Fixed Income Analysis

CEMEX SAB DE CV

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Company Overview

Cemex SAB de CV is a building products company. The Company produces, distributes, and markets cement, ready-mix concrete, aggregates, and related building materials. Cemex operates worldwide and enjoys significant geographical diversity with revenue spread across several regions including The United States (29%), Mexico (20%), Europe (19%), Asia Middle East & Africa (17%), South America & the Caribbean (11%) and the rest of the world (4%). Additionally, it is the second largest player globally in ready mix concrete (RMC).

Executive Summary

CEMEX 5.7% 2025 expose investors to a strong global competitor in the materials industry, domiciled in Mexico. At the onset of the global crisis, the company would have been directly impacted by the lack of capital expenditure and infrastructure spending by entities as a means of maintaining liquidity. This resulted in CEMEX adapting to the new environment by curtailing their costs and managing liquidity during this down period. With the reopening of multiple economies globally, there has been a material improvement in the outlook for Cemex's operations which span several jurisdictions outside of Mexico as indicated in the company overview above. There has been a post-lockdown thrust into infrastructural improvements across the US, Eurozone and Latin American region which has created a higher demand for the products offered by CEMEX. This has supported the company's recent improvement in cash generation; additionally, an infrastructure thrust by the new Biden Administration would provide some tailwinds to Cemex. Going forward, we anticipate improvements in the overall macroeconomic environment globally; supported by the distribution of vaccines to an ever-increasing cross-section of individuals and regions, which will further prompt entities to increase their capital expenditure levels. The near-term outlook for CEMEX remains hinged on this overall reopening of the global economy while the medium-term outlook is balanced to the upside with potential value being derived from CEMEX's positioning in the global industry. **This bond is best suited for investors seeking consistent interest payments with a short to medium-term investment horizon, with an aggressive risk profile.**

Investment Rationale

- **Geographic Diversification:** The Company is a global operator in the material space and operates across multiple jurisdictions.
- **Infrastructure:** Cemex operates in an industry that is essential to infrastructure development which we believe will materialize as the economic backdrop improves.
- **Strong balance sheet position:** high cash generation assets, coupled with a high liquidity position and an active commitment to deleveraging to return to an investment grade capital structure.
- **Management Team:** Strong and stable management team that continues to provide both operational and strategic guidance to the company
- **Risk Profile:** This bond is best suited for investors with a high-risk tolerance-profile.

Credit Assessment

CEMEX SAB de Cv was removed from the negative watchlist by S&P in August 2020, and was affirmed with a 'BB' credit rating with a negative outlook. The removal from the negative watchlist was prompted by the overall macroeconomic improvement driven by the receding of major lockdown measures, which were implemented in the April-June period of 2020. The initial downgrade was supported by a general economic contraction in key markets where CEMEX operates, including Mexico (8.5%), the U.S. (5.0%), Spain (9.8%), U.K. (8.1%), Germany (6.2%) and Colombia (5.8%).

Industry:	Materials
Bond Name	CEMEX 5.7% 2025
Credit Rating (S&P)	BB
Maturity	Janaury 11th, 2026
Issue Size	US$1.07 Bn
Rank	1st Lien
Current Price (January 13, 2021) (Source: Bloomberg)	US$102.11/US$102.117
Yield to Maturity (Bid/Ask)	5.102%/5.100%
Yield to Next Call (Bid/Ask)	2.55%/2.46%
Yield-to-Worst Call Date:	February 21, 2021
Recommendation	**Overweight**

Financial Summary (US$ in Thousands)			
Metrics	**2017**	**2018**	**2019**
Revenue	13,650	13,531	13,130
EBITDA	2,570	2,672	2,373
Total Assets	28,826	29,181	29,363
Total Equity	10,686	11,053	10,824
Financial Ratios			
EBITDA Margin (%)	18.8	19.7	18.0
Total Debt/ EBITDA	5.05X	4.92X	5.81X
CFO/Total Liabilities	8.71X	8.64X	7.30X
Net Debt/EBITDA	4.74X	4.79X	5.42X

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Notwithstanding, S&P expects a low single-digit decline in cement sales for CEMEX. Countries like Mexico have seen a resilient performance of bagged cement due to government social programs and record-high remittances that support household income. More developed markets such as the U.S. have benefitted from sustained home repair and remodeling (R&R) demand. This supports S&P's view that the cycle downturn for CEMEX bottomed out during the second quarter of the year, when lockdown measures in most of the company's key markets coincided. While the risk of a new round of lockdowns has materialized in markets like Europe, S&P's base-case scenario considers that economic growth will bounce back and drive a moderate but steady single-digit recovery in 2021, trending towards pre-COVID-19 levels by 2022. S&P also attributed CEMEX's countercyclical measures to protect its margins as a positive. The Company has implemented a hard stop on non-essential activities and has implemented measures to boost earnings including savings on administrative expenses, more frequent use of low-cost suppliers, and more efficient deployment of maintenance activities and energy consumption. These initiatives have translated thus far to an accretive 200 basis points improvement in CEMEX's EBITDA.

Industry Analysis/Country Analysis

Industry Analysis – Materials (Global Building Materials)

The lockdown period (April to June 2020), had the knock-on effect of pent up capital expenditure as several projects were delayed. Consequently, there was a relatively sharp rebound for the materials industry, particularly as it relates to cement, once the lockdown measures were curtailed - as demonstrated by the improvement in the Cement Index in the post lockdown months.

Cement Index	March actual	April actual	May actual	June actual	July actual	August actual	Sept. actual
EUROPE							
Italy	-39.4%	-81.8%	-7.8%	8.9%	16.2%	20.2%	7.6%
Spain	-17.2%	-57.3%	-2.6%	6.9%	6.7%	19.8%	7.3%
Germany	-12.8%	-7.4%	3.8%	6.5%	5.0%	5.1%	1.5%
France	-42.0%	-60.0%	-18.8%	-5.9%	1.3%	13.1%	2.7%
Russia	6.3%	-17.3%	-7.4%	-8.3%	-8.1%	-0.8%	-3.1%
APAC							
China	-17.0%	4.7%	9.6%	9.0%	3.8%	7.0%	7.2%
India	-25.0%	-85.3%	-22.2%	-6.8%	-13.5%	-14.5%	-3.5%
Vietnam	-4.2%	-10.3%	-4.2%	-7.6%	-7.9%	-0.6%	-12.8%
Americas							
Colombia	-28.6%	-15.5%	-33.1%	-7.6%	-1.8%	-4.3%	4.9%
Argentina	-46.5%	-55.2%	-32.8%	-7.3%	-13.8%	-12.5%	10.5%
Mexico	-7.7%	-1.9%	-9.7%	-1.6%	8.7%	6.7%	na
U.S.	3.7%	-5.6%	-4.8%	12.1%	-1.8%	-6.5%	-11.0%

We expect added tailwinds for the industry in 2021 driven by increased distribution and administration of several vaccines which will add fuel to the global recovery. Specifically, we expect the global building materials industry to benefit as entities continue to resume projects that were slated for 2020. With infrastructure developments being the main focus globally across segments such as real estate (commercial and residential) and roadworks, raw materials will be in high demand. Particularly the cement industry is poised to benefit from the global prioritization of both new infrastructure and maintenance expenditure. Cement companies exposed to Europe are seeing a rebound as both prices and volume show improvement after their worst month ever in April 2020.

Despite lower cement volume sold in the U.S., the country has been resilient relative to other regions due to significant fiscal and monetary stimulus. Asia's recovery is on track, with China leading and Vietnam trailing. India saw considerable volume reduction in 2020, yet indicators point to a recovery in 2021. In Central and Latin America, Colombia is back on track with current infrastructure deals such as the EU's Green Deal, the U.K's Green policy push and U.S. president-elect Joe Biden's pro-sustainability stance are all net positive forces that should add to the demand for services offered by this industry. The EU's new Green Deal emphasizes a "Renovation Wave" for buildings as a way to ignite post-pandemic growth recovery. The U.K. economic stimulus and tax-advantage package favor light building-material companies focused on green efficiencies such as insulation products. Overall, we anticipate the current global macro trends and the slow recovery from the pandemic will continue to drive demand for building materials.

Country Analysis

As of August 31, 2020, S&P Global Ratings affirmed its March 26, 2020 downgrade of Mexico from a BBB+ to a BBB credit rating with a negative outlook. This was due to the sovereign being impacted both from a tourism-travel perspective and from a commodities perspective, which effectively weakened the sovereign's expected GDP growth. Another factor is the weak political environment surrounding the Mexican government since the López Obrador Administration has proven its inability to improve private-sector confidence and investment dynamics.

In light of its negative outlook, S&P has revised growth projections, noting a decline in real GDP of about 2%-2.5% in 2020, followed by growth of a bit over 2% in 2021 and 1.8% in 2022-2023 which implies just a modest outturn, below what is expected for global growth.

Additionally, the weakening of Mexico's main trading partner, the United States, which accounts for over 80% of the sovereign's merchandise exports (mostly manufactured goods), the majority of its tourism, and its remittances are also factors that have weighed on the outlook for the country. Mexico's fiscal policy response has been one of the smallest among rated sovereigns, at around 0.7% of GDP. The government is guided by fiscal rules, which direct it to avoid borrowing except for investment, in turn reflecting a long-standing constitutional mandate to restrict borrowing other than to finance income-generating investment or debt management operations. Mexico is prioritizing the stability of public finances, but avoiding large-scale assistance to households and businesses represents a possible cost to growth, in Fitch's view. There's an expectation of higher debt/GDP levels as the country continues to grapple with the outbreak of COVID-19, becoming the third country to surpass 100,000 deaths.

It's important to note, however, that this outturn has been within the context of the pandemic. The on-going roll-out of COVID-19 vaccines presents some added tailwind that we believe will further drive the global recovery, particularly in developed market economies that CEMEX does significant business. Additionally, Mexico

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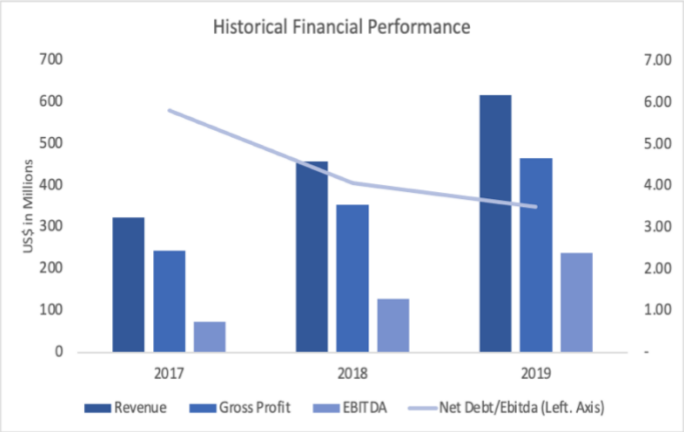
has a demonstrated track record of cautious fiscal and monetary policies and a floating exchange-rate regime that has supported investor confidence and general economic stability despite many adverse global trends. The sovereign's inflation-targeting monetary policy is underpinned by Mexico's independent central bank. The central bank has stepped in quickly amidst a stressed global financial market conditions, resulting from the COVID-19 pandemic and oil price shocks, to contain market volatility.

The Mexican peso is a floating currency and is actively traded which eases external financing constraints and, coupled with narrow net external debt averaging 30% of current account receipts, supports a sturdy external position. Given that Mexico is a net oil importer (of $21 billion in 2019), the decline in oil prices underpins an improvement in Mexico's current and trade accounts. While prices have risen since the sharp decline in March, they it remains subdued relative to the pre-pandemic period. Finally, Mexico has access to the International Monetary Fund's Flexible Contingent Credit Line for up to US$61 billion, thereby boosting the sovereign's external liquidity.

Financial Performance

For the nine-month period ending September 30, 2020, the CEMEX generated net sales of US$9.43 billion, -4.44% lower than the corresponding period last year. This decrease was mainly due to the lower activity during the Q2 period (COVID-19 lockdown period), which resulted in revenue declining by -14.38% for that quarter. In Q3, the company saw net sales increase by 1.75% due mainly to higher volumes in Mexico, Europe, the Middle East, Africa, and Asia region as well as higher prices for products in local currency terms in most of their operational regions.

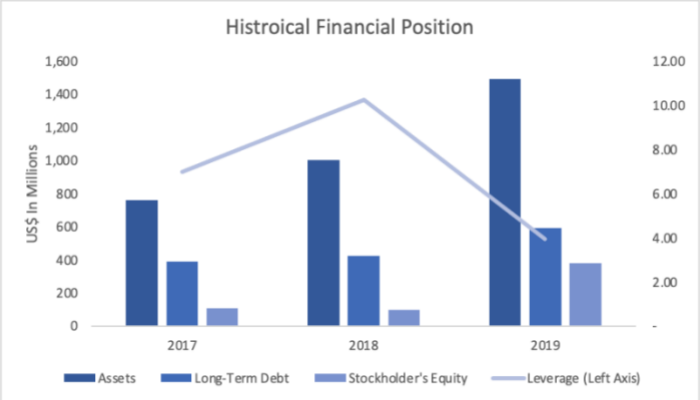


For the nine months, gross profit decreased by -5.98% to US$3.07 billion (32.6% of net sales) from US$3.26 billion (33.1% of net sales) in the corresponding period last year. The reduced percentage of net sale reflects higher cost of sales which were primarily driven by higher electricity, as well as cement and clinker costs, partially offset by lower fuel costs. Operating expenses amounted to US$2.08 billion, 6% lower than the previous attributable to a concerted effort by the company to manage costs during the Q2 period of the financial year.

The net effect was negligibly lower EBITDA (-0.46%) of US$1.81 billion, relative to US$1.82 billion in the corresponding period last year. This outturn indicates that the effects of the pandemic have been minimal on an EBITDA basis. After accounting for non-operating expenses and tax, net losses amount to US$1.53 billion, relative to a net profit of US$380 million in the previous year.

Liquidity and Solvency

As at September 30, 2020, the company had total assets of US$29.23 billion, Total Liabilities of US$20.42 billion, and Total Shareholders' Equity of US$8.80 billion. The company boasted cash and cash equivalents of US$3.45 billion and total debt of US$13.75 billion, resulting in net debt of US$10.30 billion. Despite the fairly high net debt, the company currently boasts a consolidated coverage ratio of 3.69X despite a leverage ratio of over 4.27X. The company also boasts a free cash flow of US$237 million.



Over the last 3-year period, CEMEX boasted a high EBITDA- to- Interest Expense, moving from 2.32X to 11.22X in 2019, CFO to Total Liabilities of 8.71X in 2017 to 7.30X in 2019. In light of the pandemic, the company's borrowing increased (12.89% from Q4 2019 to Q3 2020). Notwithstanding, operating cash flows have remained fairly robust, increasing by 31.59% YoY and 177.25% QoQ.

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USD$'000	CEMEX Credit Metrics						
Credit Metrics	**Q1 2019**	**Q2 2019**	**Q3 2019**	**Q4 2019**	**Q1 2020**	**Q2 2020**	**Q3 2020**
Total Debt	11,230,600	11,047,900	10,889,400	11,790,000	11,679,300	13,175,700	13,310,200
Short-Term Debt	1,391,100	802,616	1,049,600	1,443,000	505,927	788,259	2,983,300
Long Term Debt	9,839,500	10,245,300	9,839,800	10,347,000	11,173,400	12,387,500	10,326,900
Net Debt/EBITDA	4.79	5.00	5.14	5.58	5.09	5.54	7.66
Total Debt/Equity	103.85	99.95	98.47	108.92	114.79	128.96	151.09
Total Debt/Capital	50.94	49.99	49.61	52.14	53.44	56.32	60.17
Total Debt/Total Assets	38.86	38.14	38.20	40.15	40.84	43.98	45.53

As at January 8th, 2020

Relative Valuation and Spread Analysis

CEMEX S.A.B. de C.V.--Peer Comparison					
Industry sector: Building materials					
	CEMEX S.A.B. de	Votorantim	Heidelberg Cement	LafargeHolcim	CRH
Rating	BB/Neg	BBB-/Stable	BBB-/Positive	BBB/Stable	BBB+/Stable
			Rolling Twelve Months Ended June 30, 2020		
(Mil. $US)					
Revenues	12,365.6	6,698.9	20,106.9	25,398.4	27,114.6
EBITDA	2,257.9	1,132.4	3,894.0	5,748.0	4,779.1
Funds from operations (FFO)	1,335.1	793.6	3,017.3	4,376.9	3,984.1
Interest expense	760.4	266.3	344.4	686.7	496.7
Cash flow from operations	1,283.8	1,516.5	3,138.1	4,759.6	4,768.0
Capital expenditures	610.0	730.9	1,255.7	1,508.2	1,235.0
Free operating cash flow	673.8	785.6	1,882.4	3,251.4	3,533.0
Discretionary cash flow	465.5	580.8	1,559.1	1,682.1	2,053.7
Cash and short-term	2,831.8	2,573.2	2,764.7	3,945.0	11,353.4
Accessible cash & liquid	2,831.8	3,201.0	11,814.3	13,966.3	10,272.5
Investments					
Debt	11,951.8	8,517.8	16,473.3	29,846.3	21,299.9
Equity	9,774.3	6,698.9	20,106.9	25,398.4	27,114.6
Adjusted Ratios					
EBITDA margin (%)	18.3	16.2	19.4	22.7	17.6
Return on capital (%)	5.4	4.1	8.0	7.8	9.5
EBITDA interest coverage (x)	3.0	4.0	11.3	8.4	9.6
FFO cash interest coverage (x)	2.7	3.8	7.1	7.1	9.3
Debt/EBITDA (x)	5.3	3.5	3.0	2.4	2.1
FFO/debt (%)	11.2	19.2	25.5	31.8	38.8

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Cash flow from operations/debt (%)	12.6	34.2	26.6	34.5	46.6
Free operating cash flow/debt (%)	8.9	15.1	15.9	23.6	34.4
Discretionary cash flow/debt (%)	7.6	9.2	13.1	12.4	19.9

Based on S&P's December report on CEMEX SAB de CV, they have identified the companies above as CEMEX's peers. S&P noted that CEMEX remains one of the largest cement companies in the world, based on annual installed cement production capacity. Among the selected peer group, the company has a smaller revenue base, relative to HeidelbergCement, Lafarge-Holcim, and CRH. While CEMEX's revenue is concentrated in cement and ready-mix concrete products, the company's geographic diversification, with a presence in more than 50 countries, is still a key credit strength, particularly when compared to regional peers like Votorantim. CEMEX's strategic initiatives over the last five years have gradually improved margins, which are now in line with other players in the industry. However, its weak leverage metric is one of the key factors that constrain the rating.

As it pertains to price action and spreads, as the Figure below shows, CEMEX 2025 trades narrowly when examining the z-spread, since June 2020, relative to its peers, indicating the superior credit of CEMEX. A Z-spread of 373bps, relative to that of its peers of 2,489bps, one is able to extrapolate that there is underlying value in CEMEX.

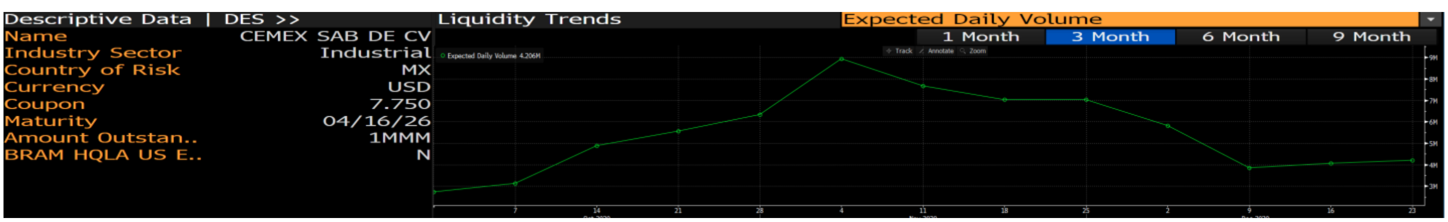
As the data show, CEMEX, on average has been trading in high triple digits wide of important spread measures such as the G-Spread. For the period, CEMEX's average spread relative to treasury securities has been 381 bps, and 373 bps wide relative to an interpolated yield curve. Notwithstanding, the pickup implied in these spreads has to be weighed against the implied credit risk implied in the Z-spread. The significant tightening experienced by these bonds relative to their average reflects reduced underlying credit risks in the economics of the business relative to earlier in the year.

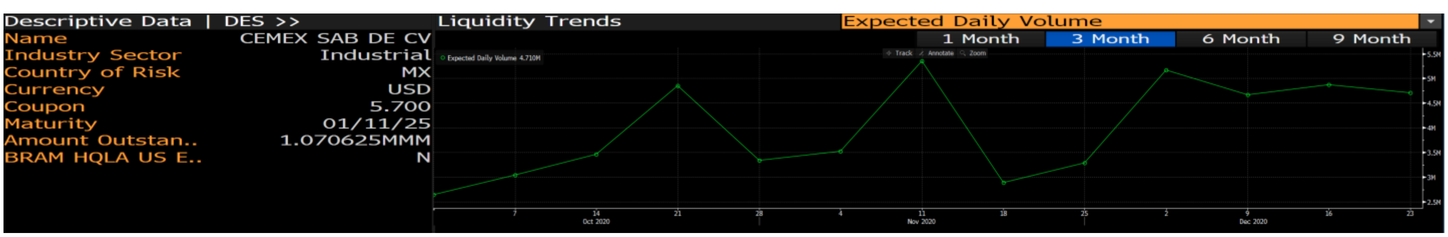
	Spread	Low	Range	High	Avg	+/- bps	StdDev	#SDs
1) Spreads to Curves (RV)			Avg Now					
2) Spread-Bench	376	90		622	385	-9	152	-0.1
3) G-Spread	381	95		624	389	-8	150	-0.1
4) I-Spread	373	87		621	381	-8	152	-0.1
5) Z-Spread	373	87		621	382	-9	152	-0.1
6) Credit Rel Value (CRVD)								
7) CDS Basis								

8) Bond vs Comparables (COMB) Z-Spd — Difference in comparable Z-Spreads over 6 Months

	Price	Yield	Spread	Diff	Lo	Range	Hi	Avg	+/- bps	#SDs
CEMEX 5.7 01/25	102.0	3.88	373							
9) AXTEL 6 3/8 11/24	104.5	4.66	446	-73	-356		172	-66	-7	-0.1
10) PEMEX 2.29 02/24	103.3	0.30	11	362	75		528	328	34	0.3
11) MAXTEL 8 10/24	20.0	70.39	7011	-6638	-663		-252	-3582	-3056	-2.5
Avg of Comparables		25.12	2489	-2116	-211		-753	-1107	-1010	-2.2

An important consideration in the economics of these securities are their liquidity. Based on the data below, the securities are liquid, with trading volumes above the volumes that Barita or any of its clients would typically hold/trade.





Recommendation

Given the underlying economics surrounding the business, we rate this bond as **overweight.** The credit rating of CEMEX is reflective of its cyclical nature or high correlation to the business cycle of the global economy. However, the diversified geographical reach of the company and the tailwinds stemming from the global push towards infrastructure investments make it an attractive investment opportunity for investors with a high-risk profile. The Company recently issued a US$1.75 billion senior secured note in Janaury 2021. The net proceeds will go towards repaying debt and for working capital purposes. We note however that there is a call-risk for Cemex 2025, with call-date of February 2021. It is possible that the company may not prioritize calling this bond given that it has more expensive debt in its capital structure and that the company may prioritize using its cashflow to support working capital as the global economy begins its rebound.

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