

Loma Negra Cia Industrial Argentina

**4Q23: Weak Qtr on election transition.
Uncertainty + tough macro = Still U/P**

Reiterate Rating: UNDERPERFORM | PO: 7.10 USD | Price: 6.54 USD

Political transition & tough macro, U/P on lack of visibility

Loma's 4Q23 consolidated revenues increased 133% yoy (down 13% yoy after stripping out triple-digit inflation, or down 15% in USD) to reach ARS\$81,122mn (16% below our estimate). As was broadly expected, the Argentinian presidential elections led to a slowdown of construction activity; and therefore, a deep downturn to volume growth (-10% yoy). Ready mix and aggregate volumes also experienced a deep decline, falling 17% and 12% yoy, respectively. EBITDA of ARS\$27,022mn increased 83% yoy (down 45% ex. inflation or down 33% in USD) slightly above our estimates. A 389bps yoy margin contraction (excluding a 4Q22 one-off) was mostly due to lower volumes. Q4 net income came in at negative ARS\$32,668mn (we expected a small ARS\$968mn profit) on higher-than-expected fx losses.

Conference call feedback and 2024 Outlook

The company sees volatility generated by the Presidential transition process and lower level of activity to persist in the 1H of 2024, with a potential recovery in the back half of the year. Admittedly, they recognized that volumes are most likely to be down for the year. On a positive note, cement pricing (on real terms) seems to be holding up, and the company is pushing for pricing increments ahead of inflation. The company remains optimistic on Argentina's long-term prospects and sees interesting growth potential.

A peak at the macro stabilization plan in motion

Sebastian Rondeau, our Argentina economist, sees the new government implementing a decisive stabilization plan including a large fiscal adjustment and relative price correction. This allowed it to reach an IMF agreement. Capital controls removal is very gradual. The pro-growth structural reforms proposals are ambitious and are facing hurdles in Congress and courts. The Omnibus Bill was withdrawn from congress due to insufficient support. Inflation is declining but from a high peak. The big risk is the population reaction to the adjustment. All this backdrop makes us wary on the path for economic growth (and construction activity). Sebastian sees the economy falling -3.5% in 2025, followed by a recovery of 3.5% in 2025. See his comprehensive report: Fiscal scenarios after withdrawal of Omnibus bill.

Uncertainty is high, we remain on the sidelines

Tighter economic policies and a political transition pose important challenges for construction activity in Argentina. While inflation seems to be easing, it remains very high, and we are concerned that in a recessionary environment purchasing power will continue to lose ground. In addition, government spending is likely to face challenges, also impacting volume growth for public works. Lastly, Argentina's country risk remains elevated despite spreads narrowing recently (1,600bps vs a 2H23 2,200bps avg).

07 March 2024

Equity

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

Stock Data

Price	6.54 USD
Price Objective	7.10 USD
Date Established	14-Jan-2022
Investment Opinion	C-3-7
52-Week Range	5.50 USD - 7.42 USD
Mrkt Val (mn) / Shares Out (mn)	763 USD / 116.7
Free Float	0%
Average Daily Value (mn)	2.60 USD
BofA Ticker / Exchange	LOMA / NYS
Bloomberg / Reuters	LOMA US / LOMA.N
ROE (2023E)	26.0%
Net Dbt to Eqty (Dec-2022A)	13.7%

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4Q23 Results

Exhibit 1: Loma Negra 4Q23 earnings

Revenues were 16 percent below our forecast, while EBITDA was slightly above.

Loma Negra Mn Ars	Reported 4Q23A	BofA Est. 4Q23E	Bloomberg 4Q23E	Reported 4Q22	% Chg Yoy	Actual / BofA	Actual / Street
Net Revenue	81,222	96,847	121,938	34,933	133%	-16%	-33%
Net Rev. (USD)	182	139	241	215	-15%	31%	-24%
Adjusted EBITDA	27,022	26,149	34,326	14,742	83%	3%	-21%
Adjusted EBITDA (USD)	61	52	68	91	-33%	18%	-10%
EBITDA Margin	33.3%	27.0%	28.2%	42.2%	-893 bps	627 bps	512 bps
Net Profit	(32,668)	968	9,593	8,962	-465%	-3473%	-441%
Net Profit (USD)	(73)	2	19	55	N/A	NA	NA
Net Margin	-40.1%	1.0%	7.9%	25.7%	N/A	NA	NA
EPS	(0.62)	0.02	0.16	0.47	N/A	NA	NA

Source: BofA Global Research estimates

Note: Data excludes inflation adjustments under IAS 29

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Price objective basis & risk

Loma Negra Cia Industrial Argentina (LOMA)

Our PO is US\$7.1. We reach our DCF-based PO valuation using our forecasts in US dollars (valuation of US\$8.4/ADR) and a 15% liquidity discount. We derive Loma Negra's discount rate assuming a 2.3% risk free rate plus 1600bps country risk spread. We assume an equity risk premium of 5.7% and a beta factor of 1.0. This translates into a cost of equity of 24.0%. We assume a 60%/40% target equity/debt structure. We derive a WACC in US dollars of 17%. We assume a 3.0% terminal growth rate for our perpetuity factor.

Upside risks are:

(1) Higher-than-expected economic growth in Argentina, (2) cement volumes grow above our forecasts, (3) stronger-than-expected cement pricing lead to increments above inflation, (4) stronger-than-expected infrastructure spending.

Downside risks are:

(1) if the economy recovery loses momentum on the back of a global economic slowdown, Argentina's country risk premium could deteriorate even further, severely impacting risk assets, (2) if inflation expectations become unanchored and prices enter a tailspin, the loss of real income is likely to severely impact demand for bagged cement in the country, (3) if Loma is forced to tap global petcoke markets for clinker production, it could impact its cost structure and lead to lower margins.

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Loma Negra (LOMA) Price Chart



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

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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)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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