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Construction

LOMA NEGRA 2Q19

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LOMA NEGRA 2Q19

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August 2019

LOMA NEGRA (LOMA)

Market Price (29/08/2019):

AR\$ 60.00 / US\$ 5.04

Target Price: AR\$ 97.62

Expected return: 63%

Rating: Market Performer

Price Range (\$)

52 sem. Mín.

52 sem. Máx.

48.10

116.75

LOMA NEGRA BA Prices vs. MERVAL
Nov. 2017=100



Source: Yahoo Finance

LOMA NEGRA's ADRs Prices vs. S&P500
Nov. 2017=100



Source: Yahoo Finance

	REVENUES (AR\$ mill)	EBITDA (AR\$ mill)	Net Profit (AR\$ mill)	Net Profit Margin (%)	ROE (%)	ROA	EPS (AR\$)
2018	26.807	7.121	1.951	7,3	11,8	5,9	\$3,02
2019E	30.670	13.700	2.760	9,0	11,9	9,0	\$5,15
2020E	48.930	19.827	4.404	8,0	12,8	9,0	\$7,39

Source: Company's Financial Statements. .In million ARS.

Loma Negra:

Amidst an adverse macroeconomic situation (see Annexe1), to which political uncertainty is added (see Annexe 1), this quarter's Loma Negra's revenues dropped 2.2% in real terms y/y. This is in line with our projections which contemplated the recession to last until the beginning of third quarter. On the other hand, the results of the primary elections (PASO) favourable to the opposition, which were not anticipated by the markets, plummeted the stock value due to the abrupt change in expectations, affecting particularly this sector so dependent on an economic policy which prioritizes Public Works, like the Macri administration did.

Main quarter facts:

- Sales were affected by a 10.4% drop in volume of 10.4% of its leading segment (Cement Argentina) during this quarter y/y.
- The higher drop in volume than in revenues is explained in first place, by the fact that Loma Negra is a market leader fixing prices before its competitors. Consequently, there has been a demand shift toward substitute products. This decrease is probably temporary in market share, until prices match across the industry. In second place, this quarter had bad climatic conditions which delayed construction. In third place, there are big public works that have ended and the launching of new ones are experiencing some delays, even though there is an incipient increase in private construction demand. Last, the labour conflict in Barker's plant also impacted.
- Regarding costs, there have been some extraordinary related to improve dioxide emissions that entail cement production, which hurt gross margin. If these costs are not taken into account, gross margin increased from 26.4 to 28.2% y/y.
- Administrative and Selling expenses decreased 16,1% y/y.
- Adjusted for inflation EBITDA increased from 23.6 to 25.8% (without the adjustment of inflation the increase would have been 28.3%)
- Net profit increased 525% y/y. This is due to financial costs that decreased 128% y/y due to foreign exchange gains as opposed to a year ago. and income from investments.
- Net debt was 0,76 times EBITDA this quarter, compared to 0,56 times during 1Q19 and 0,43 times in Dec. 18.
- The share of foreign currency decreased from 85% to 70% y/y (35% is in US\$ and 33% in Guaraníes) (Annexe 5).

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Perspectives:

The fact that the economy continued in recession during this quarter, affected this industry and the firm's demand, negatively impacting revenues and gross margins. In spite of this, the firm was able to maintain and even improve EBITA y/y. This was possible due to a good cost management and positive financial result. There were signs of a change in the business cycle trend, with ups and downs so far, with some encouraging private construction results, but the primary's results stopped the expectations of a general and construction recovery. The risk for this industry is the vulnerability vis a vis more short term policies, which might concentrate on the consumption side in detriment of investment as the growth engine.

Loma Negra's challenge is to shift production to l'Améli plant which is scheduled to start functioning in 2Q20 with lower costs, taking into account that the firm had to step back after trying to close a plant in Baker (Buenos Aires). Negotiations with unions and local government resulted in an arrangement .with 15 days shifts with an initial pay of 70% and then 65% of wages.

Stock performance after the PASO primary elections and target price:

Target price is calculated with the Discounted Cash Flow Method (DCF). Since this method includes country risk, we must be prudent with the results, since country risk is reflecting the political momentum prior to the general elections in October. If we consider a country risk of 700 points, a long term growth of 3,5%, and an estimated exchange rate of \$70 per dollar at year end, we arrive to a target price of \$97,62. Our recommendation is Market Performer. Annexe 6 shows the price sensitivity of the stock and the ADR to country risk.

Being Loma Negra stock a cyclical stock, its value increased more than the Merval S&P index during the last weeks prior to the primary elections, due to the fact that the markets discounted a good result for president Macri. After the surprise of the result, the stock, which accentuates the cycles, had a decrease of 47 and 38% Monday and Tuesday after the primaries, to recoup 10% the following Wednesday 15. As of Thursday August 29, Loma Negra quotes 25% less than at the beginning of the year. (Annexe 2).

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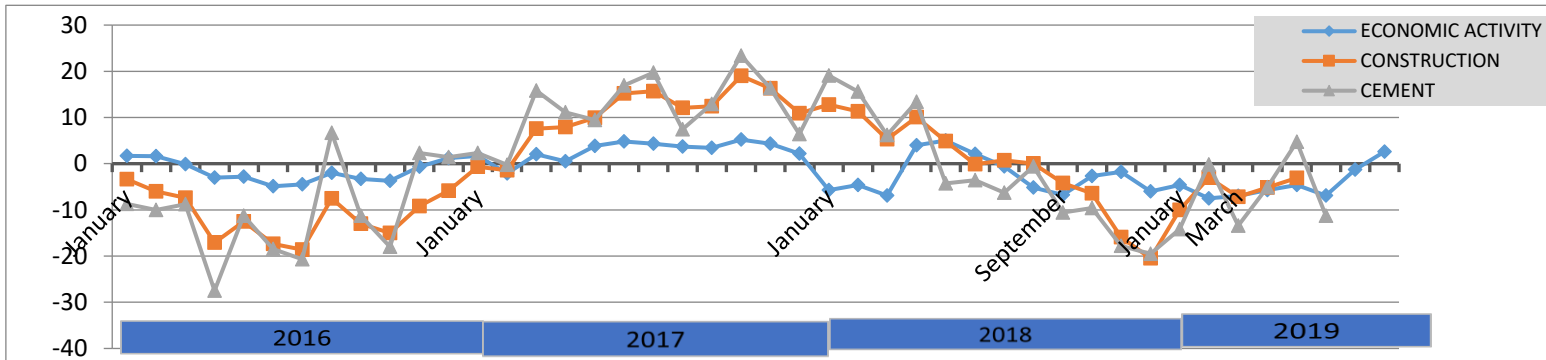
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ANNEXES

1- ANNUAL and MONTHLY GDP, CONSTRUCTION AND CEMENT SALES GROWTH:

Annual and monthly GROWTH of GDP, CONSTRUCTION and CEMENT SALES (*)



(*) According to INDEC and EMAE which is a price estimator with base 2004

2- STOCK PRICE LOMA NEGRA vs. MERVAL (Aug.18-Aug.19 after primary elections)



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3 - VALUATION CHART:

DCF (AR\$m)	2019E	2020E	2021E	2022E	2023E
Annual Revenues growth		59,54%	25,84%	22,36%	20,14%
Revenues	30.670	48.930	61.574	75.344	90.518
EBIT Margin	27,00%	28,00%	28,00%	28,00%	28,00%
EBITDA	8.281	13.700	19.827	23.206	27.373
FCF	2.894	4.787	6.928	8.109	9.564
WACC	13,63%	12,91%	12,19%	12,19%	11,48%
PVFCF	65.100				
Net Debt	6.900				
Stock issued (in mill.)	596				
TARGET PRICE	97,65				

Assumptions	
Long run growth	3,5%
Country risk	7,0%
Risk Free rate	3,0%
Excess return	4,0%
Beta	1,3
Cost of equity	15,5%
Cost of debt	10,0%
WACC average	12,5%

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4- SUMMARY OF ANNUAL AND QUARTERLY RESULTS:

	SUMMARY OF ANNUAL RESULTS (in millions and in %)										QUARTERLY RESULTS											
	2016 (*)		2017 (*)		2018 (*)			2019E			2020E	1T18		1T19		Cambio % internal	2T18		Cambio % internal	2T19		Cambio % internal
	En %	En Mill.	En %	En Mill.	En %	En Mill.	Cambio % internal	En %	En Mill.	Cambio % internal	En Mill.	En %	En Mill.	En %	En Mill.		En %	2T2018		En %	2T2019	
Net Revenues	100.0	9.874	100	24.839	100.0	26.807	7,9	100	30.670	14,4	48.930	100.0	7.176	100.0	7.438	3,7%	100.0	7.637	100.0	7.470	-2,2%	
Cost of Goods Sold		74%		75%		75%	8,0		74,2		13,9		77%		71%	-3,9%		74%		74%	-1,2%	
Gross Profit Margin	26%	2610	25%	6.329	25%	6.824	7,8	25,8	7.910	15,9	12.619	23%	1.667	29%	2.145	28,7%	26%	2.015	26%	1.917	-4,9%	
	0%																					
Selling and Adm. Expenses	-9%	-929	-8%	-1.969	-7%	-1.934	-1,8	-8,18	-2.510	-29,8	-4.004	-8%	-551	-8%	-626	13,6%	-8%	-579	-7%	-486	-16,1%	
Other operating Net Expenses	2%	161	-1%	-189	-1%	-145	-23,3	0,11	34	123,2	54	-1%	-96	-2%	-113	17,7%	-1%	-62	-1%	-52	-16,1%	
Operating Margin	19%	1.842	17%	4.171	18%	4.745	13,8	17,7	5.433	14,5	8.668	14%	1.020	19%	1.406	37,8%	18%	1.374	18%	1.379	0,4%	
Financial Income and Expenses	-11%	-1081	-1%	-271	-6%	-1.662	513,3	-6,08	-1.865	-12,2	-2.975	-1%	-73	-2%	-134	83,6%	-12%	-954	4%	264	-127,7%	
Profit before Taxes	8%	761	16%	3.900	12%	3.083	-20,9	11,6	3.569	15,8	5.694	13%	947	17%	1.272	34,3%	5%	420	22%	1.643	291,2%	
	0%		-1%	-222	-4%	-1.132	409,9	2,65	812	171,7	1.295							-243		-543	123,5%	
Net Profit Margin	5%	482	15%	3.678	7%	1.951	-47,0	8,99	2.757	41,3	4.398	10%	723	14%	1.067	47,6%	2%	177	15%	1.100	521,5%	

In millions of ARS.

Source: LOMA NEGRA .Financial Statements.

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5 - FINANCIAL DATA AND RATIOS

FINANCIAL DATA AND RATIOS						QUARTERLY			
	2016	2017	2018 (A)	2018 (S/A)	2019E	1T18 (A)	1T19 (A)	2T18 (A)	2T19 (A)
Total revenues (*)	9.874	15.287	26.807	22.163	30.000	7.438	7.176	7.637	7.470
Adjusted EBITDA (*)	2350	3.942	6.167	7.121	13.700	1.812	2.136	1.801	1.929
Net Debt (*)	3.536	1.184	3.061	3.061	-----	3.504	4.908	5.874	6.967
Net Worth (*)		14.131	16.553	16.553	23.000	5.048	19.561	5.690	22.250
Gross Profit Margin %	26,4	25,5	29,5	25,5	25,8	23,2	28,8	26,4	25,7
EBITDA Margin %	23,8	25,8	28,0	27,0	27,0	25,3	28,7	23,6	25,8
Net Profit Margin %	4,9	14,8	10,0	7,0	9,0	9,7	14,9	2,3	14,7
Net Debt/EBITDA (x)	1,50 x	0,28 x	0,50x	0,43x	-----	0,5	0,6	0,6	0,8
Net Debt/Net Worth (x)		0,23	0,18	0,18	-----	0,7	0,3	1,03	0,31
Current Debt/Total Debt %	70,6	40,3	56,3	56,3	55,0	42,6	55,8	53,3	56,3
Debt in Foreign Currencies (**)	77,0	77,0	85,0		-----	77,1	85,0	78,1	70,0
ROA %	5,6	12,5	6,6	5,9	9,0	5,3	2,8	1,2	2,5
ROE %	44,4	26,0	13,1	11,8	11,9	14,3	5,5	3,1	4,9
EPS AR\$	0,87	6,15	3,64	3,02	4,7	0,88	1,70	0,29	1,79

6- TARGET PRICE SENSITIVITY TO COUNTRY RISK:

SENSIBILIDAD DEL PRECIO OBJETIVO a CAMBIOS en el RIESGO PAÍS			
COUNTRY RISK	5%	7%	12%
Target Price in ARS	120,86	97,6	63,75
Price as of August Thursday 29	AR\$60,00		
Target Price ADRs in US\$	9,58	6,97	4,55
Price as of August Thursday 29	US\$5,08		

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As from August 29, 2019, the formula is:	
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Perform: expected to perform in-line with the underlying country index	X
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