Elementia

Third Quarter 2015 Results Conference Call

October 22, 2015 at 11:00 a.m. Eastern

CORPORATE PARTICIPANTS

Juan Francisco Sanchez Kramer – *Investor Relations Officer*

Fernando Ruiz Jacques – *Chief Executive Officer*

Rafael Lira - *Chief Financial Officer*

PRESENTATION

Operator
Good afternoon and welcome to the Elementia Third Quarter 2015 Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Juan Francisco Sanchez Kramer, Investor Relations Officer. Please go ahead.

Juan Francisco Sanchez Kramer
Thank you, Gary. Hello, everyone, and welcome to Elementia's Conference Call on this October 22nd of 2015. We will discuss the performance of the company during the third quarter and first nine months of this year. Management comments will be based on the earnings release issued yesterday. If you did not receive a copy of the earnings release, it is now available at Elementia website in the Investor Relations section. Comments today might include forward-looking statements and are based on data that is currently available. Please refer to the disclaimer in the press release for guidance on this matter.

It's important to highlight that all CUs are in Mexican pesos unless otherwise stated. And all calculations are done versus the same period of last year.

Our speakers for today are Fernando Ruiz Jacques, our CEO; Rafael Lira, our CFO; and myself, Juan Francisco Sanchez Kramer, RIO.

Before we begin, let me remind you that Elementia is a unique building materials platform with a comprehensive product portfolio, leading brands, and extensive distribution network through which we have successfully integrated our three divisions, Cement, Building Systems, and Metal Products, aiming to be a one-stop vendor while still [indiscernible] position in attractive markets with high growth potential and/or countries with strong and resilient macroeconomic fundamentals like the US, Mexico, and Colombia, which together represent over 80% of our revenues. We have a clear definition of our strategy and visible opportunities to continue our profitable and responsible growth, paying careful attention to our capital allocation based on return of our invested capital and a strong balance sheet supported by our financial discipline.

Now, I would like to ask Fernando Ruiz to discuss Elementia's performance for the third quarter and first nine months of the year.

Fernando Ruiz Jacques
Thank you, Juan Francisco, and good day to everyone. Thank you for your time and your interest in Elementia. First of all, I'd like to highlight our commitment to open and close dialogue with our investors. Going straight into the Company's performance, the main messages I would like to convey today are first, within the challenging macroeconomic conditions that have prevailed during the year and have somewhat worsened during the third quarter, we continued delivering strong figures. The performance of each division of the company is going according to our plan with solid growth and incremental profitability.

Second, figures for the third quarter once again met expectations shared with you during our IPO road show as we continue taking solid steps to fulfill 2015 goals and lay the foundation for the future of Elementia. And just let me give you some quick examples. Consolidated revenues increased 10% in the quarter and 13% on an accumulated basis, while consolidated EBITDA grew 13% for both the quarter and first nine months, supported by incremental volume and cost reduction initiatives across all divisions, and of course better pricing mainly in the Cement Division.

Third, we delivered very strong cash flow before capex in the first nine months totaling 2.2 billion.

Fourth, we had an outstanding quarter in the Metal Products Division despite copper price declines, and we have reached optimal capacity at Tula station in the Cement Division.

And fifth, the projects that support our profitable growth strategy are ongoing.

The third quarter volatility was characterized by several relevant macroeconomic conditions. Among them the more relevant were the formal notification of China's economic deceleration in the first week of July, the flight to safety behavior in global markets, which revalued the US dollar against most of the world's currencies, the US–backed resolution to hold back the increase in interest rates somehow helped to mitigate the macroeconomic environment.

In the middle of this reality we completed a successful IPO and our share price has performed better than our peers. Our solid strategy and our unique distribution network, as well as cross-selling activities between divisions, allowed us to record double digit growth in both revenue and EBITDA, driven by incremental volumes, higher pricing, a greater focus on higher value-added products, and cost reduction initiatives across all divisions. Our performance was also very positive in terms of working capital, where we are focusing on inventory optimization. As a result of strong EBITDA and carefully managed working capital, the Company generated a strong cash flow. Now, let me walk you through the performance and expectations of each division.

Beginning with the Cement Division, which was the main driver for consolidated revenue and EBITDA growth, we are very pleased with the market dynamics of Central Mexico. Demand continues to be strong, and now the happy problem we're having is that the existing capacity is sold out, which is the main reason for the capacity expansion we have already started with the IPO proceeds.

During the quarter we completed the ramp up of the current installed capacity according to our plan, and we have reached an optimal operating rate, which for the third quarter of 2015 delivered a 28% volume increase over the third quarter of 2014. This, along with higher average prices that stems from price adjustments the industry carried out during the first half of 2015, as well as a better product mix, led the division to post a 45% revenue increase. These top line improvements, together with fuel cost optimization, lower energy prices and benefits from a better raw material selection translated into a 28% EBITDA increase in the third quarter of 2015.

According to our expectations, these same factors will continue to be the main drivers for the rest of the year. Our rationale for the IPO was the capacity expansion we have already started in the Cement Division, which will add close to 1.5 million tons per year out of our Tula facility. We expect to have close to 3.5 million tons per year of installed capacity in our systems once this expansion is completed in mid-2017. We will update you on the development of the project on a regular basis.

As of today, we have already signed a turnkey contract to build this expansion. We have also completed the orders for the main equipment and began ground works. The project remains on schedule and therefore we are confident of the startup of these operations by mid-2017.

Moving now to the Metal Product Division, we're very pleased to inform you that we have delivered better than expected results. The division showed a 6% volume increase and 1% price increase through September 2015, mainly due to a product mix focused on more value-added products, and also because of currency fluctuations. Remember that this division is 100% dollar-related in terms of revenues and that revenue for this division is not a key factor, since it's related to international copper prices.

It is worth highlighting that despite the international price of copper posted a 4% decline versus the second quarter of 2015, and an 18% decline versus third quarter 2014, during the quarter the marginal contribution in dollars per ton increased 9% versus the second quarter of '15, which confirms the right approach of the commercial strategy, as well as a focus on higher value-added products.

Nevertheless, the past decline in the copper reference price during the quarter had an impact of more than 24 million in the P&L as a consequence of inventory revaluation. In order to prevent this from happening again we are already implementing a hedging strategy, which Rafael will go into the details later on. In addition, the cost-cutting initiatives we are implementing are a fundamental focus for the division, have benefited the EBITDA, which was 90% up from the figure from January through September 2014.

Copper price per ton is quite different from steel price per ton. Incremental volume of galvanized steel sheets have helped the results of the division, but have somehow affected the per ton figures. Considering that we are selling the galvanized steel sheets through the Building Systems Division because it is more aligned with the roofing distribution channel, we have decided that starting in the fourth quarter of 2015 these operations will be consolidated within the Building Systems Division.

Before turning the floor to Rafael Lira, our CFO, who will walk us through the figures for the quarter and the year-to-date, I'd like to give you my thoughts on the Building Systems Division. As with the other divisions, we managed a 9% increase in the volume sold during the third quarter of 2015, mainly driven by the US operations along with synergies developed throughout the division, which was partially affected by the performance of Central America region in COGS. It is important to highlight that in the same timeframe revenues increased 15%, benefiting also from better average pricing. However, mainly due to a revaluation of the US dollar against most other currencies of the countries where we have operations the division posted 1% EBITDA growth.

Looking ahead, we strongly believe that we are strategically located to capture the opportunities of the markets of the countries where we operate. In particular, we are very positive on the recovery trend of the housing industry in the US, as well as the potential growth of Building Systems in Latin America, which we believe might be relevant drivers for our future performance. Our EBITDA margin is on its way to recovery, affected by underperforming EBITDA from operations in the US, but this has been improving constantly.

Now, I'd like to ask Rafael to walk us through our quarterly and accumulative figures. Rafael, if you'd please?

Rafael Lira
Thank you, Fernando, and thank you all for being here with us today. As Fernando mentioned, we're strongly committed to having an open communication with the investor community. I would like to address first the impact of the FX in our debt provisions of the US dollar, as some of you have some concerns.

Our gross debt as of September 30th this year was 11.33 billion, a nine percentage leap over the 10.38 billion [indiscernible] at the year-end of 2014 mainly due to the impact of the exchange rate on the senior unsecured notes for 425 million. First of all, we have strong cash flow generation that is long in

US dollar, given that more than 60% of our revenue and close to 40% of our costs is in dollars, or dollar-related. Given this structure the operation doesn't cover the coupon. The main generation of US dollars are the Metal Products Division, which is 100% dollarized, and the operations in the US.

Second, given that the impact is related to a mark-to-market effect and not a cash flow issue, we would rather to be cautious in the decision we make in this regard. What I mean is that at the current exchange rate, in our opinion, now is not the best time to execute any hedging position because of volatility and exchange rate levels.

In summary, yes, we are aware of the FX impact in our net income, and we want to make sure we make the best decision to prepare our balance sheet strong. For now, having a strong cash flow is US dollar and a solid balance sheet we [Indiscernible] to navigate the capital market volatility. Rest assured that we will take the best course of action at the best moment and in time we will decide to change our financial strategy and then hedge, bearing in mind the long term life of any hedging position. To preserve our solid balance sheets and improve the company's debt profile we want to share with you that we are paying today the expanding short term debt in our Mexican peso denominated bond settlement which was due in this month. This payment improves our profile, as we have now more than 98% of total debt in long term. This represents 3 billion pesos. Net debt to EBITDA ratio, we closed the third quarter at 1.38x while our interest coverage was 4x. Both ratios were well below the covenant set by the financial institutions.

Free cash flow from operations before capex at the end of the quarter reached 95% of the accumulated EBITDA. We are closely following our working capital. During the quarter, the Company consumed close to 25 million, mainly due to increasing receivables and inventories of Building Systems as revenues grew, which were partially offset by expanded [indiscernible] payment terms.

I'd also like to highlight the impact of the IPO over the cash position and shareholder stake in this, increasing both of them by more than 4 billion pesos when compared to the figures of 2014, as profit from the IPO world vetted in cash, and we recognized a quarterly [indiscernible] capex contribution made by our investors.

Now, going to the profit and loss statement, consolidated revenues for the third quarter 2015 increased 10% over the same period of 2014 mainly due to incremental volume flows in the Cement and Building Systems Divisions. Accumulated consolidated revenues for the first nine months of 2015 were 13% higher than the same period of last year. In our perspective the Cement Division was the main driver which compensated the decline in international copper prices, which impacted revenues in the Metal Products Division.

In terms of geographic footprint, 75% of the consolidated revenues were done in Mexico and the US, 17% in South America, 6% in Central America, and the remaining 2% in other countries. Accumulated EBITDA at the end of September 2015 was 13% higher, increasing from 2.06 billion in 2014 to 2.34 billion in 2015. EBITDA margin was 18% for both years. As we have mentioned, the EBITDA generation tends to balance between divisions as the EBITDA [indiscernible] Cement Division will continue to grow. Net income for the first nine months of 2015 reached 8 million, representing a decrease of 611 million, when compared to the same period of last year, mainly due to the exchange rate impact on the debt positions in US dollars, which was 1.6 billion.

Turning now to the performance by division and starting with the Cement Division, accumulated revenues through September 2015 show a 36% increase over the same period of 2014, reaching 1.72 billion. This increase mainly stems from higher [indiscernible] volumes related to a high capacity utilization of rate of plan, and a higher average price given the adjustments made by the industry in the first half of 2015.

Accumulated EBITDA at the end of September 2015 was 686 million, an increase of 69% over 2014 benefitting for the reasons already mentioned, and also improvements in production and lower electricity costs when compared with 2014. EBITDA margin for the first nine months reached 40% and 38% in the third quarter 2015 due to a one-off item mainly related to marketing expenses.

The Metal Product Division accumulated revenues through September reached 5.87 billion, 7% higher than those reported in 2014. The factors that offset the 18% decline in the international copper price were a better product mix in line with a focus on higher value products, higher volumes sold, and the impact of currency exchange. In line with our strategy to focus on the EBITDA per ton the marginal contributions increased 9%.

During the quarter we executed an inventory revaluation that impacted EBITDA by more than 24 million as a result of an extended [indiscernible] reference price decline. In order to prevent this from happening again, we have already defined our hedging strategy, which we are implementing during this current quarter. This strategy is based on our model of buying futures on a daily basis, not long term, considering that mostly consumption of copper to have an inventory [indiscernible] are hours, daily purchased, avoiding the potential impact of copper price decreases in our inventory during the month.

As we already mentioned in regard to the sale of our metal products, we have a natural hedge because we set the price in dollars per ton to our customers, and we establish and maintain a market of that allows us to transfer the recent volatility price and exchange rate effect to the market. In short, we believe that with this strategy we can eliminate the potential impact on inventory valuation due to change in copper price.

Accumulated EBITDA from January through September 2015 was 787 million, or 19% higher than the figures reported in 2014. Despite incremental volumes on both higher value products the division benefits from the cost of [indiscernible] initiatives and better metal yields.

The Building Systems accumulated revenues through September 2015 were 5.19 billion, showing a 14% increase over the same period of 2014, mainly driven by an 8% increase in the volume sold in the US and a 6% [indiscernible] price increase, which compensates the lower preferment of the Central American region in terms of cost of goods sold. Accumulated EBITDA through September 2015 was 883 million, 2% higher than 2014. The US operations EBITDA margin continues its strength of recovery coming from underperforming figures.

With this, I will turn the call to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Vanessa Quiroga with Credit Suisse. Please go ahead.

Vanessa Quiroga
Thank you for taking my question. Hello, Elementia team. Good morning. The first one is about the

Cement Division. According to the numbers that you published it seems that your utilization rate is probably now around 95% or higher. So, I was wondering if there's anything that you can do to continue growing volumes sequentially, or should we just assume that volumes could remain at these levels in the next few quarters until the capacity addition is completed? I would like to start with that question.

And the second one would be regarding your strategy to enter Ready-Mix, if you had any revenues from that product specifically? Thanks.

Fernando Ruiz Jacques
Sure. Thank you, Vanessa. This is Fernando Ruiz. Great question. As you said, our utilization rate today in the Cement Division is quite high, and, yes, we have different strategies for next year. So, first of all, we feel regarding volume we are making some investments. Of course they are very strategic for our company. But what I can tell you is that we will have somewhat more volume in the third quarter next year. So, in the third quarter of next year you can expect a volume increase. That's all I can say about that.

Now, regarding what we have today, I can tell you that our clinker factor is the highest by far in the industry, so there we still have some room to move. We are perceived as one of the best qualities in the market. We do not want to move from that. But we have some room to move from the clinker factor that we are using today.

Other interesting things that we said we will work on in order to keep improving our results for next year is we will begin, and we are beginning already, to switch a little bit our distribution strategy. As you may imagine, when you start operations and operations of this volume, basically we approached many second step distributors. So, having been already two years in the market gives us the chance to start working on diluting this and going straight to first step distributors, and with that we can increase our margins.

Other opportunity areas that we have, Vanessa, is that we can switch the bulk and bag mix that we have today. Today we are still selling, well, not very important but an interesting part in bulk and we feel that we can sell more bags. And, as you know, they are more profitable, so we see an opportunity there.

Other things that we are confident is regarding pricing. The dynamics of the market, as you know, are very interesting. Many of our competitors are basically sold out in central Mexico, so that's why we have been able to increase our prices in this year. And we feel that this synergy will keep on going for the next year as well. Basically that would be all my comments regarding your first question.

Regarding your second question, we are already in the Ready-Mix market. We have three plants operating. We have one in Fortaleza [ph], which is in central Mexico. We have another one in Vallejo, here in central Mexico, very close to our headquarters. And we just opened a new one in Tula Hidalgo which we'll be working for our capacity expansion, line expansion in that same facility.

What I can tell you from the Ready-Mix business is that we are doing great. The three plants are operating a lot better than we expected. Today we have an EBITDA margin of 18% already, so we are very happy. But as I told you, we will focus on cement. Maybe we will open a couple more Ready-Mix facilities in the next year, or couple of years, and basically that will be it. We will focus on cement. I don't know if I answered your question.

Vanessa Quiroga
Yes, it's very clear. Thanks. If I can have another question, please, it's regarding the hedge strategy that you're planning to implement for Metals. Can you explain exactly how that will work, and specific what would be the upside and downside, at what point of the exchange rate you would start losing from this strategy? Thanks.

Rafael Lira
Sure, Vanessa. Thank you, and good to hear you. First, I have to remind that we have a natural hedge in the revenue of the Metal Division because the cost is 40% related to dollar and 100% of the revenue is in dollar or linked to dollar. So, we are not concerned about the generation of free cash flow to pay the commitment that we have in terms of the coupons. In the Metals Division we have enough that in terms of that all the prices are big with the customers, with the customers in dollar terms but in our inventories we suffer the effects of the declining prices of copper during the month.

If we take the value at the beginning of the month and we consider the price at the end, we have an important reduction and in the valuation of the inventory in that month affects the P&L by the valuation. So, to avoid that we were evaluating a lot of alternatives, and we are entering in a hedging that competes in futures just by month. If we sold about 5,000 tons per month we will protect at the beginning 3.5 tons of the metal, and we will put orders by date in order to have an average of the cost in the valuation of the inventory. With that we avoid the bad valuations that we'll have at the end of the month when we receive an important order from a certain customer.

That is the main advantage and this will be with an international bank to have enough balance sheet to support these operations. And the reason is just backed by a month they have to implement this for a year in evaluating month by month, and if we consider that the price will be increasing we just pop the operation.

Vanessa Quiroga
That's very helpful. Thanks, Rafa, and thanks, Fernando.

Fernando Ruiz Jacques
Thank you, Vanessa.

Operator
The next question comes from Cecilia Jimenez with Santander. Please go ahead.

Cecilia Jimenez
Thanks. Hi. Good morning to everyone. My question is regarding the Building Materials Division, if you could give us some color on the higher COGS you mentioned on the report. Is it because they are US dollar denominated, or is it something else specifically for that part?

Fernando Ruiz Jacques
Okay. Thank you, Cecilia. Thank you for your question, great question. And let me just give you just a ballpark of what is happening. Mainly the increase in cost, we have it in Central America basically in our operations of El Salvador and Costa Rica. And the problem there is that we invested an interesting amount in robots. We invested this a year and a half ago, and they were very productive. With these robots we were able to decrease our labor in a very considerable way. And just let me give you an example. Two years ago in Plycem we used to have more than 100 people working for us. Today we have less than 500 people. So, this has been given because of many things, but an important issue has been the robots. So, given the experience that we had, we decided to basically roboticize the whole operation in El Salvador and Costa Rica, and we've been struggling in the last couple of months.

Our breakage has increased dramatically because we are in the learning curve of managing these robots. So, we already passed the stage where we already know how to operate the robots. Our operators already know how to operate them. Of course we are having some resistance from some of them because they don't like that we are taking away some labor, reducing our costs because of these robots. But the good thing here is that we expect that this learning curve is basically near to end. We think that our operations will normalize in basically a month, or two months at the most, and we will have better costs in our operations down there.

Cecilia Jimenez
Okay, thanks. Very clear. And then my second question has to do with the hedges and specifically between the copper and FX. I understand that the copper impact and the hedges you are thinking there, but doesn't it make sense also to, if we think about the FX impact, it's also non-cash that you have on the balance sheet, doesn't it make sense to think about it as well? I know at current prices it probably doesn't make sense, but one year ago we didn't think it was going to go up to this level. I don't know. I'm just looking at the impact. The inventory write-off is just 24 million while the FX impact is over 700 million. So, I don't know why it could make sense to cover the copper side and not cover the dollar part side.

Rafael Lira
Sure, Cecilia. Thank you. At the end of the month we have to valuate the inventory, and if we receive an important order from a customer we have to take the inventory at that cost. And that makes the impact because we reevaluate with the cost of goods in that sense. That is the impact in the P&L. Juan?

Juan Francisco Sanchez Kramer
Also, Cecilia, thank you for the question. This is Juan Francisco. The main difference between the two hedging opportunities that we have is time frame. For the copper hedging, as Rafael mentioned, it can be done, or we would be doing it in a monthly basis and the decision to call off is just like that, a month. While in the debt position any position that we take in hedging, it will be for the long run, and going for a long run is quite expensive. That is why it makes sense to implement already the hedging positions in the copper price and not yet in the debt position.

Cecilia Jimenez
Okay, I understand. I just have a follow up here. What's the rule to write off the inventories on the copper side? Is it, I don't know, how do you decide when to actually do the write off on, or the write up if it should be done?

Juan Francisco Sanchez Kramer
Well, and just a clarification, the write off was 24 million pesos, not dollars.

Cecilia Jimenez
I'm sorry. I'm sorry. I meant to say pesos. Sorry.

Juan Francisco Sanchez Kramer
[Indiscernible]. And the way that we do it is we have some policies for inventories, also for receivables and payables, and we executed the policy by the book. So, that was the trigger.

Cecilia Jimenez
Okay, thanks. Just maybe one more question regarding the other operations. You mentioned, Fernando, that probably by the third Q next year we'll see incremental volumes on the Cement side. When should we see the startup of the second line of the Tula plant? Should we expect it for 4Q this

year, or already 2016?

Fernando Ruiz Jacques
The big one, the line will be fully operative in July 2017.

Cecilia Jimenez
Yes. But when should we start the ramp up process, just to have a sense of when we will see costs rising and EBITDA margin dropping?

Fernando Ruiz Jacques
Well, for a while of course the EBITDA margins will drop while we do the ramp up. But we foresee that we will have a full ramp up two years, or two years and a half, two years after we start up.

Cecilia Jimenez
My last question was regarding the percentage of coverage or hedges you're looking at on the production of copper. What would be covered? Is it 100? Is it half of it? I'm not sure if you mentioned it before. Sorry.

Male Speaker
Hi, Cecilia. Probably it would be one with no connection, so probably [audio disruption] as well as this year [audio disruption]. We tried to [audio disruption] the same operation in a monthly basis, so [audio disruption] in a monthly basis. Usually the copper price has a trend to put it in the [audio disruption] or the valuations are [audio disruption]. But in this quarter we [audio disruption] price which created the interruption and that is precisely what we are covering with this hedging strategy.

Cecilia Jimenez
Okay. Okay, thank you.

Rafael Lira
Thank you, Cecilia.

Operator
The next question comes from Rodrigo Sanchez with Morgan Stanley. Please go ahead.

Rodrigo Sanchez
Hi, everyone. Thank you for the call. I have questions mainly on the Building Systems Division. I was wondering if you can give us more details on the strength of the US operations. Do you think it's due to that you're gaining volumes because you're getting market share, or is it sectors gaining volumes overall, or what are you seeing there?

Fernando Ruiz Jacques
Thank you, Rodrigo, for your question. [Audio disruption] we are doing quite well. As you know, before the separation in 2014 we [audio disruption] operations [audio disruption] for this operation and we started [indiscernible]. As of today the market is growing, and the fiber cement siding is gaining market share versus other types of siding, such as vinyl, or stone, and so forth. So, [audio disruption] is doing great, it's growing at an interesting rate. And also we are gaining market share from our biggest competitor, which is Vitronic. For strategic reasons I would love to give you more information, but for strategic reasons I will prefer to remain [indiscernible]. But what I can tell you is that the operation is on the right track. It's going according to plan. And it's delivering the results that we were expecting.

Rodrigo Sanchez
Okay, perfect. Thank you very much. And also on Mexico, on Cement, could you give us your strategy for pricing, because you had told us before that you were selling at quite low prices to distribute it gain market share. So, are you doing something different now? Now that you're at 95% capacity utilization are you increasing prices, or are you planning to increase pricing?

Fernando Ruiz Jacques
Well, [audio disruption]. Of course we are trying to increase our prices. As you will know better than me, our prices in Mexico are one of the lowest in Latin America. Many of the investments that we conducted are in US dollars. We need to increase prices in order to maintain our profitability. Having said that, I don't know, Juan, do you want to say something?

Juan Francisco Sanchez Kramer
Thanks, Fernando. Yes. As Fernando mentioned, the industry has been doing some [audio disruption] to recover value that was lost in the [audio disruption]. And [audio disruption] it gives a very good environment for the strength to recover in pricing. Now, our strategy [audio disruption] remains to be [audio disruption] quality [audio disruption]. We don't set the price [audio disruption].

Rodrigo Sanchez
Okay, perfect. And one last question, a very quick one. What percentage of your Metal Division sales are in pesos?

Fernando Ruiz Jacques
[Audio disruption]. All the metals that we buy are in dollars. All the products that we sell are in dollars. Even that we may invoice in pesos, the invoices don't impact the currency of the [indiscernible] that we do the transaction. So, all the Metal Division is dollar-based, 100%, some of it is actual dollar, and most are [indiscernible] in dollars and pesos.

Rodrigo Sanchez
Okay, perfect. Thank you very much.

Operator
The next question is from Juan Tavarez with Citigroup. Please go ahead.

Juan Tavarez
Hi, thank you. Good afternoon, everyone. My first question is regarding your capex. Has this FX movement changed any of the capex that you're expecting to put out for the growth project, and if you can remind us what's your full year capex expectation for 2015 and 2016. And then my second question is just a bit of visibility there on the Cement Division, on bags versus bulk. Could you tell us how much of your volumes went to bags this quarter compared to last quarter? Thanks.

Rafael Lira
[Audio disruption]. Juan, thank you for your question. In terms of capex as a percentage, we operate about 1.1 billion pesos. And our prediction for the rest of the year is in the range of 2.2, 2.4 billion pesos, depending on how much we [audio disruption]. The amount for organic is, it's about between 600, or 700, and we're [audio disruption] the expansion.

Juan Tavarez
Has that capex number changed because of the FX? How much of your growth capex is dollar-based versus local currency-based? Just to understand if you're getting a benefit here with the weaker peso.

Rafael Lira
Okay. About 80% is dollar-based and the rest is [audio disruption], and the rest, 80% is dollar based.

Juan Tavarez
Okay.

Fernando Ruiz Jacques
Now, Juan, regarding your second question, what I can tell you is that we have an improved image of bag versus bulk. Today we are basically 28% bulk, and 72% bag.

Juan Tavarez
Okay. Thank you very much. Very helpful.

Operator
Again, if you have a question, please press star then one. The next question comes from John Brandt with HSBC. Please go ahead.

John Brandt
Hi. Good afternoon, guys. Thanks for taking my question. Just quickly on the Cement Division, I noticed you had the one-time expense related to marketing. I was wondering if you could elaborate a little bit on what that marketing was, if it really is a one-time related item, or if we'll continue to see it quarter after quarter, and what impact it had; if you could quantify what impact it had on margins.

And then secondly, on Cement margins in general, given that you're operating at 95% utilization rates should we expect margins going forward just to be a function of how much that you're able to increase prices, or are there potential cost savings that you could do, at least for the next year, until the new capacity comes online. Thanks.

Juan Francisco Sanchez Kramer
Thank you, John. Thank you for your question. Regarding the marketing one-off in the Cement Division, basically, as we mentioned, we are now 72% in bag, so marketing and branding is quite relevant for the division. That is why we are doing additional test work that hopefully you will be able to see very soon [audio disruption]. I cannot go further than this right now, but that is what you will be seeing shortly. We've decided to execute it in [audio disruption] because that's what kind of condition the [audio disruption].

Rafael Lira
And just to clarify [audio disruption] are making in the market, and you have a contract you have to execute at the beginning, and it's not a decision we have to [audio disruption].

Fernando Ruiz Jacques
Now, for your second question regarding margins from the Cement Division, the remaining factor might be the trending price for the future. What I will mention, we are continuously doing cost [audio disruption]. One, we are doing [audio disruption] in the connection of the [audio disruption] that we are using, and that has helped a lot already with our [audio disruption] in the next quarters. Also, we are improving the cost in field. It has already delivered some benefits and will continue to [audio disruption]. So, despite pricing and additional [indiscernible] you will see benefits from the cost efficiency. Also, in the mining process [audio disruption] we are improving [audio disruption] continue improving our cost efficiency. So, it is both ways, it is the top line and cost.

John Brandt
Okay, thank you. It's very helpful.

Rafael Lira
Thank you.

Fernando Ruiz Jacques
Thank you very much.

CONCLUSION

Operator
This concludes our question and answer session. I would like to turn the conference back over to Fernando Ruiz Jacques for any closing remarks.

Fernando Ruiz Jacques
Thank you, operator. And before we conclude the conference I'd like to reiterate five key messages for Elementia. First, we feel we are on the right track. Our performance in the third quarter is another solid step to reach our goals for the year.

Second, we are progressing in our growth strategy with [audio disruption] and the Tula facility is on its way.

Third, we will continue with our focus on profitability while keeping our conservative leverage policy and strong balance sheet.

Fourth, the finance team led by Rafael has worked with most of the local and international banks since his arrival at Elementia to try to find an efficient hedging strategy for the dollar denominated debt. However, the strategies that [audio disruption] among others, are not bidding too early because, as we are [audio disruption] while we don't think that the US exchange rate level will prevail until maturity in 2025.

And finally, in the event of the exchange rate returns to a better level, the cost of unwinding is very high. We must remain cautious and understand that these hedges are contracted for the long term and should not be viewed as short term solutions. In our opinion the conditions for currency exchange will remain volatile. Therefore, we believe that we are taking the right steps in the analysis and evaluation of every possible hedging alternative. And we have discussed that in depth with the finance team including both of our main shareholders. We will keep you informed of any developments on this regard.

And fifth, the potential impact on EBITDA for the Metal Products Division from a hasty evaluation and inventory have been solved by the hedging [audio disruption] we are implementing.

So, thank you for your time and confidence in the company. And we look forward to speaking with you on our next conference call in February. Have a great day.

Operator
The conference is now concluded; thank you for attending today's presentation.