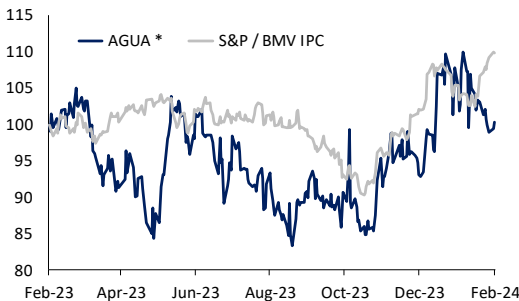


AGUA: 4Q23 Results

Stronger-than-expected performance in Mexico and Argentina; we are increasing our target price to MXN\$46.0/share

AGUA*	BUY
Target Price (MXN\$)	\$ 46.00
Current Price (MXN\$)	\$ 27.93
Min / Max (L12M)	\$ 22.86 - 30.32
Expected Dividend (MXN\$)	\$ 0.50
Expected Return	66.5%
Market Cap (MXN\$ Mn)	13,581
Enterprise Value (MXN\$ Mn)	17,043
Outstanding Shares (Mn)	486.2
Float	23.7%
ADTV (MXN\$ Mn)	\$ 6.74



Opinion and recommendation

AGUA reported outstanding 4Q23 results that exceeded our projections in terms of revenues, EBITDA and net profits. We expect the shares to react favorably in the short term. We reiterate our BUY recommendation and are revising upwards our target price to MXN\$46.0/share, from MXN\$43.0/share, after having updated our model.

AGUA exceeded its 2023 revenue guidance, with an EBITDA margin and leverage within expectations.

The company released its 2024 guidance, which includes a revenue growth above 10% with an EBITDA margin expansion to 18.0-19.0%, leverage of less than 2.0x, and ROIC equal to WACC + 200 bps. We consider such a guidance to be reasonable. On the other hand, the Board of Directors approved a MXN\$0.50/share cash capital reimbursement.

4Q23 Results

Total revenues rose 8.0% YoY in 4Q23, reaching a record level for a fourth quarter of MXN\$3.38 billion, far exceeding our MNX\$3.1 billion projection. The growth would have been 16.0% excluding the appreciation of the Mexican peso. The company thus reversed the reductions of the previous two quarters.

Sales were driven by a 32.1% YoY increase in the services business, which benefited from *Bebbia's* expansion to 110 thousand units, as well as high demand for water treatment and recycling plants in Mexico.

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The significant recovery in products was also a driver (+7.0% YoY in 4Q23 vs. -17.0% YoY in 3Q23) since the Mexican water storage business recorded the highest revenue in 7 years for December due to the difficulties of the “Cutzamala” system and the “Ofertas Azules” promotions. Argentina saw higher volumes and prices, which boosted its sales by 52.1%. This offset the declines in both the US and other countries.

AGUA's gross and EBITDA margins contracted 50 bps and 120 bps, respectively, due to the promotional campaigns that the company carried out. For this reason, consolidated EBITDA remained stable at MXN\$554 million (vs. our MXN\$504 million expectation).

Net profits fell 90.5% to MXN\$39 million (vs. MXN\$10 million that we anticipated) as a result of higher operating expenses, the inflationary effect in Argentina, and FX losses in several countries. ROIC improved 80 bps to 14.9%, exceeding the cost of capital by 260 bps.

The net debt/EBITDA ratio decreased marginally to 1.6x in 4Q23, from 1.7x in 4Q22, while interest coverage rose to 9.2x, from 8.5x. The cash conversion cycle declined by 29 days to 42 days supported by a 75.3% reduction in working capital given lower inventory levels, and the restatement of Argentina's balance sheet.

(Figures in Millions of MXN\$)	4Q23	4Q23E	Diff.	4Q22	Change
Revenues	3,376	3,102	8.9%	3,125	8.0%
EBITDA	554	504	9.9%	550	0.7%
<i>EBITDA Margin</i>	16.4%	16.3%		17.6%	
Financial Gains	48	32	48.8%	105	-54.8%
Financial Cost	-359	-374	-4.2%	-287	25.1%
Net Profit	39	10	297.4%	405	-90.5%
ROIC	14.9%	14.6%		14.1%	

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2025E	2026E	2027E	2028E	2029E	Perp.
OPERATING PROFIT	2,565	3,083	3,663	4,346	5,128	5,261
Tax Rate	10%	10%	10%	10%	10%	30%
Tax Shield	-262	-314	-374	-443	-523	-1,578
NOPLAT	2,303	2,768	3,289	3,903	4,605	3,683
Depreciation	532	568	604	604	604	620
Working Capital Changes	-195	-222	-237	-394	-297	-305
CAPEX	-770	-882	-1,002	-1,128	-1,267	-1,300
FCFF	1,870	2,232	2,655	2,985	3,644	2,697
Perpetuity Growth Rate						2.6%
PV of Explicit Period (2025 - 2029E)						9,479
Perpetuity Value						30,890
PV of Perpetuity Value						16,226
Enterprise Value						25,705
Net Debt						3,220
Minority Interest						119
Market Value						22,366
Outstanding Shares						486
Target Price						P\$ 46.00
Current Market Price						P\$ 27.93
Potential Return Incl. Dividends						66.5%
Forward EV/EBITDA						8.3x
Forward P/E						13.7x
Average Cost of Debt						8.9%
LT Tax Rate						30.0%
After-Tax Cost of Debt						6.2%
Cost of Equity						15.4%
Market Risk Premium						6.0%
Risk-Free Rate						9.3%
Beta						1.03
% Total Debt						39.7%
% Capital						60.3%
ESG Adjusted WACC						11.3%

Sensitivity Analysis, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	2,795	2,942	3,097	3,252	3,414
Target EV/EBITDA					
6.8x	32.22	34.28	36.44	38.61	40.89
7.3x	35.09	37.30	39.63	41.96	44.40
7.8x	37.96	40.33	42.81	45.30	47.91
8.3x	40.84	43.35	46.00	48.65	51.42
8.8x	43.71	46.38	49.18	51.99	54.93
9.3x	46.59	49.40	52.37	55.33	58.45

Sensitivity Analysis, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	1,471	1,548	1,629	1,711	1,796
Target P/E					
10.7x	32.44	34.15	35.95	37.74	39.63
11.7x	35.46	37.33	39.30	41.26	43.32
12.7x	38.49	40.52	42.65	44.78	47.02
13.7x	41.51	43.70	46.00	48.30	50.71
14.7x	44.54	46.88	49.35	51.82	54.41
15.7x	47.56	50.07	52.70	55.34	58.10

(Figures in Millions of MXN\$)

INCOME STATEMENT	2023	2024E	2025E	2026E	2027E	2028E	2029E
Revenues	12,146	13,407	15,392	17,647	20,032	22,557	25,342
Cost of Sales	-6,625	-7,301	-8,367	-9,575	-10,849	-12,194	-13,675
Gross Profit	5,521	6,106	7,025	8,072	9,183	10,362	11,667
General Expenses	-3,962	-4,159	-4,461	-4,990	-5,520	-6,017	-6,539
Operating Profit	1,559	1,947	2,565	3,083	3,663	4,346	5,128
<i>Operating Margin</i>	<i>12.8%</i>	<i>14.5%</i>	<i>16.7%</i>	<i>17.5%</i>	<i>18.3%</i>	<i>19.3%</i>	<i>20.2%</i>
EBITDA	2,131	2,443	3,097	3,651	4,267	4,950	5,732
<i>EBITDA Margin</i>	<i>17.5%</i>	<i>18.2%</i>	<i>20.1%</i>	<i>20.7%</i>	<i>21.3%</i>	<i>21.9%</i>	<i>22.6%</i>
Financial Gains	155	124	152	177	202	259	342
Financial Cost	-1,406	-851	-914	-961	-993	-1,010	-1,020
Pre-Tax Profit	307	1,230	1,815	2,313	2,886	3,610	4,463
Income Tax & Profit Sharing	-27	-125	-185	-236	-294	-368	-455
Net Profit	280	1,104	1,629	2,077	2,591	3,242	4,008
BALANCE SHEET	2023	2024E	2025E	2026E	2027E	2028E	2029E
TOTAL ASSETS	12,611	13,612	15,000	16,771	18,571	21,216	23,623
Current Assets	3,638	4,179	4,907	5,581	6,297	7,426	8,567
Cash & Temp. Inv.	566	804	1,077	1,235	1,402	1,805	2,281
LT Assets	8,974	9,433	10,094	11,190	12,274	13,791	15,056
P, P & E	4,123	4,697	5,286	6,300	7,298	8,722	9,885
TOTAL LIABILITIES	6,501	6,771	7,320	7,992	8,368	8,817	9,037
ST Liabilities	1,699	1,968	2,267	2,540	2,915	3,365	3,584
LT Liabilities	4,802	4,802	5,052	5,452	5,452	5,452	5,452
TOTAL DEBT	4,028	4,025	4,314	4,693	4,755	4,872	4,724
NET DEBT	3,462	3,220	3,237	3,457	3,353	3,068	2,443
TOTAL CAPITAL	6,110	6,909	7,749	8,846	10,272	12,467	14,655
Stockholder's Equity	6,005	6,791	7,616	8,695	10,095	12,253	14,403
Minority Interest	105	119	133	152	176	214	252
CASH FLOW STATEMENT	2023	2024E	2025E	2026E	2027E	2028E	2029E
NET PROFIT	280	1,104	1,629	2,077	2,591	3,242	4,008
Inv. Related Activities	1,169	892	928	964	1,000	1,000	1,000
Pre-Tax Cash Flow	1,540	1,525	1,369	1,305	1,761	2,186	2,501
Working Capital Changes	-251	-192	-195	-222	-237	-394	-297
Operating Cash Flow	1,290	1,332	1,174	1,082	1,524	1,792	2,204
Investment Cash Flow	-476	-562	-634	-721	-816	-884	-941
Financing Cash Flow	-841	-532	-268	-204	-543	-506	-788
Net Incr. (Decr.) in Cash & Temp. Inv.	-107	238	272	157	166	401	475
Beg. of Period Cash and Temp. Inv.	673	566	804	1,077	1,235	1,402	1,805
End of Period Cash and Temp. Inv.	566	804	1,077	1,235	1,402	1,805	2,281

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