

# AGUA (BUY, T.P. MXN\$45.00)

Adjusts 2022 guidance but maintains long-term projections

These were the highlights of AGUA's 1Q22 conference call:

- AGUA revised its guidance for the current year. It maintained a revenue growth at least 15%, but reduced the adjusted EBITDA margin to 15.6-16.5% (from 16.5-17.5%) and the ROIC – WACC spread to 100 bps (from 200 bps). The net debt to adjusted EBITDA ratio remained equal to or less than 2.0x.
- The company maintained its long-term guidance which contemplates doubling sales in 2025 (from 2020's levels), an adjusted EBITDA margin equal to or greater than 20%, a net debt to adjusted EBITDA ratio less than or equal to 2.0x and an ROIC of around 20%.
- 1Q22 profitability was mainly impacted by lower volumes and MXN\$45 million in extraordinary expenses related to the e-commerce and septic businesses in the US and the Bebbia's strong growth in Mexico.
- The company will focus on improving its gross margin and expects to be agile in terms of additional price adjustments in all operations during the rest of the year. It will also focus on reducing travel expenses and those related to increased face-to-face activity.
- In fact, it expects its adjusted EBITDA margin to gradually improve, reaching 17-18% over the next few quarters.
- The company expects the US operations to operate at break even for the rest of the year and to reach positive EBITDA by the end of 2022, mainly due to a stronger profitability of the septic business.
- AGUA expects to benefit from the new water regulatory framework in Brazil. In addition, the projects under construction in that country will begin to generate revenues in the short term.
- In Central America, volumes are expected to improve gradually due to water scarcity in that region.
- The company will release its Integrated Annual Report next April 29<sup>th</sup>.

The new guidance for 2022 means that AGUA's revenue growth will accelerate and its profitability will improve over the coming quarters, which seems good news to us. We will incorporate this new information in our projections. Meanwhile, our recommendation is BUY with MXN\$45.00/share target price.

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