Elementia 3Q17
Conference Call Transcript
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Operator:
This is a recording for Elementia on Thursday, October 26, 2017, at 9:00 am Central Time. Good morning. My name is Jonathan, and I will be your conference operator. At this time I would like to invite everyone to Elementia's Conference Call. All lines have been placed on mute to prevent any background noise. There will be a question and answer session after the speakers' opening remarks and instructions will be given at that time. Thank you. I will now turn the call over to Ana Lourdes Benavides, Elementia's Investor Relations Officer. Ma'am, please go ahead.

Ana Benavides:
Thank you, Jonathan. Good morning and welcome to Elementia's third quarter 2017 Earnings Conference Call. On the call with me are Fernando Ruiz Jacques, Chief Executive Officer, and Juan Francisco Sanchez Kramer, Chief Financial Officer. Please be advised that this call is for investors and analysts only. During this call we will be discussing Elementia's performance after the Earnings Release issued yesterday after the close. If you did not receive the report it is available on our website at www.elementia.com within the Investor Relations section. Let me remind that forward-looking statements discussed today are based on current expectations and are subject to certain risks and uncertainties. Actual results could differ because of factors mentioned in the Earnings Release, in today's call and in the risk factor section of the report filed with the Mexican Stock Exchange. We do not undertake any duty to update any forward-looking statements. For further information please refer to the disclaimer included in the Earnings Release. Also all figures discussed are in Mexican Pesos and quarterly variations are computed against the same quarter of the previous year, while cumulative variations are computed as compared to the same period of previous years unless it is otherwise stated. Today's call is being webcast live and recorded. You can replay today's call and review the forthcoming transcript on our investor's relations website. After all this, it is now my pleasure to introduce Fernando Ruiz Jacques, our Chief Executive Officer, who will cover the main highlights of the quarter and provide a brief history of the company. Fernando, please go ahead.

Fernando Ruiz Jacques:
Thank you. Thank you, Ana. Ladies and gentlemen, good morning and thank you for joining us today.

Before I begin I would like to express my heartfelt condolences and express Elementia's solidarity with all the families and citizens which have been affected by the devastating earthquakes and hurricanes that have recently impacted our beloved Mexico, the US and the Caribbean. We at Elementia stand together with you and the affected communities so that we can overcome these disasters. These events affected all of us all in one way or another and throughout my remarks I will go over how these events impacted each division. However, it comforts me to say that our Elementia family is safe thanks to our team's effective and fast collaboration efforts in ensuring everyone's safety.

As we have mentioned on different occasions, the wellbeing and safety of our people always comes first which is why we did not hesitate when we had to make the decisions of temporarily closing our headquarters in Vallejo to make necessary repairs. By the third day after the earthquake we were already operating from our new premises, demonstrating our team execution capacity as well as our commitment to our people and the continuity of operations. Along this are changes to our philosophy which fosters more open spaces that facilitate teamwork and communication between different areas, but more importantly, a more dynamic and interactive organization that translates into more agile decision-making processes in an era where speed and change are the names of the game.

Moving onto more happy news, I am proud to say that we continue to evolve and coming much closer to what we have defined as our long-term vision and corporate strategy called The Power of Oneness. In September, we celebrated the groundbreaking ceremony of our new USD$17 million grinding facility in Costa Rica. The development and rationale behind this project comes in line with two main fundamentals announced in our IPO which are:

1) Expanding our cement division within the countries in which we currently operate; and
2) Fostering synergies between our three divisions: Building Systems, Cement and Metals.

The facility is expected to start operations in the first half of 2018 and will have an installed capacity of over 250,000 tons, allowing us to supply the main raw material used by our Plycem brand in Costa Rica to produce fiber cement products. As I mentioned before, the rationale behind this project is the expected synergies to vertical integration among our cement demand and building systems division operating under our arms-length policy. I would like to add that part of the production will be commercialized in Costa Rica as we believe we have great market opportunities in this region.

Now, let me jump over our operating performance. As expected, this quarter we delivered a close to 40 percent growth in EBITDA mainly driven by Giant integration into the company posting loads double-digit growth on a proforma basis. This along with the extraordinary performance of our Cement Division in Mexico and Building Systems; while Metal Products faced some temporary challenges. I believe it's worth mentioning this was achieved despite the difficult conditions originated from hurricanes, flooding and earthquakes and the economic slowdown in Central and South America. I am very proud of the progress particularly of the strength and resilience of the three divisions have shown under these challenging times.

Now let's move onto the progress made this quarter by division starting with cement. It pleases me to share with you that in Mexico's operations we delivered another consecutive quarter of strong results. Both revenue and EBITDA significantly grew by more than 50 percent compared to the third quarter of 2016, largely due to continuous operations of the cement capacity expansion in Tula, despite increasing energy costs.
Tula's ramp up have been I can say without trepidation just outstanding putting us squarely on track to continue delivering the goals set over the two years ago during our IPO. Our strategy of preparing the market during the first half of the year has been key its success. In fact, results have been even better than anticipated due to the preference of Fortaleza brand have enjoyed space on superior quality and despite having slow months due to the rainy season and hurricanes, a challenging September as kids return to school and to a lesser extent as Mexico City's not a priority margin for cement for us, two earthquakes impacting the Central and Southeastern regions of Mexico.

I would also like to point out that our EBITDA margin has been affected during the year as we were preparing the market and therefore started grinding operations just in third-party clinker. The good news is that starting September we stopped buying clinker from third parties which resulted in a 48 percent EBITDA margin in the cement Mexico operations. We believe last quarter, that is the second quarter of 2017, was the lowest point in terms of EBITDA margin for this segment and if energy prices remain relatively stable, we would expect similar results for the fourth quarter.

In terms of prices these have been very similar to those of the second quarter. However, compared to the third quarter of 2016, prices posted a double-digit increase. In that sense and because of current market dynamics, we find it hard to have another price hike for the remainder of the year.

Now going to US cement operations, Giant registered 8 percent growth year over year in terms of volumes sold, however, with lower EBITDA. Our production volume was mainly affected by Hurricane Irma specifically in South Carolina. Fortunately, the facility was not damaged, however, operations were placed on hold as the facility was evacuated for safety purposes. I can express enough that our people's safety always comes first.
Pennsylvania operations were not affected by weather conditions, however, necessary maintenance work and shut downs led to lower production.

On the other hand, our main facility was stable. Regarding the integration plan we have achieved great progress in terms of covering some of the key positions that have been vacant in an effort to cut costs before the acquisition. Moreover, we have made significant progress in the standardization of product quality, one of the competitive advantages that sets us apart.

US cement EBITDA was down 18 percent year over year and 10 percent in dollar terms, mainly due to higher coal prices in the operations of Pennsylvania and the implementation of the maintenance program to bring assets back to industry standards, which continuously interrupt operations. This may or may not sound repetitive, but I strongly believe it is important to emphasize that 2017 is a transition year meaning that the fourth quarter comes with additional scheduled maintenance interruptions, which as I just mentioned, are part of the USD$30 million Capex plus OPEX plans to bring Giant's assets back to par enabling us to deliver a better offer to the market by increasing reliability and quality.

Having said that, I would like to take an opportunity of this call to mention that seasonality is expected to begin in the next quarter and that major annual maintenance work are scheduled for the first quarter of 2018 when demand is lower and which could potentially affect sales.

Finally, I would like to reiterate that we expect to show an improvement in results as equipment is revamped and opportunities are identified in the go-to-market projects developed along with the due diligence are captured.

Moving on to the metal parts division, it registered a 27 percent decrease in EBITDA mainly due to the next three factors:

First, while our facilities did not suffer major damages from the earthquake, we were forced to basically interrupt operations for about a week in the Vallejo plant due to minor gas and water leakages which resulted in lower sales volume. At this time, they continue to operate normally.

Second, as probably most of you know Hurricanes Harvey, Irma and Maria strongly affected the Caribbean which is one of our regular sales points. Therefore, during September and throughout October our sales were impacted because of the devastating disasters. Nevertheless, we expect sales to start normalizing by November of this year.
Last, EBITDA was also impacted by a close to 35 percent increase in electricity and natural gas prices, the appreciation of the peso against the US dollar which had a negative effect on inventory evaluation and the volatility in prices of copper that negatively impacted demand during the quarter. The internal factors affecting our results during the quarter were partially offset by improved metal use and the division focus on higher value products. While most of the negative impact on our EBITDA was a result of internal factors to the company, we remain committed to creating value for our shareholders and we continue working on ways to shorten the conversion cycle and improving metal yields.

Moreover, we believe demand from the oil and gas industry will potentially pick up in the upcoming months due to Hurricane Harvey's impact in the facilities of this sector that are in the Texas area.

Turning now finally to the Building Systems Division, the division's growth and recovery at consolidated level continues to be supported by the successful results of the go-to-market strategy and is adding increasing coverage to the US and in Mexico and our focusing on flat panels for lightweight construction systems, operating new products and technology that reduce product breakage representing great advantage to both our distributors and final users.

However, due to the geographical diversity of this business, we have posted mixed results. Having said that, on a consolidated basis, we delivered a 25 percent increase in EBITDA year over year, largely driven by the strong performance in the US and a solid turnaround in Mexico despite softer sales in response to a decrease in pricing.

Going further in depth by region:
- In the US what we see is that the market continues to grow but not as fast as it was in line with housing starts and permit indications. Yet, clients have been very accepting of our value propositions. Also the go-to-market strategy continues to work very well. In that sense, the steps we took with Big Builders is still yielding positive results. Due to this strategy's great success, we plan to continue implementing until reaching our net milestone of our overall strategy. Up line to reopen the Indiana facility remains on time and schedule so we continue shipping products from our other facilities to the Indiana region so that when the facility initiates operations it will be partially allocated. As expected, we have affected our operating margins once again due to the extended logistics and pre-operational expense. Nevertheless, this is an investment worth making as we expect to have similar results to those obtained in preparing the Tula plant markets in the cement division.

-In Mexico, operations have been positive despite the headwinds resulting from challenging weather conditions, mainly in the Southeast region of the country and market partial slowdown in the aftermath of the September earthquake. Our go-to-market strategy focused on distributors and direct clients continues bearing fruits reporting incremental volume of approximately 50 percent, offsetting the lack of government projects. We see good opportunities to improve even more our results in the following months to cost optimization, product breakage control and price improvements. Moreover, we expect significant post earthquake reconstruction work in Mexico specifically in Chiapas and in Oaxaca by the first half of 2018 and we are ready to supply all those in need.

-In Central America, operations remain stable despite challenging weather conditions that delayed construction work driven by continued market share gains in the Caribbean and Panama. We have also recently begun rotomolding operations which are performing according to plan.

- In the Andean region, we reported mixed results. Overall volumes remain stable, yet prices stay flat due to the region's current economic environment. First, Colombia continues to face economic challenges derived from the increase of the Value Added Tax, bank interest rates and the lack of government support for housing projects. We expect this trend to continue for the remainder of the year and probably the first half of 2018, despite interest rates starting to decrease and reactivation of certain government housing supports. Nevertheless, we remain proactive against this situation and in an effort to offset the longer unfavorable scenario, we have taken actions into matter including planned optimization and operating efficiency. Also on the upside, as you remember, we have just doubled the water tanks in south capacity which has great acceptance in the regions. This means capacity is getting closer to 50 percent utilization rate. We have huge expectations for this segment. Similar to Colombia, Bolivia's economy continues to be quite slow while Ecuador and Peru remains stable a very tight product demand into the flood and construction projects following the devastating that took place last year. We believe this trend will continue into the fourth quarter. Toward year end we foresee a slight overall slowdown for Building System due to the seasonality during the holiday season.

As you can see, we continue shifting from being a company with three divisions into a more integrated one that will be able to deliver high quality products and solutions for both the traditional building as well as for more industrialized and sustainable building system. I will turn now the call over to Juan Francisco Sanchez Kramer, our CFO, for further details on our financials. Juan, please go ahead.

Juan Francisco Sanchez Kramer:
Thank you, Fernando, and thank you, everyone, for your time and interest in Elementia.

Going straight to the company's performance,
I believe, we can all agree that the third quarter turned out to be quite challenging, not only to us, but to the main companies and industries affected in Mexico, Central America and some parts of the US. Our operating and management capabilties were tested by a series of devastating natural phenomenon including, as Fernando mentioned, the earthquake that affected

Mexico and hurricanes that hit Mexico, the Caribbean, Central America and the US. Notwithstanding these events, it is with great pleasure that I say that our management expertise, brand positioning and results-oriented approach allowed Elementia to continue with double-digit growth strength in both revenues and EBITDA.

Consolidated revenues posted significant increase of 40 percent for the quarter, despite facing a prevailing volatile economic environment from additionalchallenge. This improvement is once again due to the integration of Giant into Elementia's operations and higher sales prices and volumes in the Cement and Building Systems divisions. These two divisions generated 189 percent and 14 percent increase in sales during the first nine months of this year, respectively. On a proforma basis including the year US cement operations, consolidated revenues grew by 11 percent during the quarter and 15 percent in the nine months, respectively.

Consolidated EBITDA came 39 percent higher and 11 percent on a pro forma basis for the quarter supported by the Cement and Building Systems division; while our EBITDA margin remains at the 20 percent level.

Going further into detail on the performance of this division:

Even though 2017 is a traditional of the year of the Cement division as a whole mainly due to balance intervention and the size of this project in terms of additional Capex and OPEX and despite also the capacity expansion in Mexico, it managed to once again demonstrate that we are making the right decisions, something that continued growth trend.

In the Mexican operation, as we have previously mentioned, we had to overcome poor conditions stemming from the natural disasters. And we believe our team did a great job at it. Revenues surpassed expectations reaching Ps. 1.24 billion, an important jump of 55 percent from the last year mainly, as a result of increasing volumes from the ongoing grinding operations of the capacity expansion of the Tula plant and the positive sales price trend.

EBITDA was 50 percent higher year on year, and EBITDA margin reached 48 percent, helped by operating efficiencies and higher volumes which offset higher energy and fuel costs. As expected, margins were also benefited by the fact that we stopped buying clinker from third parties, as part of the ramp up initiative for the capacity expansion, which was taken at the beginning of the year. In addition to that, we release the capacity of the expansion project we mention that the EBITDA margin would be negatively impacted while we prepare the market for this new additional capacity and that we will probably see these lower margins as we ramp up the facility.

I am pleased to let you know that the certain quarter's margins turned out to be its lowest point.

The US cement continues to implement its value-generating roadmap which includes Capex to bring assets back to the industry and Elementia's standard. Apart from what Fernando has already mentioned, I would like to add that we remain focused and that schedules of great works are going according to plan and upgrade works were successfully executed. These works, however, do impact our results. There is additional Opex and production interruption which we see as a necessary impairment. Keeping in mind that 2017 is a transitional year and Giant's turnaround is expecting to be gradually seen in 2018 next year and the following years.

On top of our continuous maintenance works operations and therefore results in the US were also affected by Hurricane Irma and in an effort to reassure everyone's safety, we suspended operations as a preventive measure due to heavy rains. On a pro forma basis, the division reported Ps. 1.15 in sales, down 33 percent; and EBITDA of Ps. 192 million, an 18 percent decrease mainly due to higher energy costs as I said.

Moving to Metal Products, this division benefited from its strategic focus on higher value products and greater operating efficiency. However, we continue to face some challenging quarter caused by higher energy prices as well as from our reduction in sales volume, mainly caused by the impact of natural disasters in Mexico and the Caribbean and the effect of the depreciation of the Mexico peso against the US dollar and its devaluation.

As you know, the descent was reversed by the end of the quarter as a result of situations in both the copper and at the same time, the Mexico Peso US Dollar exchange rate. These factors impacted the Metal division which was down 27 percent over the quarter.

Finally, onto to the Building Systems which continue its upturn supported by our go-to-market strategy. This quarter Building Systems impressively overturned destructive weather conditions and continued to improve its market performance both in Mexico, the US and Central America.

Net sales had a slight decrease of 2 percent, which includes to Ps. 1.9 billion. The EBITDA had a 25 percent growth and EBITDA margins grew 3 bps.

The division's performance was also a result of our customer's high acceptance of our products in the US, Mexico and Central America, helping offset the low demand in the Andean region. Specifically in Colombia and Bolivia due to multiple conditions that have affected domestic consumption in these countries.

Going now to balance sheet. In line with Elementia's strategies to have a sound flexible and conservative balance sheet that supports our profitable credit terms during the quarter we signed two credit lines, one with Scotia Bank and another with Bancomex for about Ps. 5.5 billion at very conservative terms, which were used to replace short with long-term debt releasing more than USD$200 million of cash flow in the next two years when compared to the maturity refined at the end of 2016.

In the more recent news and also reporting the company's strategy, we launched a hedging strategy to protect ourselves from recent floating interest rates to a fixed rate and 50 percent of the notes get from Bancomex, we managed FX interest rates of 6.99 percent in Mexican pesos, which is the lowest. It can also allow between viable and fixed interest rates. These measures come in addition to a financial discipline initiative as took by Elementia and the reinforcement of our commitment to maintain a manageable and conservative level to achieve our guidance and lets us keep our reservation load to 2X. Currently, it is 2.99X.

Our debt position totals Ps. 1,944 billion reflecting the aforementioned financial activities carried out during the quarter and the impact of the Mexican Peso against the US dollar exchange rate on the dollar denominated debt. I would also note that the debt replacement was carried out on the statistics therefore by the end of September our gross debt includes Ps. 3.68 billion that was paid a bit later.

Finally, Capex as of September 30 reached Ps. 1.86 billion including, among others, investments done in the US Cement and Tula plant expansion in the southern division in Mexico.

With this I conclude my remarks and now we have the Operator to open the floor for the Q&A session. Thank you.

Operator:
Thank you. At this time we will open the floor for questions. If you would like to ask a question press the * key followed by the 1 key on your touchtone phones now. Questions will be taken in the order in which they are received. If at any time you would like to remove yourself from the questioning queue, press *2. Again to ask a question please press *1 now. Our first question comes from Pablo Ricalde of Bank of America.

Pablo Ricalde:
Hi, good morning, Juan Francisco, thanks for the call. I have two questions on the cement division. The first one from your EBITDA margin reported for the quarter in Mexico. How sustainable is this level and if we should expect this level of around 45 percent as a new normal. The second one is on the US operations. I was wondering if you have already sent the letters of price increases for 2018 and which magnitude are you expecting them to be.

Juan Francisco Sanchez Kramer:
Thank you, Pablo, for your questions. I will address your first question first and I will have to ask you to repeat your second question because I am not sure that I quite understand. On margins for Cement division in Mexico the main reason that we are improving the margins from what we first believe it was going to be is the price level of the industry. Second, because we have managed to start the ramp up in a better position than what we were expecting, and third, because the efficiencies of the new technology that we implemented are very new and very satisfactory. By the other hand, we stopped using clinker from third parties since we managed to fulfill all our expectations in terms of volume with our own production. Yes, you can expect that these margins will prevail and the financials in the second quarter are the lowest that we now expect. Now if you could repeat your second question please?

Pablo Ricalde:
Yes. My second question was from your US operations on Giant cement and your pricing strategy for 2018. I was wondering if you have already sent the letters of price increases to your customers and in which magnitude are you expecting them to be?

Juan Francisco Sanchez Kramer:
The dynamics of the cement industry in the US are quite different from our Building Systems business. In the Building Systems we did follow the strategy by sending letters to our potential customers, but it's not the way we are doing in the Cement division. Nevertheless, the strategy of recording loss volumes and loss pricing remains, but first of all, we have the legal confidence to our customers that we are a reliable supplier in terms of volume and quality. That is why we are focusing first on the upgrading the assets to industry and Elementia standards so we can take the following steps of the strategy.

Pablo Ricalde:
Okay, helpful.

Operator:
Thank you. Our next question comes from Mauricio Serna with UBS.

Mauricio Serna:
Hi good morning, thanks for taking my questions and congratulations on the results. I was wondering if we could talk a little bit about the volumes in Mexico. It seems that you increased volumes again double digits this quarter. It looks quite impressive when you look at the volumes so far of the industry declining 4 percent in July-August, at least looking at those numbers probably September was weak also because of the earthquake. I just wanted to know or get a grasp on what is the company strategy in order to have these apparent market share gains whereas the price levels compared to the local peers if you could talk a little bit about that. And also just going a little bit into the cash flow and working capital itself. It seems that this quarter you invested over Ps. 400 million in working capital but just wanted to get a sense because you mentioned more, something on receivables and inventories but looking at the payables that's also an account where you have substantial declines. I just want to get a sense on what was the deal behind that and just get a little bit more clarity on the working capital too. Thank you.

Fernando Ruiz Jacques:

Mauricio, I will address the first question and I will leave Juan Francisco answer the second one, I am Fernando Ruiz. Regarding our volumes in the Cement division in Mexico, what I can tell you that first we have Tula ramp ups. There we had an extra capacity. We have been working as I stated before in a strategy of preparing the market for many, many months. We started 12 months to working on this, so basically we're harvesting what we planted many, many months ago. On the other side, we continue with our top quality products which is very well accepted in the market and the end user is asking for our products, so we feel pretty strong about it.

Juan Francisco Sanchez Kramer:
Now getting to the cash flow and thank you for your question Mauricio. Yes, we did consume some working capital, many receivables and inventory. The main reasons affect both. For one, is the increase on copper price of the resident price of copper and the increase also or devaluation of peso against dollar. Second, given that the earthquake and hurricanes were during September this affected our volumes sold by the end of the quarter. That also impacted our inventory levels and also receivables. Nevertheless, we are following a specific plan to reduce these levels and we are confident that you will be able to see the outcome of this plan by the end of this year.

Mauricio Serna:
Okay. Thank you. Just going back to the question on the volumes and the ramp up of the facility. I just want to get a little bit more sense what it actually meant when you said you were preparing the market for the entry of this new line or the expansion of the line. What does that actually mean?

Fernando Ruiz Jacques:
Bear in mind that we purchased clinker from third parties so we were milling it before we started the operations of the two facilities. Basically with that additional clinker we started to prepare our clients which today we are giving them our product with our current line and not buying clinker from third parties.

Mauricio Serna:
Very helpful, thank you so much. Yes?

Juan Francisco Sanchez Kramer:
Hello Mauricio, it's also important to mention that I mean this also reflects the great acceptance that we have had from our product in terms of quality. So the strategy again is taking root. I mean we are very happy with the performance.

Mauricio Serna:
Okay, great, thanks.

Juan Francisco Sanchez Kramer:
Thank you.

Operator:
Thank you. Our next question comes from Juan Tavarez with Citi.

Juan Tavarez:
Hi, thank you, good morning everyone. My first question is regarding utilization rates and cement. Specifically in your US asset I was wondering if you could share with us what are your operating rates today versus what they were last year? I'm curious to see if we started to see an improvement or whether your initiatives of upgrading the standards are still delaying some of that utilization improvement there. If you can give us the color there. Then maybe in Mexico as well you mentioned that you've seen better than expected results with the Tula ramp up. How are we there with utilization rates and could we see

this asset reach full capacity sooner than you budgeted? Then secondly just on market share in fiber cement in the US. I'm curious where do we stand there today? And could you remind us again when do you expect the startup of the US plant? Is that still the first quarter of 2018 and what Capex number is tied to that? Thanks.

Juan Francisco Sanchez Kramer:
Hi Juan. Thank you for your questions. I will address your first question and then Fernando will address your second one. In terms of capacity utilization and you might understand these are strategic information that we'd rather not disclose in detail. But what I can tell you that in the US capacity utilization is still at the same levels that we have already had before we are being able to allocate more volume even that what we were expecting. So, utilization rates and ramp up is going better than planned. That is as much as I can tell you about that.

Fernando Ruiz Jacques:
Regarding your second question, Juan, what I can tell you and for strategic reasons I cannot tell you more, regarding our market share within the US or in the fiber cement division we are going faster than the market on a double-digit basis. We are very optimistic about this business unit performing very, very well and we expect this to keep on with this good track.

Juan Tavarez:
Do you have a sense of when potentially the market demand could help you restart that fiber cement plant? Do you still have a timeline for that, or no?

Fernando Ruiz Jacques:
Yes. As we speak we're working on that and we expect to reopen it next year, first semester next year. We are already working on putting everything together to open that facility and hopefully we'll have good news for you in the near future but it's performing with the plan that we have.

Juan Francisco Sanchez Kramer:
In other words, we remain committed to the original plan. As Fernando mentioned, we expect to give you good news very soon.

Juan Tavarez:
Okay, thank you very much.

Operator:
Thank you. Our next question comes from Pedro Fabregat with Morgan Stanley.

Pedro Fabregat:
Hi, good morning, thanks for taking my call and congratulations on the results. I just wanted to ask you a little bit further on the market dynamics on fiber cement. I mean apart from the impact on the hurricanes, I mean is there a reason why the market is on a slowdown if you can provide us a little more color on that? Thanks.

Fernando Ruiz Jacques:
Thank you, Pedro. Do you refer to Mexico or to what market in specific?

Pedro Fabregat:
In the US, sorry.

Juan Francisco Sanchez Kramer:

Thank you Pedro for your question. As you probably have seen the new housing, the new family indexes have declined somehow from the previous months. Nevertheless, there is a growth when you compare it to the same months of last year. So we see this as a slowdown not as a decline and also bear in mind that the basis of permits and starts is already at a very affected level. So, I mean, probably this slowdown has to do with general economic conditions and all that is happening in the US. Our performance, nevertheless, in the US in the Building Systms, as Fernando mentioned, continues to be very positive and we are growing faster than the market.

Pedro Fabregat:
Okay, thank you very much.

Juan Francisco Sanchez Kramer:
Thank you.

Operator:
Thank you. Our next question comes from Santiago Taracena with Credit Suisse.

Santiago Taracena:
Hi, congrats on the results. I just have a question about the market dynamics of cement in Mexico. Can you tell us more about the pricing growth on a year-to-year basis?

Fernando Ruiz Jacques:
Sure.

Juan Francisco Sanchez Kramer:
Hello Santiago, thank you for your question. If you remember in the first half of the year we or the industry managed some price increases so the trend from the previous year continues. That was not the case for this third quarter and given the conditions that are prevailing so far, we don't see another increase during the year. The difference or the increasing price that we mentioned comes from the increases actually done in the first half of this year.

Santiago Taracena:
Okay. Thank you very much.

Juan Francisco Sanchez Kramer:
Thank you.

Operator:
Thank you. Again, if you would like to ask a question, please press the * key followed by the 1 key on your touchtone phone now. We have a follow-up question from Mauricio Serna with UBS.

Mauricio Serna:
Thanks. Just one quick follow-up question on the metals division. This one had a huge EBITDA margin contraction. I was just wondering in the medium term what is the margin levels that you're aiming for this division since it has been a little volatile lately? Thank you.

Juan Francisco Sanchez Kramer: Thank you for your question, Mauricio. As I mentioned or as we mentioned, the division was impacted by situations in both metal and FX rates by at the beginning of the quarter and that was also what affected or part of the impact on the division in the last quarter. By the end of this third quarter this trend changed and copper price and the relationship between Mexican Peso and US Dollar also increased. These both trends or new trends are part of what we expect to continue during the fourth quarter. On top of that, during the third quarter we saw lower volumes than usual mainly because of these natural disasters that affected not only Mexico but other countries that we sell to. We believe that volumes somehow will normalize and that these changes in the trends of copper and FX will also improve our results for the fourth quarter and on. You have to also bear in mind that when we compare energy, electricity in specific and gas prices to the previous year we have impact of about 35 percent and 34 percent respectively. That will continue or we expect to continue but the other trends will help improve we hope.

Mauricio Serna: Okay, thank you. But I mean just going back to the margin, the last couple of years, two or three years ago you were like 12 percent, 13 percent and last year was 16 percent and it seems this year you're going to be something around 14 percent. I just wanted to get a sense, are these the levels that you're aiming or could we see maybe going to high teens if you achieve this, as you continue doing this increasing focus on value added focus.

Fernando Ruiz Jacques:
Mauricio, just let me clarify something. In this division, the margins doesn't make a lot of sense because the way we price here is the way we negotiate with our clients is with the price of the copper plus FX amount. At the end of the day, our profit comes, it's steady on a gross basis. So the margins you're looking for it depends 100 percent on the price of the copper so that's why there is a lot so I wouldn't take a look at the margin per se. What I would take a look is at the gross profit of the business. That's the way that you should look at it because the margin doesn't tell you anything. I don't know if I was clear.

Mauricio Serna:
Yes, it's clear. Okay, thank you.

Fernando Ruiz Jacques:
Sure.

Operator:
At this time I am showing no further questions. Mr. Fernando Ruiz?

Fernando Ruiz Jacques:
Thank you, thank you operator. That wraps up the Q&A portion of today's call. So as you see we take every change and challenge with great optimism whether it is opening a new plant, a new office or launching new products. Without question, 2017 has been a year with many challenges yet our results are proof that Elementia has the right team, technologies and competitive advantage to excel in the construction business. So we believe our momentum continues to be very strong and are ready to take advantage of it. So once again, thank you. Thank you all for your interest in our company and if you have further questions, please do not hesitate to contact Juan Francisco, Ana or myself. So have a nice rest of the day.

Juan Francisco Sanchez Kramer:
Thank you.

Fernando Ruiz Jacques:
Thank you.

Operator
Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.

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