

AGUA: 2Q23 Preview

Lower revenues due to a high comparison base and FX appreciation, offset by higher profitability levels

AGUA*	BUY
Target Price (MXN\$)	\$ 44.00
Current Price (MXN\$)	\$ 27.33
Min / Max (L12M)	\$ 23.51 - 34.71
Expected Dividend (MXN\$)	\$ 0.50
Expected Return	62.8%
Market Cap (MXN\$ Mn)	13,289
Enterprise Value (MXN\$ Mn)	16,753
Outstanding Shares (Mn)	486.2
Float	23.7%
ADTV (MXN\$ Mn)	\$ 6.08



Opinion and recommendation

We believe that AGUA will face a challenging 2Q23. However, we expect an improvement in the company's operating performance from 4Q23. We thus recommend taking advantage of any adjustment in the stock price. Our fundamental recommendation is BUY with a MXN\$44.00/share target price.

2Q23 preview

We expect AGUA to register a 10% drop in consolidated revenues to nearly MXN\$3.1 billion, mainly due to a high comparison base. According to Conagua data, the rainfall level during the first six months of this year in the state of Nuevo León was 76% higher than the previous year, which we believe will reduce demand for the company's products. We also believe that the FX appreciation will affect international revenues.

We expect profitability at the consolidated level to improve again as a result of pricing strategies. The EBITDA margin will likely expand to 17.1% in 2Q23, from 15.3% in 2Q22. EBITDA will rise marginally to MXN\$531 million. We project that the company will post a MXN\$11 million net loss in the quarter due to losses on derivatives.

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Martin Lara
 +5255-6413-8563
 martin.lara@miranda-gr.com

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