INVESTMENT COMPETITION

INCATRAZ INVESTMENTS

CHL: CB
CEMEX LATAM HOLDINGS S.A.

RESEARCH TEAM

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01

Cemex Latam Holdings (CLH) S.A based in Colombia that operates its cement, ready-mix concrete and aggregates businesses through its direct and indirect subsidiaries.

Company	Process	Operational Revenue (USD	% of operational revenue	Capacity (Mton)	Share of market
C. Argos	Dry/Humid	5	69.9%	9.88	55.4%
Cemex Latam	Dry/Humid	1.35	18.9%	4.88	27.4%
Holcim	Dry	0.7	9.8%	2.1	11.8%
Tequendema	Dry	0.1	1.4%	0.98	5.5%
Total		7.15		17.84	

Industry of Cement in Colombia

Source: Burkenroad Reports, Incatraz Investment Research

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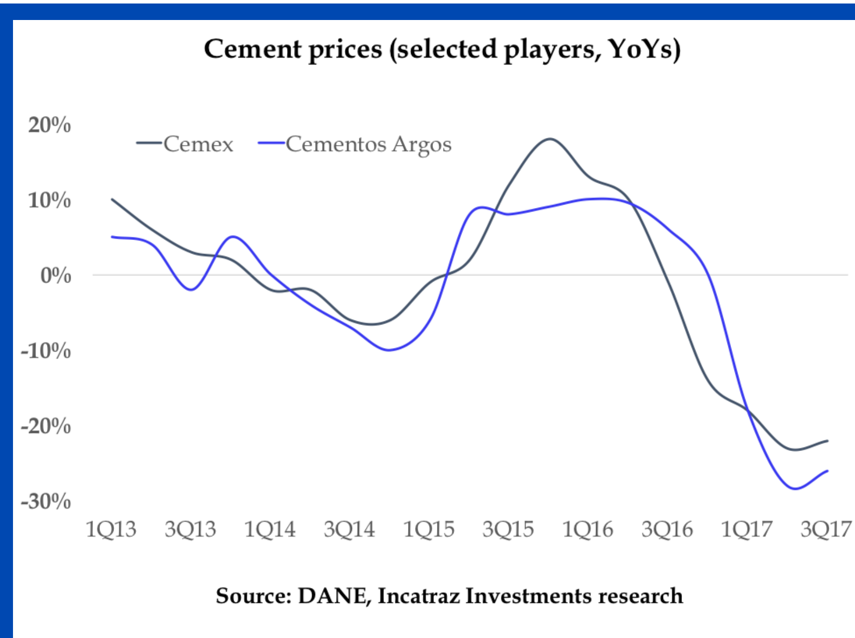
CLH competes in a mature and consolidated market, with a 27.4% share of market and a USD 1.3 billion of operational revenues in a total industry USD 7.15 billion.

03

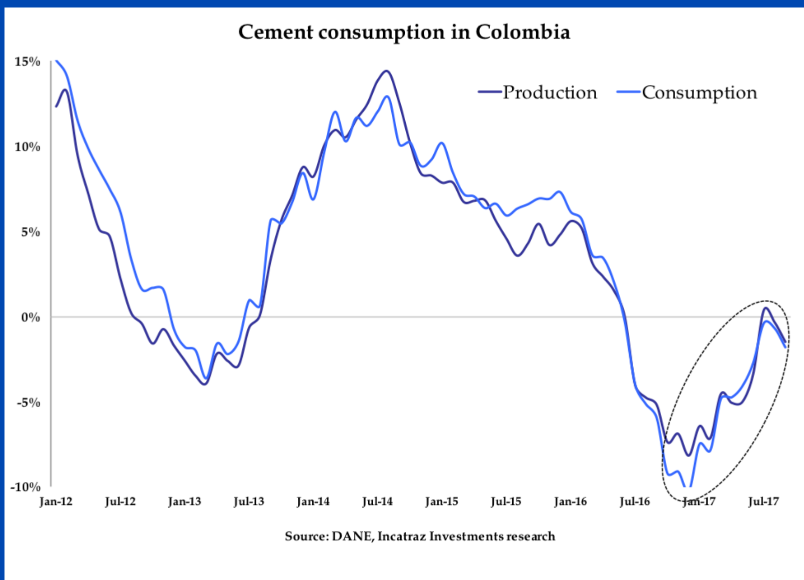
Cemex Latam Holdings (CLH), with a market cap of US$5.3bn and trading US$1.9mn daily on the Colombian stock exchange, is the only listed subsidiary of Cemex, one of the leading cement producers in the world. In Colombia owns 6 plants along with grinding units.

01

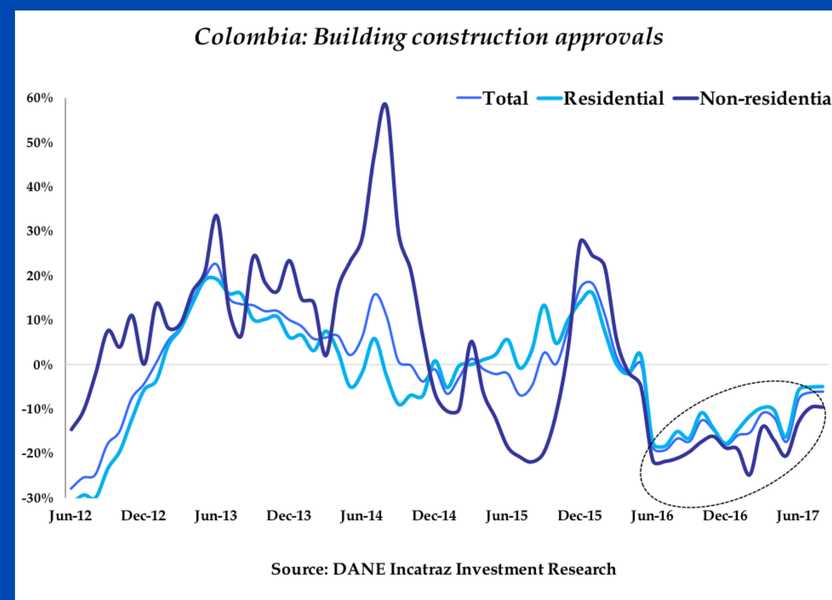
Colombian cement industry starts to show signs of recovery



- Prices start to improve going into 2018. Overall temen prices are up 2%, which translates into $ 5/ton increase.



Demand appears to have bottomed since December 2016.



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Housing is starting to show signs of recovery going into 2018. This has been mostly driven by social interest housing, which grew 4% yoy in August, while non-social interest housing remains weak falling 7% yoy, although less than the 12% yoy average decline over the last year.

Infrastructure wave and tariffs on imports will help recovery

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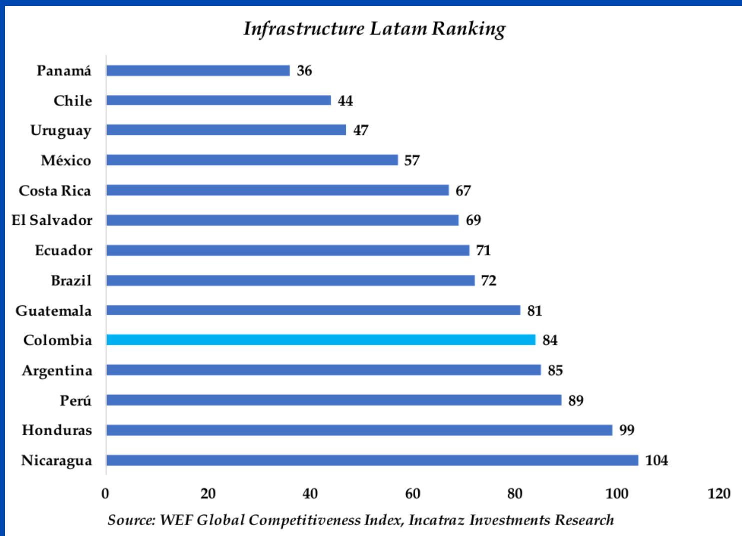
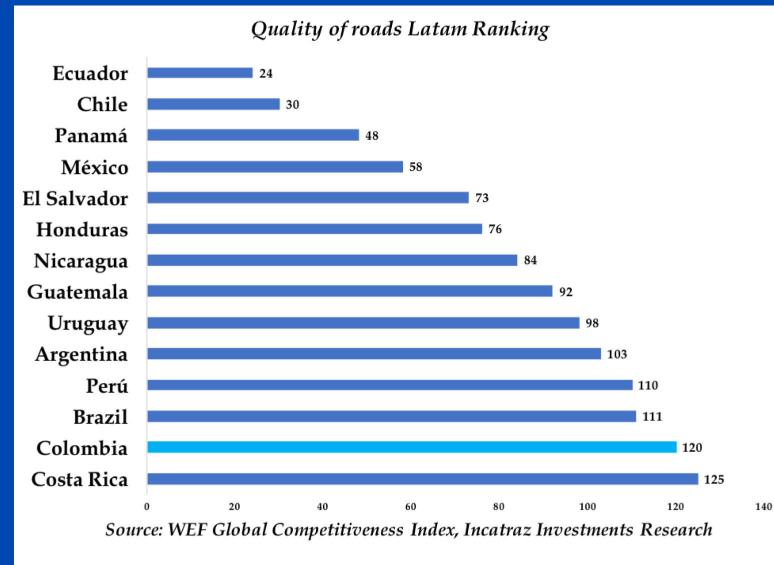
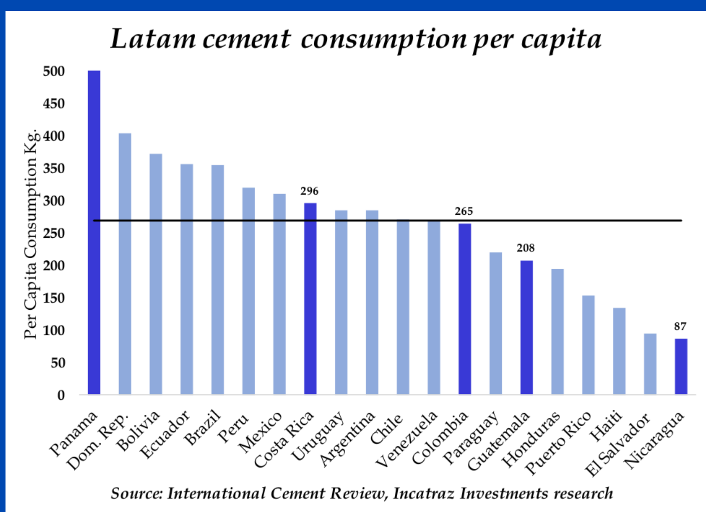
- Dispatches of cement for 4G infrastructure projects (worth over USD 18 billion) have already begun to materialize in 2018. Indeed Cemex is currently supplying its products to some projects.
- Significant increase in the debt ceiling, from USD 800 million to USD 2.3 billion, that the city hall of Bogotá could use to begin investing in pipeline projects such as 30 schools, Bogotá police headquarters, hospitals and parks.
- Central Government of Colombia recently approved USD 3 billion in fiscal appropriations for the construction of the Bogotá Metro, equivalent to 70% of the total project value.
- The Colombian Government has awarded 31 highway projects in which 21 of those are under current construction and 8 are close to commencement either in the last quarter of 2017 or during 2018.
- The Government of Colombia has introduced recently a 5% tariff on cement imports. We hope to see some sings of the end of the price war.

04

Improvement of current roads. According to the World Economic Forum's Global Competitive Index 2017 (138 countries analyzed), Colombia has the worst roads in Latin America (only better than Costa Rica) and is well behind other countries in the region in terms of infrastructure. Colombia has spent 3% of the GDP in infrastructure but because of deteriorated conditions of infrastructure and roads we expect in 2018-2020 to spend 4.2% of GDP.







Solid market positions in underpenetrated Latin American markets . Cement consumption remains relatively low in Colombia ,Guatemala and Nicaragua at only 265, 208 and 87 Kg /per capita. We believe this is an opportunity in long-term of potencial organic growth in demand.

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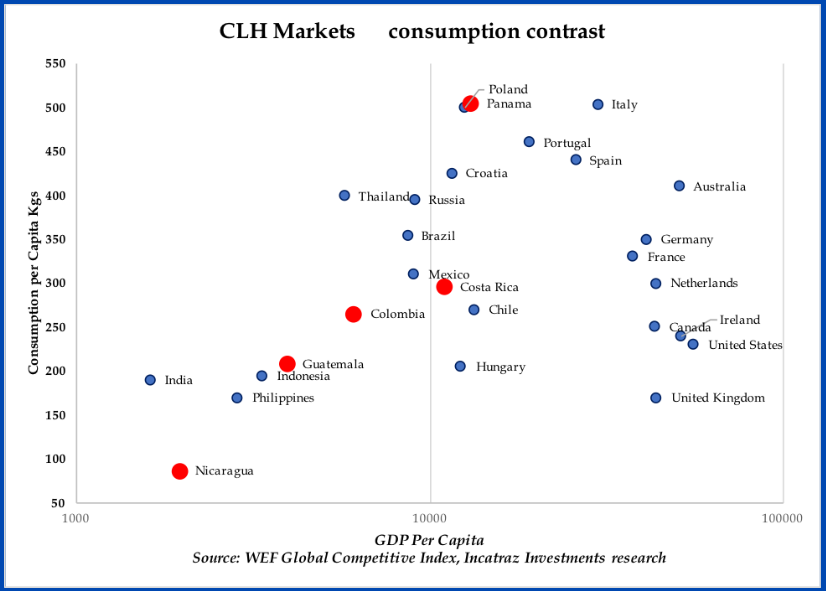
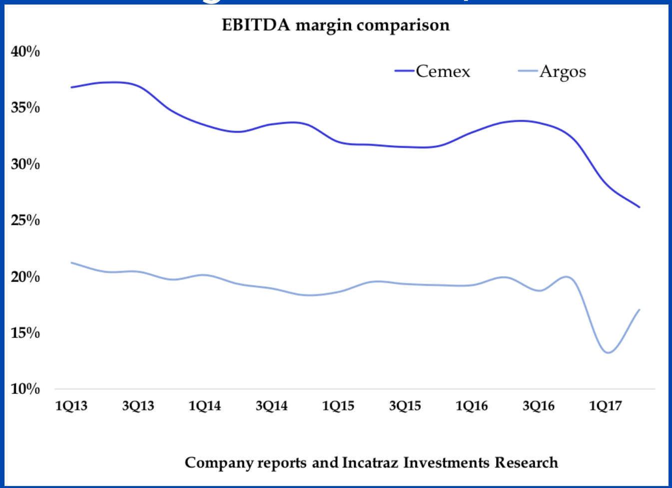
Furthermore, this is also well below consumption levels observed in developed markets such as Europe or even countries like Thailand, for instance, which basically doubles consumption levels in Colombia despite having the same GDP per capita.



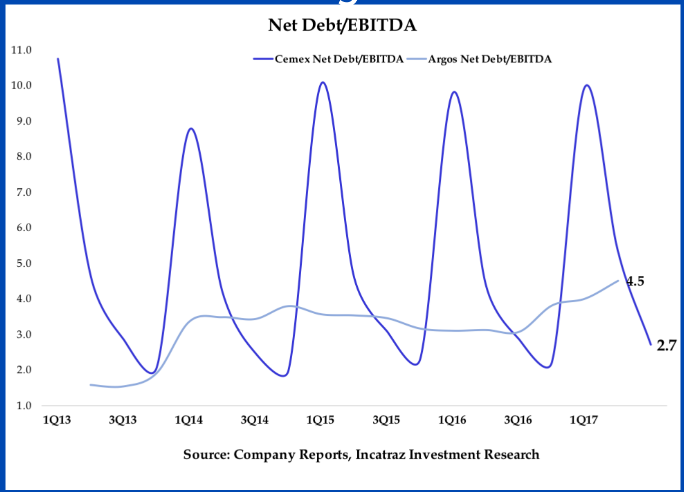
Source: WEF Global Competitive Index, Incatraz Investments research

07

Stronger margins and lower leverage vs. main competitor Cementos Argos. One of the most efficient players with EBITDA margins that have historically exceeded 25%. The company has improved its operating margins not only by growing volumes and increasing prices but also from many different initiatives to improve efficiency led by lower fuel costs, lower maintenance costs, and reduced distribution expenses. The company has also been reducing its risk profile by repaying debt, resulting in a Net debt/EBITDA ratio of 2.7x, well below Cementos Argos' 4.5x.



Company reports and Incatraz Investments Research



Source: Company Reports, Incatraz Investment Research

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2017 has been a difficult year for Cemex given overall weakness in volumes in Colombia and a price war started by Argos last year in response to increasing cement imports. Nevertheless, as the Colombian market starts seeing a recovery in volumes and less punishing pricing conditions, we expect overall revenues to increase 4.2% and 5.3% over the next two years respectively.

- Panama's recovery is anchored to infrastructure investments, including the Metro Line and residential construction to a lesser extent.
- Costa Rica volumes, on the other hand, should be fostered by residential sector, given rising residential loans and building permits.
- Finally, We expect EBITDA margin to gradually recover to 28.6% in 2018 and 30.1% in 2019 supported mainly by improving market conditions in Colombia and Costa Rica.

Cemex Latam Holdings – Key financial figures ($ thousands, except per share data)

	2013	2014	2015	2016	2017E	2018E	2019E
Total revenues	1,750	1,725	1,427	1,315	1,278	1,357	1,429
Gross profit	898	855	677	639	599	661	690
Gross margin	*51.3%*	*49.6%*	*47.5%*	*48.5%*	*46.9%*	*48.7%*	*48.3%*
EBITDA	624	575	448	424	338	388	430
EBITDA margin	*35.7%*	*33.3%*	*31.4%*	*32.2%*	*26.5%*	*28.6%*	*30.1%*
Net profit	269	274	154	162	115	140	178
EPS	0.48	0.49	0.28	0.29	0.19	0.32	0.41

Source: Company Reports and Incatraz Investment Research

Cement volume growth by country

	2014	2015	2016	2017E	2018E	2019E
Colombia	15.3%	-6.5%	-3.3%	-7.6%	3.0%	5.0%
Panama	-10.3%	-9.8%	-10.3%	6.3%	6.0%	6.0%
Costa Rica	-3.8%	9.0%	-8.2%	4.4%	5.0%	5.0%
Consolidated	8.0%	-5.3%	-5.7%	-1.8%	4.2%	5.3%

Source: Company reports, Incatraz Investments Research

01

We derive our price target of COP12,720 for Dec-2018 based on a DCF analysis, which implies a potencial upside from current levels of:
Our price target implies a forward EV/EBITDA multiple of 8.1x, which is basically in-line with its historical forward average multiple of 8.0x, and still below both Latam and Global peers at 9.3x.

18%

Cemex Latam Holdings S.A. DCF Analysisi ($ in millions except per share data)

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	Terminal
EBIT	310	355	396	408	417	434	447	458	
Cash taxes	(102)	(117)	(131)	(135)	(138)	(143)	(147)	(151)	
NOPAT	208	238	265	273	279	291	299	307	
Depreciation and amortization	90	95	101	107	113	118	121	124	
Working capital	7	(35)	(13)	4	4	3	2	(22)	
CAPEX	(140)	(150)	(160)	(170)	(180)	(160)	(150)	(180)	
Terminal value									4,403
Free Cash Flow	165	148	193	214	216	252	272	229	

NPV of FCF	$1,113	Growth in perpetuity (g)	4%				
NPV of Terminal value	$2,144						
Enterprise value	$3,257	Cost of equity		Cost of debt		Targeted capital estructure	
Net debt	$971	US LT risk free rate	2.1%	Gross yield	7.5%	Target D/(D+E)	20%
Equity value	$2,286	US equity risk premiun	5.0%	Marginal tax rate	30.0%	Target E/(D+E)	80%
Shares (mn)	557	Levered Beta	1.1	Cost of debt	5.25%		
Price target ($)	$4.1	Country risk premium	2.8%			WACC	9.41%
Price target (COP)	**12,721**	COE	10.45%				
Upside/Downside potential	***18.0%***						

02

Cemex Latam Holdings has underperformed the overall market having lost 4.6% YTD vs. a 6.1% increase for the COLCAP index YTD

01

Further delays in 4G infrastructure projects: The recovery of the Colombian market is heavily dependent on the infrastructure front, where delays in government spending have postponed the arrival of the infrastructure wave. Though we are now looking at signs of inflection on dispatched volumes for the 4G projects, continuous delays could hurt the company´s performance in Colombia.

02

Delays in permissions for Maceo plant: The Maceo plant (full capacity of 950k tons) would represent an increase of 24% of CLH's current capacity in Colombia. Yet, if production is limited in the Maceo plant to 250k tons, it would hinder CLH Colombia's potential capacity by 14%. In the past, negative newsflow on this matter have triggered a selloff of shares.

03

Strengthening of USD against CLH's FX basket: CLH has the USD as its reporting currency, which might hinder its growth in an environment of depreciating Latam currencies. Also, virtually all of the company´s debt is denominated in USD, while only one-third of its EBITDA is generated in USD.

04

Antitrust investigation on price collusion: Potential sanctions that may arise from Superintendence investigation would negatively affect financial results.

Our recommendations is: Buy. The strengths and opportunities of the company are:

01

EBITDA efficient player. The most attractive in Colombia.

02

Solid market positions in underpenetrated Latin American markets .
Stable results in the rest of countries in Latam.

03

Infrastructure increase wave and tariffs on imports to protect local production and the cease of price war.

04

Price and demand improvement due to changes in government macroeconomic decisions, modifications in debt ceiling, infrastructure projects and housing.

05

We believe the price of the stock is undervalued based on:
DCF with Wacc 9.41%
Low EV/EBITDA compared to Global and Latam peers

Current Price: COLP 10,780
Price Target: COLP 12,720
Price Target Potential: 18%
Price Target Period: 1 year