

Transcript of
Cementos Pacasmayo
First Quarter 2021 Earnings Conference Call
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Participants

Claudia Bustamante - Investor Relations Manager
Humberto Nadal del Carpio - Chief Executive Officer
Manuel Ferreyros Peña - Chief Financial Officer

Analysts

Andrés Soto - Santander

Presentation

Operator

Good day, ladies and gentlemen. Welcome to Pacasmayo's First Quarter 2021 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, Ms. Claudia Bustamante, Investor Relations Manager. Ms. Bustamante, you may begin.

Claudia Bustamante - Investor Relations Manager

Thank you very much. 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 relate to expectations, beliefs, projections, strengths 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 filings.

With that, I'd now like to turn the call over to Mr. Humberto Nadal.

Humberto Nadal del Carpio - Chief Executive Officer

Thank you, Claudia. Welcome everyone to today's conference call. We hope all of you and your families continue to stay safe in this difficult time. This quarter cement shipments were strong and proved once again our resilience.

Despite partial lockdowns for the country during February, the main sales volume at the national level increased by 42.7% in the first Q of 2021 compared to previous year. The North clearly outperformed the rest of the country once again, as our shipments increased by 67.4% this quarter compared to same period in 2020.

Although this increase is partially due to the lack of sales during the last 2 weeks of the quarter in 2020, most of this growth comes from increased sales year-over-year without taking into account the halt in operations. We compare only January and February both years where there was no lockdown before, there is still an increase of almost 40% in cement sales volume when comparing both periods, really remarkable.

Although sales of cement have been and continue to be the main driver of our growth, we are very pleased with the results of concrete and precast. As we mentioned last quarter, concrete sales had already started picking up and in this quarter, they reached the peak levels we had achieved in 2019. And we are confident that these levels are sustainable and should even accelerate in the upcoming quarters.

We are especially confident in this, because as opposed to 2019 where we are serving demand from medium and large infrastructure and private projects, the demand now comes from small construction companies. We have generated a new customer base that is much more optimized, as therefore be less volatile as it's less reliant on government spending or on investment decisions by large private companies, which is especially important in these uncertain times. As reconstruction spending materializes during the upcoming quarters, concrete volumes should further accelerate.

I would also like to mention the increase in sales of light precast materials such as precast blocks. Although, this is a small percentage of our sales, I strongly believe its performance illustrates how successful our strategy is to transform ourselves and provide the construction and building solutions the market needs. Growth in this segment has also stemmed from changes to our strategy and from tackling new and a large number of smaller clients. As with concrete, this allows us for less volatility, as we rely on a more optimized customer base.

This growth has put some pressure on our margins due to the use of imported clinker. However, we have to always keep in mind, it is important not to lose focus on to aspects that are key to understanding the reasoning behind using imported clinker. First, that the use of imported clinker is directly related to high profitability, even if it comes at a slight margin decrease in terms of percentage, we will simply be unable to sell the amount of cement we are selling. We did not import some clinker and hence take a much higher loss in overall profit.

Secondly, and more importantly, there's a clear benefit in the laying the investment of a new plant both financially and in terms of strategy. In order for a new kiln to be more profitable than using imported clinker, there needs to be a minimum and steady utilization rate which we cannot guarantee right now, because we are still uncertain about sustainability of the current sales volume levels. We applied this strategy in 2017. We repeat our plan and it worked beautifully.

2021 started as a very strong year for us in terms of sales. We continue to deliver substantial increases in cement, concrete and precast shipments that came as a result of our constant effort to

innovate, expand our markets, satisfy new niches, and always remember to be client focused. We have already surpassed the most challenging year in our history, and we are willing and able to face the challenges that 2021 may bring.

We have almost 65 years of successful operating history in our country and undoubtedly had its share of political turmoil in that period. We will work as hard as ever to continue fulfilling our purpose to transcend as a company, through sustainable development, and value generation, always as our people and our country's best interest as our undeniable focus.

Before closing just 2 points I need to touch. I would like to inform that based on the strong results of first quarter I'm considering the fact that the last year as a precaution we lower our usual dividend. Our Board this morning has decided and approved a dividend of S/366 million that will be paid in the first week of July. Our strong financial position, a positive growth outlook has made us to reach decision based on our old philosophy, that the cash the company won't be needing belongs and should be given out to the shareholders.

Finally, as I'm sure all you are aware, Peruvian held Presidential and Congressional elections on April 11. And the outcome have generated great uncertainty as one of the candidates is [still in] [ph] the election in the run-off for President left-wing anti-free market ideas. This uncertainty has, of course, spread to the stock market, and almost all Peruvian stocks have accumulated losses in the past weeks. Although, we are absolutely confident on the strong fundamentals of our company, we can't avoid country risk and this volatility will remain until there is a final outcome in the first week of June.

I will now turn the call over to Manuel for a more detailed analysis of the financial results. Manuel?

Manuel Ferreyros Peña - Chief Financial Officer

Thank you, Humberto. Good morning, everyone. And I hope all of you and your families are staying safe and healthy. First quarter of 2021 revenues were as Humberto mentioned extraordinary S/464.8 million, a 55.3% increase when compared to the same period of last year, mainly due to an increased baggage cement shipments, as well as to the halt in commercialization during the last 2 weeks of the first quarter of 2020.

The gross profit increase for the 4.8% in the first quarter of 2021 compared to the same period of 2020, mainly due to increase sales mentioned before, partially offset by higher costs, as we had to use imported clinker to support our growth. Consolidated EBITDA was S/105.1 million in the first quarter of 2021, representing a 45.4% increase when compared to the first quarter of 2020, mainly due to the increase sales under halting commercialization during 2020.

Turning to operating expenses, administrative expenses for the first quarter of 2021 increase in 16.9% compared to the first quarter of 2020 in line with increased sales. However, if we look at administrative expenses as a percentage of our sales, it decreased compared to the same period of 2020, as we continue this driving for savings.

Selling expenses in the first quarter of 2021 only increased 3.6% compared to first quarter 2020, mainly due to an increase in advertising and promotion, offset by a decrease in the allowance for expected credit losses.

Moving on to a different segments cement, concrete and precast sales increased 55.2% during the first quarter of 2021 compared to the same period of 2020, mainly due to increased sales of baggage cement as well increase sales of concrete and light precast materials is slightly offset by lower sales of heavy precast.

Gross margin decreased 2.1 percentage points in the first quarter of 2021 when compared to the same period of 2020 mainly due to higher cement production costs as a result of the use of imported clinker, as well as slightly lower average prices for cement and concrete due to sales mix as we sold more of our lower priced products.

Sales of cement increased 62.7% in the first quarter of 2021 compared to the first quarter 2020 mainly due to increase in shipment of baggage cement, as demand in the north continued booming during this quarter. However, gross margin decreased 4 percentage points mainly due to increased costs related to the use of imported clinker, because of the sudden increase in demand, as well as lower average prices due to sales mix. Concrete and pavement sales increased 32.8% and gross margin increased 0.8 percentage points, mainly due higher sales to small construction companies.

During the first quarter of 2021, precast sales decreased 33.3% compared to the first quarter 2020, mainly due decreased sales of heavy precast materials. However, it is important to know that light precast sales performed very well as we expect them to continue increasing during the following quarters. Gross margins increased 5.7 percentage points, mainly due to the increased sales of blocks resulting in higher utilization rate in our plants, which allows us to achieve operational efficiencies.

Quicklime sales in the first quarter of 2020 increased 23.2% compared to the same period of last year, and gross margin increased 1.5 percentage points compared to the first quarter of last year, mainly due to increased demand. Sales of construction supplies during the first quarter of 2020 increased 74.8% compared to the first quarter 2020 mainly due to increased sales to self-construction as families worked on home improvement projects, as well as a lower comparative basis due to the government-mandated lockdown during the first quarter 2020. Gross margin decreased 4.5 percentage points in the first quarter of 2021 compared to the same period of last year.

During the first quarter of 2020, the profit for the period was S/31.8 million, a 197.2% increase compared to the first quarter of last year, primarily due to increase in revenues and operating profit, as well as a lower comparative basis due to the halt in operations during the last 2 weeks of the quarter in 2020.

In terms of debt, our adjusted debt in soles considering the exchange rate of the cross-currency swap hedging agreements amount of S/1,210 million. This represents 3.47 times EBITDA, and we expect that this will continue increasing as EBITDA for the last 12 months it still shows the effect

of the 2 months on halt in commercialization during 2020. With respect in the next quarter, this ratio should be under a 3 times EBITDA.

To summarize this quarter's results shows the resilience in volume despite focalized lockdowns that affect other industries. Moreover, we are now seeing strong growth across all segments, which aligns us with our long-term strategy. We are convinced of the financial and operational strength of our company and hope the political uncertainty can settle soon enough to let our stakeholders benefit from the true value of our company.

Can we now, please, open the calls to questions?

Operator

Thank you. The floor is now open for questions. [Operator Instructions] And we'll go to the line of Andrés Soto with Santander. Please go ahead.

Q: Good morning, Humberto, Manuel, Claudia. I hope you and your families are well. Maybe the natural question that I want to ask is what has changed in February that makes you guys decide to postpone the capacity expansion and rather make a dividend distribution?

I suspect I know the answer to the question. So I will rather ask it with the same level of caution is, is what you guys are seeing among your customers, and if we should expect these to affect Pacasmayo's volumes in the second quarter.

Humberto Nadal del Carpio - Chief Executive Officer

Hello, Andrés, I hope you're doing well and your family. I mean, let's face it. I mean, what I said, it's absolutely true. Last year, our dividend that it was normally running around 50 million, we lowered it by half. And the fact of the matter is, I mean, sales remains strong. We're very confident about that. But if you see our debt level, considering that a potential expansion in the Pacasmayo plant is going to spread over next 3 years, we feel like we have enough room in our balance sheet to accommodate and invest on that.

So nothing has really changed in terms of that. And in terms of the dividend, I mean, of course, I mean, we have to take into consideration everything surrounding us. But we have always and we've talked about this in the past many times, we strongly believe that the cash that is not needed by the company belongs to shareholders. So we have only acted upon what we have always predicated.

Q: Perfect. So you are not seeing a slowdown in volumes related to the political uncertainty to put it in different words?

Humberto Nadal del Carpio - Chief Executive Officer

Not at all.

Q: Perfect. My second question is related to outsourced clinker. I would like to understand if you have already depleted the expensive inventory you had, or if you continue expecting the – or we

should expect to this to continue to be a factor in your margin performance over the next few quarters?

Manuel Ferreyros Peña - Chief Financial Officer

Yes, Andrés. Hello, this is Manuel. Yeah, what we – we should expect the same percentage of gross margin in this second – and basically in the second quarter, because we have the May maintenance of a kiln in Pacasmayo and the kiln in Piura. This should pick up again in the third and fourth quarter of this year.

Humberto Nadal del Carpio - Chief Executive Officer

And if I may complement that question, Andrés, and I mentioned in my speech, but I think it's very important to realize that, when we analyze, I mean, the over-cost of imported clinker, which runs around probably \$20 to \$21 per ton, we compare it to how much are we saving in terms of financial costs of deferring the investment for the time being, until we have a higher need.

And if we think that the Pacasmayo expenses going to take between \$220 million, \$250 million at a [take fixed] [ph] or represent interest. We believe that as long as we are south of 700,000 tons, we are more or less neutral to both positions.

And at this time, I mean, we are still very south of that. We did it for Piura, and only when we're importing over 0.5 million tons at that moment, now that want a little bit higher, then we decide to move in the investment. So we are very positive of our investment, but we are always watching the sales to see what is the exact moment to trigger the decision.

Q: That's very clear. Thank you so much.

Operator

Next, we go to the line of [Joslyn Jensen with Lucore Analytics] [ph]. Please go ahead.

Q: Hi, thank you very much for taking my question. Could you provide a view of this political situation? And if the outcome favor Pedro Castillo left-wing candidate, do you see any potential risk for your business?

Humberto Nadal del Carpio - Chief Executive Officer

It is a very good question. And, I mean, and if I was a political analyst, I could have a better answer. But the way I see it is, I mean, the country has to decide 5 weeks from now, okay, what kind of model in terms of political economic it wants for its future.

I think if we take what has been going on over the last elections, where it was been usually a country that's more on the moderate center, center left, I believe that this will be also the way the country will go. Of course, I have no idea of that. But my experience tells me that in the event Mr. Castillo becomes the President, we would need more clarity on exactly what he is intending to do as only now we are still finding out his potential government planner, what he is trying to do. So I think at this point, I mean, there's no matter in commenting on that.

Q: Okay. Thank you very much.

Humberto Nadal del Carpio - Chief Executive Officer

You're welcome.

Operator

And that is all the signals we have at this time. We'll return to Humberto Nadal for closing remarks.

Humberto Nadal del Carpio - Chief Executive Officer

Thank you very much. I want to thank everybody today for their continued interest in Pacasmayo. Pacasmayo has 65 years. We have sailed through different kinds of waters, storms, the peaceful waters, but we are very positive, both on the fundamentals of the company and we have always been very positive on the potential this country offers and has offered in the past for our businesses.

We remain committed to our country. We remain committed to our regions in which we operate. We remain committed to our clients, our customers, our workers, as we did during the pandemic and the COVID times. So we are always cautiously optimistic. The numbers give us a reinforcement of why we should remain optimistic. And we will keep working, no matter who wins the elections, we will keep working very strong to deliver always the best results in the valid ratio for our shareholders like we have been doing over the last 65 years. Thank you very much for your time and your interest.

Operator

Thank you. This does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time. Have a great day.