could increase ~5% in 2024 as per our forecasts. Two forces explain this: (1) the carryover from 2023 and (2) new increments in 2024. We calculate a 1% carryover from year-end 2023, as illustrated in the exhibit below. For new pricing increases, we see high-single digit increments (stemming from a high success rate for the increments announced January 1st). It is important to highlight that there is potential upside if the industry can push for additional increments in the summer.

Exhibit 12: US cement prices (Cement PPI) and 2024 forecasts (carryover + new increments)

We see prices increasing, in average, 5% yoy in 2024 (1% carryover + 4% sequential increase), ahead of BofA's 2.7% inflation forecast. An additional 2024 summer increase would add potential upside to our forecasts



Source: BofA Global Research with data with the BLS

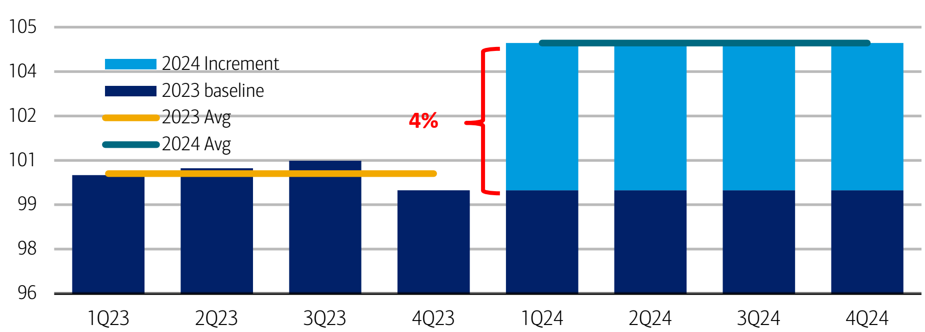
BofA GLOBAL RESEARCH

Mexico: carryover is a negative 1%, but a 5% increase puts us ahead of inflation

With federal spending ramping up ahead of June general elections, we see the opportunity to push for gradual 1H increments that yield our expected 4-5% increase.

Exhibit 13: Mexico cement prices (Cement PPI) and 2024 forecasts (carryover + new increments)

Prices were softer than anticipated in the last quarter of 2023, there is some catching up to do



Source: Inegi

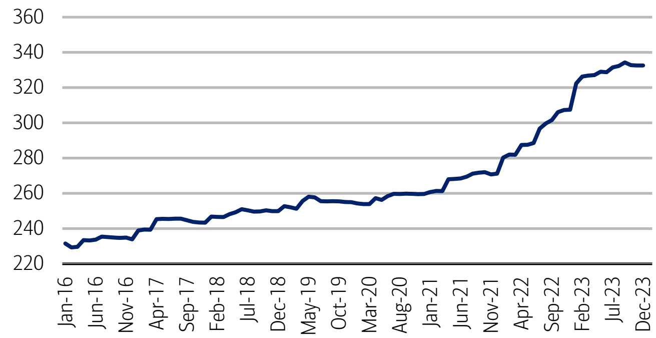
BofA GLOBAL RESEARCH

2023; A year in review

Last year was a story normalizing pricing growth following very large gains in 2022 (Exhibit 14 & Exhibit 15). In the US for example, price skyrocketed in 2022 by 13.4%, with increments peaking in March 2023 (at 15.9%), and then slowly started decreasing. Today, pricing is lapping at high single-digits (8%) but should continue to normalize into 2024.

United States

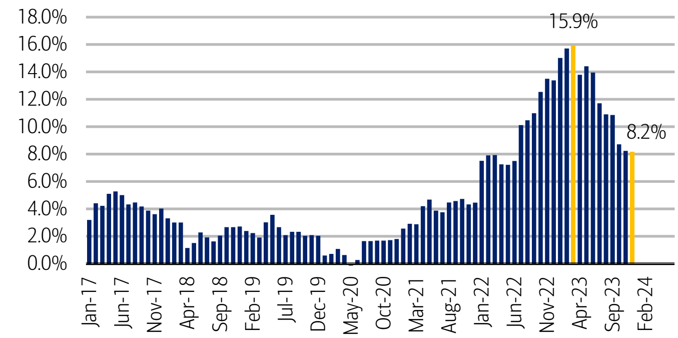
Exhibit 14: US: Cement PPI Index (Index)
Cement pricing growth is normalizing following a meteoric rise



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 15: US: Cement PPI Index (% Chg YoY)
Cement pricing should continue to outpace inflation



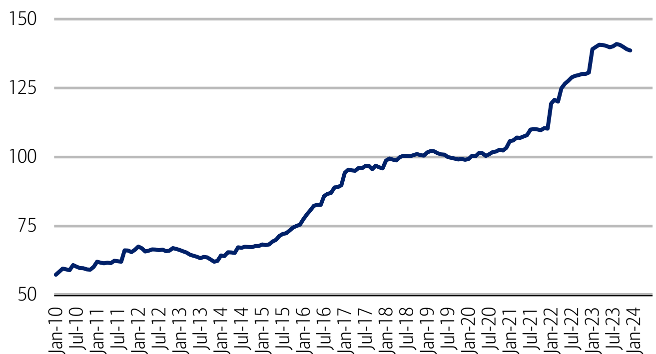
Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Mexico

In the case of Mexico, cement pricing grew even higher rate than the US, up 18% yoy in late 2022. Last year also became a tale of normalization, with growth ebbing back to the single digit level, ending the year at 6.1% yoy.

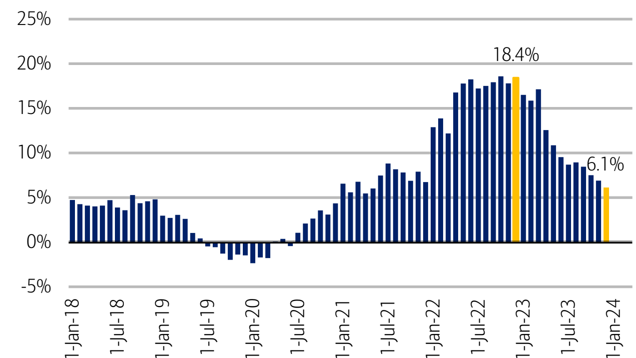
Exhibit 16: Mexico: Cement PPI Index (Index)
Cement prices momentum has decelerated



Source: Inegi

BofA GLOBAL RESEARCH

Exhibit 17: Mexico: Cement PPI Index (% Chg YoY)
But it should still be above inflation



Source: Inegi

BofA GLOBAL RESEARCH

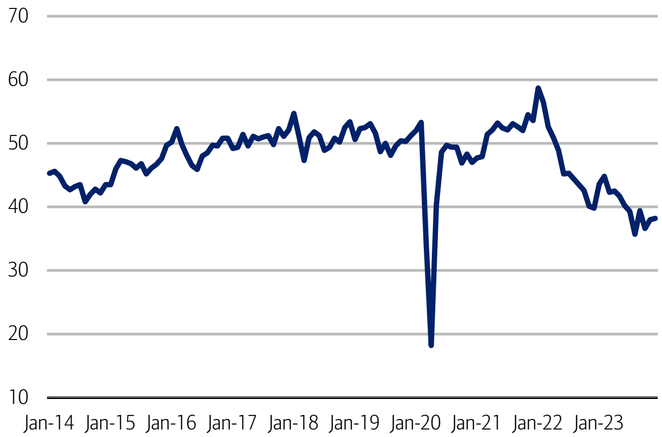
Europe: volume pressure to continue into 2024

Arnaud Lehman, our European Building material analyst, forecasts further pressure on European volumes, reflecting ongoing weakness in residential and non-residential demand, driven by higher rates. See his full report here: European Building Materials: 2024 Year Ahead: too far, too fast 10 January 2024. Within the last few months, several leading indicators such as European PMI's, building permits and construction confidence levels have continued to deteriorate, indicating further weakness in the sector. We do not anticipate a stabilisation before 2025, as higher rates and the weaker macro environment continue to weigh on activity.

European Construction leading indicators: still negative

We continue to see weak indicators for European construction. The Eurozone construction PMI has remined below 50 since April 2022, indicating continued declines in European construction activity. Looking at the specific components of the European PMI, we note that housing has been the weakest sector and is currently at its lowest level since COVID in 2020. The commercial and infrastructure segments all also are below 50, and are therefore also in the contractionary territory.

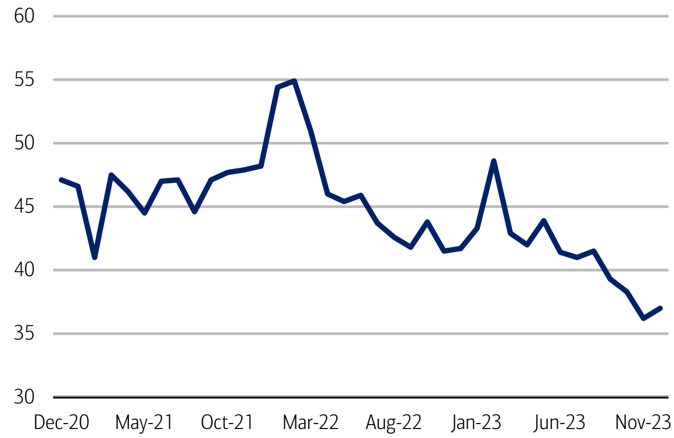
Exhibit 18: Eurozone construction PMI
The indicator for the Euro area remains in contraction



Source: Bloomberg

BofA GLOBAL RESEARCH

Exhibit 19: Germany construction PMI
The indicator for the Germany remains in contraction

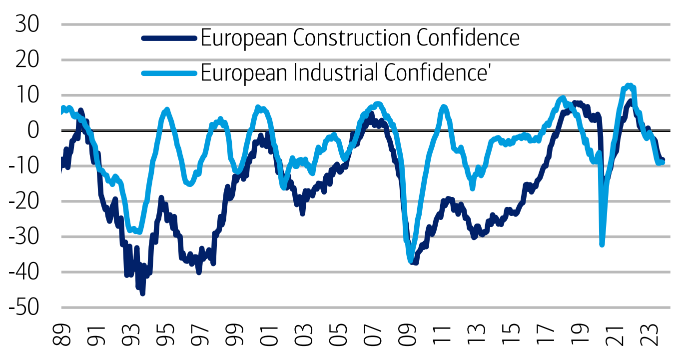


Source: Bloomberg

BofA GLOBAL RESEARCH

European construction confidence has also continued to deteriorate since the onset of the Ukraine conflict in February 2022, and remains negative. This partly explains the weakness also observed in new orders, which are at the lowest levels since 2014.

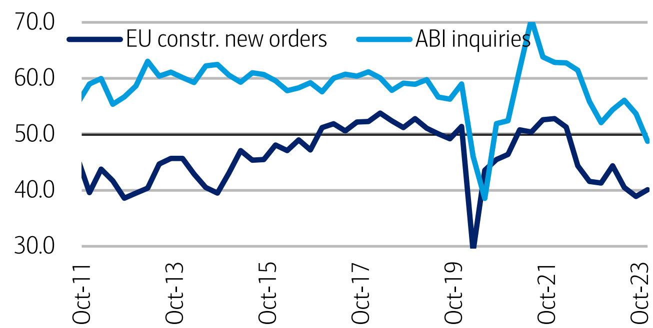
Exhibit 20: European construction & industrial confidence
European construction confidence has weakened since early 2022



Source: Refinitiv

BofA GLOBAL RESEARCH

Exhibit 21: EU & US construction indicators: new order component (quarterly)
The outlook in both regions has markedly deteriorated since early 2022.



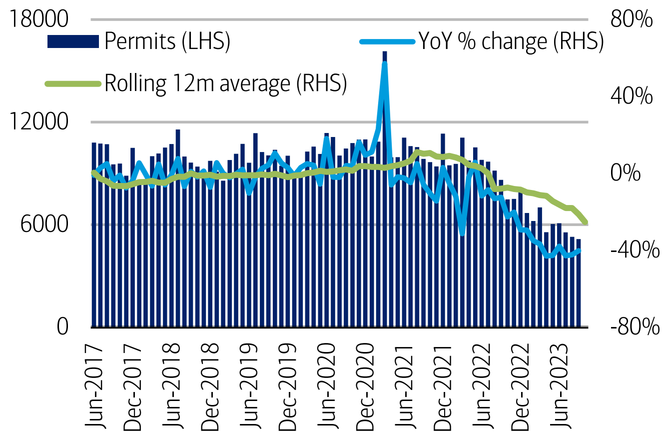
Source: Bloomberg, AIA

BofA GLOBAL RESEARCH

Residential

The residential side looks particularly weak given the greater sensitivity to consumer spending, impacted by squeezes on disposable income and higher rates. As a result, new housing permits and residential transaction data has been under significant pressure. We note that France and Germany are facing some of the most significant points of pressure, with the rolling 12m average of new permits down 20-30%.

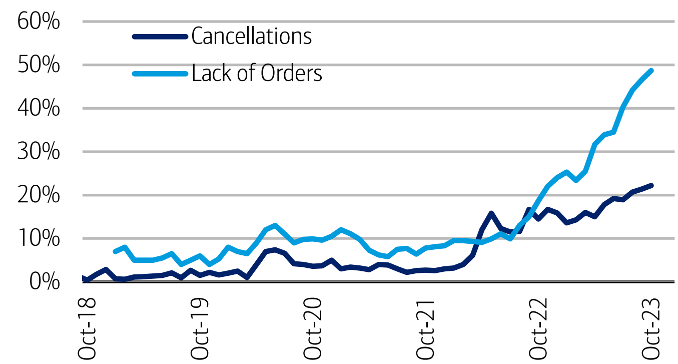
Exhibit 22: Germany: New housing permits authorised
Year on year German housing permits are down -40% in September



Source: DataStream, BofA Global Research

BofA GLOBAL RESEARCH

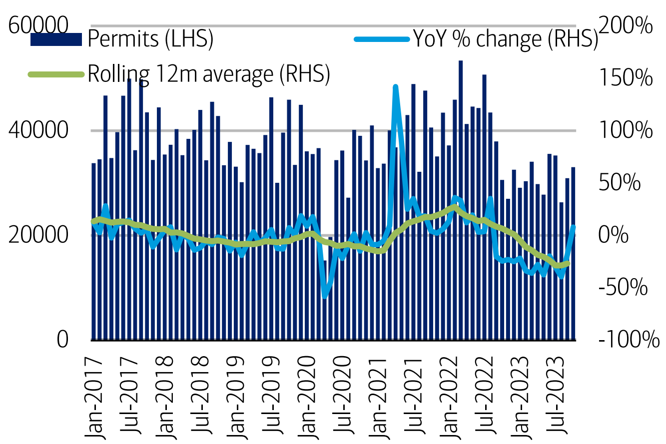
Exhibit 23: German residential construction cancellations & lack of orders
In Oct, 22% of businesses were affected by cancellations, up from 21% in the previous month. 49% reported a lack of orders (vs 47% in Sep)



Source: ifo Institute

BofA GLOBAL RESEARCH

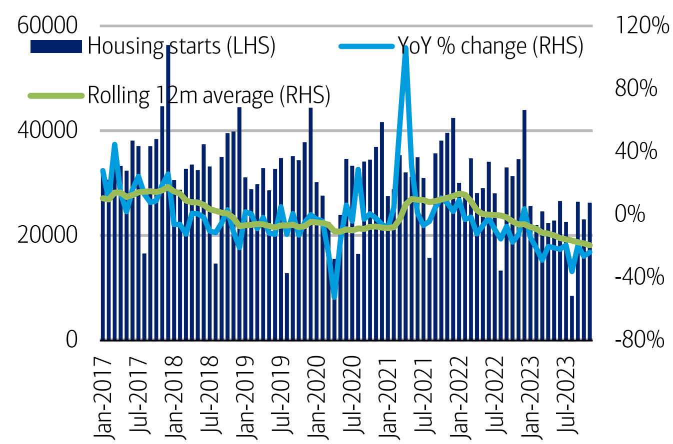
Exhibit 24: France: New housing permits authorised
Year on Year French housing permits are up 8% in October



Source: DataStream, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 25: France: New housing starts
Year on Year French housing permits are down -20% in July



Source: DataStream, BofA Global Research

BofA GLOBAL RESEARCH

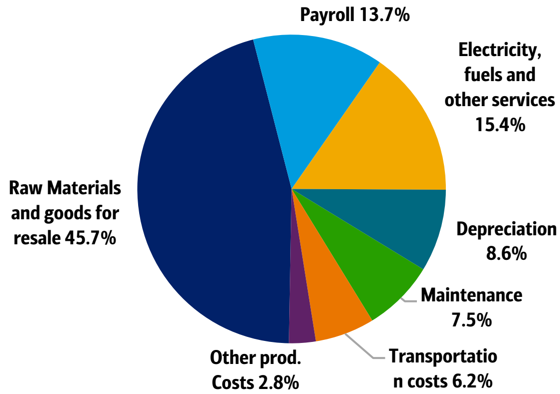
#3 Input costs are decreasing, allowing for margin expansion

Energy and electricity costs are the most volatile costs a cement producer faces. CX is no exception (see Exhibit 26 below). Even as energy prices are off their 2022 highs, and traced downward during 2023, during 2024 we should see input costs decreasing 5-10% going forward, in line with the lower petcoke prices we are seeing in the market (Exhibit 28), stable coal prices (Exhibit 29), decreasing freight costs (Exhibit 30) and lower diesel prices (Exhibit 31).

Total Input Costs

Exhibit 26: CX Cost Structure (COGS + OPEX)

Energy inputs increased almost 200bps from 2020, a reversal is underway



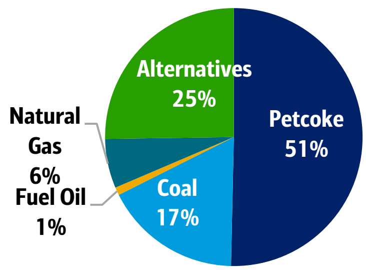
Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Energy Input Costs

Exhibit 27: Cemex breakdown of Kiln fuels

Petcoke is the most important fuel used



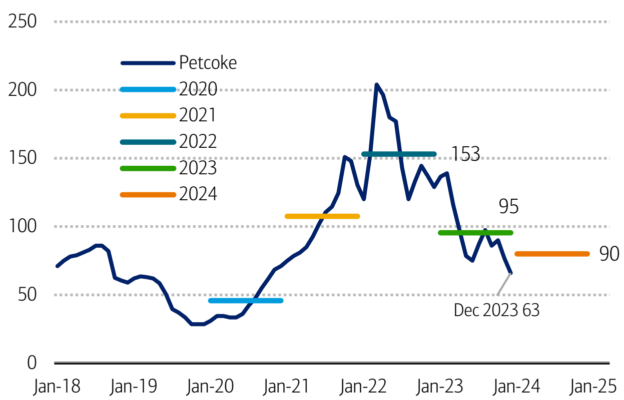
Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Petcoke and Coal Trends

Exhibit 28: Petcoke (USD / ton)

We see '24 petcoke prices averaging 80dlls/ton, 16% below '23 average



Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 29: Coal: Nymex Coal Futures (Coal API2)

Coal prices have dropped 15% from 2023 average (US$ 103 vs US$122)

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 30: Freightos Global Index

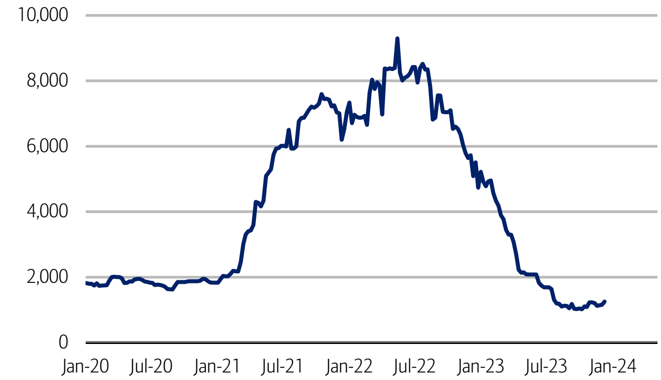
Rates are down 4-fold since their peak during the start of the Russian invasion

Source: Bloomberg

Note: Freightos Baltic Index (FBX) provides 40' container (FEU) indices for ocean freight. FBX index are based on aggregated and anonymized real-time business data from global freight carriers, freight forwarders, and shippers that use the WebCargo by Freightos freight rate management platform. The FBX flagship index is a weighted average of the twelve underlying regional route indexes. Each individual index trade lane is represented by 5-7 of the major ports of each region. . BofA GLOBAL RESEARCH

Exhibit 31: Freightos Baltic Index: Europe to East Coast

Rates are down considerably to cross merchandise across the Atlantic



Source: Bloomberg

Note Freightos Baltic Index (FBX) provides 40' container (FEU) indices for ocean freight. FBX index are based on aggregated and anonymized real-time business data from global freight carriers, freight forwarders, and shippers that use the WebCargo by Freightos freight rate management platform. The FBX flagship index is a weighted average of the twelve underlying regional route indexes. Each individual index trade lane is represented by 5-7 of the major ports of each region.

BofA GLOBAL RESEARCH

Exhibit 32: US Gulf Coast Ultra Low Sulfur No 1 Diesel Spot Price (dlls per gallon)

Diesel is also off their highs but remain elevated

Source: EIA

BofA GLOBAL RESEARCH

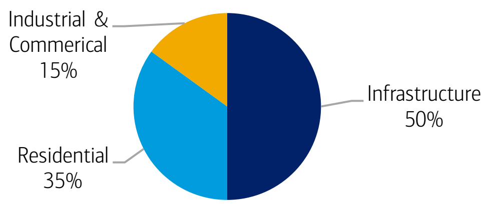
#4 Volume growth to rebound into 2024

Cement volume growth in Mexico has been marginally up in the last 12 months. The latest data from Inegi points to marginal growth in 2023, up 1.2% through December. In the US, were down 3% yoy through October. For 2024 we see a rebound for volumes in the US (+2.0% yoy) driven by the Infrastructure and Industrial & Commercial sectors, both increasing 5%. In Mexico we see volumes increasing 3% yoy, also driven by Infra and the I&C sector (nearshoring) and a 1H24 investment ramp up ahead of the June general elections.

United States

The Portland Cement Association (PCA) sees 2024 volume growing 1.4% yoy, driven by a 1.4% increase in nonresidential volumes and a 5.5% increase for public construction (Infrastructure). Following an almost 8-9% drop in 2023, housing volume should only decrease 3.6% yoy (with multi-family construction down 10% yoy).

Exhibit 33: US Cement Industry Demand
Infrastructure is the largest driver of cement demand t



Source: Cemex

BofA GLOBAL RESEARCH

Exhibit 34: United States: BofA Cement demand forecasts
Will housing construction trough in 2024?

	% of Demand	2024 Est Growth	Weigted Average
Infrastructure	50%	6%	3.0%
Residential	35%	-5%	-1.8%
Industrial & Commercial	15%	5%	0.8%
Est. Total YoY Growth	100%		2.0%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

As illustrated in Exhibit 33 and Exhibit 34, we should see the first sings of incremental demand from the Infrastructure Investment and Jobs Act (IIJA); with cement volume growth for infrastructure moving up 6%. In addition, we expect growth on the industrial and commercial sector (5%) driven by nearshoring, but partially offset by very weak demand from the housing sector (-5%).

Infrastructure

The US$1.2 trillion Infrastructure Investment and Jobs Act (IIJA) was signed into law over a year ago. According to one of the latest White House's fact sheets, over 44,000 projects have been awarded funding from the Bipartisan Infrastructure Law as of late November 2023. The Bill has unleashed over US$600bn in private sector manufacturing. The investments range from repaving roads and water system upgrades funded through grants to states to competitive funding for massive bridge and transit projects. Among the most cement intensive projects, we highlight the following projects by state (as of November 2023):

- **Texas**: US$27bn have been announced, with over 764 specific projects. Among the most cement intensive projects, there are 774 bridges and over 19,997 miles of highway in poor condition according to the White House. So far, US$16.6bn (through November 2023) for roads, bridges, roadway safety and other major projects have been awarded.

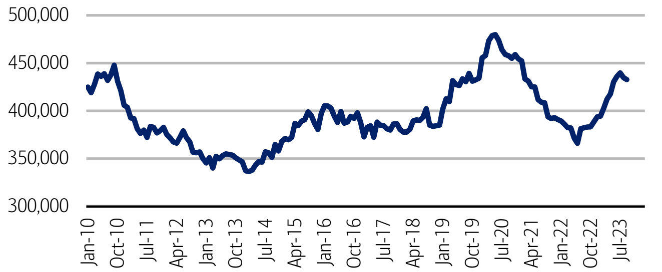
- **California**: US$32.8bn have announced for over 1,176 projects. Of the total amount 24.2bn have been earmarked for transportation (roads, bridges, public transport and airports.

- **Florida:** US$14.1bn have been announced, of which US$10bn is for transportation related investment (434 projects).

Admittedly, many challenges have plagued a faster start to spending, including delays, permitting, inflation, changing priorities, etc. And while public spending is moving upward (as seen in Exhibit 35 below), it is still below pandemic highs. We anticipate infrastructure related volumes to start increasing at a higher pace (approximately 5-6% yoy) as we move into the second half of 2024.

Exhibit 35: US Public Spending, US$ bn, SAAR

We anticipate further momentum for infrastructure spending in 2024



Source: BLS

BofA GLOBAL RESEARCH

Exhibit 36: US Industrial/Manuf. Construction Starts (2005 – Present)

Industrial /manufacturing starts have been down YoY following its bumper growth of over 200% in 2022

Source: ConstruConnect

BofA GLOBAL RESEARCH

Industrial & Commercial: Momentum is moderating but it is still sky high

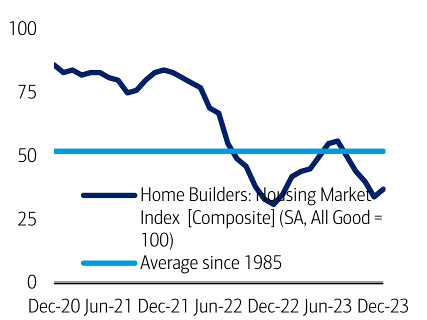
As illustrated above, in 2022 there was notable takeoff in industrial and manufacturing construction. Driven by policies such as the Chips ACT, activity was also spurred by very large mega projects. In October, four of these broke ground for a combined U$11.9bn (including a chip fabrication facility, MLS soccer stadium, sheet still mill), outpacing October 2022 level ($9.4bn). The total dollar volume of mega projects through the first ten months of 2023 is U$86.7bn, 6% above last year's level. Yet there is concern momentum is losing steam. For a deep dive, see BofA analyst Andrew Obin's detailed in-depth report on EV and Semiconductors capacity timeline. In addition, Michael Feniger, US Americas Engineering & Construction analyst, believes Construction cycle concerns are now in focus. According to ConstructConnect, an industry data provider, dollar volume of construction starts (ex-residential) was $53.2bn, flat on a YoY basis. On a YTD basis, starts are up 4% YoY, suggesting some slowdown in the last 2 months.

US Housing, still at a tough spot

For 2024, Rafe Jadrosich, BofA's US Homebuilders, expects single-family housing starts to increase 8% YoY to 1.03mm (previously 975k). For total housing starts in 2024, we expect starts to decline (3.3%) YoY to 1.36mm with ~28% decline in multi-family starts offsetting the increase in single-family starts. See Homebuilders: Housing starts surprise to upside; we now expect >1mm single-family starts in 2024 20 December 2023

Exhibit 37: NAHB Homebuilder Index

Homebuilder sentiment rose to 37 in December,

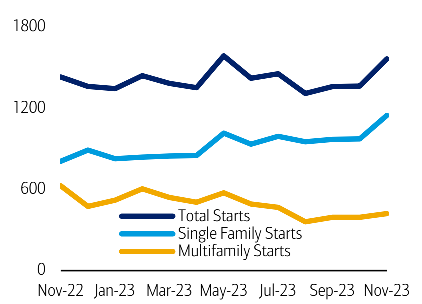


Source: National Association of Home Builders

BofA GLOBAL RESEARCH

Exhibit 38: US Starts (SAAR; 1,000s units)

November single family +18.0% MoM, multifamily +6.9% MoM

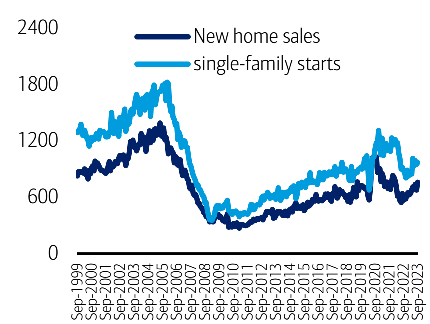


Source: Haver Analytics

BofA GLOBAL RESEARCH

Exhibit 39: New home sales vs. single-family starts (SAAR, 1,000s units

New home sales decreased on a MoM basis in October 2023



Source: Haver Analytics

BofA GLOBAL RESEARCH

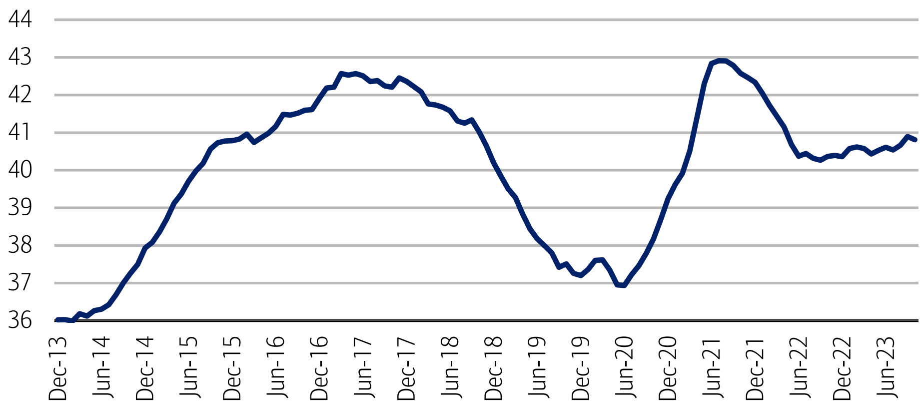
Mexico: Volumes rebounding in 2024

After a challenging 2022 that saw volumes decrease almost 5%, our forecast was on target after calling for a modest 2023. We anticipate 2024 will be a recovery year with a 3% rebound—see Exhibit 40 and Exhibit 41 below for a breakdown by sub sector. The overall industry is now producing approximately 40-41mn tons of cement annually, 5-6% below the 2021 record production levels (see Exhibit 40).

Trends to watch include this year include demand for bagged cement, an uptick from the infrastructure sector, structural weak demand for formal housing, and improving demand from the informal residential sector as consumption slows.

On the positive side, we anticipate nearshoring trends to continue fueling demand for industrial demand space. Potential upsides for demand could materialize from Mexican President Andrés Manuel López Obrador's priority projects, and other small projects ahead of the June general elections.

Exhibit 40: Mexico Cement Volumes (Mn tons, Last 12m)
We are past the pandemic boom, with volume growth fully normalized



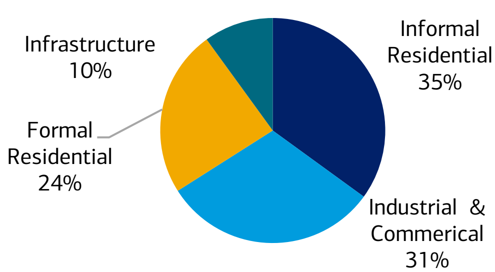
Source: Inegi

BofA GLOBAL RESEARCH

Mexico

2024 will also be year a story of two halves: a strong 1H24 spurred by public investment as we head into June general elections, followed by a more challenging 2H24 as the fiscal impulse dissipates, government pet projects are delivered, and a new President takes office. On the positive side, we anticipate nearshoring trends to continue fueling demand for industrial demand space across Mexico, explaining the 5% increase in the I&C we pencil in our estimates (Exhibit 42).

Exhibit 41: Mexico: Cement industry demand
The bagged cement market remains a key segment for cement demand



Source: Cemex

BofA GLOBAL RESEARCH

Exhibit 42: BofA Global Research estimates
Nearshoring is driving I&C construction

	% of Demand	2024 Est Growth	Weigted Average
Informal Residential	35%	2.0%	0.7%
Industrial & Commercial	31%	5.0%	1.6%
Formal Residential	24%	0.0%	0.0%
Infrastructure	10%	6.5%	0.7%
Est. Total YoY Growth	100%		2.9%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Infrastructure

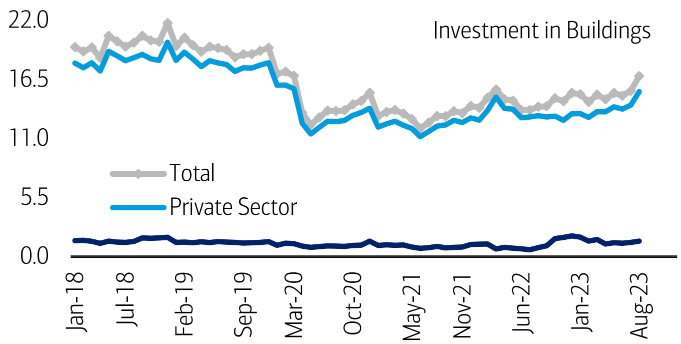
Government spending on big infrastructure projects, mostly in southern Mexico, is another key driver. Public sector construction spending increased 59% yoy in real terms in October to MXN $30bn. Much of that came from outlays for three projects – the Maya, the Isthmus, and the Mexico-Toluca railways – but also from an airport and a refinery.

Industrial & Commercial

The promise that nearshoring would spur economic activity seems to be coming to fruition, as there is significant private investment in non-residential construction and in machinery and equipment. The private sector contributes to non-residential construction by building industrial, commercial and services buildings, which rose 19% yoy in real terms in October, and is the largest contributor to machinery and equipment investment, which jumped 18% yoy. Private spending is mostly occurring in northern Mexico.

The spending by the private sector is mostly occurring in northern Mexico and in the Bajio region and we see it as associated with nearshoring. Several investments have been announced in recent quarters: Tesla (US$5,000mn), Ternium (US$3,200mn), Lego (US$500mn), Michelin (US$400mn), Luxottica (US$130mn), among others.

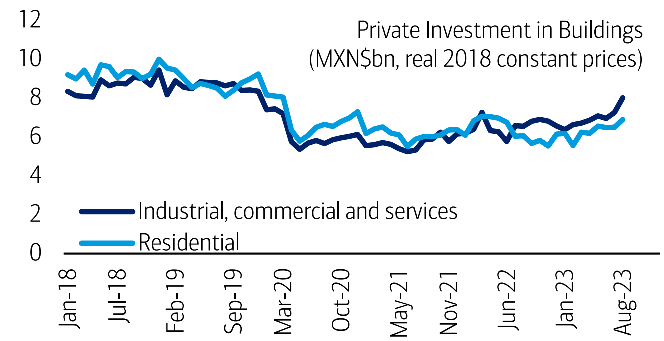
Exhibit 43: Investment in buildings by sector
The private sector is the main contributor to buildings' construction



Source: BofA Global Research, INEGI

BofA GLOBAL RESEARCH

Exhibit 44: Private investment in buildings' breakdown
The private sector is building more industrial buildings



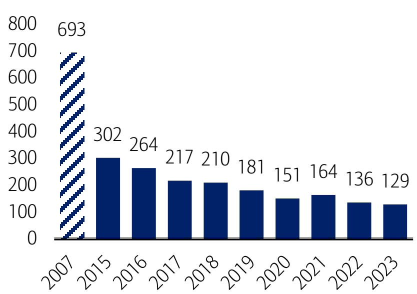
Source: BofA Global Research, INEGI

BofA GLOBAL RESEARCH

Housing: will the next president implement a housing construction program?

Housing has been in a mayor slump for almost a decade. At the top of the cycle (2007), the sector was building almost 700 thousand homes annually, but construction has dropped significantly since, roughly at a compounded 10% annual rate since 2015 (see Exhibit 45 below). In a context where the country is adding, in average, 750 thousand insured workers in the last two years, demand/supply dynamics continue to deteriorate significantly (Exhibit 46). We believe the next administration is likely to address this affordability issues as the demand/supply imbalance is feeding ever higher home prices (Exhibit 47).

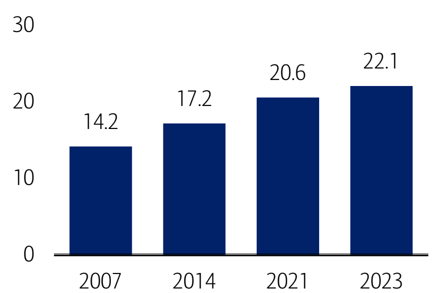
Exhibit 45: Mexico: Housing production
Annual Housing Production ('000 units)



Source: Vinte with data from Registro Unico de Vivienda (RUV)

BofA GLOBAL RESEARCH

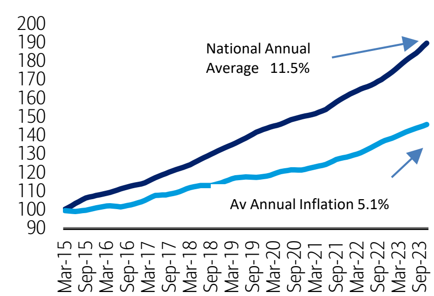
Exhibit 46: Insured Workers—IMSS (Million)
Formal employment continues to increase



Source: Vinte with data from IMSS

BofA GLOBAL RESEARCH

Exhibit 47: Home prices rose 2x inflation
Demand continues to outstrip limited supply



Source: Vinte with data from SHF and INEGI

BofA GLOBAL RESEARCH

Valuations

Cemex is the most attractive, trading almost 2 SD below its 5yr average

Cemex trades at a forward EV/EBITDA of 6.0x, a 12% discount to its 5yr avg while offering a '24-'25 average annual FCFE yield 10% (ex-Spanish tax fine).

Exhibit 48: Cemex, 12m forward EV/EBITDA

Cemex continues to trade 2 standard deviations (SD) below its average

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 49: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CX	CX US	Cemex	US$ 8.74	C-1-9

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Cemex (CX)

We derive our PO of US$9.0/ADR using a discounted cash flow (DCF) methodology. In our model, we use a 14.5% cost of equity and a 6.3% cost of debt. We use a Beta of 1.4. Our assumptions translate into a weighted-average cost of capital (WACC) estimate of 10.6%. For our terminal value, we apply a terminal growth rate of 2.25%.

Upside risks to our PO are (i) appreciation of the Mexican peso, the British Pound, and the Euro, (ii) higher cement prices in the US, (iii) a faster-than-expected rollout of funds in the US infrastructure package, (iv) a faster-than-expected recovery for the global economy, and (v) stronger cement volume trends than expected in Mexico.

Downside risks to our PO are (i) the Mexican economy decelerating unexpectedly, weakening demand and causing further peso depreciation, (ii) higher global economy slowdown than expected resulting from the pandemic, (iii) slower-than-expected economic growth in the US, and (iv) a reacceleration of input cost inflation.

Analyst Certification

I, Carlos Peyrelongue, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

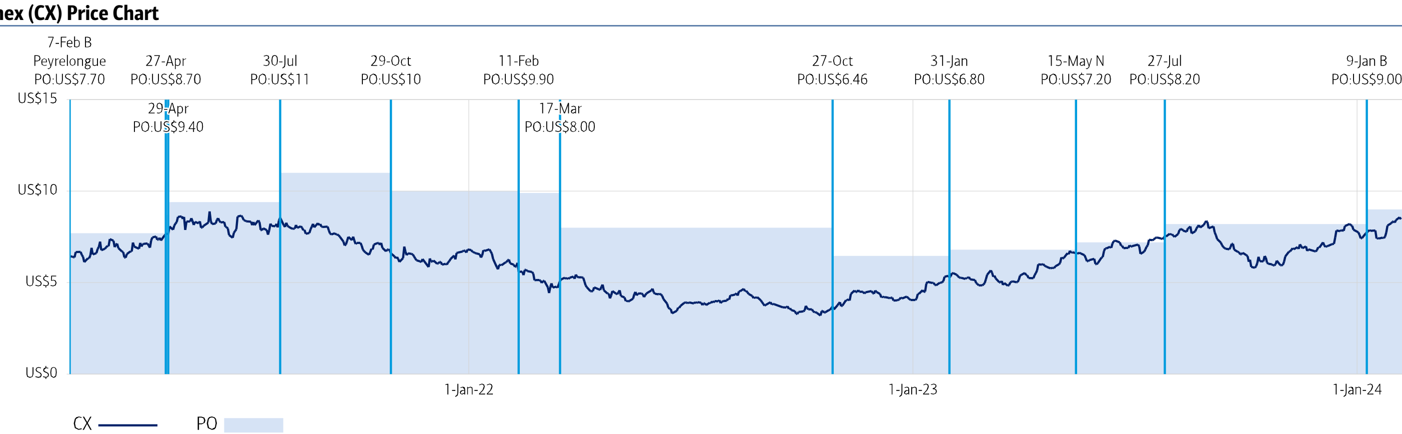
Latin America - Mexico Construction/Homebuilders & RE Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Cemex	CX	CX US	Carlos Peyrelongue
	Danhos	GRFFF	DANHOS13 MM	Carlos Peyrelongue
	FIBRA Macquarie Mexico	DBMBF	FIBRAMQ MM	Carlos Peyrelongue
	Fibra Terrafina	CBAOF	TERRA13 MM	Carlos Peyrelongue
	GCC, S.A.B. de C.V.	GCWOF	GCC* MM	Carlos Peyrelongue
	Grupo Aeroportuario del Centro Norte	OMAB	OMAB US	Carlos Peyrelongue
	Grupo Aeroportuario del Centro Norte	GAERF	OMAB MM	Carlos Peyrelongue
	Grupo Aeroportuario del Sureste	ASR	ASR US	Carlos Peyrelongue
	Grupo Aeroportuario del Sureste	ASRMF	ASURB MM	Carlos Peyrelongue
	Grupo Mexico Transportes	GMXTF	GMXT* MM	Carlos Peyrelongue
	Grupo Traxion SAB de CV	GRPOF	TRAXIONA MM	Carlos Peyrelongue
	Vesta	VESTF	VESTA* MM	Carlos Peyrelongue
	Vesta	VTMX	VTMX US	Carlos Peyrelongue
NEUTRAL				
	FIBRA Prologis	FBBPF	FIBRAPL MM	Carlos Peyrelongue
	GAP	PAC	PAC US	Carlos Peyrelongue
	Grupo Aeroportuario del Pacifico	GPAEF	GAPB MM	Carlos Peyrelongue
	PINFRA	PYOIF	PINFRA* MM	Alan Macias
UNDERPERFORM				
	Cencosho	XCWCF	CENCOSHO CI	Carlos Peyrelongue
	Loma Negra Cia Industrial Argentina	LOMA	LOMA US	Carlos Peyrelongue
	Parque Arauco	XNNJF	PARAUCO CI	Carlos Peyrelongue
RSTR				
	FUNO	FBASF	FUNO11 MM	Carlos Peyrelongue

Disclosures

Important Disclosures

Cemex (CX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Building Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	39	44.83%	Buy	22	56.41%
Hold	18	20.69%	Hold	11	61.11%
Sell	30	34.48%	Sell	8	26.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the Price Charts website, or call 1-800-MERRILL to have them mailed.
BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Cemex.
BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: Cemex.
The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: Cemex.
BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Cemex.
The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: Cemex.
BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Cemex.
BofAS or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer or an affiliate of the issuer within the next three months: Cemex.
BofAS or one of its affiliates is willing to sell to, or buy from, clients the common equity of the issuer on a principal basis: Cemex.
The issuer is or was, within the last 12 months, a securities business client (non-investment banking) of BofAS and/or one or more of its affiliates: Cemex.
BofA Global Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking. The analyst(s) responsible for this report may also receive compensation based upon, among other factors, the overall profitability of the Bank's sales and trading businesses relating to the class of securities or financial instruments for which such analyst is responsible.

Other Important Disclosures

From time to time research analysts conduct site visits of covered issuers. BofA Global Research policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.
Prices are indicative and for information purposes only. Except as otherwise stated in the report, for any recommendation in relation to an equity security, the price referenced is the publicly traded price of the security as of close of business on the day prior to the date of the report or, if the report is published during intraday trading, the price referenced is indicative of the traded price as of the date and time of the report and in relation to a debt security (including equity preferred and CDS), prices are indicative as of the date and time of the report and are from various sources including BofA Securities trading desks.
The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded in the report timestamp.

Recipients who are not institutional investors or market professionals should seek the advice of their independent financial advisor before considering information in this report in connection with any investment decision, or for a necessary explanation of its contents.
Officers of BofAS or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.
Refer to BofA Global Research policies relating to conflicts of interest.
"BofA Securities" includes BofA Securities, Inc. ("BofAS") and its affiliates. Investors should contact their BofA Securities representative or Merrill Global Wealth Management financial advisor if they have questions concerning this report or concerning the appropriateness of any investment idea described herein for such investor. "BofA Securities" is a global brand for BofA Global Research.
Information relating to Non-US affiliates of BofA Securities and Distribution of Affiliate Research Reports:
BofAS and/or Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") may in the future distribute, information of the following non-US affiliates in the US (short name: legal name, regulator): Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd., regulated by The Financial Service Board; MLI (UK): Merrill Lynch International, regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA); BofASE (France): BofA Securities Europe SA is authorized by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers (AMF). BofA Securities Europe SA ("BofASE") with registered address at 51, rue La Boétie, 75008 Paris is registered under no 842 602 690 RCS Paris. In accordance with the provisions of French Code Monétaire et Financier (Monetary and Financial Code), BofASE is an établissement de crédit et d'investissement (credit and investment institution) that is authorised and supervised by the European Central Bank and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the ACPR and the Autorité des Marchés Financiers. BofASE's share capital can be found at www.bofaml.com/BofASEdisclaimer; BofA Europe (Milan): Bank of America Europe Designated Activity Company, Milan

Branch, regulated by the Bank of Italy, the European Central Bank (ECB) and the Central Bank of Ireland (CBI); BofA Europe (Frankfurt): Bank of America Europe Designated Activity Company, Frankfurt Branch regulated by BaFin, the ECB and the CBI; BofA Europe (Madrid): Bank of America Europe Designated Activity Company, Sucursal en España, regulated by the Bank of Spain, the ECB and the CBI; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited, regulated by the Australian Securities and Investments Commission; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited, regulated by the Hong Kong Securities and Futures Commission (HKSFC); Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd, regulated by the Monetary Authority of Singapore (MAS); Merrill Lynch (Canada): Merrill Lynch Canada Inc, regulated by the Canadian Investment Regulatory Organization; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa, regulated by the Comisión Nacional Bancaria y de Valores; Merrill Lynch (Argentina): Merrill Lynch Argentina SA, regulated by Comisión Nacional de Valores; BofAS Japan: BofA Securities Japan Co., Ltd., regulated by the Financial Services Agency; Merrill Lynch (Seoul): Merrill Lynch International, LLC Seoul Branch, regulated by the Financial Supervisory Service; Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd., regulated by the Securities and Futures Bureau; BofAS India: BofA Securities India Limited, regulated by the Securities and Exchange Board of India (SEBI); Merrill Lynch (Israel): Merrill Lynch Israel Limited, regulated by Israel Securities Authority; Merrill Lynch (DIFC): Merrill Lynch International (DIFC Branch), regulated by the Dubai Financial Services Authority (DFSA); Merrill Lynch (Brazil): Merrill Lynch S.A. Corretora de Títulos e Valores Mobiliários, regulated by Comissão de Valores Mobiliários; Merrill Lynch KSA Company: Merrill Lynch Kingdom of Saudi Arabia Company, regulated by the Capital Market Authority.

This information: has been approved for publication and is distributed in the United Kingdom (UK) to professional clients and eligible counterparties (as each is defined in the rules of the FCA and the PRA) by MLI (UK), which is authorized by the PRA and regulated by the FCA and the PRA - details about the extent of our regulation by the FCA and PRA are available from us on request; has been approved for publication and is distributed in the European Economic Area (EEA) by BofASE (France), which is authorized by the ACPR and regulated by the ACPR and the AMF; has been considered and distributed in Japan by BofAS Japan, a registered securities dealer under the Financial Instruments and Exchange Act in Japan, or its permitted affiliates; is issued and distributed in Hong Kong by Merrill Lynch (Hong Kong) which is regulated by HKSFC; is issued and distributed in Taiwan by Merrill Lynch (Taiwan); is issued and distributed in India by BofAS India; and is issued and distributed in Singapore to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch (Singapore) (Company Registration No 198602883D). Merrill Lynch (Singapore) is regulated by MAS. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this information in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of Bank of America N.A., Australia Branch, neither MLEA nor any of its affiliates involved in preparing this information is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this information in Brazil and its local distribution is by Merrill Lynch (Brazil) in accordance with applicable regulations. Merrill Lynch (DIFC) is authorized and regulated by the DFSA. Information prepared and issued by Merrill Lynch (DIFC) is done so in accordance with the requirements of the DFSA conduct of business rules. BofA Europe (Frankfurt) distributes this information in Germany and is regulated by BaFin, the ECB and the CBI. BofA Securities entities, including BofA Europe and BofASE (France), may outsource/delegate the marketing and/or provision of certain research services or aspects of research services to other branches or members of the BofA Securities group. You may be contacted by a different BofA Securities entity acting for and on behalf of your service provider where permitted by applicable law. This does not change your service provider. Please refer to the Electronic Communications Disclaimers for further information.

This information has been prepared and issued by BofAS and/or one or more of its non-US affiliates. The author(s) of this information may not be licensed to carry on regulated activities in your jurisdiction and, if not licensed, do not hold themselves out as being able to do so. BofAS and/or MLPF&S is the distributor of this information in the US and accepts full responsibility for information distributed to BofAS and/or MLPF&S clients in the US by its non-US affiliates. Any US person receiving this information and wishing to effect any transaction in any security discussed herein should do so through BofAS and/or MLPF&S and not such foreign affiliates. Hong Kong recipients of this information should contact Merrill Lynch (Asia Pacific) Limited in respect of any matters relating to dealing in securities or provision of specific advice on securities or any other matters arising from, or in connection with, this information. Singapore recipients of this information should contact Merrill Lynch (Singapore) Pte Ltd in respect of any matters arising from, or in connection with, this information. For clients that are not accredited investors, expert investors or institutional investors Merrill Lynch (Singapore) Pte Ltd accepts full responsibility for the contents of this information distributed to such clients in Singapore.

General Investment Related Disclosures:

Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Securities.

This document provides general information only, and has been prepared for, and is intended for general distribution to, BofA Securities clients. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This document is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of, and is not directed to, any specific person(s). This document and its content do not constitute, and should not be considered to constitute, investment advice for purposes of ERISA, the US tax code, the Investment Advisers Act or otherwise. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this document.

Securities and other financial instruments referred to herein, or recommended, offered or sold by BofA Securities, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. Digital assets are extremely speculative, volatile and are largely unregulated. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the issuer or the market that is anticipated to have a short-term price impact on the equity securities of the issuer. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Securities is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned herein. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

BofAS or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. BofAS or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Securities, through business units other than BofA Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented herein. Such ideas or recommendations may reflect different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Securities is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this information.

In the event that the recipient received this information pursuant to a contract between the recipient and BofAS for the provision of research services for a separate fee, and in connection therewith BofAS may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom BofAS has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by BofAS). If such recipient uses the services of BofAS in connection with the sale or purchase of a security referred to herein, BofAS may act as principal for its own account or as agent for another person. BofAS is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities referred to herein.

Copyright and General Information: