

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

2022 AGUA DAY

These were the main highlights of the 2022 AGUA DAY:

- **The global water industry offers attractive growth opportunities.** This industry is expected to grow by 3% per year to US\$971 billion by 2025 supported by the continued water scarcity as around 40% of needs will not be covered by existing infrastructure by 2030. Global water scarcity will likely affect 3.2 billion people in 2050, compared with 1.9 billion in 2010 (+70%). Worth mentioning that water prices have exceeded the inflation rate in a significant way in the past and we expect this trend to continue in the future.
- The climate change will also play an important role as floodings will affect 1.6 billion people in 2050, compared to 1.2 billion in 2022 (+30%). Migration to urban areas, the privatization processes and the regulatory pressure on water utilities will also be significant drivers. In our view, AGUA is well positioned to benefit from these trends as it commands a 1% share of the addressable market.
- **Guidance for 2022 remained unchanged.** AGUA reiterated its guidance for this year which include a sales growth of at least 15%, an EBITDA margin between 15.5-16.5%, a ROIC exceeding the WACC by 100 bps and a net debt to EBITDA ratio equal or below 2.0x. We believe that these figures are achievable.
- **Same long-term guidance with higher margins in products.** AGUA continues to expect its revenues to double in 2025 (vs. 2020) to MXN\$17 billion, with a 14-15% CAGR, and maintained the adjusted EBITDA margin above 20%. Product profitability increased, which will more than offset the lower margins in services. As a result, average annual growth in EBITDA is now 24-25% (vs. 16-18% previously). The company also expects an ROIC close to 20%, higher than the WACC, and a net debt to EBITDA ratio of 2.0x or less. The main drivers will be the “Flow Program” and the risks related to water in all markets.
- **New businesses growth.** AGUA will focus on expanding its bebbia, Acuantia, rieggo and water services businesses as their growth potential is significant. Their combined market size reaches US\$8.65 billion.
- **Investments.** AGUA expects its capex to represent around 5% of sales, of which 30% will be for maintenance and the rest for business growth. Worth mentioning that the company has made significant opex investments to position its new businesses and brands which are not accounted for as capex.
- **M&A.** The company will focus on various small M&A opportunities in order to reinforce the market position of its high growth businesses.
- **Nearshoring.** AGUA expects to benefit from the nearshoring trend as it will likely boost the demand for water. Given the lack of adequate infrastructure in the country, we believe that there is an attractive opportunity for water treatment and recycling.

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- **Flow program.** The company has launched more than 800 Flow initiatives. They have been successful as they currently represent 1 out of each 3 pesos of the EBITDA generation. In 2023, the Flow methodology will be implemented in all of the company's processes with a focus on the growth initiatives.
- **Dividends.** The company expects to distribute around 40-50% of free cash flow after interests and taxes.
- **ESG.** AGUA has exceeded all of its 2022 ESG targets in terms of profits, planet and people. With respect to the production process, we note that the company has increased the usage of recycled resin by 24% and that some of can have 20% more recycled material. The new water tank increased water efficiency by 80%, saves 13% of energy costs and substitutes the use of natural gas with electricity. The company plans to be carbon neutral by 2040. The sustainability area has a very interesting structure as it depends on the Sustainability and Human Capital VP and on the Administration and Finance VP. It includes multi-disciplinary teams to assure that AGUA remains as at the forefront in terms of ESG.
- The 4 priorities on the CEO's agenda are: i) sustainable growth of the traditional business; ii) growth and development of new businesses; iii) digitization of the water ecosystem; iv) commitment to look after all stakeholders.

Conclusion. This meeting has reinforced our optimistic view on AGUA, especially due to the attractive growth opportunities in new and existing businesses. We thus reiterate our BUY recommendation and MXN\$45.0/share target price.

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