MAKING MONEY WORK FOR YOU.

Fixed Income Analysis

CEMEX SAB DE CV

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Company Overview

Cemex, Sab de C.V, is a multinational company that produces, markets, and distributes cement, ready-mix concrete, aggregates, and other construction material globally. The company was founded in 1906 and is headquartered in San Pedro Garza García, Mexico and now operates 2000 retail outlets across 600 cities. The Company also offers complementary construction materials such as concrete blocks, roof tiles, and architectural products. Additionally, the Company provides building solutions for housing projects and pavement projects.

Executive Summary

CEMEX 7.75% 2025 provides investors with the ability to gain exposure to a global player in the materials industry. An externality that has arisen as a result of the pandemic has been that of reduced infrastructure spending by governments coupled with reduced capital expenditure activities by corporate entities as they try to manoeuvre the unknown that was trawled upon them. The reduced spending by governments and corporates ultimately affected Cemex's earning ability. Globally, as countries sought to adapt to living with the pandemic and accelerate economic recovery, there has been a push for infrastructural spending across the Latin American region, the USA, and the Eurozone area. This increased spending bodes well for Cemex as it drives demand for its products.

The increased demand can be seen in their improved financial performance; as year-over-year (YoY) revenue growth accelerated to 13.5% for 2021, compared to only 0.5% for the 2020 financial year. Also, revenues for 2021 outpaced the pre-pandemic levels (2019) by 10.8%. This growth in revenues is demonstrative of the increased demand for Cemex's products relative to that at the start of the pandemic which has strengthened its cash generation. The near-term outlook for Cemex remains stable and is inherently tied to the ongoing global economic recovery which despite lingering uncertainty, has shown signs of positive development. The medium-term outlook for Cemex is also stable, on the back of Cemex's continued strategic positioning as a global player in the materials 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.**

Industry:	Materials
Bond Name	CEMEX 7.70% 2025
Credit Rating (Fitch)	BB
Maturity	July 21, 2025
Issue Size	US$149.9 Mn
Rank	1st Lien
Price (Bid/Ask) (Source: Bloomberg)	US$106.445/ US$107.064
Yield to Maturity (Bid/Ask)	5.518%/5.317 %
Recommendation	**Overweight**

Financial Summary (US$ in Thousands)

Metrics	**FY2019**	**FY2020**	**FY2021**
Revenue	13,514	12,971	14,584
EBITDA	2,440	2,459	2,861
Total Assets	29,363	27,425	26,650
Total Equity	10,824	8,952	10,271
Financial Ratios			
EBITDA margin	18.1%	19.0%	19.7%
Debt/ EBITDA	4.1x	4.3x	3.0X
EBITDA/Net Interest	3.5x	3.3x	4.4X

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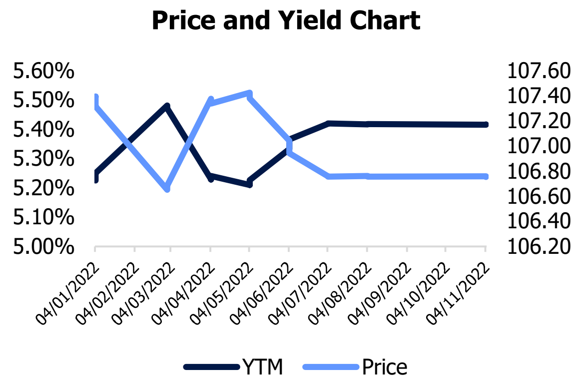
Investment Rationale

- **Geographic Diversification:** Cemex operates as a global player in the provision of material and building supplies and operates across 600 cities globally.
- **Strategic Repositioning**: Cemex has strategically realigned its business structure to be positioned in that lower-risk markets such as the USA, Europe, and Mexico.
- **Management Team:** The management of Cemex can be described as being strong, experienced, and stable that can provide the adequate level of support and effort needed to drive operational growth and strategic initiatives.
- **Strong EBITDA Generation:** For the financial year 2021, Cemex reported an EBITDA of US$2.8 billion compared to that of US$2.5 billion for 2020. The growth of 18% in the EBITDA was a result of increased home improvement spending over the last two years.



Credit Assessment

In the fourth quarter of 2021, Fitch established a positive outlook for Cemex. The rating agency has upgraded the Company's foreign and local debt along with its senior unsecured notes from **'BB-'** to **'BB'**. Cemex has committed to achieving investment-grade status, and through its actions has demonstrated its firm commitment to attaining such standards. The upgraded credit rating of Cemex was prompted by the improved financial performance of the Company over the last 18 months as well as the outlook for the building materials industry, particularly in the US. Despite the headwinds attributed to the geopolitical tensions in the Eurozone area, the long term demand drivers in the US remain positive for the building materials industry. This positive outlook is anchored by strong residential demand as well as recovering non-residential private investment which will support increased and sustainable demand for Cemex's products, ultimately contributing to healthy cash flow generation. Additionally, the new infrastructure bill that was signed in the US in November 2021, has earmarked US$110 billion for the construction of new roads, bridges, and major projects, while another US$ 40 billion has been allocated for the repair and replacement of bridges which will ultimately result in increased demand for Cemex's products.

Notably, Fitch expects that the increased domestic Mexican home improvement spending that was driven largely by the pandemic will begin to subside. The expectation is that the Mexican market will normalize over the next couple of years, with Mexican cement demand returning to 43 million metric tons relative to its current level of 46 million metric tonnes. However, the rating agency believes that this fallout in sales will be offset by increased exports to the US as demand will increase in that market. Additionally, while the risk of increased energy costs as a result of geopolitical threats and supply chain disruptions are looming threats to the margins that Cemex enjoys, its position as a global player and a dominant market force will enhance its ability to pass on increased costs to their customers through price hikes. This ultimately will enable Cemex to maintain its margins within this globally inflationary environment.

The Company has paid great attention to cash management and cash generation which bodes well for bondholders and prospective bondholders. Cash flow from operations has been positive over the last five years, while at the end of 2021 the Company had achieved a positive free cash flow of roughly US$700 million. A key to Cemex's cash management has been strong working capital management, and the containment of unnecessary CAPEX projects, which also comes at the expense of shareholders who have foregone dividend payments as well as minimal share buybacks.

Industry Analysis/Country Analysis

Country Analysis (Mexico)

As of November 2021, Fitch affirmed its **'BBB-'** of Mexico with a stable outlook for the country's economy. The drivers for the rating by Fitch are grounded in the judicious macroeconomic policy framework within the Mexican economy. This is supported by strong and stable public finances. The country's public finances have outperformed their regional peers, amidst a smaller than expected increase in the debt-to-GDP ratio. The Mexican

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economy stands to benefit from the growth in economic prospects of their main trading partner, the USA, which accounts for 80.5% of Mexico's exports and anchors the stable outlook for the Mexican economy.

After suffering an economic contraction of 8.2% in 2020 as the country grappled with the effects of the pandemic, the Mexican economy has begun to show signs of a turnaround. In the first quarter of 2021, the economy recorded growth of 1.0%, while accelerating to a rate of 1.2% in the second quarter of 2021. These growth levels are lower than the 2.9% recorded in the fourth quarter of 2020 but were above consensus estimates by analysts. The rebound in the Mexican economy is demonstrated by increased activity in the agricultural, industrial, and services industries. Despite these tailwinds, there still exists some headwinds, such as tourism which plays a pivotal role in the Mexican economy as a provider of jobs and is down 27% relative to pre-pandemic levels. Additionally, consumption and investment are down 3.0% and 7.0% relative to pre-pandemic levels respectively. The global inflationary environment that currently exists has further weakened the country's industrial sector. The negative impact has been relatively moderate, as the sector grew 0.3% in Q3 2021, relative to Q2.

In managing the economic response to the pandemic the fiscal stance has been that of a cautious tone, where the budget deficit is expected to increase to 3.4% of GDP for the 2022 fiscal year, up from 2.9% in 2020. The country's Debt-to-GDP is expected to be 51%, down from 52% in 2021. In contrast to their peers, this positions Mexico to be in a much healthier fiscal position. In comparison, Brazil has an estimated debt to GDP of 90.1%, while Argentina is at 88.6%. Additionally, the rebound in commodity and energy prices should bode well for the Mexican government in its ability to attain its financial goals as revenue from these industries accounts for 16.0% of the government's total revenue. However, it is important to note that for the 2022 budget the Ministry of Finance budgeted using an average price of US$55.1 per barrel of crude oil, which is far below the year-to-date average of WTI crude oil of roughly $95.00, positioning the government for higher than forecasted revenue run rate.

The labor market has shown signs of recovery as the unemployment rate is currently 4.2%, which is 0.8% below 2019. The general expectation is that with higher oil prices, coupled with improved economic growth in the US which will drive demand for Mexican goods and services, the outlook for the Mexican economy is healthy, albeit with a slower pace of growth. Economic growth for 2022 is expected to be 3.3%, compared to the 5.9% outturn achieved in 2021. Notwithstanding, it should be noted that the growth seen in 2021 can be attributed to that base effects as the economy rebounded from the effects of the pandemic as vaccination uptake began to get underway.

Industry Analysis

Globally the cement industry is valued at US$344.5 billion, with sales growing steadily for much of 2021. However, a key challenge that has presented itself last year, has been that of increased cost pressures which have outpaced the rate at which these costs can be passed on to consumers. The increasing costs have resulted in players having to accept lower profit margins as they grapple with keeping up with the constant increase in the underlying costs of production.

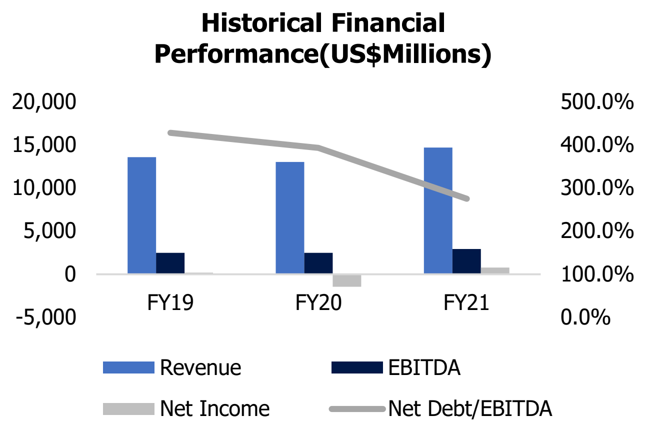
View 40 Annuals Growth None

Name	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cement Consumption by Region (Mn t)													
Source: CemNet													
* Latest Year Represents Forecast													
World	4,442.7	4,336.4	4,143.7	4,153.4	3,970.4	4,060.4	4,123.6	4,053.4	4,152.0	4,033.9	3,745.7	3,585.3	3,311.8
Asia	3,293.1	3,229.9	3,091.7	3,119.4	2,948.2	3,030.3	3,103.6	3,019.6	3,121.0	3,023.6	2,762.9	2,620.7	2,390.1
Indian Sub-Continent	461.9	424.9	388.5	442.5	426.2	376.4	373.5	351.2	340.8	318.1	303.4	293.5	273.9
North Asia	2,586.6	2,573.8	2,485.9	2,440.2	2,289.4	2,433.2	2,516.2	2,458.5	2,582.3	2,517.9	2,283.4	2,161.2	1,959.7
South Asia	244.6	231.2	217.2	236.8	232.6	220.7	213.9	210.0	197.9	187.6	176.2	166.1	156.5
Middle East & Africa	451.4	432.4	408.7	396.1	386.9	380.9	397.3	395.9	390.5	383.6	367.8	348.6	338.0
Africa	240.4	230.5	218.3	221.4	215.9	213.1	220.4	216.1	210.0	198.2	187.2	171.9	171.0
Central Africa	11.6	10.9	10.1	9.7	9.7	10.2	11.6	13.8	14.2	13.0	11.0	8.9	8.0
East Africa	44.0	41.4	39.2	37.6	34.3	32.3	32.0	30.2	27.7	24.5	21.4	19.5	16.9
North Africa	105.1	101.8	96.2	104.6	105.2	110.2	113.6	112.6	112.0	106.5	105.1	96.3	102.3
South Africa	15.9	15.7	14.9	16.0	16.4	14.4	14.7	14.6	13.6	13.7	13.4	12.5	12.2
West Africa	63.8	60.7	58.0	53.6	50.2	45.9	48.5	44.9	42.4	40.6	36.3	34.6	31.6
Middle East	211.0	201.8	190.4	174.7	171.0	167.9	176.8	179.8	180.5	185.4	180.6	176.7	167.1
Europe	376.7	361.6	350.5	347.3	352.9	352.9	335.1	339.8	344.5	341.7	337.0	351.4	331.1
Central & Eastern Europe	237.9	228.3	221.7	212.8	220.3	223.6	211.0	214.6	220.1	216.0	202.4	195.4	174.7
Central Europe	59.4	56.9	55.2	55.0	52.3	47.7	44.6	44.0	42.5	40.9	42.5	46.5	43.1
Eastern Europe	178.5	171.4	166.5	157.7	168.1	175.9	166.4	170.6	177.6	175.0	160.0	148.9	131.7
Western Europe	138.8	133.3	128.8	134.5	132.6	129.2	124.2	125.2	124.4	125.7	134.6	156.0	156.4
America	309.8	299.2	280.0	279.0	277.0	278.7	277.9	286.8	284.8	274.5	266.2	251.4	239.4
North America	123.7	120.5	114.0	112.1	108.0	105.7	103.0	101.7	98.2	90.8	87.4	81.0	80.0
Latin America	186.0	178.7	166.0	166.9	168.9	173.1	174.9	185.1	186.6	183.7	178.8	170.4	159.4
Australasia	13.7	13.3	12.8	13.1	13.5	12.7	12.2	11.3	11.2	10.5	11.9	13.2	13.1

As economies pivot from the pandemic, a large thrust has been placed on infrastructure spending. This is evidenced by the new infrastructure drive that the current US administration has embarked on. The infrastructure initiatives that are the target of the US administration encompass the build-out of roads, railways, and bridges. We expect this thrust by the United States to increase its spending on infrastructure to drive overall demand for building products and materials. In the US, growth in the commercial real estate market is pinned to the pent up need for additional warehousing space which again anchors the increase in demand for cement across the US. Lending further strength to the industry's prospects is an announcement that the European Union plan 300 billion Euros in infrastructure spending to rival that of China. Additionally, in supplement to the large infrastructure spending that is being undertaken by sovereigns, there continues to be activity within the private construction markets. This is supported by increased demand for housing solutions, as well as commercial developments. The growth in cement demand in Africa is supported by increased spending on public work projects by the South African government coupled with increased housing demand. Additionally, increased infrastructure developments continue to take place in Nigeria along with elevated levels of housing demand, sustaining the increase in the demand for cement.

Financial Performance

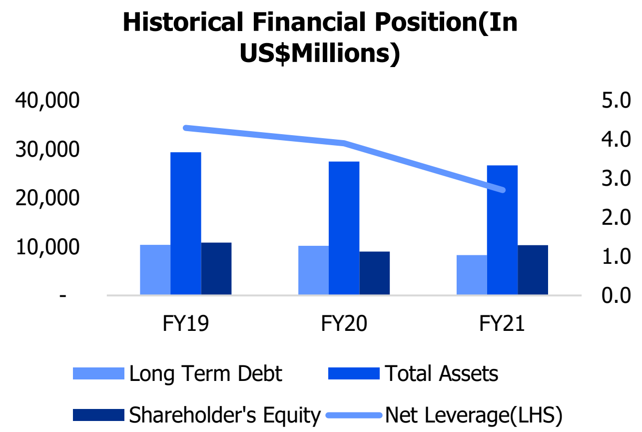
For the financial year ended December 2021, the Company had generated net sales of US$14.6 billion, which was an increase of 13.0% to the relative period in the prior year. The improved performance was a derivative of higher volumes of sales in Mexico, the US South and Central America and the Caribbean Region. A second contributing factor that aided the performance was the sizable benefit(US$380 million) from Cemex's product pricing. Average prices of cement rose 5% while aggregates rose 3%. This strategic product pricing enabled Cemex to offset the impact of freight costs and energy costs.



Gross profit saw an increase in line with Revenue at roughly 13% to US$4.7 billion, representing 32.1% of net sales, with no change in the metric compared to the 2020 financial year. The growth in the volume of cement sales and the ultimate growth in gross profit were able to offset the rising operating costs that Cemex has had to contend with within 2021. Some of the primary contributors to the increase in operating expenses were electricity which was up 11.6% YoY and transportation which increased by 53.6%. Notwithstanding, with the rate of growth in gross profit outpacing that of operating costs, the overall net effect is EBITDA growth of 18.0% YoY. Net income amounted to US$799 million compared to US$545 million in 2020. The strong growth in EBITDA and revenues is demonstrative that Cemex is now emerging from the effects of the pandemic. It should be noted that net profit and revenues are above the pre-pandemic levels.

Liquidity and Solvency

As of the end of December 2021, the Company had total assets that amounted to US$26.7 billion, funded by total liabilities of US$18.1 billion and shareholder's equity of US$10.7 billion. Cemex has been deliberate in its actions to attain investment grade status and this can be seen in the Company's net leverage position being reduced over the last five years. At the end of 2021, the financial year net leverage was 2.7 compared to its peak of 4.3 in 2019. The improved solvency has been achieved through consistent cash generation via its business operations coupled with strong working capital management.



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CEMEX CREDIT METRICS

Credit Metrics	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
	06/30/2020	09/30/2020	12/31/2020	03/31/2021	06/30/2021	09/30/2021	12/31/2021
Total Debt	13,175.7	13,310.2	11,185.0	10,412.7	9,664.6	8,981.9	9,157.0
Short-Term Debt	788.3	2,983.3	1,058.0	793.1	943.8	358.1	940.0
Long Term Debt	12,387.5	10,326.9	10,127.0	9,619.6	8,720.8	8,623.8	8,217.0
Net Debt/EBITDA	5.38	24.01	15.65	6.30	4.71	2.83	3.09
Long-Term Debt/Equity	121.24	117.23	113.13	100.47	83.52	86.31	80.00
Long-Term Debt/Capital	52.95	46.69	50.29	48.13	43.37	45.45	42.29
Long-Term Debt/Total Assets	41.35	35.33	36.93	34.90	31.25	32.20	30.83
Total Debt/Equity	128.96	151.09	124.94	108.75	92.56	89.90	89.15
Total Debt/Capital	56.32	60.17	55.54	52.10	48.07	47.34	47.13
Total Debt/Total Assets	43.98	45.53	40.78	37.78	34.63	33.54	34.36
Net Debt/Equity	101.24	109.70	114.33	93.32	77.93	79.12	83.19
Net Debt/Capital	50.31	52.31	53.34	48.27	43.80	44.17	45.41

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Relative Valuation and Spread Analysis

CEMEX S.A.B de C.V. Peer Comparison Industry: Building Materials				
Company	**CEMEX**	**Heidelberg Cement**	**Holcim Group**	**CRH**
Rating	BB/Positive	BBB/Stable	BBB+/Positive	BBB+
Financial Data	US$ Millions	Euro(€) Millions	Swiss Franc (CHf) Millions	US$ Millions
Revenue	14,548	18,720	26,834	30,961
EBITDA	2,861	3,875	6,562	5,469
Interest Expense	574	180	556	417
Cash Flow from Operations (CFO)	1,855	2,396	5,045	4,210
Capital Expenditure	1,094	1,208	1,420	2,661
Free Operating Cash Flow	722	1,568	3,264	1,549
Cash and Cash Equivalents	613	3,115	6,682	5,783
Debt	7,379	6,998	16,612	12,158
Equity	10,271	16,659	30,473	20,914
Adjusted Ratios				
EBITDA margin (%)	19.67	20.70	24.45	17.66
EBITDA interest coverage (x)	4.98	21.53	11.80	13.12
CFO cash interest coverage (x)	3.54	4.57	9.63	8.03
Debt/EBITDA (x)	2.58	1.81	2.53	2.22
CFO/debt (%)	25.14	34.24	30.37	34.63

While Cemx's revenue is highly concentrated in cement, the geographic diversification that Cemex has offset the product revenue concerns. The strategic initiatives being implemented by Cemex have significantly lowered its debt position over the years which will enable them to grow sustainably in the future.

With regards to price action and spreads, Cemex 2025 trades slightly wide, upon examination of the spread in comparison to the average of its peers which would indicate a slightly lower credit to that of its peers. Cemex 2025's average spread relative to treasury securities has been 315bps while being wide of the interpolated yield curve by an average of 314bps. It should be noted that these spreads have significantly improved over the last 12 months which points to the improvement in the credit risks associated with the economics of the business.

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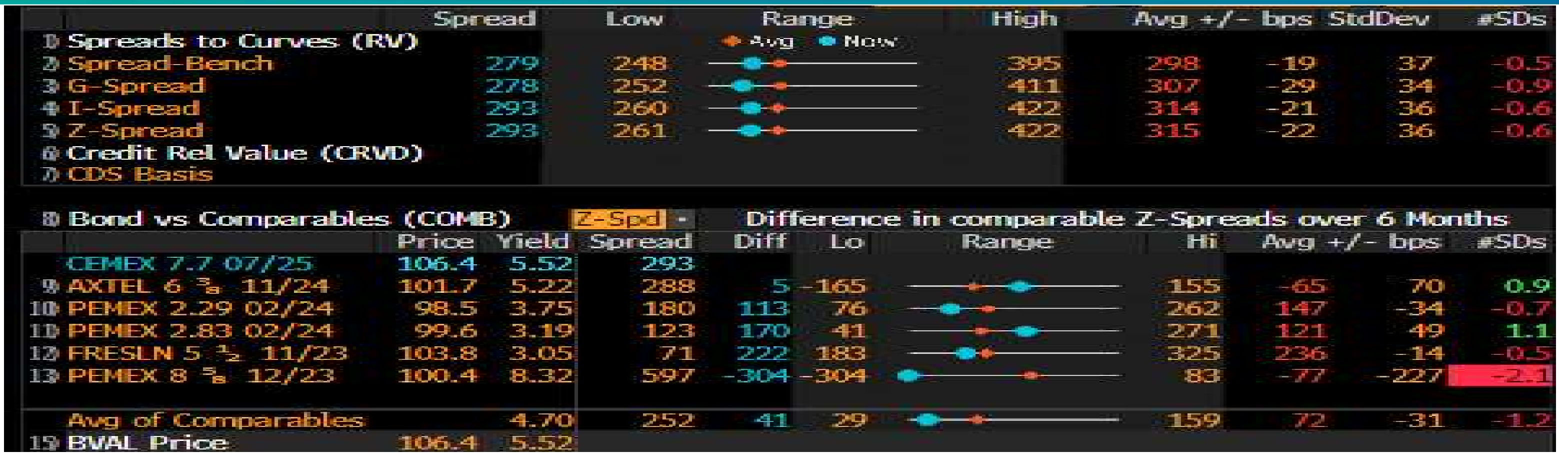
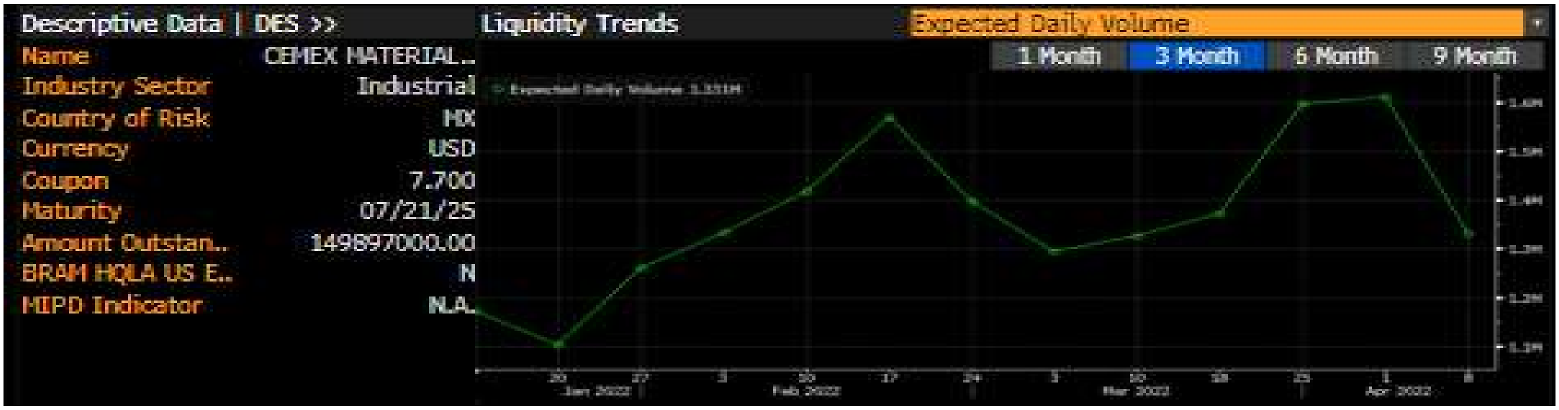


	Spread	Low	Range	High	Avg	+/- bps	StdDev	#SDs
1) Spreads to Curves (RV)			Avg / Now					
2) Spread-Bench	279	248		395	298	-19	37	-0.5
3) G-Spread	278	252		411	307	-29	34	-0.9
4) I-Spread	293	260		422	314	-21	36	-0.6
5) Z-Spread	293	261		422	315	-22	36	-0.6
6) Credit Rel Value (CRVD)								
7) CDS Basis								

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 7.7 07/25	106.4	5.52	293							
9) AXTEL 6 ⅜ 11/24	101.7	5.22	288	5	-165		155	-65	70	0.9
10) PEMEX 2.29 02/24	98.5	3.75	180	113	76		262	147	-34	-0.7
11) PEMEX 2.83 02/24	99.6	3.19	123	170	41		271	121	49	1.1
12) FRESLN 5 ½ 11/23	103.8	3.05	71	222	183		325	236	-14	-0.5
13) PEMEX 8 ⅝ 12/23	100.4	8.32	597	-304	-304		83	-77	-227	-2.1
Avg of Comparables		4.70	252	41	29		159	72	-31	-1.2
15) BVAL Price	106.4	5.52								

An important aspect of analyzing fixed-income security is that of the liquidity of the bond, the Cemex 2025 has shown the ability to trade volumes that are large enough to hold up to that of the average transaction of a Barita client and by such means, liquidity is not a concern with regards to this bond.



Recommendation

Given the underlying economics of Cemex's business operations coupled with their efforts to improve the credit health of the company and their cash generation efforts, we rate the **Cemex 7.70% 2025** bond as **OVERWEIGHT.** The rationale for our view on 2025 is that investors who participate can find comfort in Cemex's diverse geographic operations and the increased focus by major economies on infrastructure spending.

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