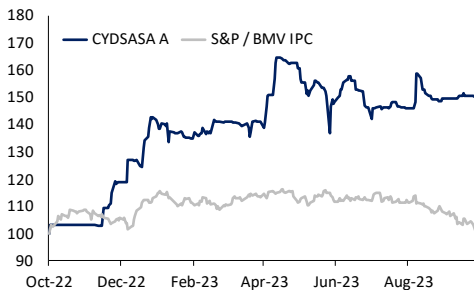


CYDSA: 3Q23 Results

Strong growth in US Dollars offset by the appreciation of the Mexican peso; we reiterate BUY with a MXN\$42.0/share target price

CYDSASA A	BUY
Target Price (MXN\$)	\$ 42.00
Current Price (MXN\$)	\$ 19.00
Min / Max (L12M)	\$12.68 - 20.80
Expected Dividend (MXN\$)	\$ 0.46
Expected Return	123.5%
Market Cap (MXN\$ Mn)	11,400
Enterprise Value (MXN\$ Mn)	21,146
Outstanding Shares (Mn)	600.0
Float	49.9%
6-Month ADTV (MXN\$ Mn)	\$ 0.34



Opinion and recommendation

CYDSA reported neutral 3Q23 results since the significant growth in US dollars in all operating indicators was offset by the appreciation of the Mexican peso.

We continue with a BUY recommendation and MXN\$42.0/share target price since we believe that the company's prospects are positive, mainly due to the upcoming opening of the new chlorine-caustic soda plant in Coatzacoalcos.

3Q23 Results

CYDSA's revenues were down 4.9% in local currency (+12.0% in US dollars) to MXN\$3.38 billion (vs. MXN\$3.32 billion E) as the appreciation of the Mexican peso and lower refrigerant gas sales both domestically and internationally, offset higher chlorine-alkali prices and solid demand for edible salt.

The EBITDA margin expanded 2.4 percentage points to 26.8%, due to the significant 52% drop in natural gas cost. EBITDA thus grew 4.2% (+23.3% in dollars) to MXN\$903 million.

The appreciation of the Mexican peso resulted in a MXN\$93 million FX gain in the quarter. In addition, interest gains rose due to higher interest rates. These factors boosted net profits by 139.4% to MXN\$586 million, far exceeding our projections.

October 23rd, 2023

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Financial structure

During the quarter, CYDSA raised a MXN\$3 billion short-term syndicated loan that it used to buy back US\$73.2 million in Senior Notes. It kept the remaining US\$105.9 million in its cash reserves. As a result of these transactions, the net debt to EBITDA ratio was 2.5x at the end of 3Q23, from 3.3x in 3Q22.

After the close of the quarter, the company repurchased US\$2.9 million in Senior Notes and paid down the existing US\$105 million syndicated loan. It is analyzing options to refinance short-term debt either through a bank credit or bonds.

(Figures in Million Pesos)	3Q23	3Q23E	Diff.	3Q22	Chg.
Revenues	3,376	3,320	1.7%	3,548	-4.9%
Operating Profit	679	741	-8.4%	599	13.3%
<i>Operating Margin</i>	20.1%	22.3%		16.9%	
EBITDA	903	956	-5.6%	867	4.2%
EBITDA Margin	26.7%	28.8%		24.4%	
Financial Gains	131	33	301.5%	34	n.a.
Financial Cost	-233	-332	-29.7%	-242	-3.4%
Net Profit	586	329	78.2%	245	139.4%

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	3,597	4,860	5,930	7,003	7,374	7,512
Tax Rate	31%	31%	31%	31%	31%	30%
Tax Shield	-1,097	-1,482	-1,809	-2,136	-2,249	-2,291
NOPLAT	2,500	3,378	4,121	4,867	5,125	5,221
Depreciation	1,101	1,250	1,398	1,549	2,150	2,190
Working Capital Changes	-111	-283	-170	-306	-126	-129
CAPEX	-3,964	-4,052	-4,145	-2,140	-2,200	-2,241
FCFF	-473	292	1,205	3,970	4,949	5,041
Perpetuity Growth Rate						1.9%
PV of Explicit Period (2024 - 2028E)						6,109
Perpetuity Value						52,108
PV of Perpetuity Value						27,053
Enterprise Value						33,162
Net Debt						9,977
Minority Interest						486
Market Value						22,698
Land Properties						2,500
Adjusted Market Value						25,198
<i>Outstanding Shares</i>						600
Target Price						P\$ 42.00
Current Market Price						P\$ 19.00
Potential Return Incl. Dividends						123.5%
Forward EV/EBITDA						8.0x
Forward P/E						12.5x
Average Cost of Debt						7.5%
LT Tax Rate						30.0%
After-Tax Cost of Debt						5.2%
Cost of Equity						17.9%
Market Risk Premium						6.0%
Risk-Free Rate						10.0%
Beta						1.32
% Total Debt						50.3%
% Capital						49.7%
WACC						11.5%

(Figures in Millions of MXN\$)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	13,612	13,837	15,268	17,330	19,387	21,471	22,769
Cost of Sales	-8,158	-7,570	-8,200	-8,700	-9,700	-10,700	-11,300
Gross Profit	5,455	6,267	7,068	8,630	9,687	10,771	11,469
<i>Gross Margin</i>	<i>40.1%</i>	<i>45.3%</i>	<i>46.3%</i>	<i>49.8%</i>	<i>50.0%</i>	<i>50.2%</i>	<i>50.4%</i>
General Expenses	-2,930	-3,133	-3,396	-3,694	-3,680	-3,690	-4,016
Operating Profit	2,482	3,060	3,597	4,860	5,930	7,003	7,374
<i>Operating Margin</i>	<i>18.2%</i>	<i>22.1%</i>	<i>23.6%</i>	<i>28.0%</i>	<i>30.6%</i>	<i>32.6%</i>	<i>32.4%</i>
Depreciation and Amortization	-1,095	-998	-1,101	-1,250	-1,398	-1,549	-2,150
EBITDA	3,536	4,132	4,774	6,186	7,405	8,630	9,603
<i>EBITDA Margin</i>	<i>26.0%</i>	<i>29.9%</i>	<i>31.3%</i>	<i>35.7%</i>	<i>38.2%</i>	<i>40.2%</i>	<i>42.2%</i>
Financial Gains	386	583	118	133	149	172	233
Financial Cost	-980	-731	-822	-937	-1,038	-1,042	-1,064
Pre-Tax Profit	1,876	2,913	2,898	4,061	5,046	6,138	6,548
Income Tax & Profit Sharing	-576	-778	-884	-1,239	-1,539	-1,872	-1,997
<i>Tax & Profit Sharing Rate</i>	<i>30.7%</i>	<i>26.7%</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	2,134	2,017	2,825	3,510	4,269	4,554
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	30,145	29,139	33,800	38,539	44,688	49,503	53,097
Current Assets	7,700	7,969	8,627	9,468	10,520	12,802	13,721
LT Assets	22,445	21,170	25,173	29,071	34,168	36,700	39,375
TOTAL LIABILITIES	18,942	17,204	20,139	22,367	25,341	26,244	25,661
ST Liabilities	4,482	5,750	8,685	8,513	9,027	7,410	6,827
LT Liabilities	14,460	11,454	11,454	13,854	16,314	18,834	18,834
TOTAL DEBT	13,693	12,194	14,803	16,774	19,211	19,541	18,667
NET DEBT	10,925	9,977	12,365	14,035	16,128	15,054	13,678
TOTAL CAPITAL	11,203	12,032	13,757	16,269	19,444	23,355	27,532
Stockholder's Equity	10,769	11,546	13,201	15,611	18,658	22,411	26,420
Minority Interest	435	486	556	657	785	943	1,112
CASH FLOW STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Net Profit	1,296	2,352	2,898	4,061	5,046	6,138	6,548
Inv. Related Activities	2,270	1,995	1,877	2,103	2,331	2,595	3,503
Pre-Tax Cash Flow	3,542	3,247	2,233	3,335	3,010	4,319	4,447
Working Capital Changes	-976	-909	-111	-283	-170	-306	-126
Operating Cash Flow	2,565	2,338	2,122	3,052	2,840	4,013	4,320
Investment Cash Flow	-2,415	-1,393	-3,846	-3,919	-3,996	-1,968	-1,967
Financing Cash Flow	-1,436	-1,427	1,608	832	1,163	-977	-2,189
Net Incr. (Decr.) in Cash & Temp. Inv.	-1,386	-636	-116	-35	7	1,067	165
Beg. of Period Cash and Temp. Inv.	4,155	2,769	2,217	2,437	2,739	3,083	4,487
End of Period Cash and Temp. Inv.	2,769	2,217	2,437	2,739	3,083	4,487	4,989

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