

# AGUA: 2Q22 Results

Very positive operating results, fueled by the price strategy

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
Outstanding Shares (Mn)	486.2
Float	23.7%
ADTV (MXN\$ Mn)	\$ 5.03

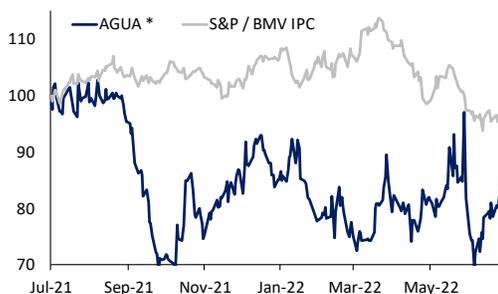
## Opinion and recommendation

AGUA reported very positive 2Q22 operating results that far exceeded our projections. Revenues were up 22.7%, thus setting a new record, due to the price adjustments that the company implemented, heat waves and droughts in various regions. EBITDA grew 56.3% due to economies of scale while net profits rose 86.6%. Additionally, the cash conversion cycle improved by 10 days. We expect a favorable short-term reaction in the stock price and we are reiterating our BUY recommendation with a MXN\$45.0/share target price.

## Revenues

AGUA reported record revenues of MXN\$3,447 million with a higher than expected 22.7% growth (vs. our projection of +14.7%). The company continued to benefit from the Flow initiatives. By region, Mexico's sales increased 15.7% due to the prevailing droughts, which boosted revenues from the three categories, storage, water flow and improvement. Argentina's revenues rose 60.0% supported by the pricing strategy, cross-selling and penetration of new channels. For its part, US sales were 3.9% higher, due to *e-commerce*. Meanwhile, other countries' revenues advanced 8.1% on price adjustments in Peru and Central America. In Brazil, the project pipeline improved because of the new legislation, and the company made strategic alliances with commission agents.

By solution type, product sales were the main driver with a 25.4% increase supported by price adjustments, heat waves and droughts in several regions. However, service revenues experienced a 26.8% contraction as a result of the delay of industrial and commercial projects in Mexico that continued to affect the demand for water treatment and recycling plants.



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## **Profitability**

Gross margin improved 510 bps to 42.2%, supported by the aforementioned price adjustments, as well as production efficiencies.

Adjusted EBITDA margin expanded 40 bps to 15.3%. EBITDA registered a strong 56.3% YoY growth reaching MXN\$528 million (well above our MXN\$450 million expectation). This occurred despite the fact that EBITDA was impacted by MXN\$80 million due to the development of new businesses. Mexico's profitability improved, we believe, due to economies of scale and also despite a MXN\$90 million (accumulated) impact from the *Bebbia* business, which has 77 thousand users. Argentina's margins also rose due to economies of scale. Meanwhile, the US recorded a negative MXN\$29 million EBITDA due to pre-operating expenses of the septic business and expansion expenses of the *e-commerce* unit. Other countries' margin contracted as a consequence of investments related to Brazil's water treatment and recycling plant business. By solution type, profitability was higher in products but lower in services.

Net profits were up 86.6% YoY to MXN\$122 million as the solid operating performance offset the increase in the comprehensive financing result and in the fiscal reserve. The ROIC was 13.0%, slightly higher than the WACC of 12.4%. It compares with last year's 16.0% level.

## **Financial structure**

The company carried out a MXN\$215 million (MXN\$0.45/share) equity reimbursement in May, with which its cash position fell by 56.0%, while debt fell 4.3%. As a result, net debt increased 68.3% and the net debt to adjusted EBITDA ratio was 1.7x at the end of 2Q22, compared to 1.0x in 2Q21.

## **Cash conversion cycle**

The cash conversion cycle improved by 10 days to 59 days mainly due to an increase in supplier days, which was partially offset by higher inventory and portfolio days.

## **ESG**

AGUA continued to implement its ESG strategy. This quarter, the company gave open training on diversity, inclusion and human rights; started the process to work with the Science Based Target Initiative (SBTi); and the Corporate Governance Committee concluded an analysis of operational risks.

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(Figures in Millions of MXN\$)	2Q22	2Q22E	Diff.	2Q21	Change
Revenues	3,447	3,224	6.9%	2,810	22.7%
Adjusted EBITDA	528	450	17.4%	419	26.0%
<i>EBITDA Margin</i>	15.3%	13.9%		14.9%	
Financial Gains	17	19	-9.9%	38	-55.8%
Financial Cost	-212	-166	27.7%	-193	9.6%
Pre-Tax Profit	235	203	15.7%	87	169.3%
Income Tax & Profit Sharing	-113	-60	88.9%	-22	414.6%
<i>Tax &amp; Profit Sharing Rate</i>	48.2%	29.5%		25.2%	
Profit Before Minorities	122	143	-15.0%	65	86.6%
Minority Interest	-2	3	n.a.	6	n.a.
Net Profit	119	146	-18.4%	71	68.0%
ROIC	13.0%	13.2%		16.0%	

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