

CYDSA: 3Q19 RESULTS

Weak 3Q19 Results, As Expected

BUY

2020E Target Price (MXN\$)	\$ 40.00
Current Price (MXN\$)	\$ 25.50
Min / Max (L12M)	\$22.00 - 32.00
Expected Dividend (MXN\$)	\$ 0.70
Expected Return	59.6%
Market Cap (MXN\$ Mn)	15,300
Enterprise Value (MXN\$ Mn)	22,639
Outstanding Shares (Mn)	600.0
Float	49.9%
6-Month ADTV (MXN\$ Mn)	\$ 0.74



Opinion and Recommendation:

- **CYDSA posted weak 3Q19 results with flat revenues but with EBITDA down 11.6% YoY and net profit falling 8.8% YoY as a result of lower prices in the chlorine/ caustic soda and chemical specialties businesses.**
- **We are maintaining our BUY recommendation on CYDSA's shares with a YE20 target price of MXN\$40.0. Their valuation seems attractive to us at current levels, since they trade at an EV/EBITDA of 7.7x and projected P/E of 15.9x for 2020, which are lower compared to those of the international counterparts. In addition, we believe that the company's long-term prospects are favorable, supported by higher revenues in the salt, refrigerant gas and chlorine / caustic soda business, a higher capacity of electric power and steam co-generation, a new chlorine / caustic soda plant with membrane technology, and the expected launching of 3 new salt caverns for underground hydrocarbon processing and storage.**

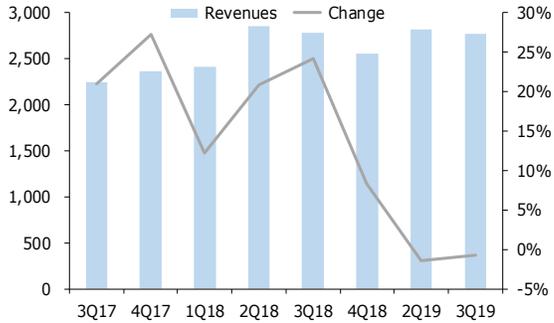
9M19 Results

CYDSA reported total revenues of MXN\$8,066 million during the first nine months of 2019, with a marginal 0.2% YoY increase. This was mainly due to a 2.9% YoY sales rise at the Refrigerant Gas and Gas LP Processing and Storage business, which stood at MXN\$2,920 million, supported by a higher demand for new generation refrigerant gases.

However, salt, chlorine, caustic soda and others business revenues decreased 1.3% YoY to MXN\$5,146 million, as a result of the downward cycle in the prices of various chloride-alkalines and chemical specialties, which affected sales in the domestic market, and a temporary reduction in chlorine consumption in the United States market, which impacted export sales. This was partially mitigated by a higher commercial activity in the Salt for Domestic Consumption and Industrial Applications business.

The cost of sales grew 5.1% YoY which generated a reduction of 6.6% YoY in the gross profit to MXN\$3,177 million. In addition, operating expenses were up 6.9% YoY to MXN\$1,582 million, with which EBITDA declined 4.3% YoY to MXN\$2,339 million. This translated into an EBITDA margin of 29.0% in 9M19, compared with 30.3% in the same period last year.

CYDSA: 3Q19 Results

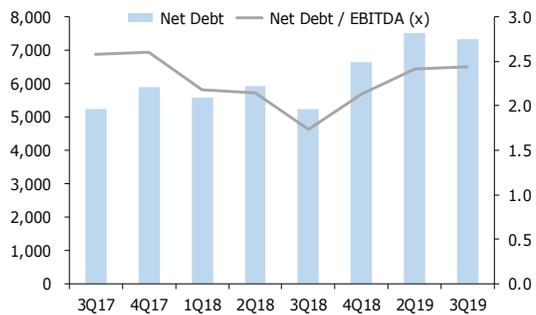
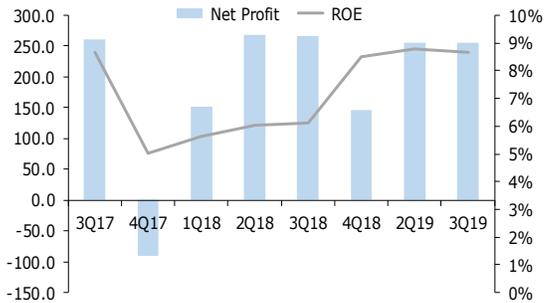
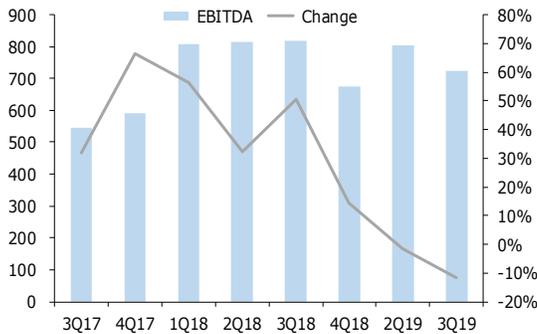


The net financial cost was MXN\$551 million in 9M19, from MXN\$795 million of the previous year, thanks to lower derivative and FX losses. CYDSA recorded a total net profit of MXN\$743 million in 9M19, down 1.6% YoY. The net profit of the controlling interest was MXN\$695 million in 9M19, up 1.5% YoY.

3Q19 Results

CYDSA posted 3Q19 revenues of MXN\$2,764 million, with a slight 0.7% YoY drop. EBITDA decreased 11.6% YoY to MXN\$724 million, which led to an EBITDA margin of 26.2% in 3Q19, from 29.4% the previous year. Net income was MXN\$270 million in the current quarter, below MXN\$296 million in 3Q18, as a result of the lower operating performance.

CYDSA maintained its solid financial structure with a net debt to EBITDA ratio of 2.4x at the end of 3Q19, in line with that of 2Q19, but slightly higher than 1.7x in 3Q18.



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