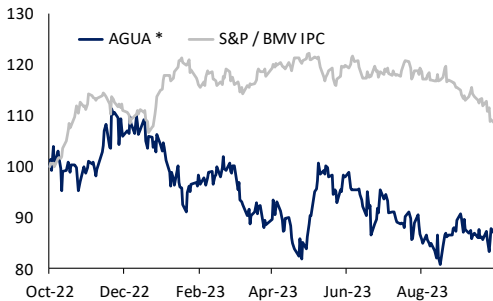


AGUA: 3Q23 Results

Operating results affected by a high comparison base and the appreciation of the Mexican peso, but net profits rose 30.1%

AGUA*	BUY
Target Price (MXN\$)	\$ 43.00
Current Price (MXN\$)	\$ 24.06
Min / Max (L12M)	\$ 23.62 - 34.71
Expected Dividend (MXN\$)	\$ 0.50
Expected Return	80.8%
Market Cap (MXN\$ Mn)	11,699
Enterprise Value (MXN\$ Mn)	15,180
Outstanding Shares (Mn)	486.2
Float	23.7%
ADTV (MXN\$ Mn)	\$ 6.57



Opinion and recommendation

AGUA faced a difficult quarter with declining revenues and EBITDA, as we broadly anticipated. However, net profits exceeded our forecasts due to higher-than-expected financial gains.

The company adjusted its guidance for the year, now expecting an 8% reduction in revenue (vs. 0% previously) with the same margin of between 17-18% and a leverage of less than 2.0x. It increased the ROIC to WACC + 350 bps (from WACC + 250 bps). On the other hand, the Board of Directors proposed a capital reimbursement from November 24th at a rate of 1 (treasury) share for every 30 existing shares.

We continue with a BUY recommendation and revised our target price to MXN\$43.0/share, from MXN\$44.0/share. We expect a gradual recovery in AGUA's results during the following quarters.

3Q23 Results

AGUA's total revenues were down 14.7% to MXN\$3.02 billion (vs. our MXN\$2.99 billion expectation) in 3Q23 mainly due to a 17.0% reduction in product revenues, which were affected by last year's significant drought in northern Mexico, the appreciation of the Mexican peso against other currencies that impacted the performance of international operations, and macroeconomic weakness in Central and South American countries. This was partially offset by a 53.7% increase in service revenue, which benefited from greater demand for water treatment plants and the expansion of *Bebbia*, which has 104 thousand units.

October 25th, 2023

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Consolidated EBITDA decreased 19.3% to MXN\$470 million (vs. MXN\$472 million E), due to lower absorption of expenses, thus offsetting the improvement in the gross margin due to price adjustments and falling raw material prices. Worth mentioning that Mexico's profitability improved 210 bp supported by the discount strategy, the aforementioned effect of raw materials and a stronger sales mix.

Net profits grew 30.1% to MXN\$229 million (vs. MXN\$47 million E) driven by a MXN\$119 million financial gain. The ROIC stood at 17.7% in 3Q23, with a 330 bps annual improvement.

(Figures in Millions of MXN\$)	3Q23	3Q23E	Diff.	3Q22	Change
Revenues	3,020	2,993	0.9%	3,543	-14.7%
EBITDA	470	472	-0.3%	582	-19.2%
<i>EBITDA Margin</i>	<i>15.6%</i>	<i>15.8%</i>		<i>16.4%</i>	
Financial Gains	33	19	71.0%	35	-5.9%
Financial Cost	-123	-299	-58.9%	-272	-54.8%
Pre-Tax Profit	244	72	239.9%	243	0.5%
Income Tax & Profit Sharing	-16	-25	n.a.	-67	-76.8%
<i>Tax & Profit Sharing Rate</i>	<i>6.4%</i>	<i>35.0%</i>		<i>27.7%</i>	
Net Profit	229	47	389.4%	176	30.1%
ROIC	17.7%	16.5%		14.4%	

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	1,967	2,340	2,751	3,197	3,677	3,824
Tax Rate	10%	10%	10%	10%	10%	30%
Tax Shield	-197	-234	-275	-320	-368	-382
NOPLAT	1,770	2,106	2,476	2,878	3,310	3,441
Depreciation	496	532	568	604	604	628
Working Capital Changes	-245	-122	-290	-326	-366	-381
CAPEX	-650	-726	-810	-904	-1,010	-1,050
FCFF	1,371	1,790	1,944	2,252	2,538	2,639
Perpetuity Growth Rate						4.0%
PV of Explicit Period (2024 - 2028E)						6,962
Perpetuity Value						34,149
PV of Perpetuity Value						17,576
Enterprise Value						24,537
Net Debt						3,511
Minority Interest						116
Market Value						20,910
Outstanding Shares						486
Target Price						P\$ 43.00
Current Market Price						P\$ 24.06
Potential Return Incl. Dividends						80.6%
Forward EV/EBITDA						10.0x
Forward P/E						18.1x
Average Cost of Debt						8.9%
LT Tax Rate						30.0%
After-Tax Cost of Debt						6.2%
Cost of Equity						16.4%
Market Risk Premium						6.0%
Risk-Free Rate						10.3%
Beta						1.02
% Total Debt						41.3%
% Capital						58.7%
ESG Adjusted WACC						11.7%

Sensitivity Analysis, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	2,223	2,340	2,463	2,586	2,715
Target EV/EBITDA					
8.5x	31.22	33.26	35.41	37.55	39.81
9.0x	33.50	35.66	37.94	40.21	42.60
9.5x	35.79	38.07	40.47	42.87	45.40
10.0x	38.07	40.47	43.00	45.53	48.19
10.5x	40.36	42.88	45.54	48.19	50.98
11.0x	42.64	45.29	48.07	50.85	53.77

Sensitivity Analysis, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	1,042	1,096	1,154	1,212	1,273
Target P/E					
15.1x	32.38	34.09	35.88	37.68	39.56
16.1x	34.53	36.34	38.26	40.17	42.18
17.1x	36.67	38.60	40.63	42.66	44.79
18.1x	38.81	40.85	43.00	45.15	47.41
19.1x	40.95	43.11	45.38	47.65	50.03
20.1x	43.10	45.36	47.75	50.14	52.65

(Figures in Millions of MXN\$)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	12,774	11,825	13,006	14,511	16,197	18,086	20,204
Cost of Sales	-7,331	-6,429	-7,057	-7,859	-8,757	-9,760	-10,883
Gross Profit	5,444	5,396	5,949	6,652	7,440	8,326	9,320
General Expenses	-3,859	-3,819	-3,982	-4,312	-4,689	-5,128	-5,643
Operating Profit	1,584	1,577	1,967	2,340	2,751	3,197	3,677
<i>Operating Margin</i>	12.4%	13.3%	15.1%	16.1%	17.0%	17.7%	18.2%
EBITDA	1,982	2,078	2,463	2,872	3,319	3,801	4,281
<i>EBITDA Margin</i>	15.5%	17.6%	18.9%	19.8%	20.5%	21.0%	21.2%
Financial Gains	198	139	142	158	196	238	295
Financial Cost	-966	-1,251	-836	-864	-919	-940	-929
Pre-Tax Profit	817	464	1,282	1,646	2,042	2,509	3,057
Income Tax & Profit Sharing	-61	-45	-128	-165	-204	-251	-306
<i>Tax & Profit Sharing Rate</i>	7.5%	9.6%	10.0%	10.0%	10.0%	10.0%	10.0%
Net Profit	756	420	1,154	1,481	1,838	2,258	2,751
Outstanding Shares	486	486	486	486	486	486	486
EPS	P\$ 1.51	P\$ 0.89	P\$ 2.40	P\$ 3.08	P\$ 3.82	P\$ 4.69	P\$ 5.72
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	12,528	12,319	13,453	14,634	16,104	17,570	19,842
Current Assets	4,685	4,445	4,982	5,522	6,295	7,001	8,398
Cash & Temp. Inv.	673	650	780	1,016	1,296	1,447	2,222
LT Assets	7,843	7,874	8,471	9,113	9,809	10,569	11,444
P, P & E	3,272	3,181	3,735	4,329	4,970	5,671	6,477
TOTAL LIABILITIES	6,101	6,468	6,800	7,359	7,860	7,946	8,354
ST Liabilities	1,502	1,845	2,177	2,487	2,588	2,674	3,082
LT Liabilities	4,600	4,623	4,623	4,873	5,273	5,273	5,273
TOTAL DEBT	4,009	4,161	4,331	4,709	5,006	4,864	5,016
NET DEBT	3,337	3,511	3,550	3,693	3,710	3,417	2,794
TOTAL CAPITAL	6,427	5,918	6,721	7,342	8,311	9,691	11,555
Stockholder's Equity	6,291	5,802	6,589	7,198	8,148	9,500	11,327
Minority Interest	136	116	132	144	163	191	227
CASH FLOW STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Net Profit	756	440	1,282	1,646	2,042	2,509	3,057
Inv. Related Activities	1,118	1,049	646	682	718	754	754
Pre-Tax Cash Flow	1,925	1,645	1,235	1,099	1,467	1,885	2,316
Working Capital Changes	-927	-635	-245	-122	-290	-326	-366
Operating Cash Flow	998	1,010	990	977	1,177	1,559	1,950
Investment Cash Flow	-601	-228	-520	-579	-625	-678	-727
Financing Cash Flow	-1,073	-726	-347	-169	-278	-736	-454
Net Incr. (Decr.) in Cash & Temp. Inv.	-956	-24	124	229	274	145	769
Beg. of Period Cash and Temp. Inv.	1,629	673	650	780	1,016	1,296	1,447
End of Period Cash and Temp. Inv.	673	650	780	1,016	1,296	1,447	2,222

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