Summer is just around the corner; Initiate with Buy

We initiate coverage on Cemex Latam Holdings (CLH) with a Buy rating and a price target of COP12,720, implying an upside potential of 18%. We believe the competitive dynamics in the Colombian cement market are about to change, following a very challenging year. Indeed, recent industry data seems to confirm our thesis as both demand and prices start to pick up. Furthermore, our long term expectations for the sector remain positive as there continues to be ample room for growth in volumes given the much needed investment in public infrastructure. We think Cemex is in an ideal position to benefit from the short term recovery and long term growth opportunities in Latin American markets. At 7.4x 1-yr forward EV/EBITDA (20% discount to peers), we think the stock is undervalued.

Cemex to benefit from a rebound in cement volumes and better pricing in 2018

This year has proven to be a challenging one for Colombian cement producers given a 2.5% YTD decline in volumes and significant pressure on prices over the last year. Nonetheless, recent industry data suggest that a turnaround is right around the corner as volumes and prices start to show signs of recovery, supported by the awaited dispatches of cement for 4G projects, improving housing dynamics, and a 5% tariff on cement imports that is likely to put an end to price war. While competitive dynamics should remain weak for the rest of this year, we expect cement volumes in Colombia to rebound 3.0% and 5.0% in 2018 and 2019, respectively. As such, we expect Cemex volumes to recover and grow 4.2% and 5.3% over the next couple of years, following an expected decline of 1.8% in 2017.

Solid market positions in underpenetrated Latin American markets

We think Cemex is well positioned to capture long term growth opportunities, given its leading presence in underpenetrated markets. Cement consumption remains relatively low in Colombia at only 265kg/ per capita, slightly below the average in Latin America and well below consumption levels observed in developed markets as a result of historically low investments in public infrastructure. We think potential opportunities in this front have started to materialize with infrastructure spending already moving steadily with 4G projects in Colombia, which should lead to increase demand in cement volumes in the medium term. Furthermore, perspectives for other operations, such as Panama and Costa Rica, continue to be positive in the short term with Costa Rica also offering significant long term potential.

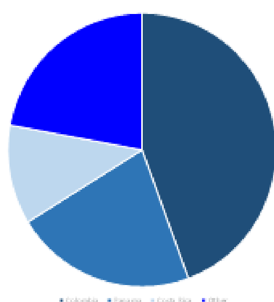
DFC-derived PT of COP12,720 implies 18% upside potential and still attractive valuation

Cemex Latam Holdings has underperformed the overall market having lost 4.6% YTD vs. a 6.1% increase for the COLCAP index YTD. As such, the stock currently trades at 7.4x 1-yr forward EV/EBITDA multiple, which represents a 20% discount to both Latam and Global peers at 9.3x 1-yr forward EV/EBITDA. We believe Cemex´s discount valuation is unwarranted, given its superior EBITDA margin of 29-30% and solid ROE of 9%, which is basically in-line with peers. Our DCF analysis (WACC of 9.4%) suggest a target price of COP12,720, which implies that the stock should trade at 8.1x 2018E EV/EBITDA, basically in-line with its historical average of 8.0x. Main risks to our investment recommendation include further delays in 4G infrastructure projects, delays in permissions for Maceo plant, and currency depreciation.

Company Description

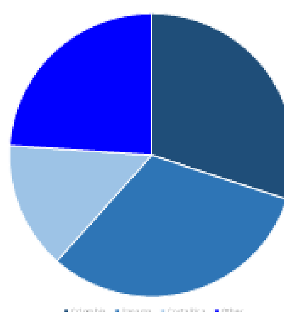
Cemex Latam Holdings SA (CLH) is a subsidiary of a Spain-based holding company that is engaged in the production, distribution and sale of cement, clinker ready-mix concrete, aggregates and other related building materials. The company has operations established in Colombia, Panama, Costa Rica, Nicaragua, El Salvador, Guatemala, and Brazil. Cemex Latam Holdings owns five production plants in the region that account for an annual cement production capacity of 7.6mn metric tons (8.6mn mt when including grinding capacity not part of an integrated cement plant). The company generates most of its revenue and EBITDA from its Colombian, Panamanian, and Costa Rican operations and competes with Cementos Argos and Holcim among other competitors in these markets.

Exhibit 01: Cemex geographic revenue breakdown



Source: Company reports, Incatraz Investments

Exhibit 02: Cemex geographic EBITDA breakdown



Source: Company reports, Incatraz Investments

Exhibit 03: Cemex market position by geography

	Cement	Concrete	Aggregates
Colombia	2	2	1
Panama	1	1	3
Costa Rica	2	1	3
Nicaragua	1	1	3
Guatemala	2	2	na

Source: Company reports, Incatraz Investments

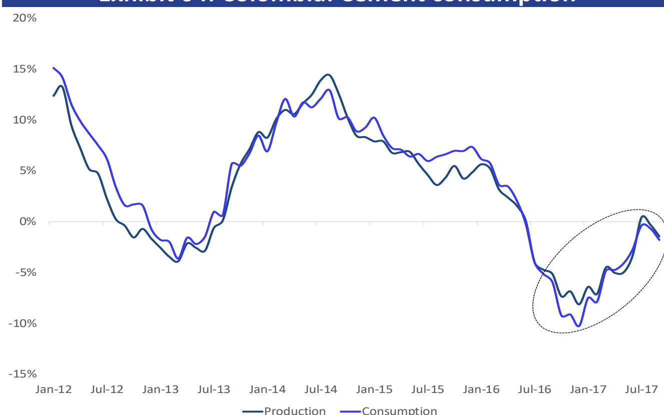
Investment Highlights

Cemex to benefit from a rebound in cement volumes and better pricing in 2018

Colombian cement industry starts to show signs of recovery

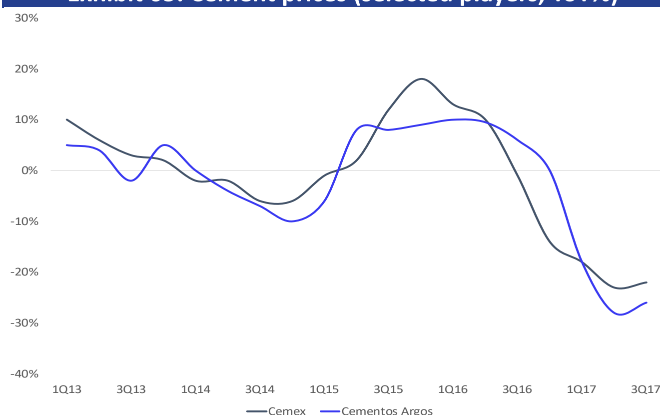
This year has proven to be a challenging one for Colombian cement producers. Consumption volumes have declined 2.5% YTD and cement prices have dropped close to 20% yoy for three consecutive quarters. While the competitive dynamics should remain tough for the rest of this year, given the challenging macro environment, we think a turnaround is right around the corner. In fact, recent industry data supports our view that cement volumes and prices are starting to show signs of recovery. Demand appears to have bottomed out since December 2016 (Exhibit 04) and pricing starts to improve going into 2018 after bottoming in July (Exhibit 05). Indeed, Cemex successfully implemented a COP1,000 per bag price hike ($4/ton) during August and announced a second increase in October. From June to September, average cement prices are up 2%, which translates into a $5/ton increase.

Exhibit 04: Colombia: Cement consumption



Source: DANE, Incatraz Investments research

Exhibit 05: Cement prices (selected players, YoY%)

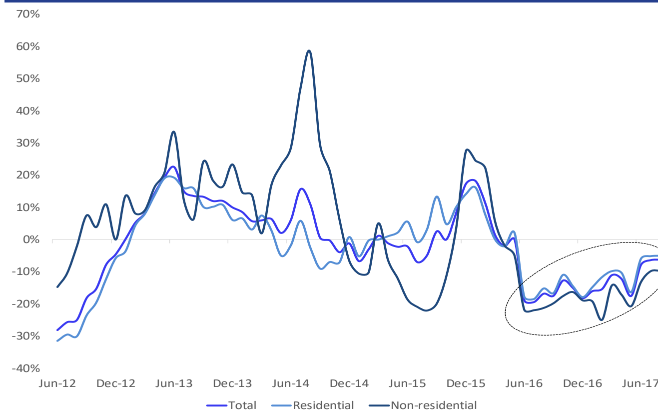


Source: DANE, Incatraz Investments research

Construction trends confirm improving outlook

Housing is starting to show signs of recovery following a constant decay that begun in December 2015. Decelerating trends in building construction approvals have started to ease since June (Exhibit 06). In fact, total permits fell 6% yoy (6-month trailing) in August compared to an average decline of 16% yoy over the last year. While still negative, building construction approvals seem to be gaining some momentum 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.

Exhibit 06: Colombia: Building construction approvals



Source: DANE, Incatraz Investments research

Infrastructure wave and tariffs on imports should help the recovery

Despite several delays, the awaited dispatches of cement for 4G (Fourth Generation) infrastructure projects in Colombia have already begun to materialize and should drive demand growth toward 2018. Indeed, Cemex is currently supplying its products for some 4G projects and is advancing in negotiations in more of these. We think infrastructure remains a medium-term catalyst, given a strong pipeline of projects, including highways, schools, and tertiary roads among others. This infrastructure wave known as 4G program entails investments of close to $20bn to construct more than 8,000km of road. Furthermore, Colombia has introduced a 5% tariff on cement imports, which we believe will decelerate cement imports and will likely put an end to Colombian price war that started a year ago.

Good news for infrastructure pipeline in Bogotá and stable operations in other countries

An important recent development is that there has been a significant increase in the debt ceiling that the municipality of Bogotá could use to begin investments. The increase has been from $800 million up to $2.3 billion for projects like TransMileno (Highway 7), one of the most important roads in the city, thirty new schools, the Bogotá Police headquarters, hospitals and parks, and improvement of current roads. Furthermore, the central government approved $3 billion in fiscal appropriations for the construction of the Bogota Metro that accounts for 70% of estimated investment of the project. While this is a project that is going to take a long time in the cycle, we are starting to get more visibility on the deployment of 4G projects after delays in execution that did not benefit the demand for building material this year.

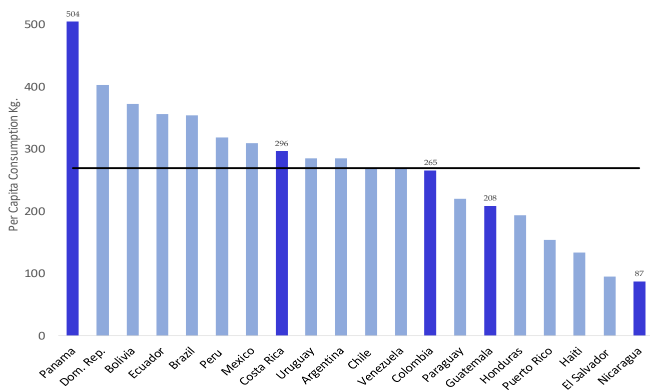
The perspectives for other operations, such as Panama and Costa Rica, continue to be positive. Recently, Cemex Costa Rica was awarded with the projects such as Oxygen, Northern Betlway, Route 32, Hotels and warehouses, and works in public universities. Besides, demand could also benefit from efforts to repair local infrastructure damaged during the hurricane season. The overall volume seems to be promising. Panama's infrastructure works should continue to drive demand for the products in the country. Unfortunately, execution of new projects is taking longer than anticipated. However, strong pipeline of infrastructure project should be supported by government revenues. Potential investments of $10 billion are expected for projects such as the 3rd line of the subway, 4th bridge over the Canal, The Corozal Port and Natural Gas plant (Isla Margarita).

Solid market positions in underpenetrated Latin American markets

Low cement consumption in Cemex markets suggest an untapped potential for growth

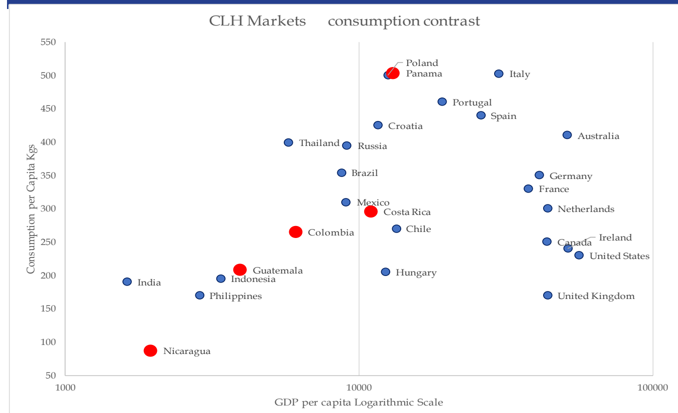
Cemex Latam Holdings offers exposure to cement in South and Central American markets that have grown strongly but still have low penetration. Cement consumption remains relatively low in Colombia at only 265kg/per capita, slightly below the average in Latin America, mainly because of historically low infrastructure investments. 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. Aside from Colombia, Cemex also has presence in other underpenetrated markets such as Costa Rica, Guatemala, and Nicaragua. We believe this represents a long-term opportunity to grow mainly through higher volumes and also from strategic investments to enhance its current market positions in the countries in which it operates.

Exhibit 07: Latam cement consumption per capita



Source: International Cement Review, Incatraz Investments research

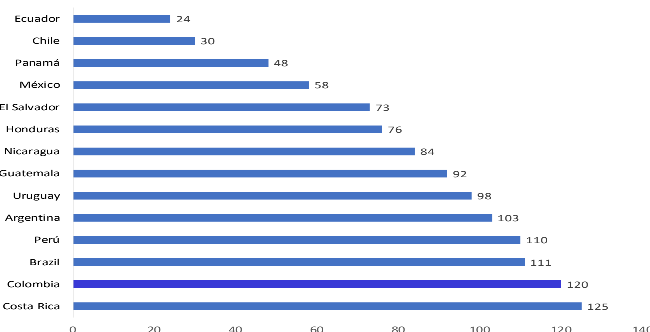
Exhibit 08: Consumption and GDP per capita



Source: WEF Global Competitive Index, Incatraz Investments research

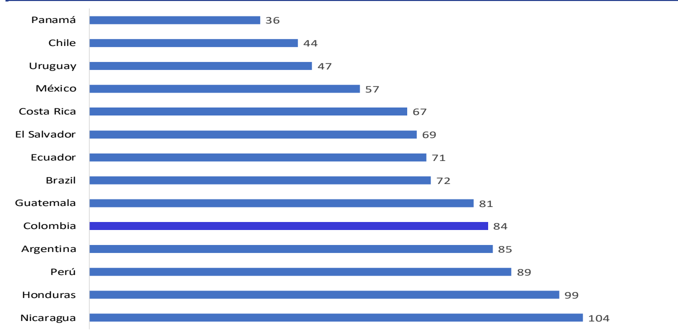
Colombia has one of the most serious infrastructure deficits in Latin America, an issue that recent governments have already started to address. Public infrastructure investments have represented only xx% of GDP in the past xx year, well below levels in other Latin America and developed markets countries of at least xx%. According to the World Economic Forum's Global Competitive Index, 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.

Exhibit 09: Quality of roads Latam Ranking 2016-17



Source: WEF Global Competitiveness Index, Incatraz Investments

Exhibit 10: Infrastructure Latam Ranking 2016-17



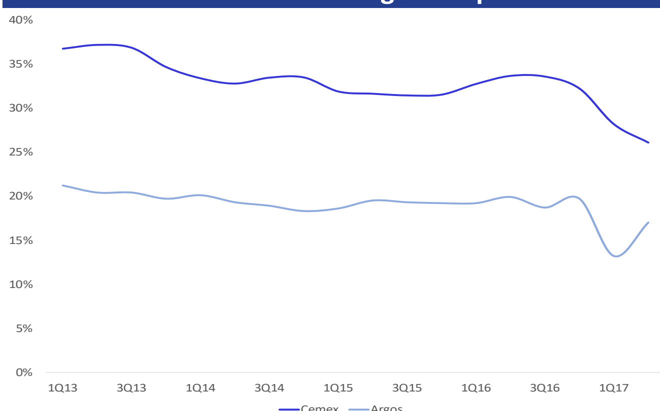
Source: WEF Global Competitiveness Index, Incatraz Investments

We think potential opportunities in this front have started to materialize with infrastructure spending already moving steadily with 4G projects. Fourth Generation project is an infrastructure program worth over $18 billion that consists of highways, bridges and transportation around the country. 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.

Stronger margins and lower leverage vs. main competitor Cementos Argos

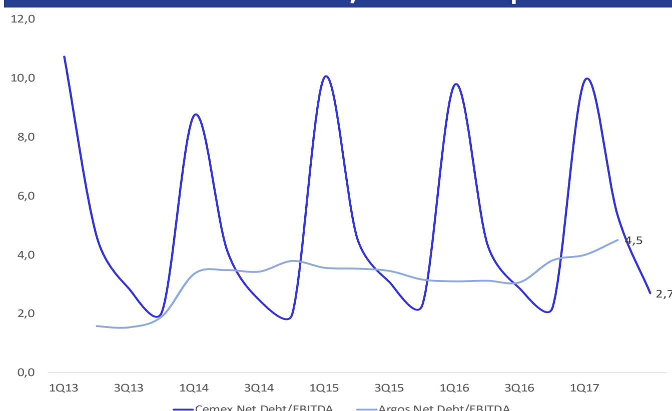
Cemex Latam Holdings in one of the most efficient players with EBITDA margins that have historically exceeded 25%. The company has improved its operating margins not only by growing volumes and increasing prices but also from many different initiatives to improve efficiency led by lower fuel costs, lower maintenance costs, and reduced distribution expenses. As mentioned before, 2017 has been a tough year for Colombia's cement producers given the declines in both volumes and prices. Nonetheless, Cemex remains well ahead of its closest competitor, Cementos Argos, in terms of EBITDA margin. The company has also been reducing its risk profile by repaying debt, resulting in a Net debt/EBITDA ratio of 2.5x, well below Cementos Argos' 4.5x.

Exhibit 11: EBITDA margin comparison



Source: Company reports, Incatraz Investments research

Exhibit 12: Net debt/EBITDA comparison



Source: Company reports, Incatraz Investments research

Financial Outlook

Revenues and margins are expected to recover next year

2017 has been a difficult year for Cemex given overall weakness in volumes and a price war started by Argos last year in response to increasing cement imports. Nonetheless, we believe Colombia is about to turn around based on infrastructure already kicking in and housing regaining strength. As such, we expect consumption levels to decline 2.5% this year, but to rebound 3.0% and 5.0% in 2018 and 2019, respectively. As demand increases we also expect prices to improve 8.0% and 5.0% in 2018 and 2019, respectively, following a 5.0% contraction this year (Exhibit 13).

Exhibit 13: Colombia cement forecast

	2013	2014	2015	2016	2017E	2018E	2019E
Consumption (mt)	10,9	12,0	12,7	12,2	11,9	12,3	12,9
yoy change		*10,1%*	*5,8%*	*-3,9%*	*-2,5%*	*3,0%*	*5,0%*
Price US$/t (average)	160	143	112	105	100	108	113
yoy change		*-10,6%*	*-21,7%*	*-6,3%*	*-5,0%*	*8,0%*	*5,0%*

Source: Incatraz Investments research

We expect Cemex volumes decline 7.6% in Colombia this year. This should be partially offset by growth of 6.3% in Panama and 4.4% in Costa Rica for a total expected decline of 1.8%. Looking forward, we expect Cemex volumes to increase 4.2% and 5.3% in 2018 and 2019, respectively, driven by a pick-up in Colombia due to infrastructure investments and continued mid-single digit growth in both Panama and Costa Rica. Panama's recovery is anchored to infrastructure investments, including the Metro Line and residential construction to a lesser extent. The rest of Cemex should similarly be supported by spending for infrastructure purposes. Costa Rica volumes, on the other hand, should be fostered by residential sector, given rising residential loans and building permits (Exhibit 14).

Exhibit 14: Cemex 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

All in, we expect consolidated revenues for Cemex to decline 3% yoy in 2017 with a 576bps EBITDA margin erosion compared to last year. Nevertheless, as the Colombian market starts seeing a recovery in volumes and less punishing pricing conditions, we expect overall revenues to increase 6% and 5% over the next two years. Finally, we expect EBITDA margin to gradually recover to 28.6% in 2018 and 30.1% 2019 supported mainly by improving market conditions in Colombia and Costa Rica.

Exhibit 15: 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, Incatraz Investments estimates

Price Target derivation

DCF shows attractive upside potential

We derive our price target of COP12,720 for Dec-2018 based on a DCF analysis, which implies an 18% potential upside from current levels. We assume a WACC of 9.4%, derived from a beta 1.1x, country risk of 2.8%, a risk free rate of 2.1%, equity risk premium of 5.0%, and an after-tax cost of debt of 5.3%. Furthermore, we assume growth in perpetuity of 4%, which is in-line with Colombia's long-term economic growth potential. 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.

Exhibit 16: Cemex Latam Holdings – DCF analysis ($ 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								
NPV of Terminal value	$2,144								
Enterprise value	$3,257								
Net debt	$971								
Equity value	$2,286								
Shares (mn)	557								
Price target ($)	$4.1								
Price target (COP)	**12,721**								
Upside/Downside potential	***18.0%***								

Growth in perpetuity (g)	4%
Cost of equity	
US LT risk free rate	2.1%
US equity risk premium	5.0%
Levered beta	1.1
Country risk premium	2.8%
COE	10.5%
Cost of debt	
Gross yield	7.5%
Marginal tax rate	30.0%
Cost of debt	5.3%
Target capital structure	
Target D/(D+E)	20%
Target E/(D+E)	80%
WACC	**9.4%**

Source: Incatraz Investments estimates

Valuation

Cemex Latam Holdings has underperformed the overall market having lost 4.6% YTD vs. a 6.1% increase for the COLCAP index YTD (Exhibit 17), likely reflecting the tough operating environment the company has faced over the last year. As such, the stock currently trades at 7.4x 1-yr forward EV/EBITDA multiple, which represents a 20% discount to both Latam and Global peers at 9.3x 1-yr forward EV/EBITDA (Exhibit 18). There is no perfect comp for Cemex Latam Holdings, in our view. While Cementos Argos generates 80% of its EBITDA in Colombia, it has significant exposure to the US, which we think this explains its higher multiple of 11.2x EV/EBITDA. Nonetheless, we believe Cemex´s discount valuation is unwarranted, given its superior EBITDA margin of 29-30% and solid ROE of 9%, which is basically in-line with peers.

Source: Bloomberg Finance LP

Exhibit 18: Cement Global comps sheet

Company	Country	1yr fwd P/E	1yr fwd EV/EBITDA	1yr fwd EV/EBIT	1yr fwd EV/Sales	Trailing P/BV	ROE
CEMEX Latam Holdings SA	**Colombia**	**11.7**	**7.4**	**9.9**	**2.2**	**1.3**	**9%**
Cementos Argos SA	Colombia	34.9	11.2	17.5	2.2	1.8	5%
Corp Moctezuma SAB de CV	Mexico	na	8.4	na	4.0	6.4	na
Cementos Pacasmayo SAA	Perú	17.7	10.1	13.6	3.3	1.8	10%
Cemex SAB de CV	Mexico	13.4	7.9	11.4	1.6	1.3	10%
Latam median (excluding CLH)		**17.7**	**9.3**	**13.6**	**2.8**	**1.8**	**10%**
Vulcan Materials Co	United States	30.8	15.2	20.6	4.4	3.5	na
Martin Marietta Materials Inc	United States	24.8	13.2	17.0	3.7	3.1	na
Eagle Material	United States	17.8	10.2	12.4	3.7	3.8	na
USA Median		**24.8**	**13.2**	**17.0**	**3.7**	**3.5**	**na**
LafargeHolcim Ltd	Switzerland	15.5	8.6	13.5	2.0	1.1	6%
CRH PLC	Ireland	16.0	9.3	13.2	1.2	1.9	10%
HeidelbergCement AG	Germany	13.3	8.2	11.9	1.6	1.2	7%
Buzzi Unicem SpA	Italy	15.2	7.9	11.7	1.7	1.7	9%
Italcementi SpA	Italy	124.5	8.6	19.8	1.4	1.4	na
Cie de Saint Gobain	France	14.5	7.4	10.4	0.8	1.5	na
Europe Median		**15.4**	**8.4**	**12.6**	**1.5**	**1.4**	**8%**
UltraTech Cement Ltd	India	36.2	18.1	24.2	3.9	4.8	12%
Ambuja Cements Ltd	India	28.1	12.3	17.5	2.1	2.6	7%
ACC Ltd	India	29.1	15.0	22.1	2.2	3.6	9%
India Cements Ltd/The	India	13.0	7.3	9.4	1.3	1.0	6%
Anhui Conch Cement Co Ltd	China	10.3	5.6	7.2	1.8	1.7	13%
BBMG Corp	China	7.9	13.0	17.3	2.4	0.8	7%
CEMEX Holdings Philippines Inc	Philippines	11.6	7.6	10.7	1.4	0.7	8%
Siam Cement PCL/The	Thailand	10.7	8.8	12.7	1.7	2.3	20%
Siam City Cement PCL	Thailand	23.8	13.4	19.3	2.5	2.3	13%
Taiwan Cement Corp	Taiwan	14.7	9.3	13.3	2.0	1.3	7%
Semen Indonesia Persero Tbk PT	Indonesia	17.7	10.3	15.1	2.3	2.1	11%
China Resources Power Holdings	Hong Kong	9.4	6.6	12.0	2.3	1.1	12%
Adelaide Brighton Ltd	Australia	20.0	12.1	15.4	3.0	3.5	16%
Asia/Oceania Median		**14.7**	**10.3**	**15.1**	**2.2**	**2.1**	**11%**
Sector Median (excluding CLH)		**16.0**	**9.3**	**13.5**	**2.1**	**1.8**	**10%**

Source: Bloomberg Finance LP, Incatraz Investments

Risks

Main downside risks to our investment recommendation include:

1. 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.
2. 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.
3. 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.
4. Antitrust investigation on price collusion: Potential sanctions that may arise from Superintedence investigation would negatively affect financial results.

Along with our top pick Cemex Latam Holdings, we recommend to buy the following names:

- Canacol Energy Ltd (CNEC:CB)
- Empresa de Energía de Bogotá (EEB:CB)
- Almacenes Exito (EXITO:CB)
- Nutresa (NUTRESA:CB)

Canacol Energy Ltd

Canacol Energy Ltd is a Canada-based company engaged in petroleum and natural gas exploration and development activities in Colombia and Ecuador. After its launch as a private company in 2008, Canacol explored for hydrocarbon resources in Colombia and Guyana, with Colombia quickly becoming the focus of the company given significant discoveries. Early production focused on oil, but over time production has shifted to highly economic natural gas. This shift to natural gas has boosted Canacol's returns. The eight month payout for Canacol's natural gas wells is far superior to the average well in any North American natural gas play. These strong returns have been driven by a combination of low cost and high contract prices ranging from $5.00-5.60/mcf. While currently producing 90 mmcf/d, Canacol is planning for an additional 40 mmcf/d at the end of this year and another 100 mmcf/d by the end of 2018, with buyers of the gas already contracted at approximately $5.00/mfc. As such, we expect robust EBITDA growth of 19% CAGR 2017E-2019E and EPS growth of 67% CAGR 2017E-2019E. The biggest variable with the Canacol story we see is the dependence on further natural gas sales contracts for growth, however, with signed contracts providing built-in growth through at least the end of 2018, we believe Canacol shares are attractively valued at 4.9x 1-yr forward EV/EBITDA (15% discount to global peers) with potential for more oil exploration at higher prices.

Empresa de Energía de Bogotá

Empresa de Energía de Bogotá (EEB) is part of the Energy Group of Bogotá (GEB). The two business areas of EEB are the transmission of energy and the management of its entire investment portfolio. It is currently the second company in electricity transmission in Colombia with a market share of 15.2%. The EEB is a joint-stock company, constituted as a public mixed services company, under the regime of domiciliary public services, the rules of the Commercial Code and, in general, by the rules of private law on public limited companies. Given that the Capital District of Bogotá is the main shareholder (76.28%), EEB maintains a direct and permanent relationship with the different district secretariats. As a group, GEB has investments in natural gas with presence in Peru and Guatemala. Recently they have acquired 82% of Condensa that is the energy distribution company for Cundinamarca state. Since the merger there has been a decrease in operating income since they changed the methodology to consolidate the income generated by Condensa. Nevertheless, the transmission business is growing as infrastructure projects are ready to operate. As such, we expect robust EBITDA growth of 25% from 2017 through 2019 with solid EBITDA margins of around 47% as 9 projects are completed by the end of 2017, were they start to generate income and dilute the fix cost of investment.

Almacenes Exito

Almacenes Exito is a supermarkets operator with presence in Colombia -where it is the largest player- Uruguay, Brazil and Argentina. It is controlled by French retailer Casino which owns 55% of shares outstanding. In August 2015, Exito acquired from Casino 50% of Grupo Pao de Acucar (GPA) voting shares, equivalent to 18.8% of the economic rights. As of the end of 2016, Exito operated a total of 1,576 stores, 566 stores in Colombia, 79 in Uruguay, 27 in Argentina and 904 in Brazil. The company operates several brands in each country, with different strategies. Recently, Exito created a spin-off company with its Real Estate assets in Colombia, and sold 49% of it to an affiliate of Bancolombia. Exito also engages in other complementary businesses, such as the development of consumer credit, travel agencies, mobile and others. While consumption in the Colombian market should remain subdued for the rest of this year, we expect that the substantial slowdown in inflation, continued reductions in interest rates, and recovery in oil prices to allow for a more favorable macroeconomic outlook for 2018. We appreciate the defensive nature of its operations and the several store formats with different target segments. Furthermore, we believe the stock is cheap trading at 5.3x forward EV/EBITDA, a 38% discount to its 10-year historical valuation and Latam retail peers.

Nutresa

Grupo Nutresa is a leading company in Latam food processing industry with eight segments through 170 brands: cold cuts, biscuits, chocolate, coffee, ice cream, pastas, Tresmontes Lucchetti and retail food. In almost all segments has a high domain with a consolidated market share of 60%. Along with Colombia, Nutresa operates in the US, Chile, Mexico, Peru and in Central America. The company offers exposure to consumer staples which are resilient to current weak macro environment as Nutresa's defensive nature. The volatility of the commodities is one of the main threats for sustainable margins. One of the main advantages compared to peers is raw materials diversification. Since Nutresa´s lines have their own reliance on different commodities. The most important commodity in Nutresa is coffee representing 9.5%. Recent VAT (Value Added Tax) increase in 2016 (19% before 16%) in Colombia hit consumption, but it is important to highlight that Nutresa's top line decline of 2.8% y/y in volumes, which seems positive compared to peers in Colombia as Femsa's volumes dropped by 25% y/y and Alpina's EBITDA margin went to 15% from 20%. Our forward multiples are estimated at 23.3x 2018E and 20.1x 2019E P/E (9% discount to global peers and 1.5% of perpetuity growth) both below the historical price. Therefore, buying is the recommendation of the undervalued stock that maintain sustainable results despite of the sluggish growth of the economy in an emerging and wider middle class with consumer staples as one of the best traits in the landscape of Latam.