

THU 31 JAN 2019

Cemex Holdings Philippines, Inc.

Solid expansion to get tax incentives

In a disclosure to the PSE, CHP announced that it has received from the Board of Investments the approval of the application of its subsidiary, Solid Cement Corporation, as a new producer of cement on a pioneer status but with non-pioneer incentives for its 1.5Mil MT new production line. (source: CHP)

BUY

TICKER: CHP

PHP3.20

Lower tax expense to boost profitability

We expect that the Solid expansion would get a four-year income tax holiday through its non-pioneer incentives. This would lower CHP's income tax expense and in turn improve its earnings. We estimate that earnings will increase by ~6% for four years starting 2021. Recall that the said expansion will increase the company's capacity by ~26% to 7.2Mil MT and is expected to commence operations in 4Q20.

Reiterate BUY

Consequently, we are increasing our FV estimate on CHP to Php3.2/sh and reiterate our BUY rating. We continue to like CHP as we expect 2019 to be a better year for the company driven by lower input costs and improving ASP. Moreover, valuations remain cheap. The stock is currently trading at 6.9X 2019E EV/ EBITDA, a discount compared to the median 2019E EV/EBITDA of 9.0X of its regional peers.

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IMPORTANT RATING DEFINITIONS**BUY**

Stocks that have a BUY rating have attractive fundamentals and valuations based on our analysis. We expect the share price to outperform the market in the next six to 12 months.

HOLD

Stocks that have a HOLD rating have either 1) attractive fundamentals but expensive valuations 2) attractive valuations but near-term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely in line or underperform in the market in the next six to twelve months.

SELL

We dislike both the valuations and fundamentals of stocks with a SELL rating. We expect the share price to underperform in the next six to 12 months.

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