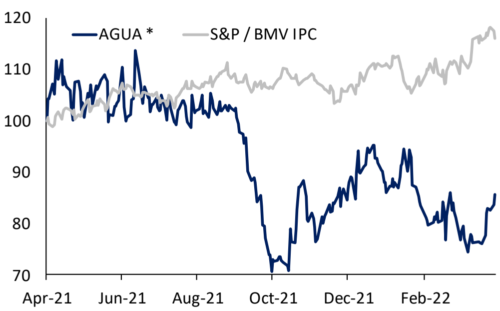
AGUA: 1Q22 Results

Revenues driven by Argentina and the US, but lower profitability levels, in line

AGUA*	BUY
Target Price (MXN$)	$ 45.00
Current Price (MXN$)	$ 25.40
Min / Max (L12M)	$ 21.56 - 37.50
Expected Dividend (MXN$)	$ 0.45
Expected Return	78.9%
Market Cap (MXN$ Mn)	12,350
Enterprise Value (MXN$ Mn)	15,000
Oustanding Shares (Mn)	486.2
Float	23.7%
ADTV (MXN$ Mn)	$ 5.03



Opinion and Recommendation

AGUA reported neutral results that were practically in line with our projections at the operating level and stronger in terms of net profits. Revenues rose 9.3% YoY, mainly driven by the Argentinian and US operations, which offset the stability in Mexico and the decline in the other countries. Adjusted EBITDA decreased 31.9% due to a high comparison base, rising raw material and logistics costs, expenses related to the growth of the e-commerce and septic businesses in the US and Bebbia in Mexico, as well as expenses derived from increased face-to-face activity in Mexico and Argentina. Net profits fell 34.4% to MXN$88 million.

We expect an acceleration in AGUA's operating results in the coming quarters due to the drought in Mexico, investments in growth that the company has made and the contribution of the FLOW initiatives. Our recommendation remains BUY with a MXN$45.0/share target price.

The company adjusted its guidance for the year. It continues to see a revenue growth of at least 15%, but with an adjusted EBITDA margin between 15.5-16.5% (from 16.5-17.5%) and a 100 bps ROIC minus WACC spread (down from 200 bps). The net debt to adjusted EBITDA ratio remained unchanged at equal or less than 2.0x.

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Revenues

Revenues reached MXN$2.67 billion, up 9.3% YoY (vs. +8.3% E). The main driver was Argentina with a 34.2% sales increase, supported by higher prices and cross-selling. In addition, the US contributed with a 29.8% revenue growth due to the strong performance of the e-commerce business, which added 7,000 new customers in the quarter. The company opened a new store in North Carolina to expand its geographic footprint. The septic business also presented a favorable performance. In Mexico, revenues advanced only 2.7% due to price hikes and drought in various regions of the country that boosted the product business. This offset lower service revenues. Other countries' sales fell 13.9% due to mobility restrictions and the suspension of government subsidies in Peru, while business from Brazil remained stable. By type of solution, products registered a 10.6% increase due to the price adjustments that the company carried out in 2021, which was partially offset by the 18.1% drop in services.

The company has 1,200 FLOW initiatives that included 160 new ones in the quarter. It expects 459 of these initiatives to contribute to results during the rest of the year.

Profitability

Gross profit rose 6.2% as a result of lower volumes in some regions, in addition to higher raw material costs and logistics expenses. Gross margin contracted 110 bps to 40.2% in 1Q22.

Adjusted EBITDA decreased 31.9% YoY to MXN$322 million (vs. MXN$332 million E) in the quarter due to a high comparison base, rising expenses related to the growth of the e-commerce and septic businesses in the US and of Bebbia in Mexico, as well as expenses deriving from greater face-to-face activity in Mexico and Argentina. Adjusted EBITDA margin contracted to 12.1% (vs. 12.6% E), from 19.4%. Worth mentioning that the company will no longer adjust the expenses of the FLOW program.

Quarterly net profit was down 34.4% to MXN$88 million (vs. MXN$16 million E) due to lower operating results and higher financial expenses.

The ROIC was 13.1%, exceeding the WACC by 100 bps, despite the fact that it was lower compared to previous quarters.

Working capital

The cash conversion cycle increased by 26 days to 88 days as a result of higher inventory and supplier days.

Financial structure

Leverage rose to 1.6x net debt/adjusted EBITDA, from 0.8x a year earlier, mainly due to a 49.4% reduction in cash reserves. However, leverage remained below the current year's guidance.

Regarding ESG issues, the company launched the water, energy and sanitation pilot project with Acciona, installed 20 handwashing stations in partnership with the Red Cross, defined the framework for evaluating suppliers under ESG criteria and carried out an information session focused on diversity and inclusion.

(Figures in Millions of MXN$)	1Q22	1Q22E	Diff.	1Q21	Change
Revenues	2,660	2,636	0.9%	2,434	9.3%
EBITDA	322	332	-3.0%	473	-31.9%
EBITDA Margin	*12.1%*	*12.6%*		*19.4%*	
Financial Gains	41	13	213.2%	43	-4.1%
Financial Cost	-196	-158	23.8%	-165	18.6%
Pre-Tax Profit	68	22	202.6%	184	-63.1%
Income Tax & Profit Sharing	20	-6	-410.8%	-50	-140.2%
Tax & Profit Sharing Rate	*-29.5%*	*28.7%*		*27.1%*	
Profit Before Minorities	88	16	449.7%	134	-34.4%
Minority Interest	2	0	n.a.	-3	n.a.
Net Profit	90	16	453.6%	131	-31.3%
ROIC	13.1%	13.2%		14.8%	

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