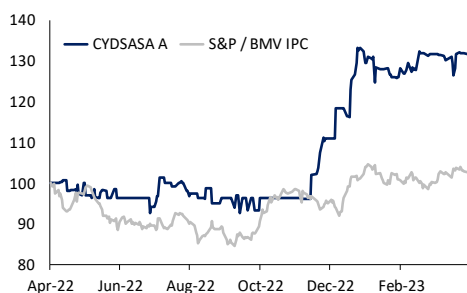


# CYDSA: 1Q23 Results

Stronger-than-expected performance in Chemicals Manufacturing and Specialties propels revenues and profitability; positive

CYDSASA A	BUY
Target Price (MXN\$)	\$ 42.00
Current Price (MXN\$)	\$ 17.90
Min / Max (L12M)	\$12.50 - 18.48
Expected Dividend (MXN\$)	\$ 0.42
Expected Return	137.0%
Market Cap (MXN\$ Mn)	10,740
Enterprise Value (MXN\$ Mn)	21,077
Outstanding Shares (Mn)	600.0
Float	49.9%
6-Month ADTV (MXN\$ Mn)	\$ 0.50



## Opinion and recommendation

CYDSA delivered very positive 1Q23 results. Revenues and EBITDA exceeded our projections due to a stronger-than-expected performance in the Chemicals Manufacturing and Specialties business.

We expect a short-term favorable reaction in the stock price. We reiterate a BUY recommendation and are raising our target price to MXN\$42.0/share after having updated our model.

CYDSA's prospects are favorable due to the opening of the Coatzacoalcos chlorine and caustic soda plant, which is more efficient in energy consumption. In addition, we anticipate that international prices of caustic soda and chemical specialties that the company manufactures will remain at high levels.

## Revenues

CYDSA's revenues were up 20.1% YoY to MXN\$3.67 billion (vs. our MXN\$3.55 billion expectation), which was mainly due to a 21.7% increase in Chemicals Manufacturing and Specialties sales. This unit benefited from higher international prices for caustic soda and chemical specialties, a solid demand for edible salt and rising refrigerant gases exports. Meanwhile, Energy Processing and Logistics revenues remained stable.

## Profitability

EBITDA grew 45.2% YoY to MXN\$1,154 million (vs. our MXN\$955 million estimate) due to the company's operating leverage. The EBITDA margin improved to 31.4% in the current quarter, from 26.0% in 1Q22.

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Quarterly net profits rose 100% to MXN\$475 million, as a result of the favorable operating performance coupled with the reduction in financial expenses due to refinancing and repurchases of Senior Notes that the company carried out last year. This was partially offset by lower FX gains.

### Financial structure

The net debt to EBITDA ratio was 2.9x at the end of the current quarter, compared to 3.4x in the same period last year. Net debt increased 3.0% to US\$572.9 million due to the investments that CYDSA carried out in the construction of the new chlorine and caustic soda plant in Coatzacoalcos. We estimate that the average cost of debt is 7.30%.

(Figures in Million Pesos)	1Q23	1Q23E	Diff.	1Q22	Chg.
Revenues	3,670	3,550	3.4%	3,055	20.1%
Operating Profit	891	638	39.6%	529	68.4%
<i>Operating Margin</i>	24.3%	18.0%		17.3%	
EBITDA	1,154	955	20.8%	795	45.2%
EBITDA Margin	31.4%	26.9%		26.0%	
Financial Gains	161	37	339.3%	201	-20.1%
Financial Cost	-229	-124	84.7%	-269	-14.8%
Net Profit	475	550	-13.6%	238	99.4%

## Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	4,149	5,209	6,347	7,396	7,645	7,884
Tax Rate	31%	31%	31%	31%	31%	30%
Tax Shield	-1,265	-1,589	-1,936	-2,256	-2,332	-2,405
NOPLAT	2,883	3,620	4,411	5,140	5,313	5,479
Depreciation	1,062	1,190	1,330	1,471	2,150	2,217
Working Capital Changes	-93	-316	-209	-29	-14	-14
CAPEX	-3,880	-3,964	-4,052	-2,080	-2,200	-2,269
FCFF	-28	531	1,480	4,502	5,249	5,414
Perpetuity Growth Rate						3.1%
PV of Explicit Period (2024 - 2028E)						7,074
Perpetuity Value						55,829
PV of Perpetuity Value						27,068
Enterprise Value						34,141
Net Debt						10,953
Minority Interest						490
Market Value						22,698
Land Properties						2,500
Adjusted Market Value						25,198
Outstanding Shares						600
Target Price						P\$ 42.00
Current Market Price						P\$ 17.90
Potential Return Incl. Dividends						137.0%
Forward EV/EBITDA						7.5x
Forward P/E						11.1x
Average Cost of Debt						7.3%
LT Tax Rate						30.0%
After-Tax Cost of Debt						5.1%
Cost of Equity						21.7%
Market Risk Premium						6.0%
Risk-Free Rate						8.8%
Beta						2.15
% Total Debt						53.5%
% Capital						46.5%
WACC						12.8%

(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	13,612	14,768	15,874	17,794	19,880	21,984	23,301
Cost of Sales	-8,158	-8,070	-8,430	-8,700	-9,700	-10,700	-11,300
Gross Profit	5,455	6,698	7,444	9,094	10,180	11,284	12,001
<i>Gross Margin</i>	<i>40.1%</i>	<i>45.4%</i>	<i>46.9%</i>	<i>51.1%</i>	<i>51.2%</i>	<i>51.3%</i>	<i>51.5%</i>
General Expenses	-2,930	-3,003	-3,356	-3,954	-3,908	-3,963	-4,356
Operating Profit	2,482	3,602	4,149	5,209	6,347	7,396	7,645
<i>Operating Margin</i>	<i>18.2%</i>	<i>24.4%</i>	<i>26.1%</i>	<i>29.3%</i>	<i>31.9%</i>	<i>33.6%</i>	<i>32.8%</i>
Depreciation and Amortization	-1,095	-988	-1,062	-1,190	-1,330	-1,471	-2,150
EBITDA	3,536	4,683	5,150	6,331	7,602	8,792	9,795
<i>EBITDA Margin</i>	<i>26.0%</i>	<i>31.7%</i>	<i>32.4%</i>	<i>35.6%</i>	<i>38.2%</i>	<i>40.0%</i>	<i>42.0%</i>
Financial Gains	386	274	159	178	198	223	269
Financial Cost	-980	-778	-1,047	-1,176	-1,298	-1,302	-1,263
Pre-Tax Profit	1,876	3,098	3,260	4,211	5,248	6,317	6,651
Income Tax & Profit Sharing	-576	-1,031	-994	-1,284	-1,601	-1,927	-2,029
<i>Tax &amp; Profit Sharing Rate</i>	<i>30.7%</i>	<i>33.3%</i>	<i>30.5%</i>	<i>30.5%</i>	<i>30.5%</i>	<i>30.5%</i>	<i>30.5%</i>
Net Profit	1,296	2,069	2,268	2,929	3,650	4,393	4,625
<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	30,145	30,734	35,312	39,978	46,230	49,860	53,286
Current Assets	7,700	8,961	9,614	10,444	11,615	12,979	13,789
LT Assets	22,445	21,772	25,698	29,534	34,615	36,881	39,497
TOTAL LIABILITIES	18,942	18,887	21,545	23,664	26,685	26,380	25,661
ST Liabilities	4,482	5,555	5,813	5,411	5,853	5,547	4,828
LT Liabilities	14,460	13,333	15,733	18,253	20,833	20,833	20,833
TOTAL DEBT	13,693	13,735	16,066	17,997	20,470	19,689	18,619
NET DEBT	10,925	10,953	13,052	14,656	16,715	15,074	13,558
TOTAL CAPITAL	11,203	11,939	13,860	16,406	19,637	23,573	27,718
Stockholder's Equity	10,769	11,449	13,291	15,733	18,831	22,606	26,581
Minority Interest	435	490	569	673	806	967	1,137
<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>
Net Profit	1,296	2,752	3,260	4,211	5,248	6,317	6,651
Inv. Related Activities	2,270	2,803	2,944	3,166	3,408	3,671	4,583
Pre-Tax Cash Flow	3,542	3,136	3,348	4,259	3,891	5,431	5,345
Working Capital Changes	-976	-977	-93	-316	-209	-29	-14
Operating Cash Flow	2,565	2,159	3,255	3,943	3,682	5,402	5,331
Investment Cash Flow	-2,415	-1,593	-3,721	-3,786	-3,854	-1,857	-1,931
Financing Cash Flow	-1,436	60	1,312	783	1,199	-2,072	-2,341
Net Incr. (Decr.) in Cash & Temp. Inv.	-1,386	473	846	940	1,028	1,473	1,060
Beg. of Period Cash and Temp. Inv.	4,155	2,769	2,782	3,015	3,341	3,755	4,615
End of Period Cash and Temp. Inv.	2,769	2,782	3,015	3,341	3,755	4,615	5,061

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