

AGUA: 3Q22 Results

Positive results supported by the price strategy

AGUA*	BUY
Target Price (MXN\$)	\$ 45.00
Current Price (MXN\$)	\$ 30.00
Min / Max (L12M)	\$ 21.00 - 32.90
Expected Dividend (MXN\$)	\$ 0.45
Expected Return	51.5%
Market Cap (MXN\$ Mn)	14,587
Enterprise Value (MXN\$ Mn)	17,686
Outstanding Shares (Mn)	486.2
Float	23.7%
ADTV (MXN\$ Mn)	\$ 6.28

Opinion and recommendation

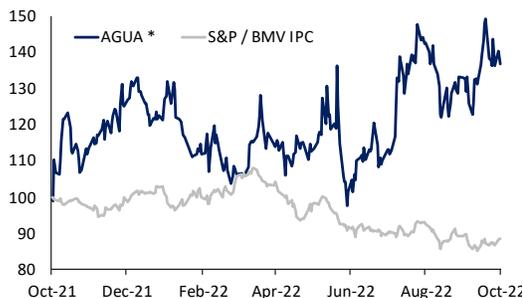
AGUA reported very positive 3Q22 results which were in line with our expectations at the revenue and EBITDA level, but exceeded our estimates in terms of net profits. The company experienced significant growth in the product business due to price adjustments and higher storage volumes. We expect a favorable short-term reaction in AGUA's share price and are reiterating our fundamental BUY recommendation with a MXN\$45.0/share target price.

Revenues

AGUA reported total revenues of MXN\$3,543 million (vs. MXN\$3,487 million E) in 3Q22, up 23.4%, once again establishing a record level. They were mainly driven by a 63.1% rise in Argentina, which benefited from price hikes in storage and improvement. In Mexico, product sales rose at a double-digit rate due to droughts and higher prices. In the US, revenues advanced marginally due to government subsidy programs to face the droughts, particularly in the State of California. However, other countries' sales decreased 8.3% due to lower purchasing power in Peru, and heavy rains in Central America, although the project pipeline in Brazil improved. By solution type, the company registered a significant 25.1% growth in products, which was partially offset by an 11.4% decrease in services.

Profitability

The adjusted EBITDA margin at a consolidated level expanded to 16.4% (vs. 16.1% E) in 3Q22, from 12.7% in the same period of the previous year, due to the price adjustments that the company implemented since the beginning of the year, stability in the resin cost and a sequential volume recovery.



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Mexico and Argentina were the main reasons behind this improvement with a margin expansion of 710 bps and 90 bps, respectively. For this reason, AGUA's adjusted EBITDA rose 59.8% YoY to MXN\$582 million (vs. MXN\$560 million E).

Net profit stood at MXN\$176 million (vs. MXN\$159 million E) in the current quarter, significantly stronger than the MXN\$20 million net profit in 3Q21. This was due to significant growth at the operating level, which offset the higher amount of financial expenses as well as the start-up costs of several businesses including Acuantia in the US, Bebbia in Mexico, and treatment and recycling plants in Brazil. The ROIC suffered a 130 bps reduction to 14.4%. However, it exceeded the 12.1% WACC and was above the 13.0% figure in 2Q22.

Working capital

The cash conversion cycle rose to 60 days in 9M22, from 49 days a year earlier, as a result of higher inventory days and lower supplier days.

Financial structure

The net debt to EBITDA ratio reached 1.6x at the end of 3Q22, compared to 1.2x in 3Q21, which was attributed to a 55.1% net debt increase due to lower cash levels, which we believe were used for the acquisition of inventories.

(Figures in Millions of MXN\$)	3Q22	3Q22E	Diff.	3Q21	Change
Revenues	3,543	3,487	1.6%	2,870	23.4%
Adjusted EBITDA	582	560	4.0%	364	59.9%
<i>EBITDA Margin</i>	16.4%	16.1%		12.7%	
Financial Gains	35	31	10.9%	34	1.1%
Financial Cost	-272	-240	13.1%	-196	38.7%
Pre-Tax Profit	243	253	-3.8%	29	741.5%
Income Tax & Profit Sharing	-67	-93	-28.0%	-8	696.9%
<i>Tax & Profit Sharing Rate</i>	27.7%	37.0%		29.2%	
Net Profit	176	159	10.5%	20	759.8%
ROIC	14.4%	14.0%		15.7%	

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2023E	2024E	2025E	2026E	2027E	Perp.
OPERATING PROFIT	2,212	2,542	2,923	3,362	3,863	4,089
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-664	-763	-877	-1,008	-1,159	-1,227
NOPLAT	1,548	1,779	2,046	2,353	2,704	2,863
Depreciation	460	496	532	568	604	639
Working Capital Changes	-260	-280	-115	-109	-346	-366
CAPEX	-733	-816	-908	-1,012	-1,129	-1,195
FCFF	1,015	1,179	1,555	1,800	1,833	1,941
Perpetuity Growth Rate						5.9%
PV of Explicit Period (2023 - 2027E)						5,195
Perpetuity Value						33,806
PV of Perpetuity Value						19,536
Enterprise Value						24,732
Net Debt						2,731
Minority Interest						121
Market Value						21,880
Outstanding Shares						486
Target Price						P\$ 45.00
Current Market Price						P\$ 30.00
Potential Return Incl. Dividends						51.5%
Forward EV/EBITDA						9.3x
Forward P/E						20.2x
Average Cost of Debt						8.9%
LT Tax Rate						30.0%
After-Tax Cost of Debt						6.2%
Cost of Equity						15.8%
Market Risk Premium						6.0%
Risk-Free Rate						9.9%
Beta						0.99
% Total Debt						39.3%
% Capital						60.7%
ESG Adjusted WACC						11.6%

Source: Miranda Global Research

Sensitivity Analysis, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	2,412	2,538	2,672	2,806	2,946
Target EV/EBITDA					
7.8x	32.55	34.60	36.75	38.91	41.17
8.3x	35.03	37.21	39.50	41.80	44.20
8.8x	37.51	39.82	42.25	44.68	47.23
9.3x	39.99	42.43	45.00	47.57	50.26
9.8x	42.47	45.04	47.75	50.45	53.29
10.3x	44.95	47.65	50.49	53.34	56.32

Sensitivity Analysis, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	977	1,029	1,083	1,137	1,194
Target P/E					
17.2x	34.58	36.40	38.32	40.23	42.25
18.2x	36.59	38.52	40.54	42.57	44.70
19.2x	38.60	40.63	42.77	44.91	47.16
20.2x	40.61	42.75	45.00	47.25	49.61
21.2x	42.62	44.86	47.22	49.59	52.07
22.2x	44.63	46.98	49.45	51.92	54.52

Source: Miranda Global Research

(Figures in Millions of MXN\$)

INCOME STATEMENT	2021	2022E	2023E	2024E	2025E	2026E	2027E
Revenues	10,915	13,249	14,668	16,317	18,166	20,244	22,583
Cost of Sales	-6,761	-7,788	-8,608	-9,559	-10,625	-11,820	-13,163
Gross Profit	4,153	5,461	6,060	6,757	7,541	8,424	9,420
<i>Gross Margin</i>	<i>38.1%</i>	<i>41.2%</i>	<i>41.3%</i>	<i>41.4%</i>	<i>41.5%</i>	<i>41.6%</i>	<i>41.7%</i>
General Expenses	-3,089	-3,819	-3,848	-4,216	-4,618	-5,063	-5,557
Operating Profit	1,064	1,642	2,212	2,542	2,923	3,362	3,863
<i>Operating Margin</i>	<i>9.8%</i>	<i>12.4%</i>	<i>15.1%</i>	<i>15.6%</i>	<i>16.1%</i>	<i>16.6%</i>	<i>17.1%</i>
Adjusted EBITDA	1,764	2,041	2,672	3,038	3,455	3,930	4,467
<i>EBITDA Margin</i>	<i>16.2%</i>	<i>15.4%</i>	<i>18.2%</i>	<i>18.6%</i>	<i>19.0%</i>	<i>19.4%</i>	<i>19.8%</i>
Financial Gains	103	134	239	250	334	387	442
Financial Cost	-726	-776	-889	-709	-1,143	-1,312	-1,415
Pre-Tax Profit	444	998	1,570	2,092	2,126	2,451	2,905
Income Tax & Profit Sharing	-122	-296	-471	-628	-638	-735	-872
<i>Tax & Profit Sharing Rate</i>	<i>27.4%</i>	<i>29.7%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>
Net Profit	322	702	1,099	1,465	1,488	1,716	2,034
Outstanding Shares	486	486	486	486	486	486	486
EPS	P\$ 0.68	P\$ 1.43	P\$ 2.23	P\$ 2.97	P\$ 3.01	P\$ 3.48	P\$ 4.12
BALANCE SHEET	2021	2022E	2023E	2024E	2025E	2026E	2027E
TOTAL ASSETS	13,112	13,074	14,534	15,810	17,901	19,670	21,654
Current Assets	5,631	5,624	6,385	6,914	8,198	9,089	10,110
Cash & Temp. Inv.	1,629	1,457	1,760	1,795	2,725	3,239	3,613
LT Assets	7,482	7,451	8,149	8,896	9,702	10,581	11,544
P, P & E	3,011	3,422	4,095	4,815	5,591	6,435	7,360
TOTAL LIABILITIES	6,557	6,660	7,387	7,569	8,543	8,972	9,302
ST Liabilities	1,987	2,029	2,244	2,411	2,861	3,261	3,562
LT Liabilities	4,570	4,632	5,143	5,157	5,682	5,711	5,739
TOTAL DEBT	4,007	4,188	4,716	4,685	5,420	5,581	5,610
NET DEBT	2,378	2,731	2,956	2,890	2,695	2,342	1,997
TOTAL CAPITAL	6,555	6,478	7,212	8,305	9,422	10,762	12,416
Stockholder's Equity	6,444	6,357	7,077	8,150	9,245	10,561	12,184
Minority Interest	112	121	135	155	176	201	232
CASH FLOW STATEMENT	2021	2022E	2023E	2024E	2025E	2026E	2027E
PRE-TAX PROFIT	322	837	1,570	2,092	2,126	2,451	2,905
Inv. Related Activities	985	1,374	1,571	1,607	1,643	1,679	1,715
Pre-Tax Cash Flow	1,348	2,153	1,514	1,903	1,896	2,105	2,401
Working Capital Changes	-1,100	-708	-260	-280	-115	-109	-346
Operating Cash Flow	248	1,445	1,254	1,623	1,781	1,996	2,055
Investment Cash Flow	-506	-588	-615	-686	-695	-745	-807
Financing Cash Flow	-1,198	-802	-7	-572	174	-407	-544
Net Incr. (Decr.) in Cash & Temp. Inv.	-1,464	-89	632	364	1,260	844	704
Beg. of Period Cash and Temp. Inv.	3,092	1,629	1,457	1,760	1,795	2,725	3,239
End of Period Cash and Temp. Inv.	1,629	1,457	1,760	1,795	2,725	3,239	3,613

Source: Miranda Global Research Research

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