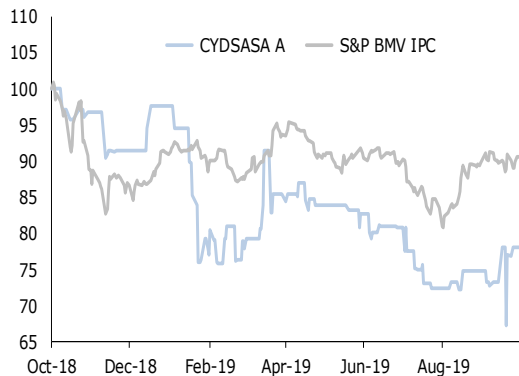


CYDSA: Initiation of Coverage

Well Positioned to Capture the Future Growth

BUY	
2020E Target Price (MXN\$)	\$ 40.00
Current Price (MXN\$)	\$ 25.60
Min / Max (L12M)	\$22.31 - 32.79
Expected Dividend (MXN\$)	\$ 0.70
Expected Return	59.0%
Market Cap (MXN\$ Mn)	15,360
Enterprise Value (MXN\$ Mn)	22,860
Outstanding Shares (Mn)	600.0
Float	49.9%
6-Month ADTV (MXN\$ Mn)	\$ 0.74

We are initiating coverage on CYDSA, S.A.B. DE C.V. ("CYDSA"), an industrial group which is present in five business areas that include Salt for Domestic Consumption and Industrial Applications; Chlorine, Caustic Soda and Derived Specialties; Production and Commercialization of Refrigerant Gases; Co-generation of Electricity and Steam; and Underground Processing and Storage of Hydrocarbons, with a BUY recommendation and a year-end 2020 target price of MXN\$40.0 per share. The potential return is 59.0% in local currency, including a 2.7% dividend yield. Our recommendation is based mainly on the company's solid fundamentals, its favorable growth potential and its low valuation.



Investment Thesis

Solid Fundamentals. After having invested approximately US\$600 million in recent years, CYDSA is very well positioned to capture the expected growth of its core businesses. In addition, the company registers high margins, operates with a conservative financial structure that includes a low leverage and a very well-structured maturity profile with no short-term maturities, and has distributed dividends during the last few years. CYDSA is the leading company in several of the businesses in which it participates and its administration has a proven track record of value creation.

Attractive Growth Potential. We expect CYDSA's revenues, EBITDA and net income to increase at a CAGR of 7.2%, 10.5% and 15.5%, respectively, during the 2019-2024 period driven by higher revenues in the salt, refrigerant gas and chlorine/caustic soda businesses, an increased installed capacity of electrical power and steam co-generation, a new Chlorine /caustic soda plant with membrane technology and the entrance into operations of three new saline caverns for the processing and underground storage of hydro-carbons.

October 14, 2019

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CYDSA: Initiation of Coverage

Valuation

CYDSA's shares currently trade at a projected EV/EBITDA of 7.7x and an estimated P/E of 14.9x, for 2020. These multiples compare against the averages of 8.1x and 15.0x, respectively, of industrial companies in emerging markets. Although we believe that CYDSA should operate at a discount due to its lower market capitalization and the low liquidity of its shares, we believe that the current discount is excessive. In addition, CYDSA's EBITDA margin and long-term growth potential are higher than those of most of its emerging market counterparts.

We set a year-end 2020 target price of MXN\$40.0 for CYDSA shares. We used a DCF that includes a 2.2% perpetual growth rate in nominal terms and an 8.9% WACC. To calculate the WACC, we used a capital cost of 12.9%, a pre-tax debt cost of 6.8% and a debt to capital ratio at the end of the current year of 49.3%. Our target price includes the commercial value of certain CYDSA's real estate properties.

Main Risks

CYDSA's main risks are: i) an adverse macroeconomic environment; ii) higher energy and raw materials prices; iii) lower water supply; iv) adverse changes in the mining concessions; v) strong competition in certain businesses; vi) dependence of PEMEX on the Gas L.P. Processing and Underground Storage Business; vii) potential changes in its management team; viii) greater-than-expected investments; and, ix) CYDSA's medium capitalization and low liquidity of its shares.

CYDSA: Initiation of Coverage

CYDSA'S MAIN ADVANTAGES

Very Well Positioned After Significant Investments

CYDSA invested approximately US\$600 million during the 2011-2018 period, as part of the first stage of its Competitiveness and Growth Strategy aimed at strengthening its business portfolio.

The main projects were: i) an expansion of the salt production capacity from 400 thousand to 800 thousand tons per year that included a higher energy efficiency of the process; ii) the opening of IQUISA NORESTE in March 2016, a new plant with a production capacity of 60 thousand tons per year of chlorine and 68 thousand tons per year of caustic soda; iii) the opening of the electrical power and steam co-generation plants "Planta I" in March 2014 and "Planta II" in March 2016; iv) the beginning of operations of the system for Processing and Underground Storage of Liquified Petroleum Gas (Gas L.P.) with an equivalent capacity of 1.8 million barrels in November 2017; and, v) the development of 3 additional salt caverns that can be used for the storage of hydrocarbons (liquid and gaseous).

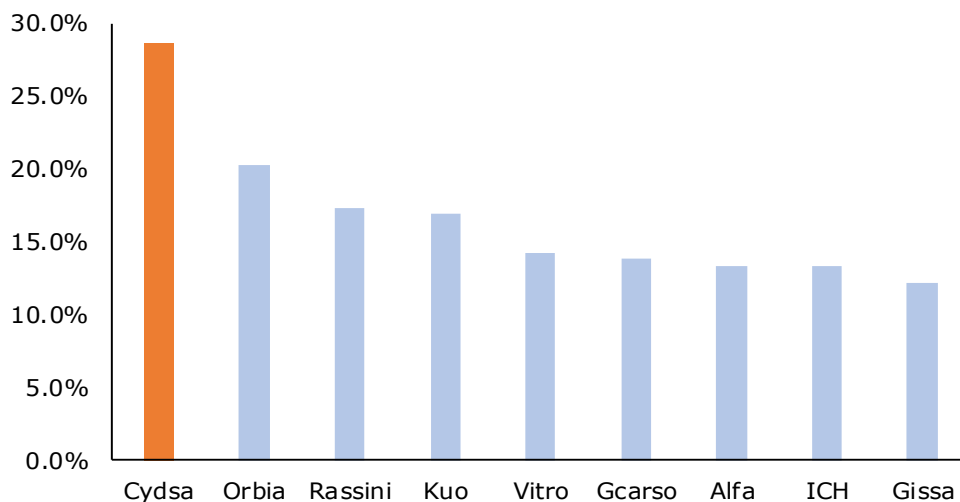
Leadership in Various Businesses

CYDSA is the leading company in several of the businesses in which it participates such as salt for domestic and industrial use, sodium hypochlorite, hydrochloric acid, chlorine in cylinders, and solid soda. In addition, it is the only company that offers L.P. gas processing and underground storage services in saline caverns in Latin America.

High Profitability

CYDSA recorded an EBITDA margin of 28.6% in 2Q19, which is the highest of Mexican industrial companies, as can be seen in the following graph.

Graph 1.- EBITDA Margin of Mexican Industrial Companies (2Q19)



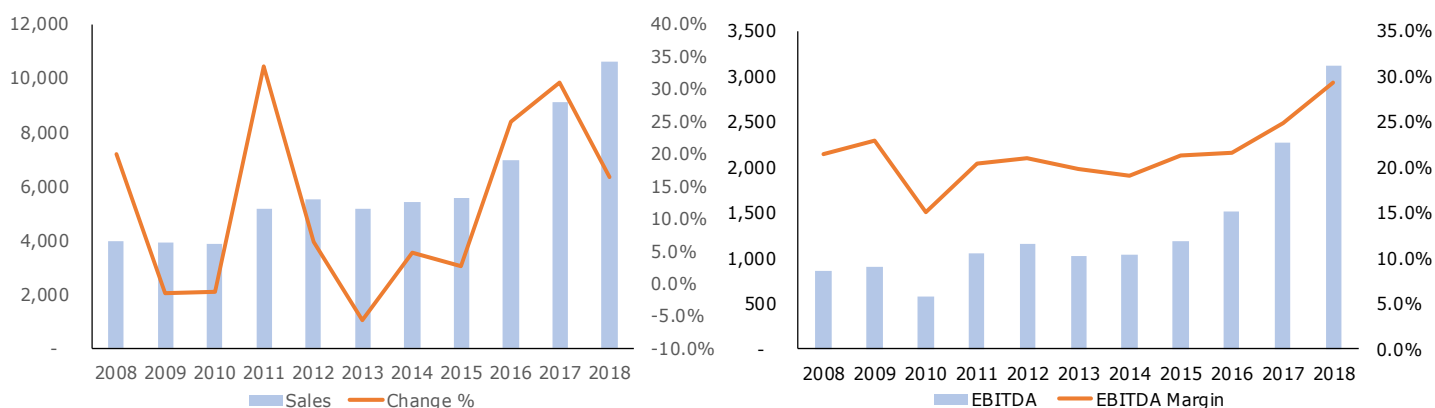
Source: Companies, BMV, Bloomberg

CYDSA: Initiation of Coverage

Management Team with a Track Record of Value Creation

In our opinion, CYDSA's management team has a strong track record of value creation. This is due to the fact that the company's revenues and EBITDA have grown at a compound annual rate of 11.2% and 15.3%, respectively, in the 2007-2018 period, by far exceeding the inflation rate of the period. In addition, CYDSA's EBITDA margin has expanded from a minimum of 15.1% in 2010 to the record level of 29.4% in 2018.

Graph 2.- CYDSA's Sales and EBITDA (2008-2018; MXN\$ Mn)



Source: CYDSA

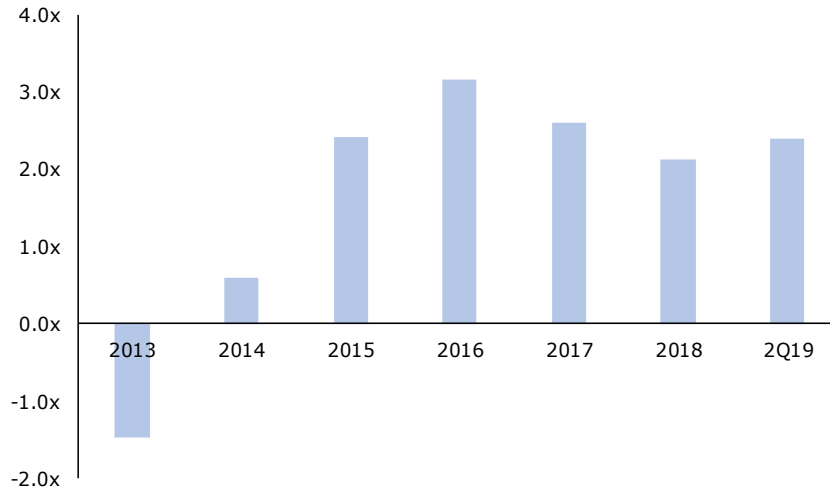
CYDSA's main executives include Mr. Tomás González Sada, who is the Chairman of the Board and Executive CEO; he has worked in the company for 25 years. Mr. Humberto Lozano has been the Corporate CEO for 2 years. Mr. Alejandro Von Rossum Garza is the CEO of the Chemical Division; he has a 48-year trajectory at the company. Mr. Roberto Rubio is the Director of Corporate Development and Real Estate Development. Mr. Óscar Casas is the CFO; he has worked at the company for 25 years.

Conservative Financial Structure

CYDSA is carrying out a conservative leverage strategy as it registered a net debt to EBITDA ratio of 2.39 times at the end of 2Q19, does not face any debt maturities until 2027, has hedges amounting to US\$225 million and has an available credit line of MXN\$1,900 million. In addition, part of the debt is at the L.P. gas Processing and Underground Storage subsidiary level and has no recourse to the holding company. This means that the adjusted net debt / EBITDA ratio (excluding the syndicated bank loan) was 2.25x at the end of 1H19.

CYDSA: Initiation of Coverage

Graph 3.- Historical Net Debt / EBITDA Ratio

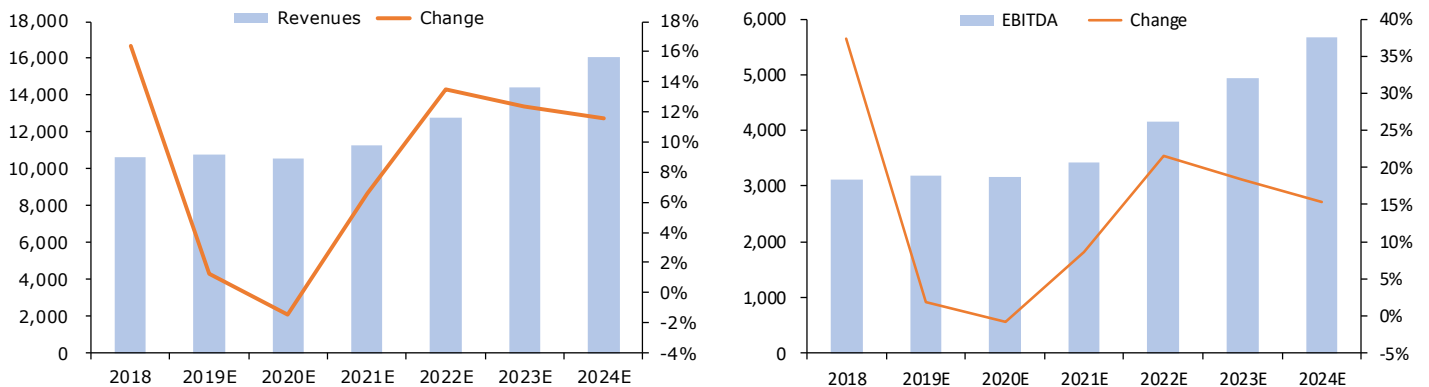


Source: CYDSA

CYDSA'S FAVORABLE OUTLOOK

We expect CYDSA's revenues, EBITDA and net income to increase at a CAGR of 7.2%, 10.5% and 15.5%, respectively, during the 2019-2024 period driven by higher revenues in the salt, refrigerant gas and chlorine/caustic soda businesses, an increased installed capacity of electrical power and steam co-generation, a new chlorine/caustic soda plant with membrane technology and the entrance into operations of three new saline caverns for the processing and underground storage of hydro-carbons.

Graph 4.- Projected Revenues and EBITDA (2019-2024)



Source: Miranda Global Research

CYDSA: Initiation of Coverage

The growth in CYDSA revenues that we are expecting is based on a higher capacity utilization rates in the salt (from 88% in 2018 to 95% in 2024), refrigerant gas (from 42% in 2018 to 56% in 2024) and chloride/caustic soda businesses (from 83% in 2018 to 88% in 2024).

In addition, we anticipate that the average price of the salt unit will increase in line with inflation over the next few years. The average price of the chlorine, caustic soda and specialties unit will remain virtually unchanged during this year, will decrease slightly during the coming year due to the slowdown in the US economy and will rise at least in line with domestic inflation during the subsequent years. In refrigerant gases, we expect slightly higher prices during the current year followed by price hikes in line with inflation.

We also estimate (conservatively) that three new saline caverns for processing and underground storage of hydrocarbons will begin operations gradually from 2022, each one with revenues and EBITDA similar to those of the first cavern (around MXN\$906 million annually with an estimated EBITDA margin of 60.0%).

We project that CYDSA's EBITDA margin will improve to 29.6% in 2019, from 29.4% in 2018, as a result of operational efficiencies. For subsequent years, we estimate that it will continue to expand steadily to reach 35.4% in 2024 as a result of the start of operations of the salt distribution center, the new chlorine/caustic soda plant, and the three additional saline caverns, which will likely generate a high profitability.

CYDSA paid a high tax rate in previous years as a result of the elimination of the fiscal consolidation in 2014. However, we believe that such rate will stabilize at around 30% over the next few years. This should boost the company's net income at an average annual rate of 15.5%, as we mentioned above.

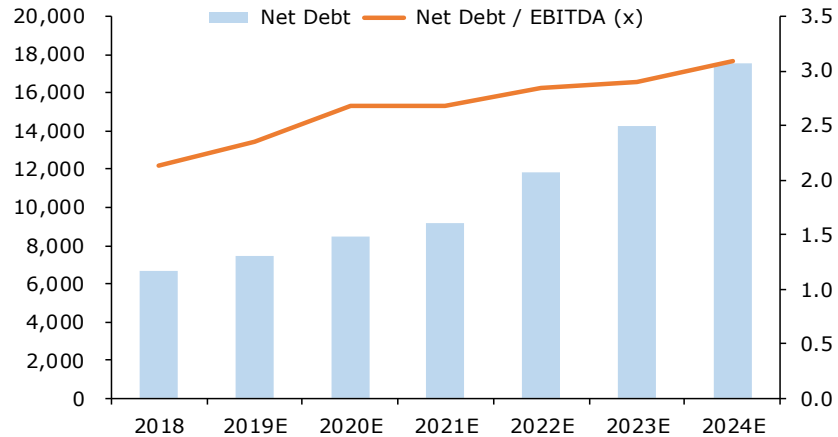
We expect CYDSA to invest in 2019 mainly in increasing the efficiency and capacity of co-generation plants. In 2020, maintenance investments will be between US\$20-25 million. The main additional project (which we believe has a high probability of being approved) is the new caustic chlorine/soda plant with membrane technology, which we estimate will require an investment of around US\$120 million spread over 2 and a half years. We expect CYDSA to fund around 50% of such proceeds with capital and the rest with debt.

We believe that CYDSA's investments will grow significantly from 2022 as a result of the entry into operation of the salt caverns, which require an additional investment of US\$120 million each. These funds will be financed with project financing at the subsidiary level with no recourse to the holding company.

We forecast that CYDSA's net debt to EBITDA ratio of CYDSA will rise to 3.1x by the end of 2024 as a result of significant investments in the new chlorine/caustic soda plant and the new saline caverns. During the next few years, we believe that leverage will decline gradually, supported by the company's positive free cash flow generation.

CYDSA: Initiation of Coverage

Graph 5.- Projected Net Debt / EBITDA Ratio



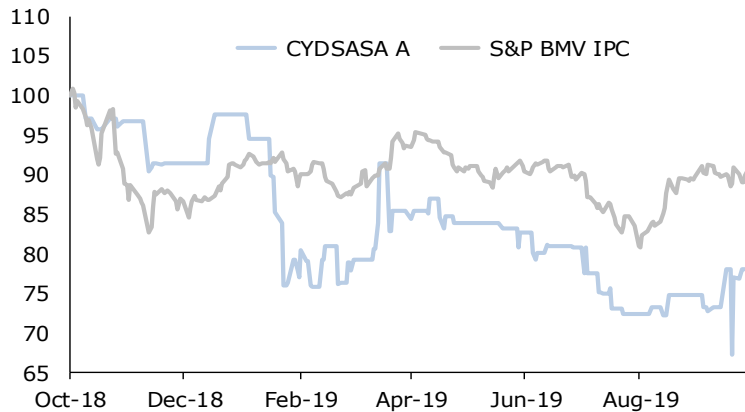
Source: CYDSA, Miranda Global Research

VALUATION

Performance vs. the S&P BMV IPC Index

CYDSA shares have underperformed the Mexican S&P BMV IPC Index by 12 percentage points during the last 12 months, as foreign institutional investors move away from Mexican medium and low capitalization stocks as they consider them as risky assets under the prevailing macroeconomic conditions. However, we believe that CYDSA's shares have reached a very attractive valuation level. Therefore, we expect them to outperform the S&P BMV IPC Index in the medium term.

Graph 6.- CYDSASA A vs. S&P BMV IPC



Source: Bloomberg

CYDSA: Initiation of Coverage

Global Comparables

CYDSA shares currently trade at a projected EV/EBITDA of 7.3x and an estimated P/E of 14.9x, for 2020. These multiples compare against the averages of 8.1x and 15.0x, respectively, of emerging markets industrial companies. Although we believe that CYDSA should trade at a discount due to its lower market capitalization and the low liquidity of its shares, we believe that the current discount is excessive. In addition, CYDSA's EBITDA margin and long-term growth potential are higher than those of most of its emerging market counterparts.

Table 1.- Global Valuation Table of Industrial Companies

Company	Country	Price (USD) 11-Oct-19	Mkt. Cap. (USD Mn)	EV/EBITDA			P/E			EBITDA Δ%		Net Debt EBITDA	ROE	EBITDA Margin 2Q19	Div. Yield
				L12M	2019E	2020E	L12M	2019E	2020E	2019E	2020E				
<i>Emerging Markets</i>															
Cydsa	Mexico	\$ 1.33	795	7.5x	7.3x	7.7x	18.5x	18.1x	14.9x	1%	(3%)	2.4x	n.d.	28.6	2.7
Grupo Carso	Mexico	\$ 3.09	7,057	11.9x	10.7x	9.6x	16.3x	14.0x	12.8x	8%	11%	1.1x	10.6	13.5	1.6
Alfa	Mexico	\$ 0.91	4,573	5.0x	5.1x	4.8x	14.8x	10.7x	9.3x	(18%)	5%	2.8x	13.0	14.3	4.4
Orbia	Mexico	\$ 2.03	4,261	6.8x	5.9x	5.3x	17.3x	13.1x	10.3x	(2%)	8%	3.0x	9.3	18.8	4.1
ICH	Mexico	\$ 4.19	1,828	6.3x	5.8x	4.8x	12x	14.3x	11.4x	(6%)	14%	(1.6x)	8.2	13.0	n.a.
Gissa	Mexico	\$ 1.22	422	6.3x	5.3x	4.9x	15.2x	9.8x	14.6x	7%	5%	2.1x	4.4	11.7	5.0
Saudi Basic Industries	Saudi Arabia	\$ 23.59	70,779	7.2x	8.2x	7.6x	17.9x	24.0x	19.3x	(26%)	8%	0.1x	8.9	27.7	5.0
Formosa Plastics	Taiwan	\$ 3.04	19,380	17.8x	17.6x	16.0x	15.3x	13.4x	12.5x	(8%)	9%	(2.0x)	10.9	13.6	6.2
Nan Ya Plastics Corp	Taiwan	\$ 2.25	17,894	17.4x	19.9x	17.8x	23.8x	19.1x	15.6x	(38%)	12%	0.5x	9.2	10.8	7.2
Formosa Chemicals	Taiwan	\$ 2.82	16,560	10.7x	12.3x	12.7x	14.3x	14.5x	15.0x	(24%)	(3%)	(1.0x)	9.7	12.8	7.2
Petronas Chemical Group	Malaysia	\$ 1.73	13,816	7.3x	8.4x	7.4x	12.8x	15.8x	14.4x	(21%)	9%	(1.6x)	15.1	35.3	4.0
Rongsheng Petro Chemical Co Ltd	China	\$ 1.57	9,852	n.a.	21.6x	10.0x	43.7x	23.7x	12.3x	54%	114%	17.1x	7.3	4.5	0.9
PTT Global Chemical	Thailand	\$ 1.74	7,811	7.8x	7.7x	6.7x	9.9x	12.1x	9.7x	(28%)	15%	1.4x	8.8	8.4	6.6
Yanbu National Petrochemical	Saudi Arabia	\$ 14.05	7,903	9.2x	9.7x	9.4x	17.8x	20.2x	17.8x	(22%)	2%	(0.9x)	10.4	42.5	6.6
Braskem	Brazil	\$ 7.10	5,750	5.1x	6.2x	5.7x	9.2x	21.9x	44.3x	(32%)	7%	2.9x	33.1	17.5	n.a.
Indorama Ventures	Thailand	\$ 1.09	6,086	8.5x	8.5x	6.7x	10.7x	10.5x	8.2x	(10%)	21%	3.4x	12.5	10.9	1.1
Sinopec Shanghai Petrochemical	China	\$ 0.59	5,373	n.a.	6.6x	6.6x	12.7x	13.9x	13.6x	(42%)	(3%)	(2.5x)	10.1	4.2	5.9
Saudi Kayan Petrochemical	Saudi Arabia	\$ 2.58	3,875	9.9x	9.8x	8.0x	(132.6x)	(66.4x)	24.4x	(36%)	15%	5.5x	(0.7)	29.9	n.a.
Total / Average Emerging Markets			204,016	9.0x	9.2x	8.1x	16.0x	17.8x	15.0x	(22%)	12%	1.8x	10.6	17.2	4.7
<i>Developed Markets</i>															
Dupont de Nemours Inc	US	\$ 65.16	48,576	11.0x	11.1x	10.2x	119.1x	17.0x	15.2x	n.a.	6%	2.7x	0.6	11.6	1.8
Dow Inc.	US	\$ 47.13	35,028	8.9x	7.1x	6.3x	23.7x	13.9x	11.1x	(0%)	10%	2.7x	n.a.	12.8	5.9
LyondellBasell Industries	US	\$ 88.07	29,525	7.0x	6.7x	6.1x	8.1x	8.2x	7.5x	(6%)	8%	1.8x	63.9	15.7	4.8
Celanese Corp.	US	\$ 121.87	15,080	12.6x	9.7x	9.1x	14.4x	11.8x	11.1x	14%	5%	2.3x	33.5	22.3	2.0
Asahi Kasei Corp.	Japan	\$ 10.57	14,717	6.3x	5.9x	5.5x	12.1x	11.1x	10.9x	(1%)	3%	0.9x	10.2	14.2	3.1
Mitsubishi Chemical	Japn	\$ 7.51	11,290	7.8x	7.4x	7.0x	8.4x	8.1x	7.8x	11%	4%	3.6x	11.2	11.9	4.9
Solvay SA	Belgium	\$ 105.83	11,214	6.9x	5.5x	5.3x	9.6x	11.6x	11.3x	11%	4%	2.0x	12.9	18.0	3.9
Eastman Chemical Co.	US	\$ 72.61	9,947	8.2x	7.5x	6.9x	10.9x	9.4x	8.8x	(2%)	5%	3.1x	15.8	20.7	3.4
Westlake Chemical Corp.	US	\$ 63.72	8,173	6.8x	7.1x	6.2x	13.1x	17.1x	13.4x	(28%)	12%	1.5x	11.2	19.9	1.6
Sumitomo Chemical	Japan	\$ 4.66	7,697	6.4x	6.1x	5.9x	8.3x	8.8x	8.4x	26%	3%	2.1x	10.8	12.4	4.4
Huntsman Corp.	US	\$ 23.42	5,374	6.8x	6.7x	6.0x	(44.1x)	12.7x	12.0x	(27%)	(4%)	2.0x	(4.3)	13.4	2.8
Total / Average Developed Markets			196,621	8.3x	7.5x	7.0x	15.6x	11.7x	10.6x	18%	6%	2.3x	16.6	15.7	3.5

Source: Miranda Global Research; n.a. = not available

Note: All figures are in USD

Discounted Cash Flow Model (DCF)

We set a year-end 2020 target price of MXN\$40.0 for CYDSA shares through a DCF model that includes a 2.2% perpetual growth rate in nominal terms and an 8.9% WACC. To calculate the WACC, we used a capital cost of 12.9%, a pre-tax debt cost of 6.8% and a debt to capital ratio at the end of the current year of 49.3%. We used a Beta of 1, which is higher than CYDSA's current Beta of 0.263 to be conservative with respect to the WACC calculation. Our target price includes the commercial value of certain CYDSA's real estate properties (approx. MXN\$2,112 million).

CYDSA: Initiation of Coverage

Table 2.- Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2021E	2022E	2023E	2024E	2025E	Perp.
OPERATING PROFIT	2,550	3,249	3,954	4,642	4,746	4,852
Tax Rate	31%	31%	31%	31%	30%	30%
Tax Shield	-778	-991	-1,206	-1,416	-1,447	-1,480
NOPLAT	1,772	2,258	2,748	3,226	3,298	3,372
Depreciation	840	870	920	980	1,002	1,024
Working Capital Changes	28	341	238	116	118	121
CAPEX	-2,000	-3,504	-3,550	-3,550	-1,450	-1,482
FCFF	640	-35	356	772	2,969	3,035
Perpetuity Growth Rate						2.2%
PV of Explicit Period (2021E - 2025E)						3,323
Perpetuity Value						45,629
PV of Perpetuity Value						27,373
Enterprise Value						30,696
Net Debt						8,456
Minority Interest						354
Market Value						21,885
Land Properties						2,112
Adjusted Market Value						23,997
<i>Outstanding Shares</i>						600
Target Price						P\$ 40.00
Current Market Price						P\$ 25.60
Potential Return Incl. Dividends						59.0%
Forward EV/EBITDA						9.8x
Forward P/E						21.9x
Average Cost of Debt						6.8%
LT Tax Rate						30.0%
After-Tax Cost of Debt						4.8%
Cost of Equity						12.9%
Market Risk Premium						6.0%
Risk-Free Rate						6.9%
Beta						1.00
% Total Debt						49.3%
% Capital						50.7%
WACC						8.9%

Source: Miranda Global Research

Sensitivity Analysis

We conducted a sensitivity analysis of CYDSA's target price based on different levels of EBITDA, net profits and target multiples. We believe that our target price of MXN\$40.0/share is conservative, since it implies that CYDSA's shares will trade at a projected EV/EBITDA of 9.8x and an estimated P/E of 21.9x at the end of the current year, which are below the averages of averages of 12.2x and 28.3x, respectively, of the last five years.

CYDSA: Initiation of Coverage

Table 3.- Sensitivity Analysis, EBITDA vs. EV/EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	3,093	3,255	3,427	3,598	3,778
Target EV/EBITDA					
8.3x	26.81	29.06	31.43	33.80	36.28
8.8x	29.39	31.77	34.28	36.80	39.43
9.3x	31.96	34.49	37.14	39.79	42.58
9.8x	34.54	37.20	40.00	42.79	45.73
10.3x	37.12	39.91	42.85	45.79	48.88
10.8x	39.70	42.62	45.71	48.79	52.03

Source: Miranda Global Research

Table 4.- Sensitivity Analysis, Net Profit vs. P/E

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	991	1,043	1,098	1,153	1,211
Target P/E					
18.9x	31.14	32.78	34.50	36.23	38.04
19.9x	32.79	34.52	36.33	38.15	40.06
20.9x	34.44	36.26	38.17	40.07	42.08
21.9x	36.10	38.00	40.00	42.00	44.10
22.9x	37.75	39.73	41.83	43.92	46.11
23.9x	39.40	41.47	43.66	45.84	48.13

Source: Miranda Global Research

COMPANY DESCRIPTION

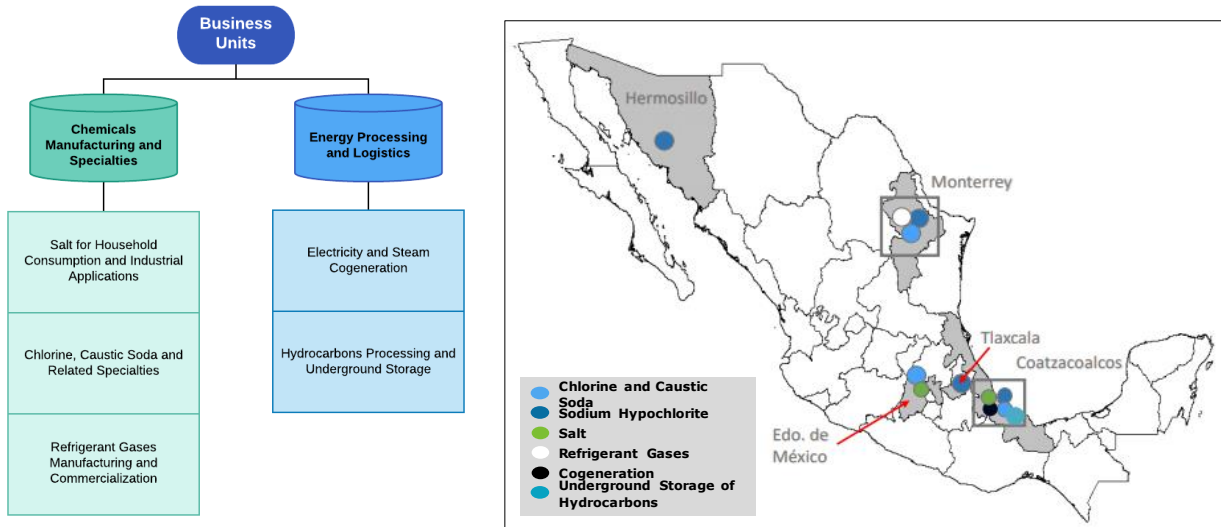
CYDSA is a holding company with two divisions. The first is Chemical Manufacturing, which includes the salt, chlorine, caustic soda, related specialties, and refrigerant gas businesses. The second one is Energy Processing and Logistics, which includes the electricity and steam co-generation and the L.P. Gas Processing and Underground Storage units.

During the first half of 2019, CYDSA recorded revenues of MXN\$5,302 million, EBITDA of MXN\$1,615 million, net income of MXN\$473 million and net debt of MXN\$7,272 million.

The company was founded in the City of Monterrey in 1945. Its shares were listed on the Mexican Stock Exchange in 1973.

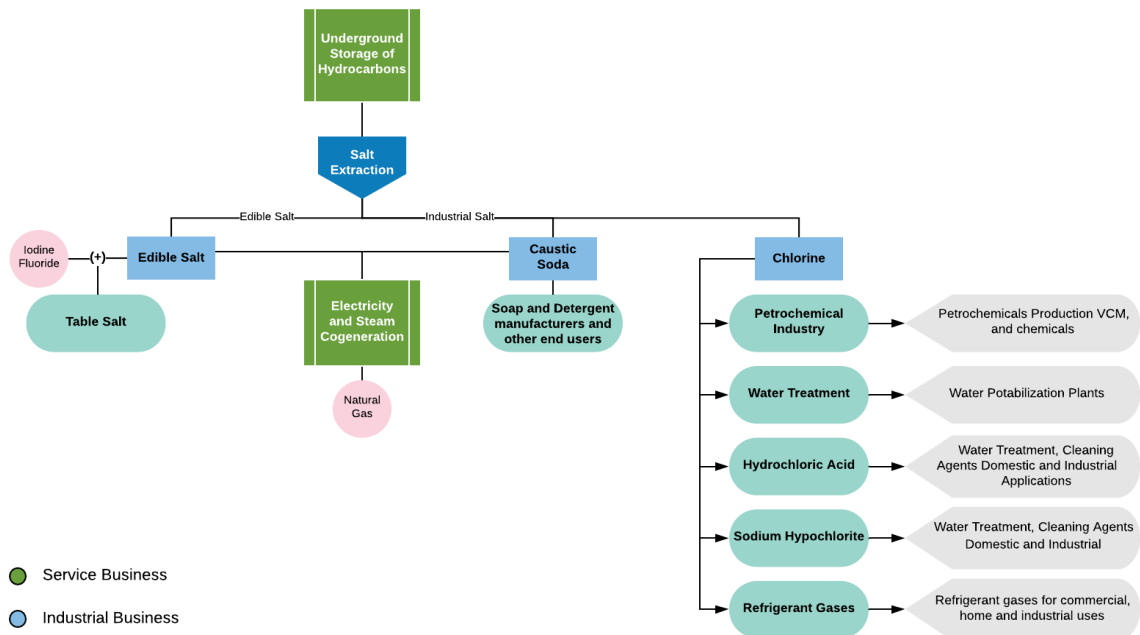
CYDSA: Initiation of Coverage

Graph 7.- Business Description



Source: CYDSA

Graph 8.- Production Processes



Source: CYDSA

CYDSA: Initiation of Coverage

Salt Production

CYDSA is the largest manufacturer of salt for domestic and industrial consumption in the Americas. In the salt market for domestic consumption, it is the leading company in Mexico. Its main competitors are Isysa, Salina de Lobos and ESSA. In salt for industrial consumption, it also has a leading position in the country. Its main competitors are Isysa and Salina de Lobos. This business has earned various certifications, including Kosher and Halal quality.

CYDSA initiated a project to ensure the continuity of the brine supply, through the drilling of two salt wells.

Chlorine, Caustic Soda and Specialties

CYDSA manufactures various chemicals such as bulk chlorine, bulk liquid soda, sodium hypochlorite, hydrochloric acid, cylinder chlorine and solid soda. It is the market leader in most of these products with the exception of chlorine and bulk soda. The company has a certification from the "US National Sanitary Foundation" and integral responsibility from the National Association of the Chemical Industry (ANIQ).

Refrigerant Gases

CYDSA produces several types of refrigerant gases for commercial, residential and industrial use. Its main competitors are Dupont, Arkema and Ineos.

Co-generation of Electricity and Steam

CYDSA owns twin electrical power and steam co-generation plants. The first one began operations in March 2014 and the second one in March 2016. They have a capacity of 57 megawatts of electrical power and 62 tons per hour of steam under optimal conditions. The production process is through a natural gas turbine. During 2018, they covered most of CYDSA's energy needs. Only 5% of the production of one of these plants is sold to third parties. The company is investing in increasing these plants' capacity to 62 MW in 2020.

L.P. Gas Processing and Underground Storage

In 2014, CYDSA signed a contract with PEMEX for the development of the L.P. Gas Underground Storage project in the State of Veracruz. The Monterrey company initiated this business' operations in November 2017 in order to fulfill the 20-year contract with PEMEX. CYDSA is the only company that provides this type of services in Latin America.

CYDSA has a saline cavern in operation with a total storage capacity of 1.8 million barrels of Gas L.P. and with the required surface infrastructure for the processing, injection, extraction and transfer of up to 120,000 barrels per day of this hydrocarbon.

This business generated revenues of MXN\$906 million in 2018, which represented 8.5% of CYDSA's consolidated sales, according to that year's Annual Report.

CYDSA has other three caverns which will eventually require an additional investment of around US\$120 million each one to become operational. The company could finance these resources with project financing at the subsidiary level and without recourse to the holding

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company. In addition, the specialists have identified another 10 caverns within the 226 hectares that the company owns.

Real Estate

CYDSA owns the following land properties: i) 42 hectares in the City of Monterrey; ii) 29.0 hectares in the city of Aguascalientes. We estimate that these properties have a commercial value of around MXN\$2.1 billion. CYDSA plans to develop or sell them in the future.

Ownership Structure

CYDSA's capital is represented by 600,000,000 full-voting series A shares. Tomás Roberto González Sada, Chairman of the Board and CEO, owns 50.15% of outstanding shares. The floating shares represent the remaining 49.85%. However, we estimate that a significant portion of these are in firm hands, so we estimate that the percentage of real floating shares is much lower.

Dividends

During the last years, CYDSA has paid dividends. This year, the company paid a historically high dividend of MXN\$400 million (equivalent to MXN\$0.702 per share), with a 2.3% yield. In the future, we expect CYDSA to distribute at least MXN\$200 million per year to its shareholders, taking advantage of its excellent financial position.

Table 6.- Historical Dividends

	Per Share Dividend	Total Amount (MXN\$ Mn)	Dividend Yield	Previous Year's Net Profits (MXN\$ Mn)	Payout
2019	\$ 0.70	\$ 400.0	2.3%	\$ 849.0	47.1%
2018	\$ 0.34	\$ 200.0	1.1%	\$ 580.0	34.5%
2017	\$ 0.21	\$ 120.0	0.8%	\$ 655.0	18.3%
2016	\$ 0.21	\$ 120.0	0.9%	\$ 354.0	33.9%
2015	\$ 0.21	\$ 120.0	0.8%	\$ 319.0	37.6%
2014	\$ 0.14	\$ 80.0	0.5%	\$ 507.0	15.8%

Source: CYDSA

Board of Directors / Corporate Governance

CYDSA's Board includes 15 Directors, of which 5 are independent. In addition, the company has a Corporate Practices and Audit Committee, a Compensation Policy Committee and a Finance Committee. Therefore, it complies with the Securities Market Law which establishes that publicly-listed companies must have at least 25% of independent Directors and must have at least one corporate practices committee and one audit committee.

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Table 7.- Board of Directors

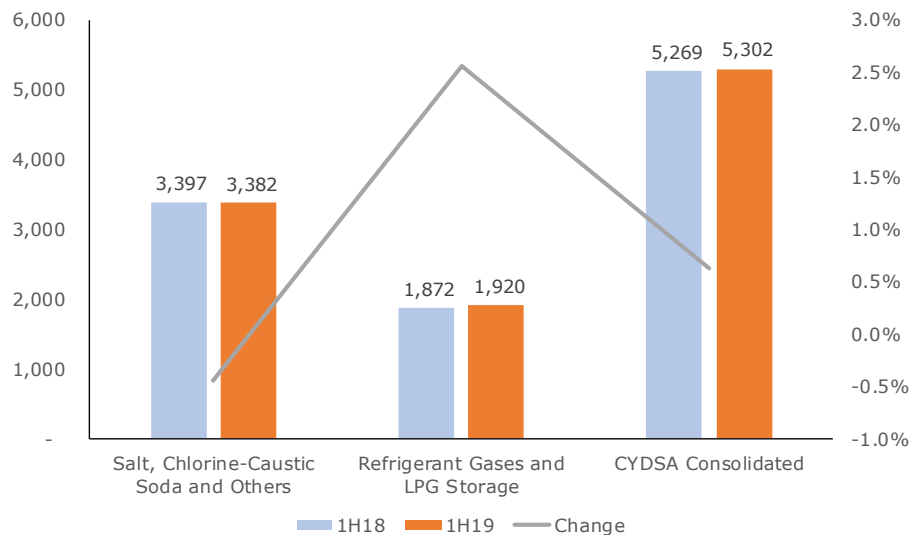
Title	Name	Status
Lic.	Tomás Roberto González Casas	
Dr.	Herminio Blanco Mendoza	Independent
Lic.	Álvaro Fernandez Garza	Independent
Lic.	Eugenio Garza Herrera	Independent
Lic.	Francisco Javier Garza Zambrano	Independent
Lic.	Laura Sofía González Casas	
Lic.	Gabriela Alejandra González Casas	
Lic.	Verónica Lucia González Casas	
Ing.	Tomás Roberto González Sada	
C.P.	Mario Martín Laborín Gomez	Independent
C.P.	Humberto Francisco Lozano Vargas	
Lic.	Abelardo Morales Purón	
Ing.	Roberto Barón Rubio Barnes	
Lic.	Adrian G. Sada González	
Ing.	Alejandro Von Rossum Garza	

Source: CYDSA, Resolutions of the Ordinary Shareholders Meeting

1H19 Results

CYDSA recorded consolidated revenues of MXN\$5,302 million in the first half of 2019, virtually unchanged from the same period of the previous year. Sales of the business that includes salt, chlorine, caustic soda and related specialties, and others, decreased 0.4% YoY to MXN\$3,382 million. Meanwhile, revenues of the refrigerant gases and gas L.P. processing and underground storage business was up 2.6% YoY to MXN\$1,920 million.

Graph 9.- 1H19 Sales Breakdown



Source: CYDSA

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As a result of a higher natural gas cost, the gross margin contracted to 40.8% in 1H19, from 42.6% in 1H18. However, the company was able to compensate this impact by reducing its operating expenses. As a result, EBITDA for the first half of the year decreased only 0.6% YoY to MXN\$1,624 million. The EBITDA margin was 30.5% in 1H19, compared with 30.8% in 1H18.

The financial cost was MXN\$524 million in 1H19, from MXN\$583 million in 1H18. This was due to an improvement in the result of derivatives instruments and a lower exchange loss.

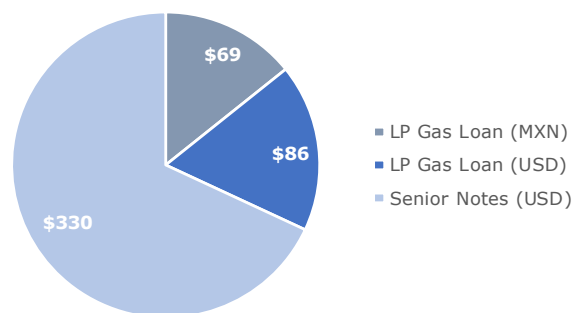
CYDSA's net income was MXN\$473 million in 1H19, with an annual increase of 3.1%.

Debt

At the end of 1H19, CYDSA's total debt amounted to US\$484.8 million, of which US\$330 million corresponded to the 6.25% Senior Notes maturing in 2027. The remaining US\$154.8 million corresponded to a syndicated loan with quarterly repayments over 18 years that Banobras, Bancomext and Banorte granted to the Gas L.P. Processing and Underground Storage subsidiary, of which US\$85.6 million are denominated in dollars and MXN\$1,356 million in Mexican pesos.

The Senior Notes are guaranteed by several of CYDSA's subsidiaries, with the exception of the saline cavern, the holding company of the electricity and steam co-generation plants and the holding company of the refrigerant gas production. The syndicated loan is guaranteed by the assets and shares of the L.P. Gas Processing and Underground Storage Business; it is not guaranteed by and has no recourse to the holding company or any of its subsidiaries. This means that CYDSA's adjusted net debt/EBITDA (excluding the syndicated loan at the subsidiary level) was 2.25x at the end of 1H19.

Graph 10.- Debt Breakdown (Millions of USD)



Source: CYDSA

CYDSA is required to maintain a fixed coverage charge of 2.0x, according to the financial covenants of its Senior Notes due 2027.

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The average cost of CYDSA's debt is 6.80%, which seems very reasonable, taking into account the company's BB Global Scale credit ratings with a stable outlook by S&P and BB+ with a stable outlook by Fitch Ratings.

CYDSA has a US\$225 million hedge for its Senior Notes which expires in October 2022. This included two types of instruments: i) a US\$150 million hedge at an exchange rate of MXN\$21.0/USD with a maximum level of MXN\$30.0/USD upon expiration; ii) a US\$75.0 million hedge at an exchange rate of MXN\$25.0/USD with a maximum level of MXN\$35.0/USD at maturity.

CYDSA's debt maturity profile is very well structured since the company does not face any short-term maturities, only the long-term ones related to the Senior Notes maturing in 2027 and the syndicated bank loan.

Additionally, CYDSA reported cash and cash equivalents of MXN\$1,715 million and has a committed line of credit for MXN\$1,900 million until December 2020. The company pays a commitment fee that assures the availability of such credit line at any moment. Therefore, we believe that CYDSA's liquidity is more than adequate.

The net debt to EBITDA ratio was 2.39x while the coverage ratio (EBITDA / interest paid) was 4.95 times at the end of 1H19.

MAIN RISKS

Adverse macroeconomic environment. The macroeconomic volatility could have an unfavorable impact on the demand for CYDSA's products and services.

Higher energy and raw material prices. The main inputs that CYDSA uses in its production processes are salt, water, certain refrigerants, as well as different sources of energy such as electricity and gas. However, the company owns two power and steam self-generation plants that help it to mitigate the impact of higher energy prices.

Reduced Water Supply. CYDSA uses large amounts of water in the extraction of brine, which is processed to obtain salt for domestic and industrial use. The company extracts a significant portion of the water it consumes from the subsoil according to the concessions granted by the Mexican National Water Commission.

Mining concessions. CYDSA has important mining concessions that it uses in the production of salt for domestic and industrial use. We believe that a change in these concessions could have a negative impact on the company's operations.

Strong competition in certain businesses. CYDSA faces significant competition in the bulk chlorine, bulk liquid soda, solid soda (which are imports) and refrigerant gas businesses. The company competes through differentiated services and distribution in the production of salt and refrigerant gases.

Dependence of PEMEX in the L.P. Gas Processing and Storage Business. Currently, PEMEX is CYDSA's only customer in this business. In addition, CYDSA is required to comply with the conditions of the permit granted by the Energy Regulatory Commission (CRE). Any

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change in the terms of such contract could affect this business' performance, which represented 8.5% of CYDSA consolidated revenues in 2018.

Changes in the management team. We believe that any change in the management team, in particular the CEO, the CFO or any other relevant director could have an adverse impact on CYDSA's share price.

Higher-than-expected investments. The investment necessary to put into operation the three additional saline caverns is US\$150 million each one, while the investment in the reconversion of the Coatzacoalcos plant could amount to US\$120 million. We believe that this will be more than offset by the incremental revenues that these caverns could potentially generate and the savings from the reconversion of the Coatzacoalcos plant.

Medium capitalization and low liquidity of the shares. We believe that CYDSA is a medium-capitalization company with a total market value of MXN\$15,360 million (US\$795 million). We consider that the liquidity of its shares is low as the average daily traded value has been MXN\$743,791 during the last six months.

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FINANCIAL PROJECTIONS – CYDSA

INCOME STATEMENT	2018	2019E	2020E	2021E	2022E	2023E	2024E	2018	2019E	2020E	2021E	2022E	2023E	2024E
Revenues	10,608	10,739	10,586	11,287	12,813	14,402	16,063	16%	1%	-1%	7%	14%	12%	12%
Cost of Sales	-6,342	-6,370	-6,250	-6,650	-7,100	-7,700	-8,300	7%	0%	-2%	6%	7%	8%	8%
Gross Profit	4,266	4,369	4,336	4,637	5,713	6,702	7,763	33%	2%	-1%	7%	23%	17%	16%
Gross Margin	40.2%	40.7%	41.0%	41.1%	44.6%	46.5%	48.3%							
General Expenses	-2,057	-1,990	-2,000	-2,050	-2,420	-2,695	-3,060	20%	-3%	1%	2%	18%	11%	14%
Operating Profit	2,168	2,479	2,306	2,550	3,249	3,954	4,642	44%	14%	-7%	11%	27%	22%	17%
Operating Margin	20.4%	23.1%	21.8%	22.6%	25.4%	27.5%	28.9%							
Depreciation and Amortization	-907	-800	-820	-840	-870	-920	-980	13%	-12%	2%	2%	4%	6%	7%
EBITDA	3,119	3,179	3,156	3,427	4,163	4,927	5,683	37%	2%	-1%	9%	21%	18%	15%
EBITDA Margin	29.4%	29.6%	29.8%	30.4%	32.5%	34.2%	35.4%							
Financial Gains	101	107	56	55	53	52	54	-35%	6%	-48%	-2%	-3%	-3%	5%
Financial Cost	-1,031	-927	-862	-902	-1,280	-1,409	-1,637	36%	-10%	-7%	5%	42%	10%	16%
Pre-Tax Profit	1,235	1,658	1,500	1,702	2,023	2,596	3,060	36%	34%	-10%	13%	19%	28%	18%
Income Tax & Profit Sharing	-353	-542	-457	-519	-617	-792	-933	23%	54%	-16%	13%	19%	28%	18%
Tax & Profit Sharing Rate	28.5%	32.7%	30.5%	30.5%	30.5%	30.5%	30.5%							
Profit Before Minorities	878	1,112	1,042	1,183	1,406	1,804	2,126	51%	27%	-6%	13%	19%	28%	18%
Minority Interest	-48	-80	-75	-85	-101	-129	-152	-48%	67%	-6%	13%	19%	28%	18%
Net Profit	830	1,032	968	1,098	1,305	1,675	1,974	70%	24%	-6%	13%	19%	28%	18%
Outstanding Shares	600	600	600	600	600	600	600	0%	0%	0%	0%	0%	0%	0%
EPS	P\$ 1.38	P\$ 1.72	P\$ 1.61	P\$ 1.83	P\$ 2.18	P\$ 2.79	P\$ 3.29	70%	24%	-6%	13%	19%	28%	18%
BALANCE SHEET	2018	2019E	2020E	2021E	2022E	2023E	2024E	2018	2019E	2020E	2021E	2022E	2023E	2024E
TOTAL ASSETS	24,748	25,059	26,706	28,333	32,117	36,087	41,080	9%	1%	7%	6%	13%	12%	14%
Current Assets	5,423	4,927	4,941	5,152	5,121	5,193	5,328	40%	-9%	0%	4%	-1%	1%	3%
Cash & Temp. Inv.	2,540	2,000	2,100	2,150	2,200	2,250	2,300	97%	-21%	5%	2%	2%	2%	2%
LT Assets	19,326	20,132	21,764	23,181	26,996	30,894	35,752	3%	4%	8%	7%	16%	14%	16%
P, P & E	15,153	16,009	17,739	18,949	23,383	27,612	32,182	4%	6%	11%	7%	23%	18%	17%
Other LT Assets	370	140	140	140	140	140	140	-6%	-62%	0%	0%	0%	0%	0%
TOTAL LIABILITIES	14,399	14,775	15,872	16,842	19,782	22,562	26,091	16%	3%	7%	6%	17%	14%	16%
ST Liabilities	2,622	2,888	2,786	3,755	3,696	3,326	3,554	2%	10%	-4%	35%	-2%	-10%	7%
LT Liabilities	11,777	11,886	13,086	13,086	16,086	19,236	22,536	20%	1%	10%	0%	23%	20%	17%
TOTAL DEBT	9,194	9,466	10,556	11,337	14,017	16,537	19,865	28%	3%	12%	7%	24%	18%	20%
NET DEBT	6,653	7,466	8,456	9,187	11,817	14,287	17,565	13%	12%	13%	9%	29%	21%	23%
TOTAL CAPITAL	10,350	10,322	10,871	11,529	12,372	13,562	15,027	1%	-0%	5%	6%	7%	10%	11%
Stockholder's Equity	10,073	9,986	10,516	11,153	11,969	13,120	14,537	1%	-1%	5%	6%	7%	10%	11%
Minority Interest	276	336	354	376	403	442	489	-13%	22%	5%	6%	7%	10%	11%
CASH FLOW STATEMENT	2018	2019E	2020E	2021E	2022E	2023E	2024E	2018	2019E	2020E	2021E	2022E	2023E	2024E
PRE-TAX PROFIT	878	1,426	1,500	1,702	2,023	2,596	3,060	51%	62%	5%	13%	19%	28%	18%
Inv. Related Activities	2,220	2,242	2,238	2,275	2,320	2,385	2,460	29%	1%	-0%	2%	2%	3%	3%
Pre-Tax Cash Flow	3,119	2,605	2,391	2,733	2,045	2,374	1,710	37%	-16%	-8%	14%	-25%	16%	-28%
Working Capital Changes	-925	-284	93	28	341	238	116	36%	-69%	-133%	-70%	1,127%	-30%	-51%
Operating Cash Flow	2,194	2,321	2,484	2,761	2,386	2,612	1,826	38%	6%	7%	11%	-14%	9%	-30%
Investment Cash Flow	-1,273	-1,527	-1,896	-1,893	-3,394	-3,437	-3,435	-22%	20%	24%	-0%	79%	1%	-0%
Financing Cash Flow	297	-1,286	-455	-785	1,091	908	1,692	-59%	-533%	-65%	72%	-239%	-17%	86%
Net Incr. (Decr.) in Cash & Temp. Inv.	1,249	-524	133	83	83	83	83	87%	-142%	-125%	-38%	0%	0%	0%
Beg. of Period Cash and Temp. Inv.	1,291	2,540	2,000	2,100	2,150	2,200	2,250	107%	97%	-21%	5%	2%	2%	2%
End of Period Cash and Temp. Inv.	2,540	2,000	2,100	2,150	2,200	2,250	2,300	97%	-21%	5%	2%	2%	2%	2%

Source: BMW, Miranda Global Research

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