# Cemex

# LT beneficiary of nearshoring (US & MEX) + US infra. Up to Buy, PO of US$9.0/ADR

**Rating Change: BUY | PO: 9.00 USD | Price: 7.74 USD**

09 January 2024

Equity

## Five reasons justify our Buy rating on Cemex and new PO

(1) Clear beneficiary of secular medium- to long-term nearshoring trends, that should support cement volume demand in the next 5 years in the US and Mexico (see pages 3-6), (2) 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) recent feedback by industry participants and our own channel checks, point to 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. Coupled with higher use of alternative fuel usage for its kilns (now at 38% vs 25.3% in 2020); all of which combined, should allow for further EBITDA margin expansion (60bps for 2024E)—CX is already achieving +230bps expansion (9m23 vs 9m22), 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. We upgrade Cemex to Buy from Neutral, and raise our PO to US$9.0 (from US$8.2) to reflect higher EBITDA forecasts driven mainly higher pricing assumptions, a rebound of cement volume growth, and lower input costs (mainly petcoke).

## A decade in the works: Inv Grade + dividends/buybacks

We are now including in our CX model a sustainable dividend staring in 2025 (Dividend yield of 3%), but acknowledge that CX could start paying a dividend as soon as 2024. The company briefly restarted a dividend back in 2019, pausing it due to the pandemic. Lastly, CX is laser focused on bringing margins back up to the 21% neighborhood (BofA 24E at 20.3%), engaging only in small-ticket and accretive bolt-on acquisitions, all while improving its FCF yield (2024-25 avg of 10%, ex Spain's tax fine).

## CX is trading at 5.7x fwd EBITDA, a 15% disc to 5yr avg

We tweak our EBITDA to incorporate new input cost assumptions and increase our '24 and '25 EBITDA by 4.7%, in average, to US$3.6bn & U$3.86bn, respectively. We see 2024 cement yoy pricing in Mexico and the US increasing 5%, consistent with increments slightly above inflation, but with potential upside if 2024 summer increments materialize. Our upgrade is also driven by a structural global positioning toward higher beta names as US economy achieves "escape velocity" and investors move away from defensive and into cyclical plays. In addition, CX is at the doorstep of cyclical growth opportunities, propelled by infra spending in the US and nearshoring in the US & MX.

| Estimates (Dec) (US$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| EPS | 0.54 | 0.61 | 0.44 | 0.90 | 1.05 |
| EPS Change (YoY) | NM | 13.0% | -27.9% | 104.5% | 16.7% |
| Consensus EPS (Bloomberg) | | | 0.69 | 0.82 | 0.91 |
| DPS | 0 | 0 | 0 | 0 | 0.23 |
| **Valuation (Dec)** | | | | | |
| P/E | 14.3x | 12.7x | 17.6x | 8.6x | 7.4x |
| Dividend Yield | 0% | 0% | 0% | 0% | 3.0% |
| EV / EBITDA* | 7.1x | 7.6x | 6.1x | 5.7x | 5.3x |
| Free Cash Flow Yield* | 3.4% | 6.4% | 3.8% | 9.2% | 10.8% |

* For full definitions of *IQmethod* SM measures, see page 12.

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**Refer to important disclosures on page 13 to 15. Analyst Certification on page 11. Price Objective Basis/Risk on page 11.** 12643227

Timestamp: 09 January 2024 02:00AM EST

### Key Changes

| (US$) | Previous | Current |
|---|---|---|
| Inv. Opinion | C-2-9 | C-1-9 |
| Inv. Rating | NEUTRAL | BUY |
| Price Obj. | 8.20 | 9.00 |
| 2023E Rev (m) | 17,640.3 | 16,976.1 |
| 2024E Rev (m) | 18,663.9 | 17,731.5 |
| 2025E Rev (m) | 19,865.4 | 18,894.2 |
| 2023E EPS | 0.76 | 0.44 |
| 2024E EPS | 0.81 | 0.90 |
| 2025E EPS | 0.98 | 1.05 |
| 2023E EBITDA (m) | 3,282.8 | 3,351.0 |
| 2024E EBITDA (m) | 3,429.2 | 3,596.8 |
| 2025E EBITDA (m) | 3,700.4 | 3,861.7 |

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### Stock Data

| | |
|---|---|
| Price | 7.74 USD |
| Price Objective | 9.00 USD |
| Date Established | 8-Jan-2024 |
| Investment Opinion | C-1-9 |
| 52-Week Range | 4.43 USD - 8.46 USD |
| Mrkt Val (mn) / Shares Out (mn) | 11,386 USD / 1,471.0 |
| Free Float | 0% |
| Average Daily Value (mn) | 36.84 USD |
| BofA Ticker / Exchange | CX / NYS |
| Bloomberg / Reuters | CX US / CX.N |
| ROE (2023E) | 5.4% |
| Net Dbt to Eqty (Dec-2022A) | 69.2% |

# *iQprofile* SM Cemex

*iQ*method SM – Bus Performance*

| (US$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Return on Capital Employed | 6.1% | 3.7% | 4.4% | 7.6% | 7.8% |
| Return on Equity | 8.4% | 8.4% | 5.4% | 10.1% | 10.7% |
| Operating Margin | 11.9% | 10.0% | 11.4% | 11.9% | 12.1% |
| Free Cash Flow | 392 | 723 | 436 | 1,052 | 1,228 |

*iQ*method SM – Quality of Earnings*

| (US$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Cash Realization Ratio | 1.9x | 2.1x | 2.9x | 1.9x | 1.8x |
| Asset Replacement Ratio | 0.9x | 1.0x | 1.0x | 1.0x | 1.0x |
| Tax Rate | 15.5% | 27.2% | 57.1% | 16.0% | 17.0% |
| Net Debt-to-Equity Ratio | 76.9% | 69.2% | 50.1% | 38.7% | 27.6% |
| Interest Cover | 2.4x | 2.7x | 3.4x | 3.3x | 3.8x |

**Income Statement Data (Dec)**

| (US$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Sales | 14,548 | 15,577 | 16,976 | 17,731 | 18,894 |
| % Change | 12.2% | 7.1% | 9.0% | 4.4% | 6.6% |
| Gross Profit | 4,673 | 4,822 | 5,650 | 5,998 | 6,398 |
| % Change | 11.8% | 3.2% | 17.2% | 6.2% | 6.7% |
| EBITDA | 2,861 | 2,681 | 3,351 | 3,597 | 3,862 |
| % Change | 16.3% | -6.3% | 25.0% | 7.3% | 7.4% |
| Net Interest & Other Income | (640) | (375) | (546) | (583) | (484) |
| **Net Income (Adjusted)** | **752** | **858** | **611** | **1,278** | **1,488** |
| **% Change** | **NM** | **14.2%** | **-28.8%** | **109.1%** | **16.5%** |

**Free Cash Flow Data (Dec)**

| (US$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Net Income from Cont Operations (GAAP) | 752 | 858 | 611 | 1,271 | 1,484 |
| Depreciation & Amortization | 1,127 | 1,120 | 1,298 | 1,362 | 1,458 |
| Change in Working Capital | (450) | (173) | (132) | (178) | (216) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | 0 | 0 | 0 | 0 | 0 |
| Capital Expenditure | (1,036) | (1,082) | (1,341) | (1,401) | (1,493) |
| **Free Cash Flow** | **392** | **723** | **436** | **1,052** | **1,228** |
| **% Change** | **NM** | **84.4%** | **-39.8%** | **141.5%** | **16.7%** |
| Share / Issue Repurchase | 568 | (220) | 900 | (100) | (100) |
| Cost of Dividends Paid | 0 | 0 | 0 | 0 | (324) |
| Change in Debt | (2,671) | (465) | (519) | 451 | (157) |

**Balance Sheet Data (Dec)**

| (US$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Cash & Equivalents | 613 | 495 | 1,311 | 2,716 | 3,690 |
| Trade Receivables | 1,521 | 1,644 | 1,814 | 2,040 | 2,278 |
| Other Current Assets | 2,091 | 2,386 | 2,176 | 2,293 | 2,464 |
| Property, Plant & Equipment | 11,322 | 11,284 | 11,328 | 11,367 | 11,401 |
| Other Non-Current Assets | 11,103 | 10,638 | 10,638 | 10,638 | 10,638 |
| **Total Assets** | **26,650** | **26,447** | **27,267** | **29,054** | **30,471** |
| Short-Term Debt | 1,208 | 1,130 | 307 | 307 | 307 |
| Other Current Liabilities | 4,172 | 4,417 | 4,244 | 4,409 | 4,601 |
| Long-Term Debt | 7,306 | 6,920 | 7,223 | 7,674 | 7,517 |
| Other Non-Current Liabilities | 3,693 | 3,072 | 3,072 | 3,072 | 3,072 |
| **Total Liabilities** | **16,379** | **15,539** | **14,847** | **15,462** | **15,498** |
| **Total Equity** | **10,271** | **10,909** | **12,420** | **13,591** | **14,975** |
| **Total Equity & Liabilities** | **26,650** | **26,447** | **27,267** | **29,054** | **30,472** |

* For full definitions of *iQ*method SM measures, see page 12.

## Company Sector

Building Materials

## Company Description

Cemex is the fifth-largest cement company in the world in terms of installed capacity and the largest concrete company in the world. In addition, Cemex is also one of the world's largest traders of cement and clinker. Cemex has operations in more than 50 countries on four continents. Its most important markets, which constitute approximately 67% of total sales, are Mexico, the US, the UK, and Spain.

## Investment Rationale

Our Buy rating is based on: 1) above inflation pricing increases for 2024 for cement in Mexico and the US--supported by tight supply/demand dynamics , 2) improving margins on the back of lower input costs , 3) supportive LT growth outlook supported by a US manufacturing revival, the US$550bn Infra Bill and the Inflation Reduction Act (IRA), and 4) Nearshoring dynamics boosting non-residential spending in Mexico and the U.S.

## Stock Data

| | |
|---|---|
| Average Daily Volume | 4,759,675 |

## Quarterly Earnings Estimates

| | 2022 | 2023 |
|---|---|---|
| Q1 | NA | NA |
| Q2 | NA | NA |
| Q3 | NA | NA |
| Q4 | NA | NA |

# Up to Buy on "Soft-Landing", PO to $9.0

## Looking forward to a promising '24 & '25

We are upgrading CX to Buy from Neutral while increasing our PO to US$9.0 on: (1) Clear beneficiary of secular medium to long term nearshoring trends, that should support cement volume demand in the next 5 years in the US and Mexico (see pg 3 to 6), (2) we expected a soft landing in the US and Mexico economy this year, that should allow for positive cement volume growth both this year and next, (3) recent feedback by industry participants and our own channel checks, point to 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. Coupled to higher use of alternative fuel usage for its kilns (now at 38% vs 25.3% in 2020); all of which combined, should allow for further EBITDA margin expansion (60bps for 2024E)—CX is already achieving +230bps expansion (9m23 vs 9m22), 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.

In addition, looking at the economic front, we agree with our Global Economics Research team, Global Economics: Year Ahead 2024: Growing apart, cutting together, as mixed global macro growth dynamics across regions should persist in 2024, but coupled to more benign and uniform inflation dynamics, allowing thus for a several global central banks to cut rates throughout 2024. Accordingly, the FED, the ECB, and other EM Central Banks (including Banxico) are expected to start cutting rates in 2H24. With interest rates easing across most of CX geographies, we believe cyclical names such as Cemex are very well positioned for a shift in global positioning: away from defensive names and into more cyclical and higher beta names. But it is not only a case of favorable positioning, CX fundamentals are also pointing to a more solid footing.

## A decade-long path to Investment Grade set to materialize

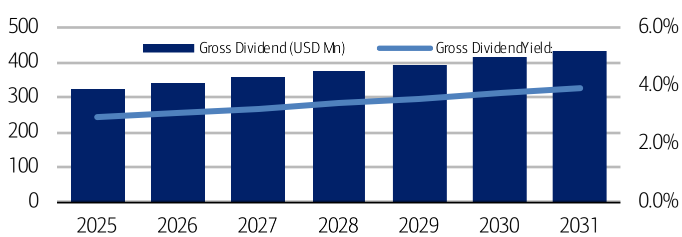
### CX's balance sheet is the healthiest it's been in 15 years

The company is closer to regaining investment grade status, while also rejoining the crowd of global dividend cement paying companies. In addition, it is also laser focused on bringing margins back up to the 21% neighborhood (BofA 24E at 20.3%), engaging only in small-ticket and accretive bolt-on acquisitions, all while improving its FCF yield (2024-25 avg of 10%, ex Spain's tax fine).

### Cemex set to rejoin other global cement dividend payers

It is also worthwhile to highlight that Cemex is poised to renew its divided and/or buyback program next year now that the company is in a more sustainable financial path. The company briefly restarted a dividend program back in 2019, pausing it due to the Pandemic. This is about to change. CX management has stated its intent to potentially start paying a sustainable divided program in 2024. We, however, prefer to take a cautious view, and only model dividend payments starting in 2025.

**Exhibit 1: Cemex. Expected Dividends (USD Mn and Yield)**
We see dividends growing 5% per year starting in 2025




**Source:** BofA Global Research estimates

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Below we take a closer view at the key drivers behind our upgrade:

# I. Nearshoring in the U.S and Mexico are key drivers

## The United States

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

As illustrated below, 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 of last year, 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. In all, we see a very strong background, with some ups and downs, but with activity remaining very high.

**Exhibit 2: U.S. Indust./Manuf. Construction Starts (2005 – Present)**
Industrial /manufacturing starts have been down YoY following its bumper growth of over 200% in 2022, but is still sky high


**Source:** BLS

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## Mexico

### A story of two halves, but lower interest rates could help in 2H24

Our model for Mexico pencils 2.9% and 2.0% yoy growth in 2024 and 2025, respectively. In Mexico we expect a very positive 2024 first half as the government wraps up construction of its key infrastructure projects ahead of elections, plus other small infra projects ahead of June's Presidential election. Admittedly a second-half deceleration could press margins, but we expect them to remain stable as lower cost input costs trickle down the income statement (there is a 6-to-9-month lag for cheaper costs to reach the income statement).

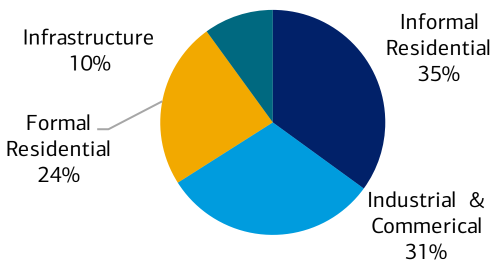
We are not excessively concerned about construction activity in Mexico, given that any slowdown in infrastructure (as the fiscal impulse fades into 2H24) will be potentially offset by the increasing strength or momentum of Nearshoring activity in the country. The most recent tally of investment announcements by the Ministry of Economy in Mexico points to over 363 nearshoring related announcements tallying over US$106bn—with the ten largest reaching over US$65bn. Even the battered formal sector should see some positive news: as nearshoring investments spur housing demand across industrial hubs.

### A look at different sub-sectors outlook for 2024

After a challenging 2023, we anticipate that 2024 will also be year of two half's: 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 4).

**Exhibit 3: Mexico: Cement industry demand**
The bagged cement market remains a key segment for cement demand




**Source:** Cemex

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**Exhibit 4: 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

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## Infrastructure

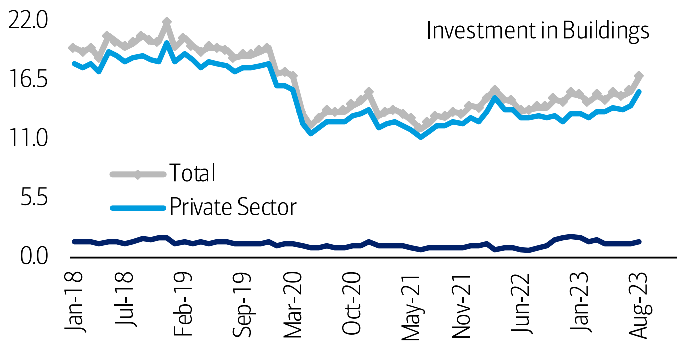
Government spending on big infrastructure projects, mostly in southern Mexico, is another key driver. Public sector construction spending increased 60% yoy in real terms in October to MXN $30bn. Much of that came from outlays for three projects – the Maya, the Isthmus, and the Mexico-Toluca railways – 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 18% yoy in real terms in October, and is the largest contributor to machinery and equipment investment, which jumped 19% 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 5: Investment in buildings by sector**
The private sector is the main contributor to buildings' construction




**Source:** BofA Global Research, INEGI

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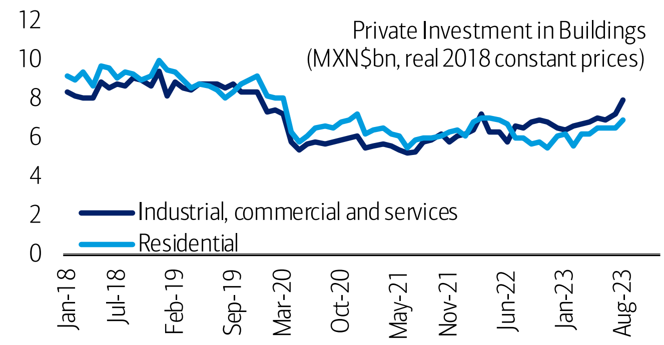
**Exhibit 6: Private investment in buildings' breakdown**
The private sector is building more industrial buildings




**Source:** BofA Global Research, INEGI

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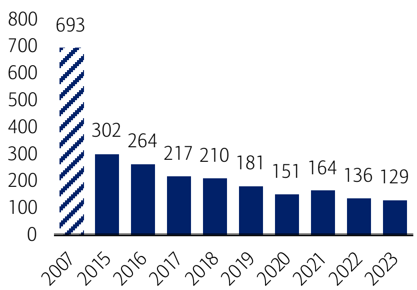
### Housing: will the next President implement a housing construction program?

Housing has been in a major 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 7 below). In a context where the country is adding, in average, 750 thousand insured workers per year, in the last two years, demand/supply dynamics continue to deteriorate significantly (Exhibit 8). We believe the next administration is likely to address this affordability issues as the demand/supply imbalance is feeding ever higher home prices (Exhibit 9).

**Exhibit 7: Mexico: Housing production**
Annual Housing Production ('000 units)




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

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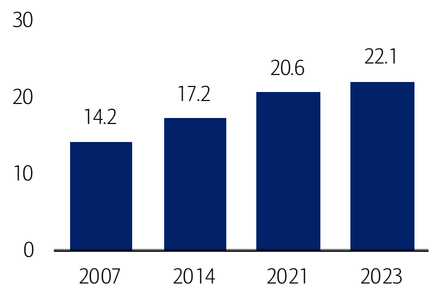
**Exhibit 8: Insured Workers—IMSS (Million)**
Formal employment continues to increase




**Source:** Vinte with data from IMSS

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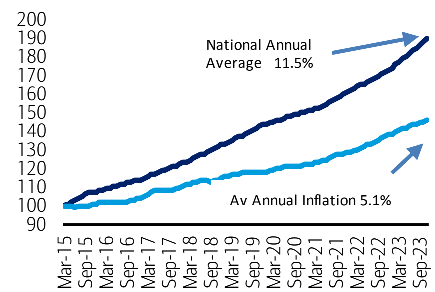
**Exhibit 9: Home prices rose 2x inflation**
Demand continues to outstrip limited supply




**Source:** Vinte with data from SHF and INEGI

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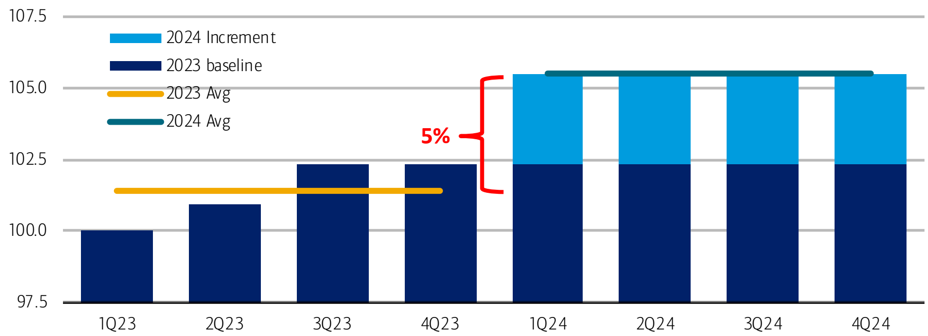
## II. A Soft Landing in the U.S.

BofA's US economic team retains their view that the combination of activity data and inflation data will support the start of a gradual easing cycle in March. See [US Watch: December employment: Simmering not boiling 05 January 2024]. Their forecast is for quarterly 25bp cuts in 2024 and 100bp for the year. The Fed is invested in achieving a soft landing and is more balanced in its reaction function than it was before, taking on board the signal that the economy can grow at a modest pace while inflation continues to decelerate. If so, then appropriate policy could call for an early start to policy normalization, but also a gradual pace of normalization.

## III. Cement pricing likely to pull ahead of inflation in 2024

Following recent comments by industry participants and channel checks, we see solid market conditions for further (albeit moderate) above inflation pricing increases for cement and ready-mix in January 2024; to which we anticipate positive market acceptance.

**Exhibit 10: 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:** BLS and BofA Global Research

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## IV. Input Costs to remain supportive

As illustrated in the exhibits below, we see lower input cost pricing for key energy inputs (exhibits below), including petcoke, coal, natural gas, and diesel. Coupled to higher use of alternative fuel usage for its kilns; all of which combined, should allow for further margin expansion (50bps estimated for 2024 consolidated EBITDA).

**Exhibit 11: Petcoke Prices (USD per ton)**
Prices in November reached 77 dlls per ton


**Source:** BofA Global Research estimates

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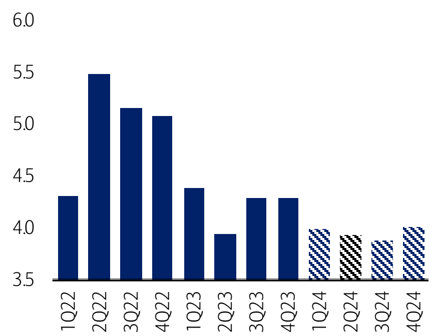
**Exhibit 12: U.S. Diesel ($ Gallon)**
The IEA sees 2024 price down 6% vs 2023




**Source:** IEA Short-Term Energy Outlook

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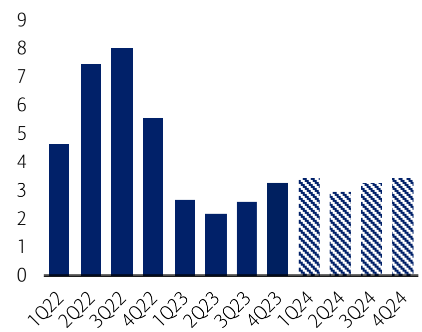
**Exhibit 13: U.S. Natural Gas Prices ($mn BTU)**
Prices should increase 10% yoy as per IEA




**Source:** IEA Short-Term Energy Outlook

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Averaging approximately US$100 per ton in 2023, lower petcoke prices (exhibit 2 above), together with higher cement prices, allowed for an approximate 230bps margin expansion in the case of Cemex (9m2023 vs 2022). For 2024, we anticipate petcoke pricing easing further, down 5%-10% and ranging around US$90-100 dollars per ton, and for cement margins to continue improving into the summer as higher cost inventories run down, allowing for the full benefit of lower petcoke prices making their way through the income statement. Importantly, note than in November, prices average US$77 dollars per ton, offering upside to our estimates.

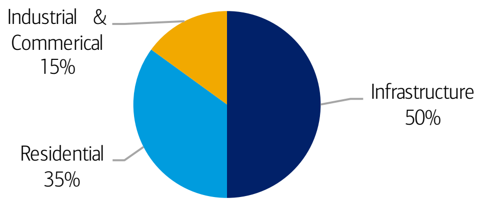
## V. Biden's Infrastructure package

### United States: Infrastructure will take center stage

The Portland Cement Association (or PCA) sees 2024 US cement volumes growing 1.4% yoy, driven by a 1.4% increase in nonresidential volumes, and a 5.5% increase for public construction (Infrastructure), this last one boosted the increasing activity from the Infrastructure Bill.

Following an almost 9% drop in 2023, housing volume should only decrease 3-4% yoy (with multi-family construction down 9% yoy) in 2024. We are more constructive for 2024, see exhibit 6 below, and see volumes growing 2% yoy for Cemex.

**Exhibit 14: U.S. Cement Industry Demand**
Infrastructure is the largest driver of cement demand t




**Source:** Cemex

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**Exhibit 15: United States: Cement demand forecasts**
Will housing construction trough in 2024?

| | % of Demand | 2024 Est Growth | Weighted Average |
|---|---|---|---|
| Infrastructure | 50% | 6.0% | 3.0% |
| Residential | 35% | -5.0% | -1.8% |
| Industrial & Commercial | 15% | 5.0% | 0.8% |
| Est. Total YoY Growth | 100% | | 2.0% |

**Source:** BofA Global Research estimates

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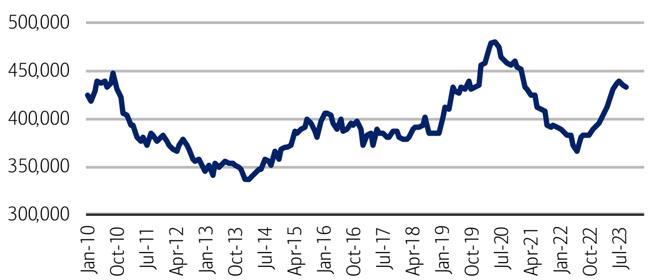
By our own forecasts, sometime in 2024 we should see the first solid sings of incremental demand from the Infrastructure Investment and Jobs Act (IIJA); with cement volume growth for infrastructure moving up 6% in our estimates. In addition, we expect moderate growth on the industrial and commercial sector (5%), but offset by weak demand from housing (-5%).

## Infrastructure: the best is still to come

Many challenges, including delays, permitting, inflation, changing priorities, etc., have made the promise of large incremental volumes a long-delayed proposition. And while public spending is moving upward (as seen in Exhibit 16 below), it is still below pandemic highs. We anticipate volumes to start increasing at a higher pace (approximately 5-6% yoy) as we move into the second half of 2024.

**Exhibit 16: US Public Spending, US$ bn, SAAR**
We anticipate further momentum for infrastructure spending in 2024




**Source:** BLS

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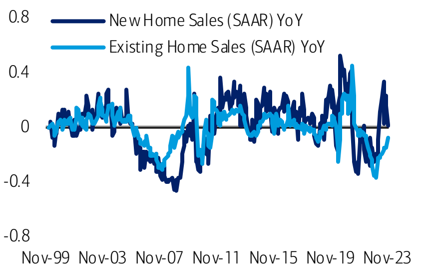
## Housing: expect resilient Single Family and deteriorating Multi Family

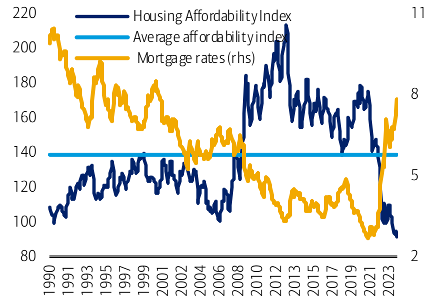
For 2024, Rafe Jadrosich, BofA's U.S. Homebuilders, expects single-family housing starts to increase 6% YoY to 975k. For total housing starts in 2024, he expects starts to decline (5%) YoY to 1.3mm with a ~30% decline in multi-family starts offsetting the increase in single-family starts.

**Exhibit 17: New Home Sales YoY vs Existing Home Sales YoY**
Existing home sales are still declining YoY, while new home sales are flat




**Source:** National Association of Home Builders
BofA GLOBAL RESEARCH

**Exhibit 18: Housing is still unaffordable**
The housing affordability index decreased (7.7%) YoY




**Source:** Haver Analytics
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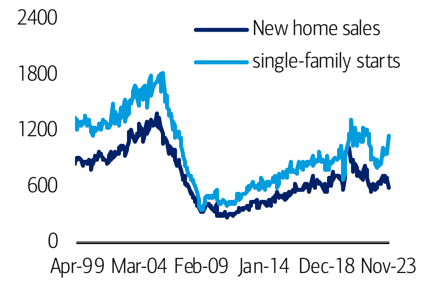
**Exhibit 19: New home sales vs. single-family starts (SAAR, 1,000s units**
New home sales decreased on a MoM basis in November 2023




**Source:** Haver Analytics
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## New forecasts

We tweak our EBITDA to incorporate our new input cost assumptions and increase our '24/'25E EBITDA by 4.6%, in average, to US$3.59bn/U$3.86bn. We see 2024 cement yoy pricing in Mexico increasing 4% and the U.S. approx. 5%, consistent with increments slightly above inflation, but with potential upside if summer increments materialize.

**Exhibit 20: Cemex New Forecasts**
We increase our EBITDA forecasts by 7.5% for 2024 and 2025

| | 2023E | | | 2024E | | | 2025E | | |
|---|---|---|---|---|---|---|---|---|---|
| | Current | Previous | % Var. | Current | Previous | % Var. | Current | Previous | % Var. |
| Revenues | 16,976 | 17,640 | -3.8% | 17,731 | 18,664 | -5.0% | 18,894 | 19,865 | -4.9% |
| EBITDA | 3,351 | 3,283 | 2.1% | 3,597 | 3,429 | 4.9% | 3,862 | 3,700 | 4.4% |
| EBITDA mg | 19.7% | 18.6% | 113bps | 20.3% | 18.4% | 191bps | 20.4% | 18.6% | 181bps |
| Net Income | 611 | 1,067 | -42.7% | 1,271 | 1,135 | 12.0% | 1,484 | 1,376 | 7.8% |
| Net Income Mg | 3.6% | 6.0% | -245bps | 7.2% | 6.1% | 0bps | 7.9% | 6.9% | 0bps |
| EPADR | 0.44 | 0.76 | -42.7% | 0.91 | 0.81 | 12.0% | 1.06 | 0.98 | 7.8% |

**Source:** BofA Global Research estimates
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## PO up to US$9.0 per ADR

We raise our PO to US$9.0/ADR (from US$8.2) based on a DCF methodology (unchanged). In our model, we now use a 14.5% cost of equity (from 13.7% previously to reflect a lower country risk premium for Mexico) and a 6.3% cost of debt. We use a Beta of 1.4x. Our assumptions translate into a WACC estimate of 10.6% (vs 10.1% previously). We now apply a terminal growth rate of 2.25% (from 2.5% previously to reflect a more moderate long term growth perspective). We use a country risk premium of 320bps derived from a combination of multiple country risk premiums that mirrors EBITDA exposure to CX's multiple geographies.

**Exhibit 21: CEMEX FCF inputs**
FCFE is expected to compound at 10% annually

| CEMEX | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 10yr CAGR |
|---|---|---|---|---|---|---|---|---|---|---|
| EBITDA | 3,351 | 3,597 | 3,862 | 4,128 | 4,400 | 4,673 | 4,959 | 5,164 | 5,346 | 6.5% |
| - Cash Taxes | -550 | -800 | -425 | -331 | -347 | -365 | -383 | -402 | -434 | 8.4% |
| - Total Capex | -1,341 | -1,401 | -1,493 | -1,588 | -1,694 | -1,922 | -2,005 | -2,079 | -2,156 | 7.1% |
| - Change in WC | -132 | -178 | -216 | -239 | -256 | -264 | -286 | -289 | -261 | 6.6% |
| - Other cash items | -85 | -85 | -87 | -89 | -92 | -94 | -96 | -99 | -101 | |
| FCFF | 1,243 | 1,133 | 1,641 | 1,882 | 2,011 | 2,028 | 2,189 | 2,296 | 2,394 | 4.3% |
| Net interest expense | -546 | -583 | -484 | -382 | -330 | -272 | -210 | -135 | -51 | |
| FCFE | 696 | 549 | 1,157 | 1,500 | 1,681 | 1,756 | 1,979 | 2,160 | 2,343 | 8.9% |
| FCFE after int payment perpetuals | 577 | 407 | 1,014 | 1,358 | 1,539 | 1,756 | 1,979 | 2,160 | 2,343 | 10.1% |

**Source:** BofA Global Research estimates
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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| 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 |
| | 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 |
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| | Vesta | VESTF | VESTA* MM | Carlos Peyrelongue |
| | Vesta | VTMX | VTMX US | Carlos Peyrelongue |
| **NEUTRAL** | | | | |
| | FIBRA Prologis | FBBPF | FIBRAPL MM | Carlos Peyrelongue |
| | Fibra Terrafina | CBAOF | TERRA13 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 |
| **RSTR** | | | | |
| | FUNO | FBASF | FUNO11 MM | Carlos Peyrelongue |

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| Business Performance | Numerator | Denominator |
| --- | --- | --- |
| Return On Capital Employed | NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization | Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization |
| Return On Equity | Net Income | Shareholders' Equity |
| Operating Margin | Operating Profit | Sales |
| Earnings Growth | Expected 5 Year CAGR From Latest Actual | N/A |
| Free Cash Flow | Cash Flow From Operations – Total Capex | N/A |
| **Quality of Earnings** | **Numerator** | **Denominator** |
| Cash Realization Ratio | Cash Flow From Operations | Net Income |
| Asset Replacement Ratio | Capex | Depreciation |
| Tax Rate | Tax Charge | Pre-Tax Income |
| Net Debt-To-Equity Ratio | Net Debt = Total Debt – Cash & Equivalents | Total Equity |
| Interest Cover | EBIT | Interest Expense |
| **Valuation Toolkit** | **Numerator** | **Denominator** |
| Price / Earnings Ratio | Current Share Price | Diluted Earnings Per Share (Basis As Specified) |
| Price / Book Value | Current Share Price | Shareholders' Equity / Current Basic Shares |
| Dividend Yield | Annualised Declared Cash Dividend | Current Share Price |
| Free Cash Flow Yield | Cash Flow From Operations – Total Capex | Market Cap = Current Share Price × Current Basic Shares |
| Enterprise Value / Sales | EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities | Sales |
| EV / EBITDA | Enterprise Value | Basic EBIT + Depreciation + Amortization |

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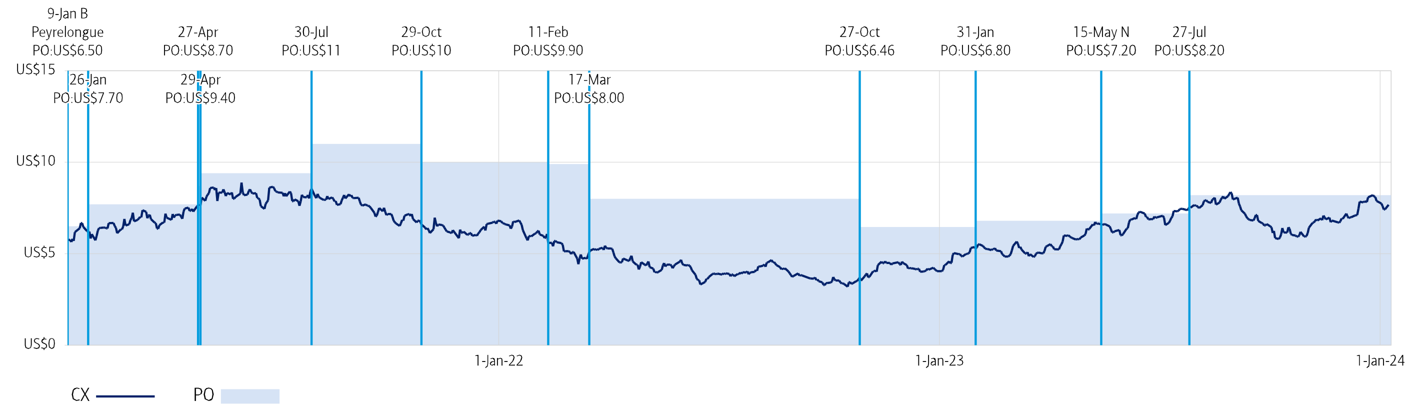
**Cemex (CX) Price Chart**




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% |

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

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