

# Transcript of Cementos Pacasmayo First Quarter 2024 Conference Call April 30, 2024

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## **Moderator:**

Good morning, ladies and gentlemen. Welcome to Pacasmayo's first quarter of 2024 earnings conference call. At this time, all participants are in a listen-only mode, and please note that this call is being recorded. At the conclusion of our prepared remarks, we will conduct a question and answer session. I would now like to introduce your host for today's call, Mrs. Claudia Bustamante, Investor Relations Manager. Mrs. Bustamante, you may begin.

## **Claudia Bustamante:**

Thank you, Tim. Good morning, everyone. Joining me on the call today is Mr. Humberto Nadal, our Chief Executive Officer, and Mr. Manuel Ferreyros, our Chief Financial Officer. Mr. Nadal will begin our call with an overview of the quarter, focusing primarily on our strategic outlook for the short and medium term. Mr. Ferreyros will then follow with additional commentary on our financial results. We'll then turn the call over to your questions. Please note that this call will include certain forward-looking statements. These statements are related to expectations, beliefs, projections, trends, and other matters that are not historical facts and are therefore subject to risks and uncertainties that might affect future events or results. Descriptions of these risks are set forth in the company's regulatory findings. With that, I'd now like to turn the call over to Mr. Humberto Nadal.

## **Humberto Nadal:**

Thank you, Claudia. Welcome, everyone, to today's conference call, and thank you for joining us today. This quarter, we delivered very solid results in terms of margins, EBITDA, and profitability. Although sales volumes continue to lag behind because of demand-side challenges, we were able to achieve a consolidated EBITDA of \$132.8 million, a 10% solid increase year-over-year, as well as a 13.8% increase in net income. By focusing on operational efficiencies related to clinical production and our most efficient skills. Northern Peru was impacted by climatic effects such as higher temperatures and increased water temperatures, which in turn affected agriculture and fishing. For example, mangoes, one of the main crops in northern Peru, experienced a drastic decrease in production during the 2023-2024 agricultural campaign. This translates into decreased disposable income, which in turn affects self-construction. Additionally, there is a general lack of safety in the country, specifically in the northern part of Peru, mainly in the form of extortions that are affecting overall economic activity, including, and I will say especially, self-construction. We hope that these demand-side challenges can be reverted and we are confident that when they do, we're in the best possible position to tackle the resulting increase in demand. In our journey to continue developing our building solutions, we recently embarked on the reconstruction of a two-runway and the perimeter fence of the Piura Airport. Not only as a concrete and pavement provider, but for the first time directly involved in the construction as part of a consortium. The way in which we are

approaching this project is different from other airport improvement projects. We have provided concrete for in the past, since we are in this case actively participating in every step, beginning with prospection and ending with the actual delivery of the finished infrastructure project. We firmly believe that our involvement in every part of the process brings invaluable insights and creates significant opportunities to promote, improve, and market our building solutions looking towards the future. I would like now to focus on something that is absolutely crucial for the future of all businesses and organizations, including our own. Artificial intelligence and machine learning. New technologies will bring a wide variety of opportunities and there is no doubt that early adopters will be the biggest beneficiaries, and we intend to be one. As a company, we're focusing on both developing and adapting digital tools and reinforcing the culture to adopt it. As I mentioned earlier, one of the ways in which we look to gain traction on the building solutions market is by doing prospection work. This is mostly focused on looking for infrastructure opportunities in the initial phase so that we can get involved in the definition of what materials are required, hence creating and capturing more value for our building solutions. We have recently developed a model that uses AI to identify all of the public infrastructure projects in our area of influence. The robot developed in this project can capture the information and feed it into a large database, allowing the team to focus on the actual development of the solution instead of spending valuable time scouting for projects. Moreover, this tool generates valuable information to guide our data-driven analysis and with it, enhance our portfolio of products and services and tailor to the needs of our customer. I will now turn the call over to Manuel to go into more detailed finance. Manuel?

#### **Manuel Ferreyros:**

Thank you, Humberto. Good morning, everyone. As Humberto mentioned, our first quarter 2024 revenues were affected by a decrease in demand, reaching \$476.5 million, a slight decrease of 0.7% when compared to the same period of last year. However, the gross profit increased, achieving \$173.9 million and 8.3% increase when compared to the same period of last year, mainly due to reduced production costs as we maximize the use of our most efficient kilns and benefit from lower cost of raw material. The consolidated EBITDA was \$132.8 million this quarter, a 10% increase when compared to the first quarter of 2023 and the EBITDA margin was 27.9%, a 2.8 percentage points increase when compared to the first quarter of 2023. Turning to operation expenses, administrative expenses for the first quarter of 2024 remained in line with those of the first quarter of 2023. Selling expenses during this quarter increased 9.1% when compared to the same period of last year, mainly due to increase in personal expenses in line with inflation, as well as software and licenses and higher provision for the [6 min 24 sec] payment. Moving on to a different segment, sales of cement decreased 4.6% this quarter when compared to the same period of 2023, mainly due to a decreased sale volume in the self-construction segment, mainly because of the negative effects, as well as low levels of private and public investment. Nonetheless, gross margin increased 5.2 percentage points in this quarter compared to the same period of last year, mainly due to the lower temperature production costs associated to the use of most efficient kilns, as well as the lower cost of coal. During this quarter, concrete pavement and mortar sales performed very well, increasing 73.8% when compared to the first quarter of last year. This increase was mainly due to the increased sales of payments for the Piura Airport. Gross margin decreased by 2.5 percentage points this quarter when compared to the same period of last year, mainly due to changes in the composition of our sales portfolio. Finally, the net profit increased 13.8% this quarter when compared to the same period of last year, mainly due to the operational efficiencies mentioned above. In terms of depth, our net depth to EBITDA ratio was 3.2 times, which is a level we expect to reduce in the future. To summarize this quarter's results, show our ability to manage costs and focus on profitability when faced with challenges on the demand side. We are

confident that we will continue delivering positive results during the rest of the year. Operator, can now we please open the floor for questions?

**Moderator:**

Yes, thank you, Manuel. We will now move to the question and answer section. If you would like to ask a question, please press star two on your phone and wait to be prompted. If you're dialed in by web, you can type your question in the box provided or request to ask a voice question. We'll now wait a moment or two for questions to come in. Our first question comes from Natalia Leo from JP Morgan. Your line is open, please go ahead.

**Natalia Leo:**

Thank you. Hi, everyone. Thank you so much for taking my question. I actually have two. So I was wondering if you could tell us a bit more on your expectations for volumes for the full year. I remember last quarter you mentioned a low single digit increase, but just wondering if maybe your expectations are down a bit considering how they were in this first quarter, so maybe flat or down. And the other one was on gross margin. So you had like 44% gross margin this quarter, just to understand if that's the normalized level you expect for the full year, or should it be closer to the 47% that we saw in the third quarter. So, thank you.

**Humberto Nadal:**

Thank you for the question. The first part of the question, I mean, we have always experienced seasonality in our demand. And we remain confident that especially public expenses should pick up in the second semester of this year. We also think that the security issue should be tackled in the coming months. So yeah, we think we are optimistic that the second semester of this year will bring better volumes to the table, and that should counteract the decreasing volumes that are in the first part of the year. And concerning margins, we think that the margins we mentioned today in this call are the ones that should be sustainable looking into the future.

**Natalia Leo:**

Great, thank you. If I could just follow up. So do you see volumes increasing sequentially in the second half of the year?

**Humberto Nadal:**

Yes, that's the case. I mean, if you see our last four or five years, it's usually the case, and we think this year, there's no reason why it should be different.

**Natalia Leo:**

Great, thank you.

**Moderator:**

Okay, thank you. Our next question comes from Marcelo Furlan from Itaú. Please go ahead.

**Marcelo Furlan:**

Yes, hi everyone, good morning. Can you hear me?

**Humberto Nadal:**

Yes, we can hear you.

**Marcelo Furlan:**

Okay, thank you. So guys, my question is related to capital allocation. I mean, following the conclusion of the Q number four in the last year, now the company doesn't have any major projects in the way. So I'd like to know in terms of capital allocation, if you guys thinking about distributing dividends to shareholders, thinking on shareholders going forward, and also to the financial leverage, you guys had these 3.2 times the financial leverage. So if you guys have planned to decrease the financial leverage going forward, and what would be a sustainable financial leverage for the company? So these are my questions. Thank you.

**Humberto Nadal:**

Thank you. The first part of the question of, I mean, the level of dividends is for the board to decide. That being said, and me being part of the board, I mean, the idea philosophically has always been that the cash, that the leftover cash should go to shareholders. I think over the last year, we've had a very consistent dividend policy. And the way we look at it right now, I mean, probably that consistency will go on towards the end of this year. And regarding the leverage level, as you know, I mean, we finished Q number four last year. We don't foresee any substantial capital investments in the coming future. We have a structure, a debt in a way that we have a club deal with two main banks in Peru, and we're gonna be lowering the debt over the next four or five years, according to that club deal with the banks.

**Marcelo Furlan:**

Okay, thank you so much, guys.

**Moderator:**

Thank you. Just a reminder, if you do have a question, please press star two on your phone and wait to be prompted. Our next question is a text question from David Cuenca from Compass Group. David asks, thanks for the presentation. I would like to know if you have some insights about prices of cement for this year, and maybe for next year. And if you have some info about other projects like the Piura Airport. Thank you.

**Humberto Nadal:**

Thank you. I mean, we've been monitoring carefully the price situation. And if you see even though our cement sales in terms of tons are lower, our revenues remain almost flat. And I think we've had a very successful managing of prices. We will continue to monitor the situation. It's always a fine line between keeping a substantial market share and a simple profitability. So that is just an ongoing situation. We always want to look for a way to maximize profits. And in the case of the question about the Piura project, I mean, there's some more airports coming on the line, not this year, but the coming few years. We are strongly convinced, like I mentioned in my

speech, that the learning curve for the Piura Airport will help us in the other airports. Also, the Chavimochic next phase should go ahead in probably towards the end of the year. There's a G2G government agreement between Peru and Canada. And that should probably give green light to the infrastructure project. Those are the two main things I think. Other than that, we still think that the private investment remains pretty low.

**Moderator:**

Great, thank you, Humberto. We also have a question, a text question from Marco Mejia from Kallpa, who asks, could you give us please some insights about coal prices? Thank you.

**Humberto Nadal:**

Hello, Marco. Yes, coal prices now are stable at a range of, I would say, around \$250 soles per tonne. So we expect a stable price for at least this year.

**Moderator:**

Okay, thank you. Just a final reminder. If you do have a question, please press star two and wait to be prompted. We'll just give it another 10, 20 seconds or so to see if there are any final questions. Thank you. I'm not seeing any more questions. So perhaps I can hand it back to Humberto for closing remarks.

**Humberto Nadal:**

Thank you. I'll say that current political and financial market conditions have, unfortunately, I may add, made it less a practice to invest in Latin American companies. That being said, we remain firm believers that we will continue to invest in Latin American companies and we will continue to invest in Latin American companies and Latin American companies. That being said, we remain firm believers in the great potential that both our company and our country hold for the future. The two tests of a successful company strategy comes during those times when market conditions are less favorable. And I think we have been consistently delivering very good results over the last years. We will continue to focus on our strategic goals, reinforcing digital transformation, developing and empowering more and more our talent, and operating our business responsibly. By doing this, we are absolutely certain that we'll not only continue delivering positive results today, but be ready to reap further benefits when market conditions improve. Thanks, everybody, for a renewed interest in our company. And as always, we remain at your disposal if you have any questions in the future. Thank you very much.

**Moderator:**

That concludes the call for today. Thank you and have a nice day.