

CYDSA: 3Q22 Results

Excellent results due to higher caustic soda prices and high demand for salt and refrigerant gases

CYDSASA A	BUY
Target Price (MXN\$)	\$ 26.00
Current Price (MXN\$)	\$ 12.72
Min / Max (L12M)	\$12.20 - 14.98
Expected Dividend (MXN\$)	\$ 0.36
Expected Return	107.3%
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)	\$ 0.74



Opinion and recommendation

CYDSA reported excellent 3Q22 results that were above our projections. The company continued to benefit from high international prices for caustic soda, as well as high demand for salt and refrigerant gases.

We adjusted our target price to MXN\$26.0/share, from MXN\$31.0/share, to reflect the impact of higher interest rates on our discounted cash flow model. The recommendation remains BUY.

Revenues

Total revenues rose 27% YoY to MXN\$3,548 million (vs. our forecast of MXN\$3,377 million) driven by a strong 29% increase in the Chemicals and Manufacturing and Specialties division, which enjoyed higher international prices for caustic soda in addition to a high demand for salt and refrigerant gases. This offset the slight decline in Energy Processing and Logistics sales.

Profitability

EBITDA was up 21% YoY to MXN\$867 million (vs. MXN\$831 million E) supported by high revenue growth, partially offset by the increase in costs of natural gas for industrial users, transportation and packaging materials. For this reason, the EBITDA margin contracted to 24.4% in the current quarter, from 25.6% in the same period last year.

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Net income stood at MXN\$245 million (vs. MXN\$206 million E), nearly doubling last year's figure of MXN\$123 million. The bottom line benefited from a reduction in net financial expenses and the strong operating performance.

Financial structure

Net debt rose to US\$554.9 million, compared to US\$481.0 million in the previous year and US\$498.4 million at the end of 2021. Such increase was due to investments that the company made in its new Chlorine and Caustic Soda plant in Coatzacoalcos. Despite this, the net debt to EBITDA ratio was 3.3x at the end of the current quarter, marginally higher than the 3.2x of the previous year.

(Figures in Million Pesos)	3Q22	3Q22E	Diff.	3Q21	Chg.
Revenues	3,548	3,377	5.1%	2,806	26.5%
Operating Profit	599	536	11.8%	476	25.9%
<i>Operating Margin</i>	16.9%	15.9%		16.9%	
EBITDA	867	831	4.3%	719	20.6%
EBITDA Margin	24.4%	24.6%		25.6%	
Financial Gains	34	14	145.2%	7	382.6%
Financial Cost	-242	-251	-3.9%	-236	2.2%
Pre-Tax Profit	391	294	33.1%	246	58.8%
Income Tax & Profit Sharing	-146	-88	n.a.	-125	n.a.
Net Profit	245	206	18.8%	123	98.9%

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2023E	2024E	2025E	2026E	2027E	Perp.
OPERATING PROFIT	2,329	2,518	3,715	4,675	5,545	5,617
Tax Rate	31%	31%	31%	31%	31%	30%
Tax Shield	-710	-768	-1,133	-1,426	-1,691	-1,713
NOPLAT	1,618	1,750	2,582	3,249	3,854	3,904
Depreciation	1,286	1,382	1,553	1,739	1,927	1,952
Working Capital Changes	-22	-490	-349	-212	-179	-181
CAPEX	-2,400	-3,880	-3,964	-4,052	-2,080	-2,107
FCFF	483	-1,238	-177	724	3,522	3,567
Perpetuity Growth Rate						1.3%
PV of Explicit Period (2023 - 2027E)						1,978
Perpetuity Value						41,685
PV of Perpetuity Value						23,722
Enterprise Value						25,700
Net Debt						12,171
Minority Interest						432
Market Value						13,098
Land Properties						2,500
Adjusted Market Value						15,598
Outstanding Shares						600
Target Price						P\$ 26.00
Current Market Price						P\$ 12.72
Potential Return Incl. Dividends						107.5%
Forward EV/EBITDA						8.2x
Forward P/E						21.5x
Average Cost of Debt						5.9%
LT Tax Rate						30.0%
After-Tax Cost of Debt						4.1%
Cost of Equity						17.6%
Market Risk Premium						6.0%
Risk-Free Rate						10.0%
Beta						1.28
% Total Debt						57.5%
% Capital						42.5%
WACC						9.9%

(Figures in Millions of MXN\$)

INCOME STATEMENT	2021	2022E	2023E	2024E	2025E	2026E	2027E
Revenues	11,339	13,279	14,196	15,257	17,146	19,200	21,270
Cost of Sales	-6,950	-8,200	-8,770	-9,400	-9,820	-10,900	-12,000
Gross Profit	4,389	5,079	5,426	5,857	7,326	8,300	9,270
<i>Gross Margin</i>	<i>38.7%</i>	<i>38.2%</i>	<i>38.2%</i>	<i>38.4%</i>	<i>42.7%</i>	<i>43.2%</i>	<i>43.6%</i>
General Expenses	-2,565	-2,950	-3,150	-3,400	-3,680	-3,700	-3,800
Operating Profit	1,973	2,173	2,329	2,518	3,715	4,675	5,545
<i>Operating Margin</i>	<i>17.4%</i>	<i>16.4%</i>	<i>16.4%</i>	<i>16.5%</i>	<i>21.7%</i>	<i>24.3%</i>	<i>26.1%</i>
Depreciation and Amortization	-1,009	-1,203	-1,286	-1,382	-1,553	-1,739	-1,927
EBITDA	2,979	3,332	3,562	3,839	5,200	6,339	7,397
<i>EBITDA Margin</i>	<i>26.3%</i>	<i>25.1%</i>	<i>25.1%</i>	<i>25.2%</i>	<i>30.3%</i>	<i>33.0%</i>	<i>34.8%</i>
Financial Gains	40	251	96	103	114	129	143
Financial Cost	-1,156	-1,097	-1,274	-1,443	-1,651	-1,827	-1,951
Pre-Tax Profit	839	1,324	1,150	1,177	2,179	2,976	3,737
Income Tax & Profit Sharing	-225	-426	-351	-359	-664	-908	-1,140
<i>Tax & Profit Sharing Rate</i>	<i>26.8%</i>	<i>32.2%</i>	<i>30.5%</i>	<i>30.5%</i>	<i>30.5%</i>	<i>30.5%</i>	<i>30.5%</i>
Net Profit	619	895	801	820	1,516	2,071	2,599
BALANCE SHEET	2021	2022E	2023E	2024E	2025E	2026E	2027E
TOTAL ASSETS	29,893	31,195	33,022	36,706	41,383	46,698	50,825
Current Assets	8,284	8,598	9,037	9,538	10,629	11,698	12,751
LT Assets	21,609	22,597	23,985	27,168	30,754	35,000	38,073
TOTAL LIABILITIES	19,518	20,188	21,637	24,939	28,617	32,444	34,617
ST Liabilities	3,638	5,015	6,464	7,126	8,103	9,171	11,344
LT Liabilities	15,880	15,173	15,173	17,813	20,513	23,273	23,273
TOTAL DEBT	14,475	14,957	16,156	19,636	23,012	26,389	28,083
NET DEBT	10,320	12,171	13,203	16,493	19,428	22,399	23,698
TOTAL CAPITAL	10,375	11,040	11,418	11,800	12,800	14,288	16,241
Stockholder's Equity	9,990	10,608	10,971	11,339	12,299	13,729	15,605
Minority Interest	386	432	447	462	501	559	635
CASH FLOW STATEMENT	2021	2022E	2023E	2024E	2025E	2026E	2027E
PRE-TAX PROFIT	619	961	1,150	1,177	2,179	2,976	3,737
Inv. Related Activities	2,362	2,654	3,426	3,628	3,977	4,374	4,773
Pre-Tax Cash Flow	2,978	2,318	3,162	3,117	3,749	3,940	3,859
Working Capital Changes	-889	-681	-22	-490	-349	-212	-179
Operating Cash Flow	2,089	1,637	3,140	2,627	3,400	3,727	3,680
Investment Cash Flow	-2,243	-2,392	-2,304	-3,777	-3,850	-3,924	-1,937
Financing Cash Flow	-1,383	-580	-626	1,383	934	646	-1,304
Net Incr. (Decr.) in Cash & Temp. Inv.	-1,407	-1,358	210	233	484	450	438
Beg. of Period Cash and Temp. Inv.	5,562	4,155	2,786	2,953	3,143	3,584	3,990
End of Period Cash and Temp. Inv.	4,155	2,786	2,953	3,143	3,584	3,990	4,385

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