

AGUA: 2Q23 Results

Neutral results, virtually in lines with our forecasts

AGUA*	BUY
Target Price (MXN\$)	\$ 44.00
Current Price (MXN\$)	\$ 25.87
Min / Max (L12M)	\$ 24.06 - 34.71
Expected Dividend (MXN\$)	\$ 0.50
Expected Return	72.0%
Market Cap (MXN\$ Mn)	12,579
Enterprise Value (MXN\$ Mn)	16,231
Outstanding Shares (Mn)	486.2
Float	23.7%
ADTV (MXN\$ Mn)	\$ 6.08

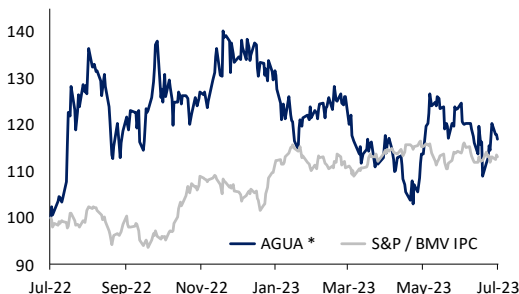
Opinion and recommendation

AGUA reported neutral 2Q23 results that were practically in line with our projections in terms of revenues, EBITDA and net loss. We reiterate our BUY recommendation with a MXN\$44.0/share target price due to its favorable long-term prospects.

The company modified its guidance for the year, it now expects stable sales with an EBITDA margin between 17-18%, a ROIC higher than the WACC by 250 bps and leverage equal to or less than 2.0x. Previously, it expected revenue growth of over 10% with an EBITDA margin between 16-17% and a ROIC above the WACC by 150 bps, with the same leverage level. We believe that this guidance is achievable taking into account the results of the first half of the year.

Revenues

Total revenues decreased 12.9% to MXN\$3,004 million (vs. our MXN\$3,097 million estimate) mainly as a result of last year's high comparison base in Mexico (sales -12.3%), since the operations of this country experienced a very high demand in that period due to the prevailing drought. In addition, the appreciation of FX against other currencies impacted the sales of international operations (Argentina -6.9%, USA -22.0%, others -21.5%) when measured in Mexican pesos. Product revenues fell 14.3%, which was partially offset by high 33.0% growth in service sales due to *Bebbia's* expansion in Mexico and higher demand for water treatment and recycling plants in Brazil.



July 26th, 2023

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

Profitability

AGUA continued to implement a successful pricing strategy and benefited from the reduction in the raw material cost, which boosted the gross margin by 320 bps to 45.4%. The efficient management of expenses led to a 310 bps improvement in the EBITDA margin to 18.4%. Total EBITDA thus grew 4.9% to MXN\$554 million (vs. MXN\$531 million E). Mexico was the main driver with a 700 bps margin expansion.

The company recorded a MXN\$24 million (vs. MXN\$11 million E) quarterly net loss mainly as a result of a MXN\$252 million loss in the mark-to-market of financial instruments. The ROIC reached 17.6% in the period, higher than the WACC of 12.1%.

Financial structure / Working capital

The net debt to EBITDA ratio remained stable at 1.6x while the interest coverage improved to 9.5x, from 5.2x.

On the other hand, the cash conversion cycle increased by 11 days to 70 days as a result of lower volumes in some countries.

(Figures in Millions of MXN\$)	2Q23	2Q23E	Diff.	2Q22	Change
Revenues	3,004	3,097	-3.0%	3,447	-12.9%
Adjusted EBITDA	554	531	4.3%	528	4.9%
<i>EBITDA Margin</i>	18.4%	17.1%		15.3%	
Financial Gains	44	22	97.6%	17	160.1%
Financial Cost	-483	-456	6.0%	-212	128.2%
Pre-Tax Profit	-6	-15	-63.1%	235	n.a.
Income Tax & Profit Sharing	-19	5	n.a.	-113	-83.7%
<i>Tax & Profit Sharing Rate</i>	-325.4%	30.0%		48.2%	
Net Profit	-24	-11	124.1%	122	n.a.
ROIC	17.6%	17.0%		13.1%	

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	2,302	2,652	3,101	3,578	4,084	4,298
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-691	-796	-930	-1,073	-1,225	-1,289
NOPLAT	1,612	1,856	2,171	2,505	2,859	3,009
Depreciation	496	532	568	604	604	636
Working Capital Changes	-293	55	-323	-362	-407	-428
CAPEX	-713	-795	-888	-992	-1,108	-1,166
FCFF	1,102	1,649	1,528	1,755	1,948	2,050
Perpetuity Growth Rate						5.2%
PV of Explicit Period (2024 - 2028E)						5,774
Perpetuity Value						36,118
PV of Perpetuity Value						19,399
Enterprise Value						25,173
Net Debt						3,657
Minority Interest						121
Market Value						21,395
Outstanding Shares						486
Target Price						P\$ 44.00
Current Market Price						P\$ 25.87
Potential Return Incl. Dividends						71.8%
Forward EV/EBITDA						9.0x
Forward P/E						19.2x
Average Cost of Debt						8.9%
LT Tax Rate						30.0%
After-Tax Cost of Debt						6.2%
Cost of Equity						14.9%
Market Risk Premium						6.0%
Risk-Free Rate						8.8%
Beta						1.02
% Total Debt						41.2%
% Capital						58.8%
ESG Adjusted WACC						10.9%

Sensitivity Analysis, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	2,526	2,659	2,798	2,938	3,085
Target EV/EBITDA					
7.5x	31.14	33.20	35.37	37.54	39.82
8.0x	33.73	35.93	38.25	40.56	42.99
8.5x	36.33	38.67	41.12	43.58	46.16
9.0x	38.93	41.40	44.00	46.60	49.33
9.5x	41.52	44.13	46.88	49.62	52.51
10.0x	44.12	46.87	49.76	52.65	55.68

Sensitivity Analysis, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	1,007	1,060	1,115	1,171	1,230
Target P/E					
16.2x	33.50	35.26	37.12	38.98	40.92
17.2x	35.57	37.44	39.41	41.38	43.45
18.2x	37.64	39.62	41.71	43.79	45.98
19.2x	39.71	41.80	44.00	46.20	48.51
20.2x	41.78	43.98	46.29	48.61	51.04
21.2x	43.85	46.16	48.59	51.02	53.57

(Figures in Millions of MXN\$)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	12,774	12,777	14,252	15,905	17,757	19,832	22,159
Cost of Sales	-7,331	-7,011	-7,806	-8,696	-9,691	-10,804	-12,051
Gross Profit	5,444	5,766	6,446	7,209	8,066	9,028	10,109
<i>Gross Margin</i>	42.6%	45.1%	45.2%	45.3%	45.4%	45.5%	45.6%
General Expenses	-3,859	-3,952	-4,143	-4,557	-4,965	-5,450	-6,025
Operating Profit	1,584	1,814	2,302	2,652	3,101	3,578	4,084
<i>Operating Margin</i>	12.4%	14.2%	16.2%	16.7%	17.5%	18.0%	18.4%
Adjusted EBITDA	1,982	2,289	2,798	3,184	3,669	4,182	4,688
<i>EBITDA Margin</i>	15.5%	17.9%	19.6%	20.0%	20.7%	21.1%	21.2%
Financial Gains	198	113	135	194	343	499	680
Financial Cost	-966	-1,578	-854	-870	-988	-1,088	-1,184
Pre-Tax Profit	817	348	1,593	1,988	2,470	3,003	3,595
Income Tax & Profit Sharing	-61	-107	-478	-596	-741	-901	-1,079
<i>Tax & Profit Sharing Rate</i>	7.5%	30.8%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Profit	756	241	1,115	1,392	1,729	2,102	2,517
Outstanding Shares	486	486	486	486	486	486	486
EPS	P\$ 1.51	P\$ 0.42	P\$ 1.86	P\$ 2.32	P\$ 2.88	P\$ 3.50	P\$ 4.19
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	12,528	12,589	14,184	16,084	18,327	21,100	24,122
Current Assets	4,685	4,834	5,788	6,998	8,491	10,442	12,522
Cash & Temp. Inv.	673	511	998	2,068	3,019	4,363	5,761
LT Assets	7,843	7,755	8,396	9,086	9,836	10,658	11,601
P, P & E	3,272	3,234	3,850	4,514	5,233	6,021	6,925
TOTAL LIABILITIES	6,101	6,720	7,492	8,345	9,268	10,419	11,483
ST Liabilities	1,502	2,090	2,862	3,215	3,638	4,289	4,853
LT Liabilities	4,600	4,630	4,630	5,130	5,630	6,130	6,630
TOTAL DEBT	4,009	4,168	4,765	5,423	6,128	7,034	7,824
NET DEBT	3,337	3,657	3,768	3,356	3,109	2,671	2,062
TOTAL CAPITAL	6,427	5,939	6,762	7,809	9,129	10,752	12,710
Stockholder's Equity	6,291	5,818	6,625	7,650	8,943	10,533	12,451
Minority Interest	136	121	138	159	186	219	259
CASH FLOW STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Net Profit	756	339	1,593	1,988	2,470	3,003	3,595
Inv. Related Activities	1,118	1,328	1,247	1,283	1,319	1,355	1,355
Pre-Tax Cash Flow	1,925	1,761	1,495	1,708	1,897	2,102	2,278
Working Capital Changes	-927	-803	-293	55	-323	-362	-407
Operating Cash Flow	998	958	1,202	1,763	1,574	1,739	1,871
Investment Cash Flow	-601	-348	-666	-690	-634	-581	-516
Financing Cash Flow	-1,073	-659	13	60	73	248	106
Net Incr. (Decr.) in Cash & Temp. Inv.	-956	-130	549	1,132	1,013	1,407	1,461
Beg. of Period Cash and Temp. Inv.	1,629	673	511	998	2,068	3,019	4,363
End of Period Cash and Temp. Inv.	673	511	998	2,068	3,019	4,363	5,761

DISCLAIMER

The current report was prepared by Miranda Global Research ("Miranda GR") for Vector Casa de Bolsa, S.A. de C.V. The information is presented in summarized form and is not meant to be complete. There are no declarations or guarantees, expressed or implicit, in respect to the accuracy, impartiality or integrity of the information.

Miranda GR, in accordance to applicable legislation, has made sure that the presented personalized recommendation is reasonable to the client, as it has verified congruency between the client's profile and the profile of the financial product. Under no circumstance should it be understood that the fulfillment of the previously mentioned recommendation, guarantees the result or the success of the proposed strategies in the presented document.

The information included in this presentation was obtained from public sources. Projections or previsions included in this presentation, are a generalized recommendation and are based on subjective assumptions and estimations about events and circumstances that have not yet happened and are subjected to significant variations. Therefore, it is not possible to guarantee that any of the results included in the current report will happen in the future, in other words, it does not guarantee the result or the success of the posed strategies.

This report has been prepared solely with informational purposes. No declarations are made in respects to precision, sufficiency, veracity or accuracy of the information and opinions hereby included. Miranda GR will not answer (either because of negligence or for any other reason) for any damage or detriment derived or related to the use of this report or its content, or any connection to the report. Miranda GR is not responsible for the use or association with this report, including but not limited to, any declaration, expressed or implicit or guarantees or omissions included in this information.

This report is based on facts and/or events that have happened up to this date, consequently any future facts and/or events can impair the conclusions hereby expressed. Miranda GR does not assume any responsibility to update, review, rectify or invalidate this report based on any future occurrence.

The opinions related to this report eventually expressed by Miranda GR, should be considered only as suggestions/recommendations to better operate various topics related to the presentation.

This report and its contents are property of Miranda GR and cannot be reproduced or broadcast in part or in its entirety without the previous written consent of Miranda GR.

Miranda Global Research receives fees from Grupo Rotoplas, S.A.B. de C.V. for independent analyst services. Companies or Fibras under coverage will have no right or opportunity to exert any influence on opinions, projections, recommendations, and/or target prices expressed hereby by Miranda GR.
