Cemex hoping for V-shaped recovery

by Andrew Thompson

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What happened?

After being dealt a body-blow by COVID-19 lockdowns Cemex, the Mexico-based global cement company, has reported a 19% increase in fourth quarter Ebitda to US$644mn, and may be positioned to enjoy a V-shaped recovery over the next few years.

The details

Relatively few Latin American companies can claim to have successfully "gone global". Cemex is one of them – originating in Mexico it is currently the world's fifth largest cement producer, after the likes of Franco-Swiss LafargeHolcim, Chinese giants Anhui Conch Cement and CNBM, and Germany's Heidelberg Cement. Global companies need economies of scale, and in Cemex's case this has meant concentrating on the home market in Mexico (22% of sales), on the United States (29%) of sales and on Europe (23%).

2020 was been a difficult year with the COVID-19 pandemic shutting down demand across much of the world. In March last year sales plummeted and the company's share price fell to a nine-year low of US$1.63. Still struggling to shake off the effects of an earlier crisis (the 2008/2009 global recession) the company had to accept a key objective – regaining an investment grade credit rating – was beyond reach. That said, things are now looking a lot

Cemex share price bounces back

more positive. The share price is back up to almost US$7.00. Fourth quarter sales were the highest in six years. Demand in Mexico has held up due to the government's big public works programme (including the Dos Bocas refinery and the Mayan Train project). President Joe Biden's mega-infrastructure programme will also boost the company in the US. Executives say a V-shaped recovery in demand for cement and aggregates is on the cards.

Over the last decade company strategy has changed. Initially tagged as the "Cemex Way" the old strategy emphasized geographic diversification through acquisitions and vertical integration of the cement and construction business. Yet Cemex took on too much debt (not least by spending US$15.3bn to acquire Rinker of Australia in 2007, just before the recession hit). As a result, it commenced a process of asset sales and debt reduction. In October last year a new strategy, called "Operation Resilience" was unveiled. It calls for continued asset sales combined with reinvestment to increase profitability and reduce debt gearing. It also sets decarbonisation targets, including a 35% net reduction in CO_2 emissions by 2030. Innovation figures prominently, with the launch of a zero-carbon mixed concrete known as Vertua Ultra Zero.

What does it mean?

Cemex looks well-positioned to remain one of the few global companies with a Latin American heritage, but it is likely to face ongoing competitive challenges as the building industry adapts to climate change and post-pandemic urban re-invention.

About the Author

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As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC's Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.

These stories are also available on Andrew's blog site, *La Rambla Research*.