

AGUA (BUY, T.P. MXN\$43.00)

Summary of 2023 “AGUA DAY”

These were the most important points of “AGUA DAY”:

- AGUA’s main strategic priorities are: i) sustainable growth of the traditional business which has been carried out mainly through the introduction of new products such as Tinaco Plus+ nation wide in Mexico, which is more efficient in terms of recycled material usage, manufacturing time, CO2 emissions and water for cooling, is more profitable and has a similar price; it is produced in 5 plants and during the following weeks it will begin to be manufactured in the sixth one; ii) growth and development of new businesses such as Bebbia (which exceeded 100K units in 2023), RSA (US\$1 billion addressable market), Acuantia (US\$1.35 billion addressable market in the US business), Rieggo (US\$350 million potential market); iii) digitization of the water ecosystem mainly through Google Cloud; iv) commitment to satisfying all stakeholders which includes ESG best practices, creating value for shareholders through sustainable growth, and the society’s well-being and protection of the planet.
- Improved outlook due to greater organic growth, the introduction of new products, and acquisitions. The guidance for the 2023-2025 period now includes revenue growth with a 20-22% CAGR (previously 14-15%), which will be mainly due to a stronger performance in the services business supported by organic growth and acquisitions, and, to a lesser extent, in products in Mexico due to high demand and the introduction of new products. The company estimates a consolidated EBITDA margin above 20%, which will translate into a 26-28% EBITDA growth (previously 25-27%). It expects raw material prices to remain stable in 2024 and the services business to break even in 2025. It anticipates a net debt to EBITDA ratio of less than or equal to 2.0 times and an ROIC of around 20%, higher than the WACC. Capex at a consolidated level will be 4.5% of revenues, which includes 1.5% for maintenance and the rest for growth.
- Argentina. AGUA projects an increase in revenues and EBITDA of 12-14% on average within the 2023-2025 period despite the recent devaluation of the Argentine currency. It will focus on maintaining market leadership through a responsive pricing strategy with sustainable cash flow.
- “Programmatic” M&A strategy. AGUA will invest around MXN\$6 billion in acquisitions over the next 5 years, which will contribute around 4-5% to total revenue growth. It expects to undertake a greater number of acquisitions, but with a smaller size on average, which will reduce risk. They will mainly be in the water purification, treatment and recycling, and irrigation businesses. The criteria to carry out such transactions will include strategic, financial, operational, and valuation aspects and they must generate an IRR greater than 18%. The acquisition of HiTech Irrigation of Mexico was the first under the new programmatic strategy.

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December 13th, 2023

- Dividend policy. AGUA expects to continue paying dividends over the next few years, as it has done in the past (4.5% average yield over the last 8 years), taking into account that the products business will continue to grow and generate free cash flow and that the profitability of the services business will continue to improve.
- ESG Strategy with the aspiration to become a Net Zero company by 2050. AGUA has exceeded several of its 2023 objectives, including the evaluation of Tier 1 suppliers with ESG criteria, and the intensity of CO2 emissions. The company set more ambitious long-term targets including reducing absolute scope 1 and 2 GHG emissions by 42% in 2030 (compared to 2022) and scope 3 emissions by 25% over the same period; and, decreasing scope 1, 2 and 3 GHG emissions by 90% in 2050 (vs. 2022).

The AGUA DAY reinforced our positive view on AGUA shares. We reiterate our BUY recommendation with a MXN\$43.0/share target price.

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