

# CYDSA: 4Q20 Results

Revenues Accelerate, Profitability Boosted by Non-Recurring Gains

<b>BUY</b>	
Target Price (MXN\$)	\$ 40.00
Current Price (MXN\$)	\$ 17.40
Min / Max (L12M)	\$17.35 - 26.00
Expected Dividend (MXN\$)	\$ 0.54
Expected Return	133.0%
Market Cap (MXN\$ Mn)	10,440
Enterprise Value (MXN\$ Mn)	21,167
Outstanding Shares (Mn)	600.0
Float	49.9%
6-Month ADTV (MXN\$ Mn)	\$ 0.16

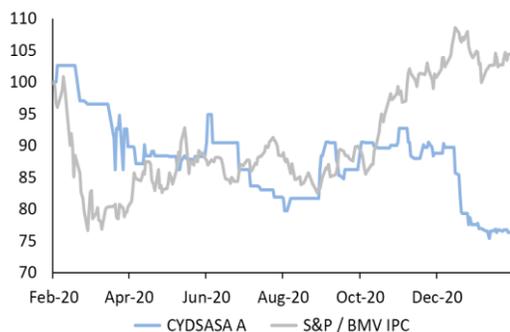
## Opinion and Recommendation

CYDSA reported a positive performance in terms of revenues (+ 12.5% vs. 7.5% E) which were above our expectations due to the higher demand for salt for domestic and industrial consumption and for refrigerant gases for new automobiles. EBITDA and net income also exceeded our projections due to a non-recurring MXN\$358 million gain related to the steam and electricity co-generation plants. Excluding such extraordinary item, they would have been slightly below our forecasts.

We reiterate our BUY recommendation on CYDSA as we expect its revenues to accelerate due to the recovery in international chemical commodities prices and higher exports of refrigerant gases. We also expect its profitability to improve with the reopening of the co-generation plants. We believe that CYDSA will benefit from Mexican government's strategy to increase natural gas storage in the future. The company has a cavern in operation that generates an annual EBITDA of USD28 million, is investing in another three that could generate an EBITDA of up to USD90 million (+ 57% of CYDSA's EBITDA) and has the potential to develop another 10.

## Revenues

CYDSA's revenues were MXN\$2,745 million in 4Q20, up 15% YoY, exceeding our estimates (we expected sales of MXN\$2,624 million with an 8% YoY rise). This performance was largely due to a 17% YoY increase in Manufacturing and Chemical Specialties, supported by a solid demand for salt for domestic and industrial consumption and refrigerant gases for new automobiles, as well as a more favorable average exchange rate. This was partially offset by lower international chemical prices, as well as reduced refrigerant gases exports.



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In the Energy Processing and Logistics business, sales declined 19% YoY due to the the temporary closure of certain establishments due to the pandemic impact, although these were 11% higher sequentially.

### Profitability

Gross profit fell 12% YoY as a result of lower prices of chemical commodities. Total expenses rose 4% YoY due to higher transportation expenses for salt, chlorine and caustic soda and expenses related to the measures against Covid-19. However, CYDSA recorded other revenues of MXN\$358 million, which were non-recurring, from companies that were in charge of the design, construction and coverage of operational risks of its steam and electricity co-generation plants. CYDSA obtained these resources as compensation for the adjustments that it had to carry out in recent years to solve design problems. Worth mentioning that these plants are already operating satisfactorily at 100% of capacity.

As a result, CYDSA reported an EBITDA of MXN\$985 million in 4Q20, with a 36.8% YoY increase. The EBITDA margin expanded to 35.9%, from 29.5% in the same period of the previous year. Excluding this extraordinary gain, EBITDA would have been MXN\$627 million in 4Q20, down 13%. The EBITDA margin would have been 22.8%. However, we believe that it will gradually improve with the reopening of the co-generation plants.

### Net Profit

On the other hand, the quarterly net profit fell 82% YoY to MXN\$99 million as a result of MXN\$364 million in FX losses which were generated by the appreciation of the Mexican peso during the quarter, as well as higher financial expenses and derivative financial instruments.

### Financial Structure

The net debt to EBITDA ratio was 2.9x at the end of 2020, compared to 2.5x at the end of 2019. The difference was mainly due to the fact that the company obtained a revolving credit line of MXN\$2.484 million with a three-year term in April 2020.

(Figures in Millions of MXN\$)	4Q20	4Q20E	Diff	4Q19	Change	2020	2019	Change
Revenues	2,745	2,624	4.6%	2,441	12.5%	10,726	10,507	2.1%
Operating Profit	710	467	52.0%	461	54.0%	2,158	2,109	2.3%
<i>Operating Margin</i>	25.9%	17.8%		18.9%		20.1%	20.1%	
EBITDA	985	705	39.8%	720	36.8%	3,124	3,058	2.2%
<i>EBITDA Margin</i>	35.9%	26.9%		29.5%		29.1%	29.1%	
Financial Gains	-246	16	n.a.	104	n.a.	315	183	72.0%
Financial Cost	-381	-646	-41.0%	-163	133.8%	-1,673	-793	110.8%
Pre-Tax Profit	79	-164	n.a.	393	-79.8%	790	1,487	-46.9%
Income Tax & Profit Sharing	24	49	-50.8%	175	-86.1%	-235	-172	36.2%
<i>Tax &amp; Profit Sharing Rate</i>	-30.6%	30.0%		-44.5%		29.7%	11.6%	
Profit Before Minorities	100	-114	n.a.	565	-82.3%	559	1,308	-57.3%
Minority Interest	-18	-51	-65.5%	5	n.a.	-44	-42	4.5%
Net Profit	82	-165	n.a.	571	-85.6%	514	1,266	-59.4%

Source: BMV

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