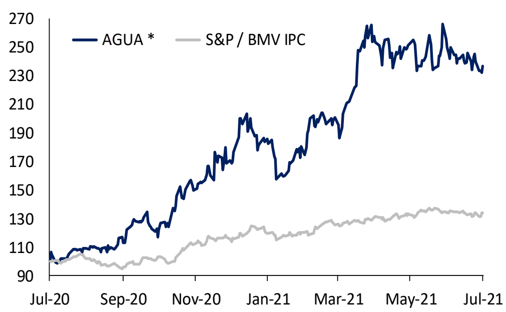
# AGUA: 2Q21 Results

## High Growth Despite Rising Raw Material Costs

| AGUA* | BUY |
|---|---|
| Target Price (MXN$) | $ 45.00 |
| Current Price (MXN$) | $ 32.42 |
| Min / Max (L12M) | $ 12.57 - 37.16 |
| Expected Dividend (MXN$) | $ 0.45 |
| Expected Return | 40.2% |
| Market Cap (MXN$ Mn) | 15,764 |
| Enterprise Value (MXN$ Mn) | 16,973 |
| Oustanding Shares (Mn) | 486.2 |
| Float | 23.7% |
| ADTV (MXN$ Mn) | $ 6.60 |




### Opinion and Recommendation

Rotoplas reported positive 2Q21 results that were above our estimates. Revenues were up 47.6% YoY to a record MXN$2.8 billion due to the high demand for the company's products in all countries and categories, which offset the drop in services. Adjusted EBITDA grew 42.5% YoY as the company was able to partially offset higher raw materials costs by limiting its operating expenses. Net profits reached MXN$65 million, from last year's MXN$59 million net loss. We reiterate a BUY recommendation with a MXN$45.0/share target price.

Rotoplas now expects its 2021 revenue to increase at least 17.0% due to a higher demand and supply chain constraints during the first half of the year. The adjusted EBITDA margin will be between 17.0% and 18.0% due to company's decision to absorb higher raw material costs. However, EBITDA remained unchanged. It expects its ROIC to exceed WACC by 200 bps and a net debt/EBITDA ratio of less than or equal to 2.0x. Previously, the company expected a 10.0% sales increase with a 19.0% EBITDA margin, a ROIC 100 bps above WACC and the same leverage level.

Rotoplas kept its 2025 targets unchanged. It projects that sales will double against 2020, an adjusted EBITDA margin greater than or equal to 20%, an ROIC of around 20% and a net debt to EBITDA ratio of 2.0x.

### 2Q21 Results

Rotoplas' sales rose 47.6% YoY (vs. our +35.9% projection) to a historically record level of MXN$2.8 billion, which was due to droughts, heat waves and water supply cuts in some countries, the launching of new solutions and greater market share.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The gross margin contracted 286 bps to 37.1% due to higher raw material costs. The company decided to absorb this impact in order to gain market share. This reduced gross profit by MXN$130 million. However, it estimates that this strategy will accelerate its revenue growth by about 5.1% per year. Adjusted EBITDA margin (excluding Flow program implementation expenses and donations) contracted only 50 bps to 14.9% (vs. 15.5% E) due to expense containment. Adjusted EBITDA grew 42.5% YoY (vs. 32.0% E), reaching MXN$419 million.

Comprehensive financing result fell 27.2% YoY to MXN$155 million thanks to lower interests paid.

Net profits before discontinued operations were MXN$65 million, from the previous year's MXN$59 million loss, due to the favorable operating performance and a reduction in the fiscal reserve.

The net debt to EBITDA ratio was 1.0x at the end of 2Q21, compared to 0.6x in 2Q20 and 0.8x in 1Q21. Total debt was up 2.8% to nearly MXN4.2 billion, while cash and temporary investments decreased 23.3%.

ROIC reached 16.0% (vs. 15.1% E) in the current quarter, with a 720 bps annual improvement. In addition, this indicator far exceeded the 11.5% WACC, which clearly shows the benefits of the Flow program.

The cash conversion cycle improved by 42 days which was attributed to accelerated growth and better terms with distributors, suppliers and customers.

Capex rose 33.4% to MXN$178 million, representing only 3.4% of revenues for the first half of the year. This figure included MXN$111 million of Flow program's growth initiatives, MXN$8 million in water treatment and recycling plants in Mexico and MXN$8 million in Brazil.

**Countries**

In Mexico, revenues grew 34.9% YoY due to higher product sales that were driven by a strong performance in storage and water flow, as well as new launches. This offset the reduction in services due to school closures, which affected the demand for water fountains. Bebbia registered a monthly record of 3,800 new subscribers while Rieggo continued with its first projects. The adjusted EBITDA margin was 16.8%, down from 20.9% from the previous year, due to higher raw material costs.

In Argentina, sales advanced 84.5% vs. 2Q20 and 46.8% vs. 2Q19, supported by cross-selling, the launching of new products and development of new channels such as construction and agro-industrial. Adjusted EBITDA margin experienced a significant 450 bps expansion due to operating leverage and expense control.

US revenues were up 20.2% YoY due to a greater use of the platform, in conjunction with droughts and heat waves in several states, mainly on the west coast. Adjusted EBITDA grew 2.4 times. The company strengthened its digital and multichannel strategy, hired additional staff in the call center and opened two new service centers. It also continued with the development of the septic solutions business.

Other countries' sales (Peru, Guatemala, El Salvador, Costa Rica, Honduras, Nicaragua and Brazil) rose 2.2 times, driven by the normalization of operations and higher demand in Peru, as well as the reactivation of the whole economy and the construction sector in Central America. In Brazil, the company changed the business practices in order to close contracts for water treatment and recycling plants. It also put into operation the first water treatment plants in that country. Adjusted EBITDA margin improved 460 bps.

**Products and Services**

Product sales advanced 52.1% YoY, which included double-digit growth in all the countries where the company operates and in the three categories (storage, water flow and improvement). The adjusted EBITDA margin was 16.2%, with a slight 60 bps contraction on an annual basis.

Services sales fell 3.8% due to the school closures in Mexico that impacted the water fountain business, and a slow recovery in demand for water treatment and recycling plants. Services presented a negative MXN$12million adjusted EBITDA in the current quarter, from break-even in the same period last year.

**ESG**

Last April, the company launched the 2021-2025 sustainability strategy which focuses on creating 360° value for all stakeholders and throughout the water cycle. It places the same level of importance on people, the planet, and financial gains. Rotoplas plans to align itself with digital and analytics trends seeking to modernize processes to reduce its carbon footprint and achieve a sustainable growth plan.

| (Figures in Millions of MXN$) | 2Q21 | 2Q21 | Diff. | 2Q20 | Change |
|---|---|---|---|---|---|
| Total Revenues | 2,810 | 2,512 | 11.9% | 1,848 | 52.1% |
| EBITDA | 419 | 388 | 8.0% | 294 | 42.5% |
| *EBITDA Margin* | *14.9%* | *15.5%* | | *15.9%* | |
| Financial Gains | 38 | 19 | 102.4% | 25 | 54.9% |
| Financial Cost | -193 | -184 | 4.9% | -198 | -2.7% |
| Pre-Tax Profit | 87 | 57 | 53.3% | 21 | 316.7% |
| Income Tax & Profit Sharing | -22 | -15 | 42.5% | -24 | -7.9% |
| *Tax & Profit Sharing Rate* | *25.2%* | *27.1%* | | *114.0%* | |
| Profit Before Minorities | 65 | 42 | 57.3% | -156 | -141.8% |
| Minority Interest | 6 | -1 | n.a. | 3 | n.a. |
| Net Profit | 71 | 41 | 75.5% | -153 | n.a. |
| ROIC | 16% | 15% | | 9% | |

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