

AGUA: 1Q24 Results

Record profitability levels that offset the slight sales reduction

AGUA*	BUY
Target Price (MXN\$)	\$ 46.00
Current Price (MXN\$)	\$ 28.00
Min / Max (L12M)	\$ 22.86 - 32.65
Expected Dividend (MXN\$)	\$ 0.50
Expected Return	66.1%
Market Cap (MXN\$ Mn)	13,615
Enterprise Value (MXN\$ Mn)	17,168
Outstanding Shares (Mn)	486.2
Float	23.7%
ADTV (MXN\$ Mn)	\$ 8.23

Opinion and recommendation

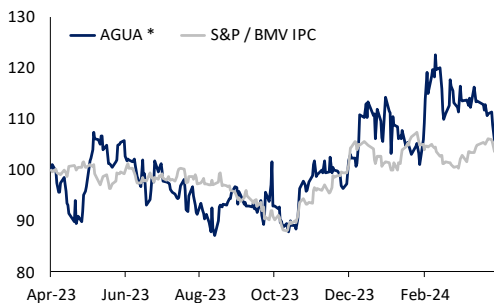
AGUA reported slightly positive results in 1Q24 with revenues and EBITDA that were basically in line with our projections, and higher-than-expected net profits. We are reiterating our BUY recommendation with a MXN\$46.0/share target price after this quarterly report.

AGUA maintained its guidance for the current year, which includes revenue growth of more than 10% with an EBITDA margin between 18.0-19.0%, ROIC higher than the WACC by 200 bps, and a leverage of less than 2x. This implies that results will accelerate during the coming quarters.

At its upcoming April 26th General Shareholders Meeting, the company will propose the payment of a MXN\$0.50/share cash capital reimbursement, as well as the appointment of two new independent directors.

1Q24 Results

Total revenues fell 2.9% YoY to MXN\$2.667 billion (basically in line with our MXN\$2.647 billion expectation) mainly as a result of a 6.1% drop in product sales due to weak demand and the FX impact in several countries. It was partially offset by a significant 56.2% increase in service revenues, supported by the expansion of bebbia (with more than 115,000 users), RSA and rieggo, as well as recent acquisitions. By country, Mexico delivered a favorable performance in both products and services due to the prevailing drought in the central region.



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AGUA's gross margin reached an all-time high of 50.7%, with an expansion of 300 bps, while the EBITDA margin improved 70 bps to 20.8%. The higher profitability was attributed to price adjustments, reduction in raw material costs, appreciation of the Mexican peso, and higher revenues from Tinaco Plus+ in Mexico. This left the EBITDA stable at MXN\$555 million (vs. MXN\$552 million estimated).

Quarterly net profits reached MXN\$304 million, more than 8 times higher than that of the same period of the previous year, due to lower financial expenses. The ROIC was 14.0%, with a reduction of 210 bps, but was higher than the WACC by 290 bps.

The net debt to EBITDA ratio was 1.7x at the end of 1Q24, marginally higher than the 1.6x in 1Q23.

The company reduced the cash conversion cycle by 56 days, due to an increase in supplier days, which offset the reduction in accounts receivable and inventory days.

(Figures in Millions of MXN\$)	1Q24	1Q24E	Diff.	1Q23	Change
Revenues	2,667	2,647	0.8%	2,746	-2.9%
EBITDA	555	552	0.6%	553	0.4%
<i>EBITDA Margin</i>	20.8%	20.8%		20.1%	
Financial Gains	11	28	-61.3%	31	-64.1%
Financial Cost	-75	-403	-81.5%	-441	-83.1%
Net Profit	304	50	512.9%	37	728.4%
ROIC	14.0%	13.8%		16.1%	

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2025E	2026E	2027E	2028E	2029E	Perp.
OPERATING PROFIT	2,621	3,121	3,713	4,368	5,115	5,347
Tax Rate	15%	15%	15%	15%	15%	30%
Tax Shield	-394	-469	-558	-656	-768	-1,604
NOPLAT	2,228	2,652	3,155	3,712	4,347	3,743
Depreciation	556	616	644	672	704	736
Working Capital Changes	-600	-470	332	1,094	-288	-301
CAPEX	-764	-876	-994	-1,118	-1,255	-1,312
FCFF	1,420	1,922	3,137	4,359	3,508	2,866
Perpetuity Growth Rate						4.5%
PV of Explicit Period (2025 - 2029E)						9,597
Perpetuity Value						35,059
PV of Perpetuity Value						17,109
Enterprise Value						26,706
Net Debt						4,292
Minority Interest						49
Market Value						22,365
Outstanding Shares						486
Target Price						P\$ 46.00
Current Market Price						P\$ 28.00
Potential Return Incl. Dividends						66.1%
Forward EV/EBITDA						8.5x
Forward P/E						13.5x
Average Cost of Debt						8.9%
LT Tax Rate						30.0%
After-Tax Cost of Debt						6.2%
Cost of Equity						17.8%
Market Risk Premium						7.4%
Risk-Free Rate						10.3%
Beta						1.03
% Total Debt						39.7%
% Capital						60.3%
ESG Adjusted WACC						12.7%

Sensitivity Analysis, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	2,868	3,018	3,177	3,336	3,503
Target EV/EBITDA					
7.0x	31.72	33.90	36.19	38.49	40.90
7.5x	34.67	37.00	39.46	41.92	44.50
8.0x	37.62	40.11	42.73	45.35	48.10
8.5x	40.57	43.21	46.00	48.78	51.70
9.0x	43.52	46.32	49.26	52.21	55.31
9.5x	46.47	49.42	52.53	55.64	58.91

Sensitivity Analysis, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	1,491	1,570	1,653	1,735	1,822
Target P/E					
10.5x	32.31	34.01	35.80	37.59	39.47
11.5x	35.38	37.24	39.20	41.16	43.22
12.5x	38.44	40.47	42.60	44.73	46.96
13.5x	41.51	43.70	46.00	48.30	50.71
14.5x	44.58	46.93	49.40	51.87	54.46
15.5x	47.65	50.15	52.79	55.43	58.21

(Figures in Millions of MXN\$)

INCOME STATEMENT	2023	2024E	2025E	2026E	2027E	2028E	2029E
Revenues	12,146	13,321	15,286	17,516	19,871	22,359	25,102
Cost of Sales	-6,625	-7,190	-8,236	-9,421	-10,668	-11,984	-13,431
Gross Profit	5,521	6,131	7,050	8,095	9,202	10,375	11,671
General Expenses	-3,962	-4,149	-4,428	-4,974	-5,489	-6,008	-6,556
Operating Profit	1,559	1,982	2,621	3,121	3,713	4,368	5,115
<i>Operating Margin</i>	<i>12.8%</i>	<i>14.9%</i>	<i>17.1%</i>	<i>17.8%</i>	<i>18.7%</i>	<i>19.5%</i>	<i>20.4%</i>
EBITDA	2,131	2,518	3,177	3,737	4,357	5,040	5,819
<i>EBITDA Margin</i>	<i>17.5%</i>	<i>18.9%</i>	<i>20.8%</i>	<i>21.3%</i>	<i>21.9%</i>	<i>22.5%</i>	<i>23.2%</i>
Financial Gains	155	81	119	139	158	204	269
Financial Cost	-1,406	-632	-808	-863	-867	-806	-833
Pre-Tax Profit	307	1,431	1,945	2,411	3,019	3,780	4,565
Income Tax & Profit Sharing	-27	-215	-292	-362	-453	-568	-686
Net Profit	280	1,216	1,653	2,049	2,565	3,212	3,879
BALANCE SHEET	2023	2024E	2025E	2026E	2027E	2028E	2029E
TOTAL ASSETS	12,611	15,765	17,461	19,563	20,897	22,424	24,851
Current Assets	3,638	6,448	7,516	8,579	8,879	8,370	9,645
Cash & Temp. Inv.	566	799	1,070	1,226	1,391	1,789	2,259
LT Assets	8,974	9,317	9,945	10,984	12,018	14,054	15,206
P, P & E	4,123	4,413	4,972	5,932	6,882	8,828	9,879
TOTAL LIABILITIES	6,501	8,975	9,805	10,858	10,845	10,296	10,798
ST Liabilities	1,699	4,142	4,722	5,375	5,362	4,813	5,315
LT Liabilities	4,802	4,833	5,083	5,483	5,483	5,483	5,483
TOTAL DEBT	4,028	5,091	5,723	6,340	5,859	5,123	5,109
NET DEBT	3,462	4,292	4,653	5,113	4,468	3,334	2,849
TOTAL CAPITAL	6,110	6,854	7,721	8,769	10,117	12,193	14,118
Stockholder's Equity	6,005	6,805	7,666	8,706	10,044	12,106	14,017
Minority Interest	105	49	55	63	73	87	101
CASH FLOW STATEMENT	2023	2024E	2025E	2026E	2027E	2028E	2029E
NET PROFIT	280	1,216	1,653	2,049	2,565	3,212	3,879
Inv. Related Activities	1,169	916	937	997	1,025	1,053	1,085
Pre-Tax Cash Flow	1,540	1,531	1,270	1,161	1,576	1,378	2,205
Working Capital Changes	-251	-1,345	-600	-470	332	1,094	-288
Operating Cash Flow	1,290	185	671	691	1,908	2,472	1,917
Investment Cash Flow	-476	-594	-670	-762	-860	-939	-1,011
Financing Cash Flow	-841	552	180	137	-974	-1,226	-527
Net Incr. (Decr.) in Cash & Temp. Inv.	-107	166	180	65	74	307	380
Beg. of Period Cash and Temp. Inv.	673	566	799	1,070	1,226	1,391	1,789
End of Period Cash and Temp. Inv.	566	799	1,070	1,226	1,391	1,789	2,259

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