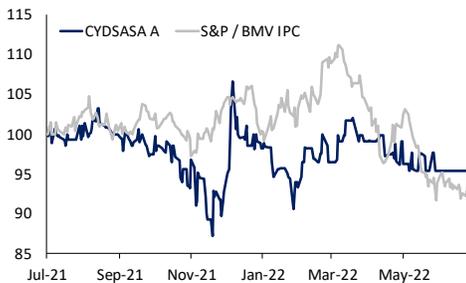


# CYDSA: 2Q22 Results

Positive results that were above our forecasts due to higher caustic soda prices, strong salt demand and rising exports of refrigerant gases

CYDSASA A	BUY
Target Price (MXN\$)	\$ 31.00
Current Price (MXN\$)	\$ 12.72
Min / Max (L12M)	\$12.20 - 14.98
Expected Dividend (MXN\$)	\$ 0.36
Expected Return	146.6%
Market Cap (MXN\$ Mn)	7,632
Enterprise Value (MXN\$ Mn)	18,479
Outstanding Shares (Mn)	600.0
Float	49.9%
6-Month ADTV (MXN\$ Mn)	\$ 2.11



## Opinion and recommendation

CYDSA reported positive 2Q22 results that were slightly above our projections as a result of a stronger-than-expected performance in the Chemical Manufacturing and Specialties business, which was fueled by higher international caustic soda prices, a solid demand for salt and rising refrigerant gases exports. This boosted consolidated revenues by 18.3%, while the EBITDA grew 25.7%. Net profits rose 344.3% due to lower net financial expenses. Our recommendation remains BUY with a MXN\$31.00/share target price.

## Revenues

CYDSA's total revenues were up 18.3% to MXN\$3,359 million (compared to our MXN\$3,223 million forecast). Once again, the Chemical Manufacturing and Specialties business was the main driver, as its revenues advanced 19.5% supported by higher international caustic soda prices, as well as a strong salt demand and rising refrigerant gases exports. For its part, sales of the Energy Processing and Logistics business rose 4.1%.

## Profitability

Costs experienced a 17% rise due to a higher price of natural gas for industrial use. Expenses rose 11% because of the increase in the transportation and packaging merchandise costs. However, this was more than offset by higher revenues, which led to a 25.7% EBITDA growth to MXN\$831 million (vs. MXN\$803 million E). The EBITDA margin expanded to 24.7% in 2Q22, from 23.1% in 2Q21.

Net financial expenses decreased 16% to MXN\$289 million, on lower interest payments thanks to the contracting of new lines of credit at a reduced rate, the pre-payment of the revolving line and bond repurchases.

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Net profits reached MXN\$262 million (vs. MXN\$159 million E), which represented a 344.3% YoY increase. It was supported by the significant growth in operating results and lower financial expenses.

### Financial structure

CYDSA closed the current quarter with total debt of US\$717.2 million, compared to US\$719.7 million in 1Q22. The net debt to EBITDA ratio at the end of the quarter was 3.4x. The company carried out the following transactions:

- During the semester, it drew down all of the US\$134.4 million line maturing in April 2029, which it used to prepay the MXN\$2,484 million revolving line of credit.
- On April 28<sup>th</sup>, it contracted a new US\$40 million financing maturing in April 2026 which carries an interest rate of Libor + 160 bps.
- On May 5<sup>th</sup>, it repurchased US\$48.2 million of 6.25% Senior Notes. The amount outstanding fell to US\$450 million.

(Figures in Million Pesos)	2Q22	2Q22E	Diff.	2Q21	Chg.
Revenues	3,359	3,233	3.9%	2,839	18.3%
Operating Profit	549	513	7.1%	411	33.6%
<i>Operating Margin</i>	16.4%	15.9%		14.5%	
EBITDA	831	803	3.5%	661	25.7%
EBITDA Margin	24.7%	24.8%		23.3%	
Financial Gains	-7	16	-144.1%	-45	-84.2%
Financial Cost	-282	-340	-17.1%	-297	-5.0%
Pre-Tax Profit	256	189	35.5%	67	283.9%
Income Tax & Profit Sharing	6	-32	n.a.	-8	n.a.
Net Profit	262	159	64.8%	58	348.7%

## Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2023E	2024E	2025E	2026E	2027E	Perp.
OPERATING PROFIT	2,360	2,838	3,664	4,616	5,515	5,574
Tax Rate	31%	31%	31%	31%	31%	30%
Tax Shield	-720	-866	-1,117	-1,408	-1,682	-1,700
NOPLAT	1,640	1,972	2,546	3,208	3,833	3,874
Depreciation	1,286	1,383	1,556	1,744	1,934	1,955
Working Capital Changes	-35	-642	-223	-196	-250	-253
CAPEX	-3,880	-3,964	-4,052	-2,000	-2,080	-2,102
FCFF	-989	-1,251	-173	2,756	3,437	3,474
Perpetuity Growth Rate						1.1%
PV of Explicit Period (2023 - 2027E)						2,113
Perpetuity Value						44,622
PV of Perpetuity Value						26,807
Enterprise Value						28,920
Net Debt						12,366
Minority Interest						457
Market Value						16,097
Land Properties						2,500
Adjusted Market Value						18,597
Outstanding Shares						600
Target Price						P\$ 31.00
Current Market Price						P\$ 12.72
Potential Return Incl. Dividends						146.3%
Forward EV/EBITDA						9.4x
Forward P/E						24.7x
Average Cost of Debt						5.6%
LT Tax Rate						30.0%
After-Tax Cost of Debt						3.9%
Cost of Equity						15.9%
Market Risk Premium						6.0%
Risk-Free Rate						8.5%
Beta						1.24
% Total Debt						58.7%
% Capital						41.3%
WACC						8.9%

(Figures in Millions of MXN\$)

<b>INCOME STATEMENT</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Revenues	11,339	12,960	13,857	14,897	16,765	18,791	20,840
Cost of Sales	-6,950	-7,980	-8,500	-8,770	-9,820	-10,900	-12,000
Gross Profit	4,389	4,980	5,357	6,127	6,945	7,891	8,840
<i>Gross Margin</i>	<i>38.7%</i>	<i>38.4%</i>	<i>38.7%</i>	<i>41.1%</i>	<i>41.4%</i>	<i>42.0%</i>	<i>42.4%</i>
General Expenses	-2,565	-2,900	-3,050	-3,350	-3,350	-3,350	-3,400
Operating Profit	1,973	2,124	2,360	2,838	3,664	4,616	5,515
<i>Operating Margin</i>	<i>17.4%</i>	<i>16.4%</i>	<i>17.0%</i>	<i>19.1%</i>	<i>21.9%</i>	<i>24.6%</i>	<i>26.5%</i>
Depreciation and Amortization	-1,009	-1,203	-1,286	-1,383	-1,556	-1,744	-1,934
EBITDA	2,979	3,283	3,593	4,160	5,151	6,285	7,374
<i>EBITDA Margin</i>	<i>26.3%</i>	<i>25.3%</i>	<i>25.9%</i>	<i>27.9%</i>	<i>30.7%</i>	<i>33.4%</i>	<i>35.4%</i>
Financial Gains	40	222	59	63	70	79	88
Financial Cost	-1,156	-1,137	-1,261	-1,436	-1,624	-1,734	-1,802
Pre-Tax Profit	839	1,197	1,140	1,448	2,093	2,944	3,784
Income Tax & Profit Sharing	-225	-358	-348	-442	-638	-898	-1,154
<i>Tax &amp; Profit Sharing Rate</i>	<i>26.8%</i>	<i>30.0%</i>	<i>30.5%</i>	<i>30.5%</i>	<i>30.5%</i>	<i>30.5%</i>	<i>30.5%</i>
Net Profit	619	837	794	1,008	1,457	2,048	2,631
Minority Interest	-57	-58	-41	-52	-76	-107	-137
Majority Net Profit	562	779	753	955	1,381	1,941	2,494
Outstanding Shares	600	600	600	600	600	600	600
EPS	P\$ 0.94	P\$ 1.30	P\$ 1.25	P\$ 1.59	P\$ 2.30	P\$ 3.23	P\$ 4.16

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