

The background features a large, faint watermark of the Peruvian coat of arms. It depicts a shield with a yellow llama on the left and a tree on the right, topped by a wreath and two crossed flags. Below the shield is a cornucopia overflowing with yellow corn cobs. The shield is flanked by two red banners with white borders and yellow tips.

# Emerging Markets: Peru

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# Agenda

Peru's Background

Cement Industry

Company Spotlight: Cementos Pacasmayo

Recommendation

Conclusion

# Background

- **Population:** 30 million
- **Largest City & Capital:** Lima
- **Official Language:** Spanish
  - Quechua, Aymara and other indigenous languages are co-official
- **Currency:** Nuevo Sol

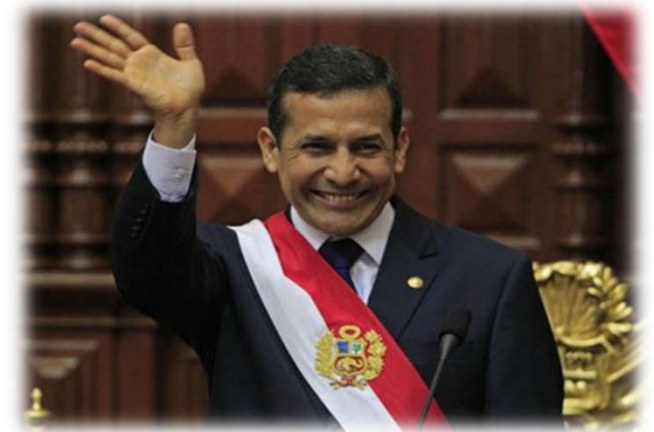


# Political & Social

- Peru's political and social history marked by instability dating back to Spanish Conquest
- Since its independence, Peru has had 13 constitutions, with only nine out of nineteen governments completing full terms
- Peru's presidents in the last 3 decades have improved the have done little to fix the social and political problems
- **Political Issues:**
  - Highly unstable party system
  - Lack of adequate checks and balances
  - Weak judiciary system plagued by corruption
- **Social Issues:**
  - Turmoil between social and racial groups: Quechua and White Hispanics
  - Poverty and inequality



Presidential Palace in Lima



President Ollanta Humala

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# Dominant Industries

## Main Economic Drivers:

- Mineral, Iron and Steel, Petroleum
- Fishing

## Secondary:

- Textile
  - One of the most promising sectors
- Food
  - Food processing, beer, soft drinks

## Up and Coming:

- Tourism (*government and private sector efforts*)
- Chemicals, pharmaceuticals, machinery and services

# Economy

- Macroeconomic Stability
  - Constant growth, inflation, industry expansion
- Trade
  - Strong South American trade agreements
  - New trade agreements with 18 countries in 2011-12
    - Including powerhouses like US, China, EU
- Currency
  - Steady currency growth without major fluctuations
- Investment Grade Status
  - Credit rating agencies put at Investment Grade
  - Better loans, more investment inflows



Miraflores, Lima

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# Economic Growth



- Came out of 2008's crisis unscathed
  - Grew at 0.9%
- Forecasted to continue at 6%
  - Government's infrastructure initiatives
  - Record commodity prices in the world
- Solid Macroeconomic Policies
  - Tight monetary policy
  - Fiscal surplus attracts investors
- Per capita income tripled to \$6,000 USD
  - Start of the "Consumer Revolution"

Background

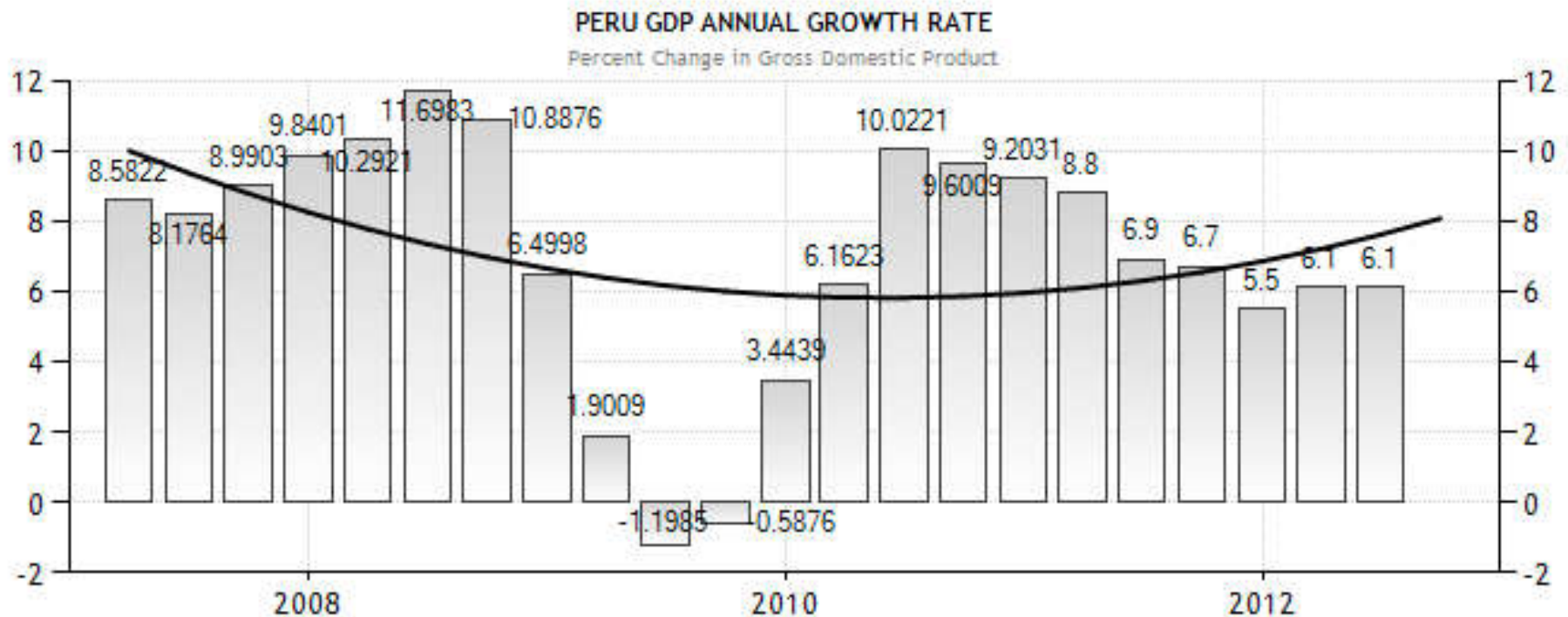
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# Historic Growth



SOURCE: WWW.TRADINGECONOMICS.COM | INSTITUTO NACIONAL DE ESTADISTA

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# Future Growth

Government's Infrastructure Initiatives & Macro Policies

Stable Benchmark Rate: 4.25%

Business Confidence

Construction & Real Estate Market Boom

Continued Economic & Infrastructure Development

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# Investing in Peru

*Peruvian government is very supportive of foreign investment*

- Legal Protection
  - Full rights and obligations as Peruvians
    - Limits in health, safety, environment, radio and broadcasting
  - Able to send money back to home country
    - After applicable taxes
  - Can own property in peacetime
    - Restricted to land near its international borders
  - Legal stability agreements
    - For large investments, current regulations will be preserved even if there are future changes
- Minor Investment Limitations
  - No restriction in almost all sectors
    - Minor limits on mining, fishing and oil
  - Automatic registration of investments
  - No government authorization necessary
- Taxes
  - Double tax protection for certain countries
  - U.S. investors face double taxes



Lima's Stock Exchange

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# Risks



- Poverty is still a reality- major income gap
- Political Risk: Ollanta Humala's potential leftist policies
- Strengthening currency
  - Finance minister of fearful of currency appreciation, leading to sudden economic downturn
  - Central bank is hoping to avoid this by buying dollars and strengthening banks' reserve requirements

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Chosen Industry: Cement

# Why the Cement Industry?



## *Real Estate Boom and Infrastructure Gap*

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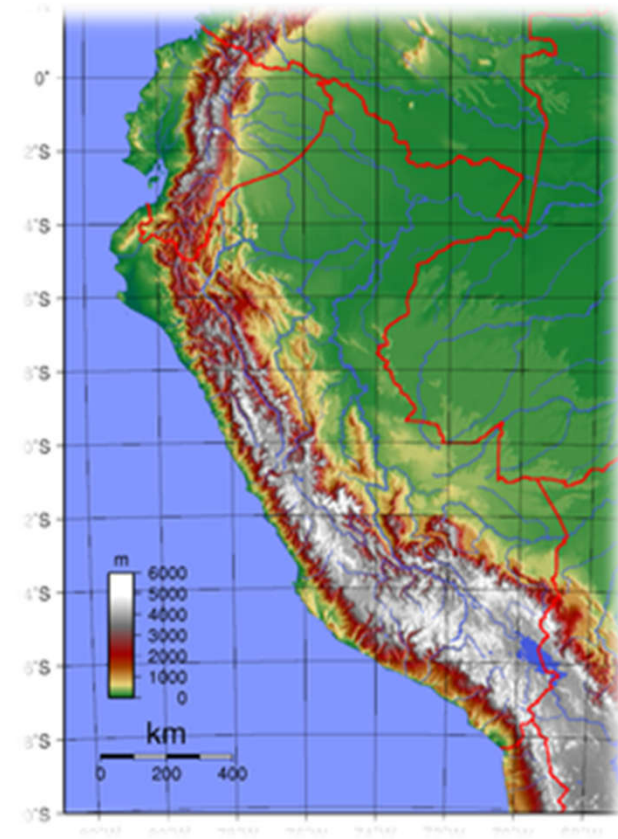
# Real Estate Demand

- Situation
  - Real estate prices are rising
    - Strong economic growth and rise in middle class income
    - Desirable vacation destination: 2,000 vacation homes built annually in Lima alone
  - Home shortage
  - Shortage of over 2,000,000 homes
  - 400,000 in Lima alone
- Effect on construction
  - Major growth in construction industry
    - 2005 to 2009 CAGR: 11.17
    - July 2012 CAGR in double digits
  - Construction companies can hardly keep up



# Infrastructure Gap

- Infrastructure Gap
  - Second only to Bolivia in the region
  - \$88 billion of spending through 2021 required (33% of GDP)
    - Transportation: \$20.9 billion required
    - Telecommunication
    - Energy
  - Country's growth increases need to address issues
- Effect on construction
  - Government efforts to reduce gap
    - Transport and Communications Ministry moving to reduce gap
    - \$16 in infrastructure projects through 2016
  - Air and sea ports
  - 7,000 km of new roads and repaving 85% of existing roads
    - To facilitate this, the government is making it easier for companies to get construction permits
  - Private investment in infrastructure has increased by 300%



# What This Means for Cement:

- Consumption of cement has been very high due to boom in construction
- Cement is a major component in almost all construction processes
  - Durable
  - Concrete
- Investment in Peruvian cement is expected to continue until 2016
- More demand than supply
- Industry consolidation





# Company Spotlight: Cementos Pacasmayo

# Background

- Second largest cement company in Peru
- Founded in 1949
- Facilities and mining units are located in Pacasmayo, Rioja, Tembladera, Bayovar, and Bongara, Peru
- 23.8% of Peru's total domestic cement shipments in 2010
- Steady growth over the last 6 years, compounded annual growth rate of 12.8%.
- Entering the mining business



# Potential Customers

## Government:

- *Large Scale Infrastructure projects*
  - Trains; Roads
- *Construction projects*
  - Shortages of homes and urban development
  - Residential and commercial areas

## Companies:

- Growing use of cement
- *Domestic (Peruvian)*
- *Latin American*
- *Foreign (United States)*

# Competitors

- **Cementos Lima**
  - Largest cement producer by a lot (4x production)
    - Recently bought out 3rd largest cement producer
  - Must be purchased in Peru, not listed in US
- **Cemento Yura**
  - Small competitor, half the output
    - Small for potential buyout
  - Part of conglomerate, no way to invest in sector
- **Cemex**
  - Not a lot of exposure into Peru
  - Making investment which will take up part of market



# Future Projects

**Cementos Pacasmayo is currently working on 3 projects to increase its cement production capacity:**

1. Doubling the capacity of the Rioja facility, by installing a new production line that will add 240,000 metric tons of installed annual cement production by the end of 2012.
2. It is installing new vertical kilns and upgrading its horizontal rotary kilns at the Pacasmayo facility in order to increase clinker production capacity by 200,000 metric tons
3. It will conduct pre-feasibility and engineering studies to assist in building a new cement plant in the third largest city in northern Peru, Piura, allowing the company to meet the increases in demand for cement during the coming years.

# Cementos Pacasmayo Financials

Period Ending	Dec 30, 2011	Dec 30, 2010	Dec 30, 2009
<b>Total Revenue</b>	<b>368,986</b>	<b>319,988</b>	<b>261,879</b>
Cost of Revenue	211,205	170,672	140,360
<b>Gross Profit</b>	<b>157,780</b>	<b>149,317</b>	<b>121,519</b>
<b>Operating Expenses</b>			
Research Development	-	-	-
Selling General and Administrative	78,088	56,489	43,059
Non Recurring	35,599	-	-
Others	-	-	-
<b>Total Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Operating Income or Loss</b>	<b>44,093</b>	<b>119,867</b>	<b>78,459</b>
<b>Income from Continuing Operations</b>			
Total Other Income/Expenses Net	1,546	29,123	3,719
Earnings Before Interest And Taxes	45,639	121,949	82,178
Interest Expense	7,127	5,358	6,519
Income Before Tax	38,512	116,591	75,659
Income Tax Expense	14,233	37,094	24,427
Minority Interest	-	-	-
<b>Net Income From Continuing Ops</b>	<b>24,279</b>	<b>79,497</b>	<b>51,232</b>
<b>Non-recurring Events</b>			
Discontinued Operations	-	-	-
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
<b>Net Income</b>	<b>24,279</b>	<b>79,497</b>	<b>51,232</b>

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# Cementos Pacasmayo Growth



<b>5-Year Projected Earnings Per Share Growth Rate</b>	34.40%
<b>Current Ratio</b>	6.86
<b>Quick Ratio</b>	5.23
<b>Short Interest</b>	0.08%

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# Why Buy Now?

- Cement demand in region growing at 8%
  - Cementos Pacasmayo building new facilities to boost capacity by 45% by 2015
- Profits predicted at \$80M this year
- Healthy balance sheet with liquidity
- Current forward P/E at 16.7
  - Predicted to drop due to profit increase
- J.P. Morgan target price for stock - \$15 compared to the current amounts of 12.47





Thank You!

Q&A