

AGUA: 4Q21 Results

High Sales Growth With Sequential Improvement in Profitability

AGUA*	BUY
Target Price (MXN\$)	\$ 45.00
Current Price (MXN\$)	\$ 24.68
Min / Max (L12M)	\$ 21.61 - 34.84
Expected Dividend (MXN\$)	\$ 0.45
Expected Return	84.2%
Market Cap (MXN\$ Mn)	12,000
Enterprise Value (MXN\$ Mn)	14,378
Outstanding Shares (Mn)	486.2
Float	23.7%
ADTV (MXN\$ Mn)	\$ 4.70

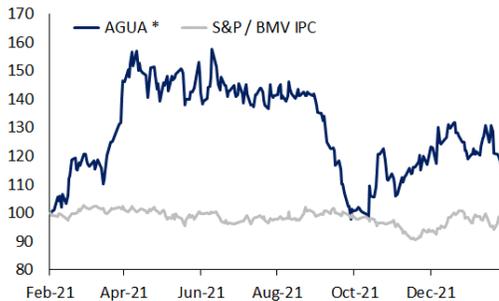
Opinion and Recommendation

AGUA reported favorable 4Q21 results that were practically in line with our projections at the operating level. The company benefited from a strong demand in the product business and the price increases it implemented in the second half of the year, which helped it to deliver a strong revenue growth and improve its profitability sequentially. After these results, we reiterate our BUY recommendation with a MXN\$45.0/share target price.

AGUA met most of its 2021 annual guidance and released its 2022 guidance, which includes revenue growth of at least 15%, an adjusted EBITDA margin of 16.5-17.5%, net debt to EBITDA less than or equal to 2.0x and a ROIC greater than or equal to WACC + 200 bps. This guidance is in line with our current projections.

Revenues

Total revenues were up 14.3% YoY to MXN\$2.8 billion (basically in line with our MXN\$2.8 billion estimate with a 14.6% increase). They were driven mainly by a 42.4% rise in the US thanks to a strong growth in the e-commerce business. In addition, sales in Argentina advanced 37.2% due to a solid performance in the three categories, development of new channels and cross-selling. Mexico registered a 3.5% increase as the growth in the products business was partially offset by lower services sales, which continued to experience low demand for drinking fountains and a slow recovery in the water treatment and recycling plant business. Other countries's revenues fell 3.1% as a result of the FX depreciation in Peru. By business, product revenues were up 18.0%, but service revenues declined 38.3%.



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Profitability

The company continued to adjust prices during the current quarter in certain products and regions. This boosted the adjusted EBITDA margin to 18.1% (vs. 18.4% E) in the current quarter, significantly above the 12.7% level in 3Q21. However, this indicator was below the 19.4% of 4Q20. As a result, adjusted EBITDA was up 39.6% sequentially, and 6.7% annually. By regions, Mexico, Argentina and the other countries posted a sequential margin recovery, but the US' profitability was lower. Compared to the previous year, margins in Argentina improved due to the aforementioned price adjustments, while those in the US expanded as a result of anticipated raw materials purchases. Mexico's margins contracted due to rising raw materials and logistics costs. Other countries' margins were also affected by incremental raw materials and logistics costs, expenses for the development of treatment plants in Brazil and the FX depreciation in Peru.

Net profits

Quarterly net profits grew 55.1% YoY to MXN\$102 million thanks to a significant reduction in financial expenses.

Financial structure

AGUA closed the quarter with a net debt to EBITDA ratio of 1.3x, below the 2.0x guidance. Leverage remained virtually unchanged from 1.2x in 3Q21.

Working capital

Working capital increased as a result of higher demand and inventory purchases that AGUA carried out in order to assure its supplies. This was accompanied by an extension in supplier days, with which the company was able to improve the cash conversion cycle by 7 days.

Investments

Capex rose 77.0% YoY to MXN\$515 million, which represents 4.7% of revenues. The main initiatives included the Flow program (52.0% of total Capex), technology for the production of the new generation of water tanks in Mexico, treatment plants in Mexico and Brazil, automation of the improvement plant in Argentina and web pages and the septic solutions business in the US.

Digitization of operations

AGUA continued to make progress in digitizing its operations with the modernization of e-commerce platforms, improvement of the user experience at Bebbia and Acuantia and through strategic alliances such as the one with Banyan Water, a technology company specializing in software for digital water management.

Meets 2021 guidance

Total sales rose 26.3% in 2021, above the 17.0% annual guidance. EBITDA was MXN\$1,764 million, representing 98% of the company's expectations. The ROIC stood at 14.5%, with a 210 bps improvement compared to the previous year, and was 235 bps higher than the 12.1% WACC, also exceeding the WACC + 200 bps guidance.

Pricing strategy

AGUA estimates a MNX\$393 million annual impact as a result of the temporary cost absorption strategy that it carried out during the first half of the year. However, it expects a benefit of 1.8x compared to the absorbed costs.

2022 guidance

AGUA expects an increase in revenues of at least 15% with an adjusted EBITDA margin between 16.5-17.5%. The net debt to EBITDA ratio will be less than or equal to 2.0x and the ROIC will be equal to or greater than the WACC + 200 bps. This guidance is in line with our projections. We expect a 12% increase in sales with an EBITDA margin of 17.6%, and a leverage of 0.9x.

ESG

During the year, AGUA launched its 2021-2025 “Sustainability Strategy”, acquired a minority stake in Banyan Water, established sustainability goals, published its Annual Report in line with the TCFD recommendations, completed the CDP questionnaire for the second consecutive year, made social investments of MXN\$22 million in Mexico, Argentina, Peru and Central America and established its commitment to be carbon neutral by 2040.

It also carried out the following initiatives: it installed 130 rainwater systems in houses with no access to water, made strategic alliances with more than 20 organizations to continue strengthening resources for water management, launched the "Rotoplas Award and the UNAM Foundation" to promote wastewater treatment, and participated in the United Nations Global Compact accelerator.

(Figures in Millions of MXN\$)

INCOME STATEMENT	4Q21	4Q21E	Diff.	4Q20	Change
Revenues	2,800	2,807	-0.2%	2,450	14.3%
EBITDA	508	515	-1.4%	476	6.7%
<i>EBITDA Margin</i>	<i>18.1%</i>	<i>18.4%</i>		<i>19.4%</i>	
Financial Gains	-13	16	-180.4%	25	-150.0%
Financial Cost	-172	-181	-4.8%	-283	-39.2%
Pre-Tax Profit	143	178	-19.6%	58	145.8%
Income Tax & Profit Sharing	-41	-54	-23.0%	8	-642.9%
<i>Tax & Profit Sharing Rate</i>	<i>28.7%</i>	<i>30.0%</i>		<i>-13.0%</i>	
Profit Before Minorities	102	125	-18.1%	60	70.0%
Minority Interest	2	6	n.a.	14	n.a.
Net Profit	104	131	-20.7%	74	39.4%
ROIC	14.5%	14.4%		12.4%	

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