



EPSILON

Marketing performance & SWOT analysis of **CEMEX** (NYSE: CX) by FABIAN LUGARINI

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Company profile

Cementos Hidalgo was established in 1906 and its first plant was located in Hidalgo, Mexico.

In 1920, Cementos Monterrey started up its operations with a 0.02 million ton per year capacity.

In 1931, Cementos Mexicanos Cemex was established as a result of the merger of Cementos Hidalgo and Cementos Monterrey.

In 1966, Cementos Mexicanos Cemex acquired Cementos Maya in Mérida, Mexico.

In 1967, new cement plants were built in Torreón and Cd. Valles, Mexico.

In 1987, Cemex acquired Cementos Anahuac, which owned two plants in Mexico with a 4 million ton per year capacity.

In 1989, Cemex purchased Cementos Tolteca, which owned seven plants in Mexico with a 6.8 million ton per year capacity.

In 1992, Cemex purchased Compañía Valenciana de Cementos Portland and Sansón, the two most important cement producers in Spain.

In 1994, Cemex acquired Vencemos in Venezuela and Cementos Bayano in Panama.

In 1995, **Cemex** acquired Cementos Nacionales in the Dominican Republic.

In 1996, Cemex acquired a major stake in Cementos Diamante and Cementos Samper in Colombia.

In 1997, Cemex purchased a 30% stake in the Filipino cement company **Rizal Cement** (Rizal).

In 1998, Cemex acquired a minority interest in **PT Semen Gresik**, Indonesia's largest cement manufacturer and increased to 70% its participation in Rizal.

In 1999 was established in Singapore Cemex Asia Holdings (CAH), a holding company for Cemex's investments in the Philippines, Thailand and Indonesia. Additionally during 1999, Cemex purchased **APO Cement** in the Philippines and took over Cementos del Pacífico in Costa Rica.

In 1999, Cemex agreed with **ABB Alstom** Power and **Sithe** Energies the construction of an electric power plant in San Luis Potosí aiming to supply energy to Cemex for 20 years.

In November 2000, Cemex acquired Southdown in the US.

In 2001, Cemex Incorporated was established in the US as a consequence of the merger of Cemex USA and Southdown.

On July 31, 2002, Cemex purchased the remaining 30% economic interest that Cemex did not previously own in Rizal for approximately US\$95 million.

On December 23, 2002, Rizal was absorbed into its subsidiary **Solid Cement** Corporation.

In 2003, Cemex acquired the Dixon-Marquette Cement plant in the US, which had an installed capacity of 0.56 million tons per year.

On September 27, 2004, Cemex announced the recommended acquisition of **RMC Group**, one of Europe's largest cement producers, for US\$4.1 billion in cash.

On February 8, 2005, Cemex agreed the sale of the Charlevoix and Dixon-Marquette plants in the US to **Votorantim Participações**.

On March 1, 2005, Cemex acquired RMC for US\$4.1 billion in cash and the assumption of a US\$5.8 billion debt.

On April 26, 2005, Cemex announced the divestment of its stake in the Chilean cement company **Cementos Bio Bio**.

On May 23, 2005, Cemex agreed to sell to the California Portland Cement Company, for US\$16 million, RMC's assets in Tucson, Arizona, in order to fulfill requirements of the US Federal Trade Commission associated to RMC's acquisition.

On July 4, 2005, Cemex agreed with Ready Mix USA, a US ready-mix producer, to establish a joint venture in order to meet the expanded demand in the Southeastern US where Ready Mix USA operates.

On November 3, 2005, Cemex and **Lafarge** (through Cementia) terminated their concrete and aggregates joint ventures in Spain and Portugal (ReadyMix Asland and Betecna Betao Pronto, respectively).

On May 4, 2006, Cemex agreed with the **Rajawali** Group the sale of its participation in PT Semen Gresik for US\$337 million.

On October 27, 2006, Cemex announced an offer of US\$12.8 billion for the whole acquisition of the Australian **Rinker** Group (a world-class producer and supplier of basic inputs and services for the building sector with operations in Australia, the US and China), acting **Citigroup** and **JP Morgan** as lead and co-financial advisors respectively.

On November 14, 2006, **Cemex** launched the public offer for the acquisition of all outstanding shares of Rinker at US\$13 per share.

On April 9, 2007, Cemex raised its offer for Rinker to US\$15.85 per share in cash.

On June 25, 2007, Cemex has already tendered an 81% of Rinker's outstanding shares.

On August 28, 2007, Cemex fulfilled the complete acquisition of Rinker for US\$15.5 billion.

On March 31, 2008, **Cemex** sold its 9.5% stake in the Mexican telco **Axtel** through a 3-year forward agreement with **Credit Suisse** and **BBVA**.

On April 3, 2008, the Venezuelan Government announced the nationalization of the local cement industry, aiming to take full operative control of cement producers in Venezuela through the acquisition of a participation within a range from 60% to 100% if required.

On August 18, 2008, **PDVSA**, the state-owned Venezuelan oil monopoly, took operational control of Cemex Venezuela's facilities.

Cemex is one of the three largest cement companies in the world along with Lafarge and Group Holcim. Through its operating subsidiaries positioned in different continents, Cemex is engaged in the production, distribution, marketing and sale of cement, ready-mix concrete, aggregates and clinker. In addition, Cemex is the world's leading producer of white cement, the largest ready-mix producer and one of the world's largest traders of cement and clinker.

Fiscal year 2007

Mexican construction sector

In the year 2000, Mexico recorded a housing deficit of 4.3 million units, which comprises 1.8 million new housing units and 2.5 million substandard housing units requiring significant repairs or replacement.

Additionally, the housing demand in Mexico is growing at a pace of 1.1 million units per year up to the year 2009.

However, the Mexican Federal Government has implemented policies improving the context for developers and housing buyers such as the creation of the Sociedad Hipotecaria Federal – SHF (Federal Mortgage Agency), which granted 0.75 million mortgage credits in 2006, a 225% increase compared to the year 2000. Likewise, by the year 2008 more than 80% of the annual increment of the Mexican housing deficit will be financially covered by mortgage loans, reflecting the strong competition between commercial banks and SOFOLES (limited object financial organizations that grant credits for a specific activity in only one economic sector and have lower qualifying requirements for housing loans).

In addition, in the second quarter of 2006, the Mexican Congress passed a new housing bill in order to back up the National Housing System and reduce the housing deficit in the country through a better coordination between the federal, state and city governments on the authorizations and land licenses granted by them.

Subsequently, the Calderon Administration has planned the grant of 1 million annual mortgages by the year 2010 as well as the construction of six million housing units in the whole country (it is expected that the adult segment of the Mexican population between 30 and 59 years old will grow almost 50% by the year 2030, thus representing a very strong pressure on housing demand).

In addition, the public and private investment planned for the period 2007-2012 in infrastructure (roads, railroads and ports) amounts to US\$38 billion.

The Mexican Gross Domestic Product (**GDP**) in 2007 amounted to M\$9763 billion (in constant M\$), a 6.6% increase compared to the previous year.

Likewise, the GDP corresponding to the Mexican construction sector in the fiscal year 2007 amounted to **M\$500 billion** (in constant M\$), a 6.3% increase year-over-year.

The above-mentioned expansion was favored by a 2.1% growth during 2007 in gross fixed investment in the Mexican construction sector.

In like manner, the estimated growth for the Mexican construction sector in the fiscal year 2008 amounts to 4.5% compared to the previous year.

In the fiscal year 2007, the consumption of Mexican construction companies amounted to M\$93980 million (in constant M\$), a 6.8% rise year-over-year, while their purchases amounted to M\$97269 million (in constant M\$), a 6.7% rise year-over-year.

The output of the Mexican construction sector in the fiscal year 2007 amounted to M\$207507 million (in constant M\$), an expansion of 7.2% compared to the previous year, due to:

- A 13.9% rise in building construction (including housing, industrial, commercial and other non-residential buildings) that amounted to M\$109578 million
- A 12.4% rise in transport infrastructure development (including highways, streets and roads) that amounted to M\$37981 million

Considering by institutional segment, the growth experienced in the production of the Mexican building sector was driven by a 13.8% increment in the output of the private sector, which amounted to M\$119883 million, resulting in turn from:

- A 12.6% rise in the non-concessioned segment (including development associated to infrastructure) that amounted to M\$118605 million
- A 1586.7% rise in the concessioned segment that amounted to M\$1279 million

The physical output of the Mexican construction sector grew 3.09% during 2007, a decline of 479 basis points compared to the growth experienced in 2006.

The highly competitive domestic cement market in Mexico is primarily concentrated in six major players: **Cemex**, **Holcim Apasco**, Sociedad Cooperativa Cruz Azul, **Cementos Moctezuma** (associated to **Ciments Molins**), **Grupo Cementos de Chihuahua** (in which Cemex holds a 49% stake) and **Lafarge**.

Regarding cement exports, the US Department of Commerce has been implementing since 1990 anti-dumping duties on Mexican imports of gray Portland cement and clinker with the subsequent negative impact on Mexican cement players engaged in exporting operations to the US market.

However, on March 6, 2006, the US agreed with Mexico to gradually reduce the import tariff from US\$26 per ton to US\$3 per ton up to the year 2009 when rates will be fully suppressed.

The value of cement production in Mexico during 2007 amounted to M\$49122 million (in constant M\$), a 4% increment compared to the previous year, reflecting:

- A 3.7% rise in value of grey cement output that amounted to M\$44896 million
- A 9.2% rise in value of cement mortar output that amounted to M\$2074 million
- A 4.7% rise in value of white cement output that amounted to M\$1378 million

In like manner, the volume of hydraulic cement output rose 2% during the year, amounting to 41.2 million tons, boosted by:

- A 1.3% increment in the production of grey Portland cement that amounted to 37.7 million tons
- A 2.5% increment in the production of white cement that amounted to 0.9 million tons
- A 10.6% increment in the production of cement mortar that amounted to 2.6 million tons

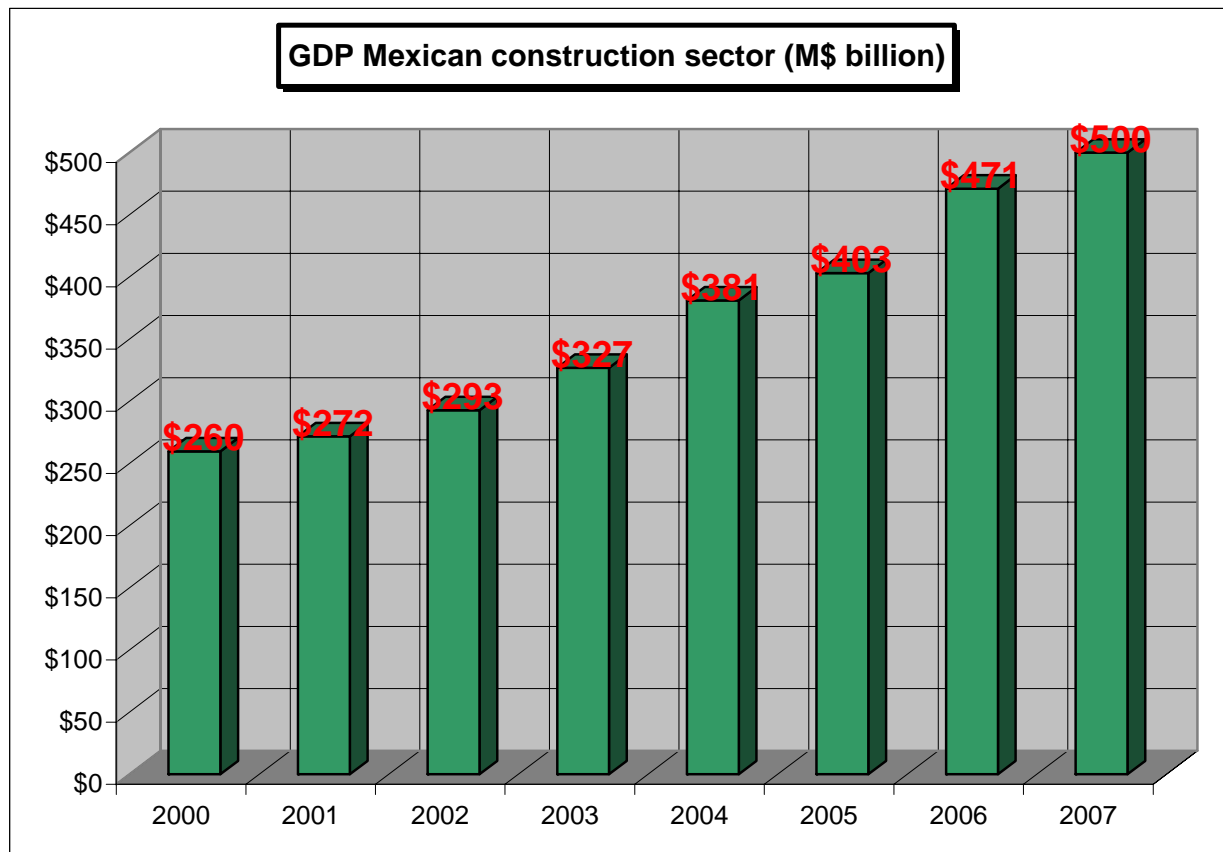
In addition, cement domestic demand grew 2% during 2007, amounting to 36.6 million tons (approximately 75% of cement in Mexico is sold in bags, mainly destined to the residential and self-construction business segments), primarily boosted by:

- Public investment in infrastructure
- Residential development

The value of lime production in Mexico during 2007 amounted to M\$3016 million (in constant M\$), a 1.7% decrement compared to the previous year.

The value of ready-mix concrete production in Mexico during 2007 amounted to M\$10716 million (in constant M\$), a 12.1% increment compared to the previous year.

The value of flat glass production in Mexico during 2007 amounted to M\$3397 million (in constant M\$), a 4.4% increment compared to the previous year.



Marketing performance

The improvement in **Cemex's** sales during 2007 was primarily attributable to the acquisition of Rinker and the subsequent consolidation of Rinker's Australian operations in the second half of 2007.

Cemex's sales were also favored, to a lesser extent, by higher revenues from the NAFTA region boosted, in turn, by:

- Higher domestic cement and ready-mix concrete sales volumes in Mexico, reflecting investment in public infrastructure as well as residential development
- Higher ready-mix concrete sales volumes in the US, reflecting the consolidation of Rinker's US operations in the second half of 2007
- A rise in average sales prices of cement and ready-mix concrete

In addition, better sales in Central and South America and the Caribbean positively impacted Cemex's performance. This improvement was primarily attributable to:

- Higher domestic cement and ready-mix concrete sales volumes in Colombia and Venezuela, reflecting investments in public infrastructure as well as an increased industrial and self-construction demand, in turn reflecting the expansion of the Colombian and Venezuelan economies
- A rise in average sales prices of domestic cement and ready-mix concrete
- Increased ready-mix concrete sales volumes in the rest of South and Central America and the Caribbean

Cemex's sales were also driven by higher operating revenues from Europe, resulting from:

- A rise in average sales prices of cement and ready-mix concrete in Spain, the UK, Germany and France
- Higher sales volumes of cement in the UK, fueled by infrastructure development for the industrial, commercial and residential business segments
- Increased cement and ready-mix concrete shipments in France, reflecting a sustained development of the infrastructure segment and, to a lesser degree, of the non-residential segment
- A rising domestic demand of cement in Croatia and Poland

Finally, Cemex's operating revenues were favored by higher sales in the Asia Pacific region and Egypt as well.

SWOT analysis

Strengths

- **Balanced sales:** as a result of the incorporation of RMC, **Cemex's** sales are balanced between its subsidiaries based in the Americas and the rest of the world

- **International diversification:** Cemex's operations are geographically diversified, having a direct presence in most of its main markets
- **World-class cement producer:** **Cemex** is an international leading producer of cement and ready-mix concrete. In addition, since the acquisition of RMC Cemex is one of the world's largest traders of cement and clinker
- **Vertical integration:** Cemex owns a full-scale network of mining facilities, inland and maritime terminals as well as distribution centers

Weaknesses

- **US\$ denominated debt:** a large portion of **Cemex's** total debt is US\$-denominated and since Cemex do not generate enough US\$-denominated revenues to meet all of its US\$-denominated obligations, currency exchange variations could have a negative impact on Cemex's financial performance
- **Mexican governmental regulations:** the availability of lands, uses of soils and water supplies for development activities are subject to Mexican governmental regulations. However, in the second quarter of 2006, the Mexican Congress passed a new housing bill in order to back up the National Housing System and reduce the housing deficit in the country through a better coordination between the federal, state and city governments regarding authorizations and land licenses granted by them
- **Dependency on weather conditions:** **Cemex's** sales suffer a strong decline in periods of cold weather in Europe and North America as well as during the rainy season in tropical countries

Opportunities

- **Cost synergies:** Cemex estimates significant savings as a result of cost synergies resulting from the RMC acquisition
- **Long-term growth markets:** Cemex's strategy is primarily focused on markets with high-potential for long-term expansion such as the US and Eastern Europe
- **Cemex – Ready Mix USA joint venture:** **Cemex** has the opportunity to consolidate its presence in the Southeastern region of the US through Ready Mix USA's local management team and focus on customers
- **Mexican housing deficit:** in the year 2000 Mexico recorded a housing deficit of 4.3 million units, growing at a pace of 1.1 million units per year up to 2009
- **Mexican positive demographics:** the adult segment of the Mexican population between 30 and 59 years old will grow almost 50% by the year 2030, thus representing a strong housing demand

- **Reduction of anti-dumping duties:** the US agreed with Mexico to gradually reduce the import tariff from US\$26 per ton to US\$3 per ton up to 2009 when rates will be fully suppressed
- **Rinker acquisition:** through the purchase of Rinker, Cemex is expanding its distribution network in the US, strengthening its presence in Australia as well as improving cost synergies and cash flow volatility
- **New Mexican housing law:** in the second quarter of 2006, the Mexican Congress passed a new housing bill in order to back up the National Housing System and reduce the housing deficit in the country through a better coordination between the federal, state and city governments regarding authorizations and land licenses granted by them
- **US fiscal stimulus package:** the Obama Administration plans to implement a large fiscal package in order to stimulate the US economy through the creation of new jobs primarily in the public works development area
- **Spanish public fund:** the Zapatero Administration announced the creation of an €8 billion fund destined to the development of public works and infrastructure construction in Spain

Threats

- **Political instability:** political instability in certain countries could have a negative impact on Cemex's local operations
- **Venezuelan nationalization:** on April 3, 2008, the Venezuelan Government announced the nationalization of the local cement industry, aiming to take full operative control of cement producers in Venezuela through the acquisition of a participation within a range from 60% to 100% if required

On August 18, 2008, PDVSA, the state-owned Venezuelan oil monopoly, took operational control of Cemex Venezuela's facilities.
- **Higher exposure to the US market:** as a result of the acquisition of Rinker, Cemex has strongly raised its exposition in the battered US building market
- **Competition against major players:** **Cemex** competes in its main markets with other world-class players such as Holcim and Lafarge
- **Rising costs of basic inputs:** increments in the price of energy (primarily electricity and natural gas) have a direct negative impact on output and distribution costs. However, Cemex has implemented an alternative fuel program in order to improve its capacity to absorb this type of fluctuations
- **Risks associated to RMC integration:** the incorporation of the RMC Group is the first integration of an international player into the structure of Cemex, which has to simultaneously coordinate new operations on a global scale mainly focused on ready-mix and aggregates, whereas cement has traditionally been Cemex's core product.
- **Global recession:** in an international recessionary environment Cemex's sales will be negatively impacted in its key markets

SWOT matrix

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> * International diversification * Balanced sales * World-class cement producer * Vertical integration 	<ul style="list-style-type: none"> * Dependency on weather conditions * US\$ denominated debt * Mexican governmental regulations
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> * Cemex – Ready Mix USA joint venture * Reduction of antidumping duties * Mexican positive demographics * Long-term growth markets * Mexican housing deficit * Cost synergies * Rinker acquisition * New Mexican housing Law * US fiscal stimulus package * Spanish public fund 	<ul style="list-style-type: none"> * Competition against major players * Risks associated to RMC integration * Rising costs of basic inputs * Political instability * Global recession * Venezuelan nationalization * Higher exposure to the US market

Recent facts and developments

Venezuelan nationalization

On April 3, 2008, the Venezuelan Government announced the nationalization of the local cement industry, aiming to take full operative control of cement producers in Venezuela through the acquisition of a participation within a range from 60% to 100% if required.

On August 18, 2008, PDVSA, the state-owned Venezuelan oil monopoly, took operational control of Cemex Venezuela's facilities.

Axtel

On March 31, 2008, **Cemex** sold its 9.5% stake in the Mexican telco Axtel through a 3-year forward agreement with Credit Suisse and BBVA.

Alliance with SARE

In the third quarter of 2007, SARE Holding and Cemex reached an agreement primarily aiming to improve logistic processes through a faster delivery of cement and ready-mix concrete.

Rinker

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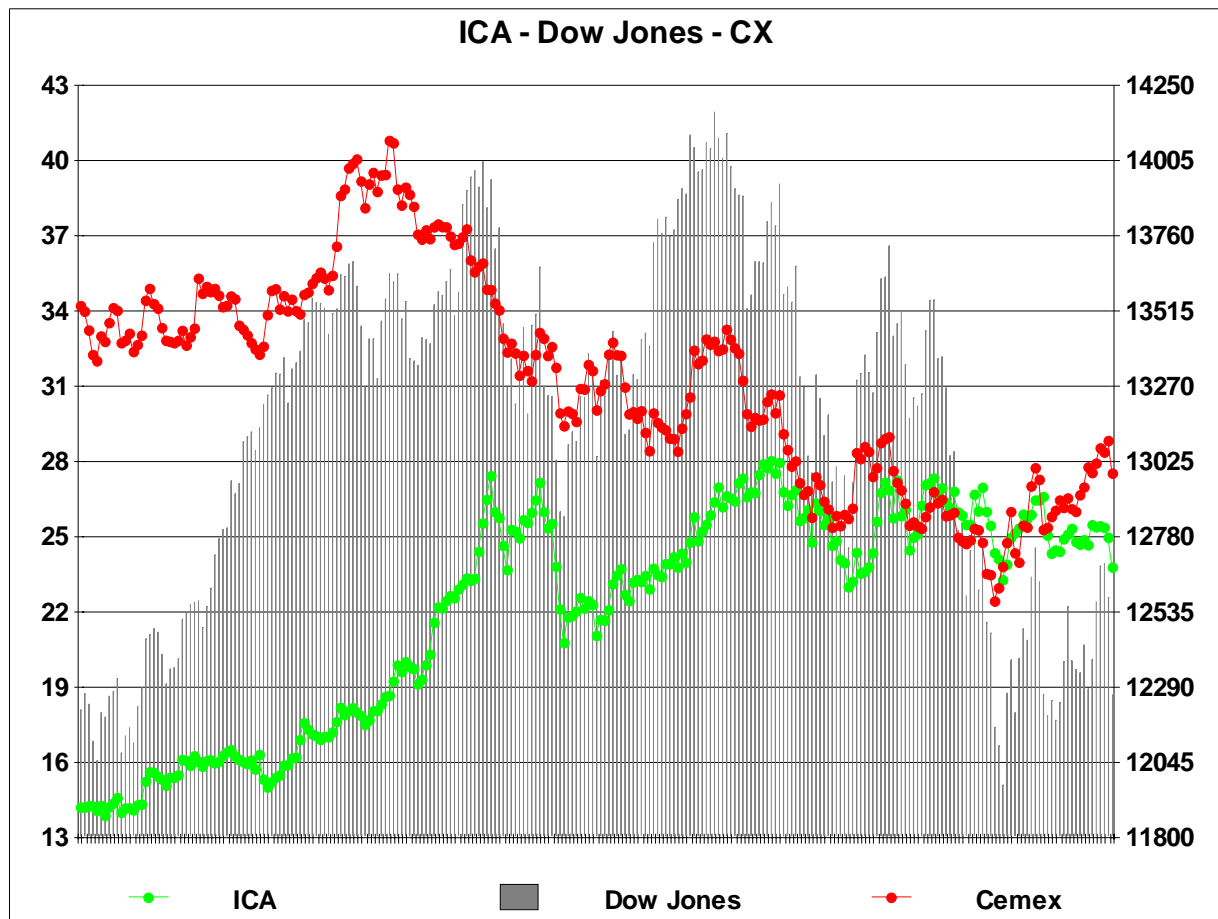
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On August 28, 2007, Cemex fulfilled the complete acquisition of Rinker for US\$15.5 billion.

Annual stock performance

Cemex (NYSE: CX) vs. ICA (NYSE: ICA)



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