

AGUA: 3Q21 Results

Record Sales, But Lower Profitability Levels

AGUA*	BUY
Target Price (MXN\$)	\$ 45.00
Current Price (MXN\$)	\$ 23.16
Min / Max (L12M)	\$ 12.57 - 37.16
Expected Dividend (MXN\$)	\$ 0.45
Expected Return	96.2%
Market Cap (MXN\$ Mn)	11,261
Enterprise Value (MXN\$ Mn)	13,259
Outstanding Shares (Mn)	486.2
Float	23.7%
ADTV (MXN\$ Mn)	\$ 4.80

Opinion and Recommendation

ROTOPLAS revenues were up 21.4% YoY (vs. + 17.0% E), driven by higher market share, the launching of new solutions, as well as price increases. However, profitability was affected by raw material volatility and higher freight costs, which were not offset by higher prices. This resulted in an 18.1% drop in adjusted EBITDA, practically in line with our projections. Net profits fell 50.5% YoY to MXN\$20 million due to lower operating income. ROIC improved 590 bps to 15.7% and was 400 bps higher than the WACC for the period.

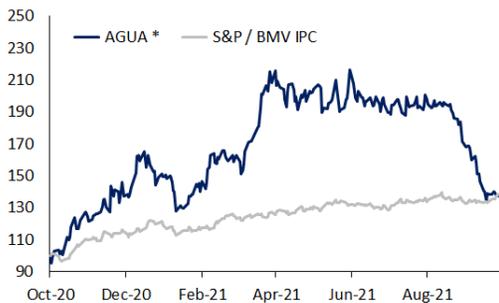
We believe that the price hikes that the company has carried out could begin to support its profitability levels from 4Q21. Our recommendation remains BUY.

ROTOPLAS kept its guidance for the year. It continues to expect an increase in revenues above 17.0%, with an adjusted EBITDA margin between 17.0-18.0% and an EBITDA of around MXN\$1.8 billion, a net debt-to-adjusted EBITDA ratio of less than 2.0 times and a ROIC greater than the WACC by 200 bps.

The company plans to pay a dividend in kind with treasury shares. It will distribute 1 share for every 15 shares outstanding as of November 19th.

Revenues

ROTOPLAS's revenues advanced 21.4% (we expected + 17.0% YoY), to a record level of MXN\$2.87 billion. They were driven primarily by 24.2% growth in the product business that included a double-digit expansion in the three categories, storage, water flow and improvement. However, sales of the service business fell 18.4% due to the closure of schools, which prevented the use of drinking water fountains.



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The company mentioned that service revenues would have grown 4.1% without considering the impact of drinking water fountains. By countries, Argentina was the best performer, with a 53.7% increase, followed by the United States with + 38.7% and Mexico with + 13.1%. Other countries's revenues fell 6.8% due to the FX impact in Peru.

ROTOPLAS 'adjusted EBITDA declined 18.1% to MXN\$364 million (vs. MXN\$370 million E). It was impacted by raw material volatility and higher freight costs in all regions where the company operates. The adjusted EBITDA margin contracted to 12.7% in 3Q21, from 18.8% in the same period of the previous year. Mexico's, Argentina's and other countries' profitability levels decreased due to the aforementioned effects. United States' margins improved due to anticipated inventory purchases. However, ROTOPLAS has been increasing prices to improve its profitability, which we believe could have a positive impact from 4Q21.

Net Profits / ROIC

Net profits fell 50.5% YoY to MXN\$20 million as a result of lower operating results, which was offset by a reduction in the fiscal reserve. In this quarter, ROIC improved 590 bps to 15.7% and was 400 bps higher than the WACC.

Financial structure

The net debt to adjusted EBITDA ratio was 1.2x at the end of 3Q21. It compares against 1.0x in 2Q21 and 0.5x in 3Q20.

Flow program

ROTOPLAS has more than 1,000 initiatives under development, of which 227 are in the maturing stage. There are more than 400 collaborators involved in this program. We believe that these initiatives will continue to support the company's results in the future.

Credit ratings

Fitch Ratings confirmed the following ratings:

- Long-term national scale at 'AA (mex)'
 - Long-term national scale for the AGUA 17-2X Medium Term Notes ("Certificados Bursátiles") at 'AA (mex)'
 - Long-term national scale rating outlook is stable.
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(Figures in Millions of Pesos)	3Q21	3Q21E	Diff.	3Q20	Change
Revenues	2,870	2,766	3.8%	2,364	21.4%
EBITDA	364	370	-1.5%	445	-18.2%
<i>EBITDA Margin</i>	12.7%	13.4%		18.8%	
Financial Gains	34	14	145.6%	22	58.3%
Financial Cost	-196	-187	4.9%	-185	6.0%
Pre-Tax Profit	29	101	-71.4%	114	-74.6%
Income Tax & Profit Sharing	-8	-28	-70.1%	-72	-88.4%
<i>Tax & Profit Sharing Rate</i>	29.2%	28.0%		63.7%	
Profit Before Minorities	20	73	-71.9%	38	-46.0%
Minority Interest	2	6	n.a.	-4	n.a.
Net Profit	23	79	-71.5%	33	-32.7%
ROIC	15.7%	15.1%		10.7%	

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