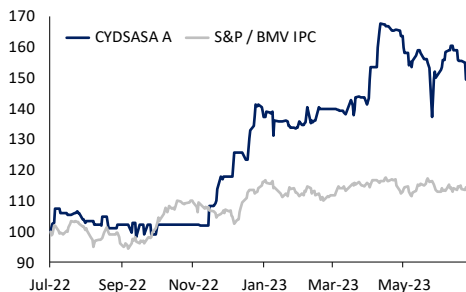


# CYDSA: 2Q23 Results

Positive quarter with higher-than-expected profitability levels due to a lower natural gas cost

CYDSASA A	BUY
Target Price (MXN\$)	\$ 42.00
Current Price (MXN\$)	\$ 18.00
Min / Max (L12M)	\$12.50 - 20.80
Expected Dividend (MXN\$)	\$ 0.46
Expected Return	135.9%
Market Cap (MXN\$ Mn)	10,800
Enterprise Value (MXN\$ Mn)	20,789
Outstanding Shares (Mn)	600.0
Float	49.9%
6-Month ADTV (MXN\$ Mn)	\$ 0.47



## Opinion and recommendation

CYDSA reported positive 2Q23 results with significant revenue growth in US dollar terms and stronger-than-expected profitability levels, which boosted the EBITDA in a substantial way. We expect a short-term positive reaction in the share price. At the same time, we are reiterating our BUY recommendation with a MXN\$42.0/share target price.

## Revenues

CYDSA's total revenues decreased 1.0% YoY in pesos (+12.3% in dollars) to MXN\$3.33 billion, slightly below our projection of MXN\$3.45 billion. The company benefited from a higher demand for edible salt and rising prices of chloride-alkali products and chemical specialties, which was offset by the decrease in refrigerant gas sales, both domestically and for the export market.

## Profitability

The cost of sales fell 16.3% thanks to lower natural gas costs. This resulted in a higher-than-expected 25.5% YoY EBITDA growth to MXN\$1.043 billion, above our MXN\$955 million estimate. The EBITDA margin expanded to 31.3% in 2Q23 (we expected 27.7%), from 24.7% in 2Q22. Worth mentioning that the EBITDA in US dollars registered a substantial 42.3% increase to US\$58.9 million.

Net profits rose 114.4% YoY to MXN\$561 million (vs. MXN\$550 million E), supported by the strong operating performance in combination with FX gains of MXN\$219 million, compared to FX losses of MXN\$58 million the previous year.

July 24<sup>th</sup>, 2023

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## Financial structure

The financial structure strengthened since the net debt to EBITDA ratio was 2.7x at the end of the current quarter, from 3.4x in 2Q22, despite the investments that the company made in the new Coatzacoalcos plant.

(Figures in Million Pesos)	2Q23	2Q23E	Diff.	2Q22	Chg.
Revenues	3,327	3,450	-3.6%	3,359	-1.0%
Operating Profit	792	638	24.2%	549	44.2%
<i>Operating Margin</i>	23.8%	18.5%		16.4%	
EBITDA	1,043	955	9.2%	831	25.5%
EBITDA Margin	31.3%	27.7%		24.7%	
Financial Gains	253	37	592.9%	-7	n.a.
Financial Cost	-260	-124	109.6%	-282	-7.9%
Net Profit	561	550	2.0%	262	114.4%

## Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	3,872	4,793	5,922	6,963	7,205	7,350
Tax Rate	31%	31%	31%	31%	31%	30%
Tax Shield	-1,181	-1,462	-1,806	-2,124	-2,198	-2,242
NOPLAT	2,691	3,331	4,116	4,839	5,007	5,108
Depreciation	1,080	1,214	1,359	1,505	2,150	2,193
Working Capital Changes	-35	-457	-169	1	-17	-18
CAPEX	-3,880	-3,964	-4,052	-2,080	-2,200	-2,244
FCFF	-144	124	1,254	4,266	4,940	5,039
Perpetuity Growth Rate						2.0%
PV of Explicit Period (2024 - 2028E)						6,487
Perpetuity Value						52,755
PV of Perpetuity Value						27,369
Enterprise Value						33,856
Net Debt						10,675
Minority Interest						479
Market Value						22,702
Land Properties						2,500
Adjusted Market Value						25,202
<i>Outstanding Shares</i>						600
Target Price						P\$ 42.00
Current Market Price						P\$ 18.00
Potential Return Incl. Dividends						135.7%
Forward EV/EBITDA						7.9x
Forward P/E						13.0x
Average Cost of Debt						7.5%
LT Tax Rate						30.0%
After-Tax Cost of Debt						5.2%
Cost of Equity						18.5%
Market Risk Premium						6.0%
Risk-Free Rate						8.8%
Beta						1.61
% Total Debt						52.4%
% Capital						47.6%
WACC						11.6%

(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	14,143	15,467	17,378	19,455	21,551	22,862
Cost of Sales	-8,158	-7,570	-8,300	-8,700	-9,700	-10,700	-11,300
Gross Profit	5,455	6,573	7,167	8,678	9,755	10,851	11,562
<i>Gross Margin</i>	40.1%	46.5%	46.3%	49.9%	50.1%	50.4%	50.6%
General Expenses	-2,930	-3,073	-3,356	-3,954	-3,908	-3,963	-4,356
Operating Profit	2,482	3,407	3,872	4,793	5,922	6,963	7,205
<i>Operating Margin</i>	18.2%	24.1%	25.0%	27.6%	30.4%	32.3%	31.5%
Depreciation and Amortization	-1,095	-988	-1,080	-1,214	-1,359	-1,505	-2,150
EBITDA	3,536	4,488	4,891	5,938	7,206	8,394	9,356
<i>EBITDA Margin</i>	26.0%	31.7%	31.6%	34.2%	37.0%	38.9%	40.9%
Financial Gains	386	483	151	168	189	218	296
Financial Cost	-980	-1,155	-1,233	-1,412	-1,594	-1,624	-1,622
Pre-Tax Profit	1,876	2,728	2,781	3,540	4,509	5,547	5,869
Income Tax & Profit Sharing	-576	-905	-848	-1,080	-1,375	-1,692	-1,790
<i>Tax &amp; Profit Sharing Rate</i>	30.7%	33.2%	30.5%	30.5%	30.5%	30.5%	30.5%
Net Profit	1,296	1,823	1,935	2,463	3,136	3,858	4,082
<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	29,618	33,655	38,801	44,674	48,746	52,160
Current Assets	7,700	8,502	8,771	9,945	10,858	12,705	13,509
LT Assets	22,445	21,116	24,884	28,856	33,816	36,041	38,651
TOTAL LIABILITIES	18,942	17,917	20,423	23,537	26,734	27,439	27,284
ST Liabilities	4,482	5,319	5,425	6,019	6,636	7,342	7,186
LT Liabilities	14,460	12,598	14,998	17,518	20,098	20,098	20,098
TOTAL DEBT	13,693	12,996	15,358	18,151	20,885	21,158	20,651
NET DEBT	10,925	10,675	12,947	15,343	17,796	16,654	15,712
TOTAL CAPITAL	11,203	11,798	13,328	15,361	18,037	21,403	24,973
Stockholder's Equity	10,769	11,319	12,788	14,738	17,305	20,535	23,960
Minority Interest	435	479	541	623	732	868	1,013
<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	2,158	2,781	3,540	4,509	5,547	5,869
Inv. Related Activities	2,270	2,116	2,071	2,287	2,538	2,827	3,863
Pre-Tax Cash Flow	3,542	3,026	2,861	3,390	3,285	4,760	4,652
Working Capital Changes	-976	-1,076	-35	-457	-169	1	-17
Operating Cash Flow	2,565	1,950	2,826	2,933	3,116	4,760	4,635
Investment Cash Flow	-2,415	-1,666	-3,729	-3,796	-3,863	-1,862	-1,904
Financing Cash Flow	-1,436	-326	1,330	1,598	1,364	-1,145	-1,959
Net Incr. (Decr.) in Cash & Temp. Inv.	-1,386	-279	427	735	617	1,753	772
Beg. of Period Cash and Temp. Inv.	4,155	2,769	2,321	2,411	2,808	3,088	4,503
End of Period Cash and Temp. Inv.	2,769	2,321	2,411	2,808	3,088	4,503	4,938

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