

# AGUA: 4Q22 Results

Positive performance fueled by the products business and a significant recovery in services

AGUA*	BUY
Target Price (MXN\$)	\$ 45.00
Current Price (MXN\$)	\$ 28.81
Min / Max (L12M)	\$ 21.00 - 34.71
Expected Dividend (MXN\$)	\$ 0.50
Expected Return	57.9%
Market Cap (MXN\$ Mn)	14,008
Enterprise Value (MXN\$ Mn)	17,345
Outstanding Shares (Mn)	486.2
Float	23.7%
ADTV (MXN\$ Mn)	\$ 8.30

## Opinion and recommendation

AGUA reported positive 4Q22 results that were in line with our forecasts in terms of revenues and EBITDA, but exceeded our estimates in terms of net profits.

Annual figures reached record levels and the company met its 2022 results and ESG guidance. It also released its guidance for 2023, which includes an increase in revenue of more than 15% with an adjusted EBITDA margin between 16.0-17.0%, leverage below 2.0x and an ROIC of 150 bps above the cost of capital. We believe such guidance is achievable.

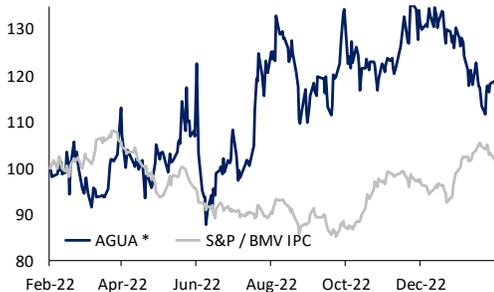
We expect a favorable short-term reaction in AGUA's shares and we are reiterating our BUY recommendation with a MXN\$45.0/share target price.

## Revenues

AGUA revenues were up 11.6% YoY to MXN\$3,125 million (vs. our MXN\$3,187 million expectation) mainly driven by the “Ofertas Azules” strategy in Mexico’s storage and water flow categories. Argentina also contributed with a 10.9% revenue growth due to higher prices, which was partially offset by the slowdown in the construction sector and lower spending during the soccer World Cup. AGUA’s services business experienced a significant 25.6% recovery supported by the expansion of Bebbia, which reached 88 thousand users.

## Profitability

Profitability at the consolidated level improved in a significant way due to price adjustments in several regions, which boosted the gross margin by 560 bps annually to 45.0%, the best one of the year.



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However, the company recognized MXN\$68 million in new business expansion expenses at the EBITDA level in the current quarter, compared to only MXN\$23 million in 4Q21. This caused the adjusted EBITDA margin to contract 50 bps to 17.6% (above the 16.8% that we anticipated). For this reason, adjusted EBITDA grew 8.3% YoY MXN\$550 million (vs. MXN\$536 million E). By region, profitability improved in Mexico and in the other countries, but was lower in Argentina (negative operating leverage due to lower volumes) and the United States (pre-operating expenses of the septic business and technological expenses related to the e-commerce platform).

The company posted a higher-than-expected MXN\$370 million (vs. MXN\$177 million E) net profit, from a MXN\$92 million net profit in 4Q21. It was favored by a stronger operating performance and MXN\$99 million in tax gains, compared to a MXN\$41 million charge in the same period of the previous year. ROIC was 14.1%, exceeding the cost of capital by 140 bps.

### Working capital

The cash conversion cycle increased by 12 days to 73 days as a result of higher inventory days as the company guaranteed the supply of raw materials, coupled with a reduction in supplier days.

### Financial structure

The net debt to EBITDA ratio was 1.7x at the end of 4Q22, which compared to 1.3x in the same period of the previous year. This was mainly attributed to a reduction in cash levels, given the purchase of raw materials.

### Capital reimbursement

AGUA's Board of Directors will propose a MXN\$0.50/share capital reimbursement at the next Shareholders' Meeting. The yield is 1.7% against the last closing price.

(Figures in Millions of MXN\$)	4Q22	4Q22E	Diff.	4Q21	Change
Revenues	3,125	3,187	-1.9%	2,800	11.6%
Adjusted EBITDA	550	536	2.5%	508	8.3%
<i>EBITDA Margin</i>	<i>17.6%</i>	<i>16.8%</i>		<i>18.1%</i>	
Financial Gains	105	40	161.5%	-13	-937.4%
Financial Cost	-287	-222	29.0%	-172	66.8%
Pre-Tax Profit	271	253	7.2%	143	88.9%
Income Tax & Profit Sharing	99	-76	n.a.	-41	n.a.
<i>Tax &amp; Profit Sharing Rate</i>	<i>-36.6%</i>	<i>30.0%</i>		<i>28.7%</i>	
Net Profit	370	177	109.2%	92	302.4%
ROIC	14.1%	13.8%		14.5%	

## Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	2,567	2,936	3,354	3,826	4,300	4,505
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-770	-881	-1,006	-1,148	-1,290	-1,352
NOPLAT	1,797	2,055	2,348	2,678	3,010	3,154
Depreciation	496	532	568	604	604	633
Working Capital Changes	-273	259	-76	-282	-310	-325
CAPEX	-809	-890	-980	-1,080	-1,189	-1,246
FCFF	1,212	1,956	1,859	1,921	2,115	2,216
Perpetuity Growth Rate						4.8%
PV of Explicit Period (2024 - 2028E)						6,560
Perpetuity Value						35,698
PV of Perpetuity Value						19,091
Enterprise Value						25,651
Net Debt						3,623
Minority Interest						147
Market Value						21,881
Outstanding Shares						486
Target Price						P\$ 45.00
Current Market Price						P\$ 28.81
Potential Return Incl. Dividends						57.8%
Forward EV/EBITDA						8.4x
Forward P/E						17.1x
Average Cost of Debt						8.9%
LT Tax Rate						30.0%
After-Tax Cost of Debt						6.2%
Cost of Equity						14.8%
Market Risk Premium						6.0%
Risk-Free Rate						8.7%
Beta						1.02
% Total Debt						39.3%
% Capital						60.7%
ESG Adjusted WACC						11.0%

**Sensitivity Analysis, EV/EBITDA vs. EBITDA**

	-10%	-5%	<i>Original</i>	+5%	+10%
<b>Projected EBITDA</b>	<b>2,765</b>	<b>2,910</b>	<b>3,063</b>	<b>3,216</b>	<b>3,377</b>
<b>Target EV/EBITDA</b>					
6.9x	31.32	33.38	35.55	37.72	40.00
7.4x	34.16	36.37	38.70	41.03	43.48
7.9x	37.00	39.36	41.85	44.34	46.95
<b>8.4x</b>	<b>39.84</b>	<b>42.36</b>	<b>45.00</b>	<b>47.65</b>	<b>50.42</b>
8.9x	42.69	45.35	48.15	50.95	53.90
9.4x	45.53	48.34	51.30	54.26	57.37

**Sensitivity Analysis, P/E vs. Net Profit**

	-10%	-5%	<i>Original</i>	+5%	+10%
<b>Projected Net Profit</b>	<b>1,157</b>	<b>1,217</b>	<b>1,282</b>	<b>1,346</b>	<b>1,413</b>
<b>Target P/E</b>					
14.1x	33.48	35.24	37.09	38.95	40.90
15.1x	35.86	37.74	39.73	41.72	43.80
16.1x	38.24	40.25	42.37	44.48	46.71
<b>17.1x</b>	<b>40.61</b>	<b>42.75</b>	<b>45.00</b>	<b>47.25</b>	<b>49.61</b>
18.1x	42.99	45.26	47.64	50.02	52.52
19.1x	45.37	47.76	50.27	52.79	55.43

(Figures in Millions of MXN\$)

<b>INCOME STATEMENT</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
Revenues	12,774	14,690	16,174	17,809	19,609	21,591	23,774
Cost of Sales	-7,331	-8,411	-9,245	-10,161	-11,168	-12,276	-13,493
Gross Profit	5,444	6,279	6,930	7,648	8,440	9,315	10,281
<i>Gross Margin</i>	42.6%	42.7%	42.8%	42.9%	43.0%	43.1%	43.2%
General Expenses	-3,859	-4,332	-4,362	-4,712	-5,086	-5,489	-5,981
Operating Profit	1,584	1,947	2,567	2,936	3,354	3,826	4,300
<i>Operating Margin</i>	12.4%	13.3%	15.9%	16.5%	17.1%	17.7%	18.1%
Adjusted EBITDA	1,982	2,407	3,063	3,468	3,922	4,430	4,904
<i>EBITDA Margin</i>	15.5%	16.4%	18.9%	19.5%	20.0%	20.5%	20.6%
Financial Gains	198	102	153	209	365	525	680
Financial Cost	-966	-771	-801	-801	-876	-948	-984
Pre-Tax Profit	817	1,285	1,930	2,356	2,857	3,418	4,010
Income Tax & Profit Sharing	-61	-386	-579	-707	-857	-1,025	-1,203
<i>Tax &amp; Profit Sharing Rate</i>	7.5%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Profit	756	900	1,351	1,649	2,000	2,392	2,807
Outstanding Shares	486	486	486	486	486	486	486
EPS	P\$ 1.51	P\$ 1.76	P\$ 2.64	P\$ 3.22	P\$ 3.90	P\$ 4.67	P\$ 5.48
<b>BALANCE SHEET</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
TOTAL ASSETS	12,528	13,728	15,139	17,014	19,133	21,938	24,444
Current Assets	4,685	5,372	6,049	7,142	8,422	10,323	11,813
Cash & Temp. Inv.	673	881	1,132	2,315	3,334	4,750	5,706
LT Assets	7,843	8,356	9,090	9,872	10,711	11,615	12,631
P, P & E	3,272	3,946	4,659	5,417	6,230	7,105	8,090
TOTAL LIABILITIES	6,101	6,834	7,286	7,918	8,461	9,319	9,483
ST Liabilities	1,502	2,234	2,686	2,807	3,336	4,179	4,330
LT Liabilities	4,600	4,600	4,600	5,111	5,125	5,139	5,154
TOTAL DEBT	4,009	4,504	4,802	5,266	5,624	6,278	6,219
NET DEBT	3,337	3,623	3,670	2,951	2,290	1,528	513
TOTAL CAPITAL	6,427	6,958	7,917	9,160	10,736	12,683	15,024
Stockholder's Equity	6,291	6,811	7,750	8,967	10,509	12,416	14,707
Minority Interest	136	147	167	193	227	268	317
<b>CASH FLOW STATEMENT</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
PRE-TAX PROFIT	756	1,285	1,930	2,356	2,857	3,418	4,010
Inv. Related Activities	1,118	555	591	627	663	699	699
Pre-Tax Cash Flow	1,925	1,879	1,957	2,228	2,458	2,724	2,968
Working Capital Changes	-927	-478	-273	259	-76	-282	-310
Operating Cash Flow	998	1,402	1,684	2,486	2,382	2,442	2,658
Investment Cash Flow	-601	-654	-677	-703	-637	-576	-530
Financing Cash Flow	-1,073	6	-212	-56	-182	96	-627
Net Incr. (Decr.) in Cash & Temp. Inv.	-956	754	796	1,728	1,563	1,961	1,501
Beg. of Period Cash and Temp. Inv.	1,629	673	881	1,132	2,315	3,334	4,750
End of Period Cash and Temp. Inv.	673	881	1,132	2,315	3,334	4,750	5,706

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