

Cemex

4QE: strong EBITDA +18% yoy on solid yoy pricing, lower inputs & a strong MXN

Maintain Rating: BUY | PO: 9.00 USD | Price: 8.35 USD

EBITDA set to close out at \$3.3bn in line with guid. & est

For Q4 we see a set of solid operating numbers, driven by robust YoY pricing, a strong MXN, and declining input cost inflation. As for volumes, we still see negative growth headwinds permeating across most of CX's footprint, with only Mexico posting positive yoy volume growth (low single digits). CX's top line should reach US\$4.5bn (up 16% yoy), boosted mainly by strong pricing & an appreciating MXN (10% YoY). EBITDA should reach US\$747mn vs. a Visible Alpha (VA) consensus of US\$759mn—implying a yoy 260bps margin expansion. Petcoke (~50% of kiln fuel costs) fell 40 % yoy this quarter by our est. EPADR est. of - US\$0.18, impacted by the US\$500mn Spanish tax expense.

Q4 Read-through from Eagle Materials is quite positive

Eagle Materials (NYSE EXP, not rated) reported cement sales up 20% y/y with pricing up 13% (\$151 per ton, in line with Q3) and volumes up 7%. In their earnings call, mgmt pointed to solid demand conditions across most segments and even suggested that residential might have bottomed. They also implemented price increases (Jan-April).

4QE: a look at Cement and Ready-Mix prices

In the **U.S.**, December's PPI data for cement and ready-mix (RMX) translated into a soft comparison (flat and down 0.4% MoM, respectively). Aggregating data to get quarterly figures (a good proxy for CX) points to flat sequential (QoQ) increments for cement and up 1.2% for RMX. In **Mexico** cement pricing also ended slight down in Dec, down 0.4% MoM, taking the quarterly sequential figure to -1% QoQ. RMX was up 1.4% QoQ.

All eyes on Jan pricing increments, potential dividend

Investor focus is likely to center on the January pricing increments, especially in the U.S. and Mexico. In the former, high single digit increments were announced across 85% of their footprint. And for the later, low single digit increments were pushed in January. While a full 100% pass through is unrealistic, we still see strong enough increments to move prices ahead of inflation (4-5%). We will also look for mgmt's comments for a potential 2nd summer increment—a potential upside risk to our estimates.

CX is trading at 5.9x fwd EBITDA, a 13% disc to 5yr avg

Our Buy rating hinges on (1) CX is a clear beneficiary of nearshoring trends, (2) an expected soft landing in the US and Mexico economy this year, that should allow for positive cement volume growth both this year and next, (3) above inflation pricing increases for cement and ready-mix in January 2024 both in Mexico & USA; (4) lower input costs for key energy inputs, including petcoke, coal, natural gas, and diesel, and (5) a ramp up of President Biden's infra package in 2024 & 2025, plus higher fiscal spending in 2024 in Mexico prompted by Presidential elections.

31 January 2024

Equity

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Stock Data

Price	8.35 USD
Price Objective	9.00 USD
Date Established	9-Jan-2024
Investment Opinion	C-1-9
52-Week Range	4.72 USD - 8.46 USD
Mrkt Val (mn) / Shares Out (mn)	12,283 USD / 1,471.0
Free Float	0%
Average Daily Value (mn)	45.95 USD
BofA Ticker / Exchange	CX / NYS
Bloomberg / Reuters	CX US / CX.N
ROE (2023E)	5.4%
Net Dbt to Eqty (Dec-2022A)	69.2%

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Timestamp: 31 January 2024 01:56PM EST

Cemex 4Q Earnings

Exhibit 1: Cemex Q4 earnings

We might be undershooting on EBITDA as the implied margin is below 9m2023

CEMEX USD, Mn	BofAe 4Q23E	Actual 4Q22	YoY % Chg	Visible Alpha Consensus	BofA vs Consensus
Net Revenues	4,733	3,869	22.3%	4,168.3	13.5%
EBITDA	747	630	18.5%	758.8	-1.6%
EBITDA Mrg	15.8%	16.3%	257 bps	18.2%	-242 bps
Net Income	(235)	(99)	137.2%	271.4	-186.7%
EPADR	(0.18)	(0.12)	52.7%	0.211	-186.7%
Revenues:					
Revenue Mexico	1,938	1,016	90.7%	1,217.1	59.2%
Revenue US	1,173	1,221	-3.9%	1,249.1	-6.1%
Revenue SCAC	377	377	0.0%	387.7	-2.7%
Revenue Europe + AMEA	1,238	820	51.0%	1,208.7	2.4%
EBITDA:					
EBITDA Mexico	296	271	9.4%	353.4	-16.1%
EBITDA USA	221	202	9.4%	214.5	3.0%
EBITDA SCAC	84	84	0.0%	87.9	-3.9%
EBITDA Europe + AMEA	173	104	66.1%	170.4	1.3%
EBITDA Margin:					
EBITDA Margin Mexico	15.3%	26.7%	408 bps	29.0%	-1374 bps
EBITDA Margin US	18.8%	16.5%	311 bps	17.2%	165 bps
EBITDA Margin SCAC	22.4%	22.4%	501 bps	22.7%	-27 bps
EBITDA Margin Europe + AMEA	13.9%	12.7%	177 bps	14.1%	-15 bps

Source: BofA Global Research estimates and Visible Alpha

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.

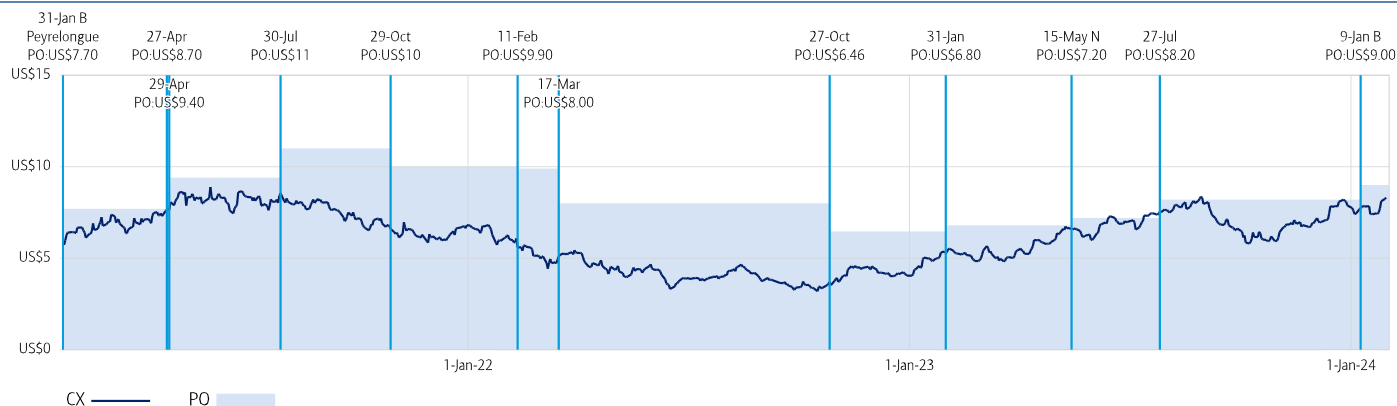
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Cemex (CX) Price Chart



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

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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%
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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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