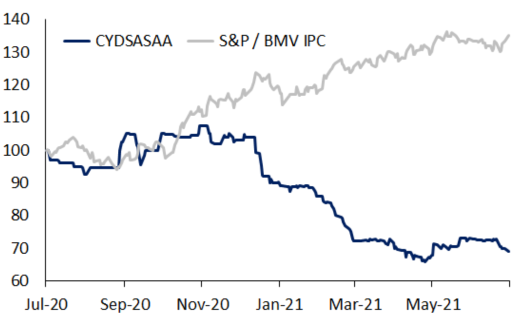
VectorAnálisis

CYDSA: 2Q21 Results

Favorable Revenue Growth But Lower Profitability, As Expected

BUY	
Target Price (MXN$)	$ 40.00
Current Price (MXN$)	$ 14.00
Min / Max (L12M)	$13.15 - 21.50
Expected Dividend (MXN$)	$ 0.36
Expected Return	188.3%
Market Cap (MXN$ Mn)	8,400
Enterprise Value (MXN$ Mn)	18,088
Oustanding Shares (Mn)	600.0
Float	49.9%
6-Month ADTV (MXN$ Mn)	$ 0.42



Opinion and Recommendation

CYDSA continued to benefit from a higher demand of salt for domestic and industrial consumption and also for refrigerant gases, which boosted its 2Q21 revenues by 9.9% YoY, above our projections. However, its profitability was affected by higher prices of natural gas for industrial use, transportation costs and expenses related to the pandemic, which generated a 13.3% YoY EBITDA drop (in line with our estimate). Net profits fell to MXN$59 million due to an unfavorable comparison basis, since the company recorded a tax benefit the previous year.

In the Energy Processing and Logistics business, the company continues to actively search for alternatives to take advantage of the three available caverns and analyze the appropriate structure, which seems good news to us. We estimate that these three caves could generate an EBITDA of around US$90 million. We thus reiterate BUY.

Revenues

CYDSA's 2Q21 revenues reached MXN$2.8 billion, up 9.9% YoY. This figure was 7.5% higher than our projection. The Manufacturing and Specialty Chemicals business recorded revenues of MXN$2.6 billion, with a 10.3% YoY rise (compared to the 2.0% increase we estimated), thanks to a higher demand for salt for domestic consumption and industrial applications, as well as a favorable performance in the refrigerant gases business, both domestically and internationally. Sales of the Energy Processing and Logistics business grew 6.5% YoY to MXN$229 million (vs. + 5.0% E).

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Profitability

EBITDA declined 13.3% YoY to MXN$661 million (practically in line with our MXN$658 million projection) mainly as a result of a 42% price increase of natural gas for industrial users, resulting in a higher electricity and steam power cost. In addition, the company continued to face higher transportation costs due to incremental salt, chlorine and caustic soda volumes, and higher expenses related to the pandemic. The EBITDA margin was 23.3% (vs. 24.9% E) in 2Q21, below the 29.4% of 2Q20.

Financial Expenses

Financial expenses fell 3% YoY to MXN$342 million, mainly due to lower interests paid, which offset the reduction in interest gains.

Net Profits

CYDSA's net profits stood at MXN$59 million (vs. MXN$70 million E), from a MXN$242 million net profit in the same period last year. The main difference was that the company recorded a MXN$8 million tax charge in 2Q21, which compared against a MXN$80 million tax gain in 2Q20, which derived from the exchange appreciation in the valuation of US Dollar denominated assets.

Financial Structure

Total debt remained virtually unchanged sequentially at US$720.6 million. However, cash and cash equivalents decreased to MXN$4.5 billion in 2Q21, from nearly MXN$5.3 billion in 1Q21, due to the investments that the company carried out during the quarter. The net debt to EBITDA ratio closed at 3.9x.

(Figures in Millions of MXN$)	2Q21	2Q21E	Diff	2Q20	Change
Revenues	2,839	2,640	7.5%	2,582	9.9%
Operating Profit	411	402	2.3%	519	-20.7%
Operating Margin	*14.5%*	*15.2%*		*20.1%*	
EBITDA	661	658	0.4%	760	-13.0%
EBITDA Margin	*23.3%*	*24.9%*		*29.4%*	
Financial Gains	-45	10	n.a.	-75	-39.3%
Financial Cost	-297	-312	-4.7%	-276	7.5%
Pre-Tax Profit	67	100	-33.7%	163	-59.1%
Income Tax & Profit Sharing	-8	-30	-74.2%	79	n.a.
Tax & Profit Sharing Rate	*11.7%*	*30.0%*		*-48.6%*	
Profit Before Minorities	58	70	-17.1%	242	-75.9%
Minority Interest	-27	-33	-18.7%	-13	106.9%
Net Profit	31	37	-15.7%	229	-86.2%

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