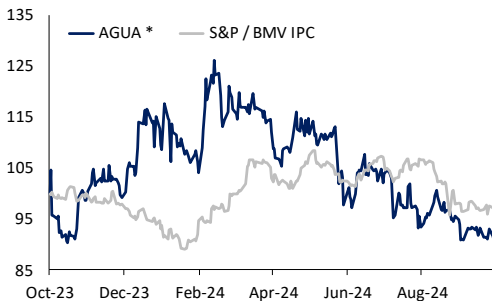


AGUA: 3Q24 Results

Results affected by Argentina and a slowdown in Mexico

| AGUA* | BUY |
|-----------------------------|------------------|
| Target Price (MXN\$) | \$ 39.00 |
| Current Price (MXN\$) | \$ 21.92 |
| Min / Max (L12M) | \$ 21.88 - 32.65 |
| Expected Dividend (MXN\$) | \$ 0.50 |
| Expected Return | 80.2% |
| Market Cap (MXN\$ Mn) | 10,658 |
| Enterprise Value (MXN\$ Mn) | 14,456 |
| Outstanding Shares (Mn) | 486.2 |
| Float | 23.7% |
| ADTV (MXN\$ Mn) | \$ 7.06 |



Opinion and recommendation

AGUA reported weak quarterly results due to the impact of Argentina and a slowdown in Mexico. Revenue was broadly in line with our projections, but EBITDA was lower and net loss was larger than we expected.

The company adjusted its guidance for the year. It now expects revenue to decline by up to 5% (unchanged), an EBITDA margin of 14-15% (previous 17.0%-18.0%), a net debt-to-EBITDA ratio between 2.0-2.2x (from <2.0x), and an ROIC equal to WACC minus 100-200 bps (from a ROIC greater than or equal to WACC). Strategic initiatives include capitalizing on omnichannel/digital capabilities, reversing the EBITDA decline, and improving operating margins. In addition, the company will be more conservative in its Capex as it will only execute the maintenance Capex and make decisions on a monthly basis regarding discretionary investments.

Our recommendation is BUY as we expect a recovery in the Mexico's and Argentina's performance. We adjusted our target price MXN\$39.0/share, from MXN\$44.0/share, after updating our model.

3Q24 Results

AGUA's consolidated revenues decreased 6.0% YoY to MXN\$2.85 billion (practically in line with our MXN\$2.84 billion projection) mainly due to a 26.4% fall in Argentina's revenues in Mexican pesos (+98% in local currency) due to the prevailing macroeconomic situation in that country, in addition to a slowdown in Mexico due to heavy rains during the quarter, which caused sales to rise only 2.4%.

Meanwhile, US revenues began to grow again, while "other countries" sales increased by 14.8%. Product sales fell by 6.9% while services sales were 8.9% higher, the latter of which were supported by the bebbia expansion and the launch of bebbia SMART. Excluding Argentina, AGUA's consolidated revenues would have increased by 3.9%.

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October 23rd, 2024

AGUA’s profitability fell due to lower absorption of costs and fixed expenses, as well as higher logistics and digital initiative expenses. The EBITDA margin contracted 680 bps to 8.7%, resulting in a significant 47.3% YoY EBITDA reduction to MXN\$247 million (vs. MXN\$297 million E). By region, Mexico’s EBITDA margin contracted by 630 bps and that of “other countries” by 300 bps, while Argentina’s margin was 2.2%. The negative US EBITDA decreased by 45.6%.

The company closed the quarter with a MXN\$73 million net loss (vs. our -MXN\$6 million expectation), due to lower operating results and higher financial expenses. ROIC dropped to 10.3% in the current quarter, from 17.7%.

The debt to EBITDA ratio stood at 2.1x at the end of 3Q24, from 1.6x in 3Q23, due to a 9.1% increase in net debt combined with the EBITDA reduction. The company expects this indicator to be below 2.0x in the short term through higher EBITDA and lower investments.

ESG

S&P Ratings recognized AGUA as one of the five leading ESG companies globally in its industry.

| (Figures in Millions of MXN\$) | 3Q24 | 3Q24E | Diff. | 3Q23 | Change |
|--------------------------------|-------|-------|--------|-------|--------|
| Revenues | 2,838 | 2,850 | -0.4% | 3,020 | -6.0% |
| EBITDA | 247 | 297 | -16.7% | 470 | -47.4% |
| <i>EBITDA Margin</i> | 8.7% | 10.4% | | 15.6% | |
| Financial Gains | 44 | 28 | 53.3% | 33 | 33.9% |
| Financial Cost | -232 | -188 | 23.5% | -123 | 89.2% |
| Net Profit | -73 | -6 | n.a. | 229 | n.a. |
| ROIC | 10.3% | 10.7% | | 17.7% | |

Discounted Cash Flow Model

| (Figures in Millions of MXN\$) | 2025E | 2026E | 2027E | 2028E | 2029E | Perp. |
|--------------------------------------|-------|-------|-------|-------|--------|-----------|
| OPERATING PROFIT | 1,396 | 1,836 | 2,206 | 2,615 | 3,083 | 3,262 |
| Tax Rate | 28% | 28% | 28% | 28% | 28% | 30% |
| Tax Shield | -384 | -505 | -607 | -719 | -848 | -979 |
| NOPLAT | 1,012 | 1,331 | 1,600 | 1,896 | 2,235 | 2,284 |
| Depreciation | 628 | 676 | 724 | 772 | 824 | 872 |
| Working Capital Changes | -254 | -283 | 398 | 672 | -161 | -170 |
| CAPEX | -659 | -741 | -825 | -913 | -1,011 | -1,069 |
| FCFF | 727 | 984 | 1,896 | 2,426 | 1,888 | 2,107 |
| Perpetuity Growth Rate | | | | | | 5.8% |
| PV of Explicit Period (2025 - 2029E) | | | | | | 5,392 |
| Perpetuity Value | | | | | | 33,908 |
| PV of Perpetuity Value | | | | | | 17,151 |
| Enterprise Value | | | | | | 22,543 |
| Net Debt | | | | | | 3,544 |
| Minority Interest | | | | | | 37 |
| Market Value | | | | | | 18,962 |
| Outstanding Shares | | | | | | 486 |
| Target Price | | | | | | P\$ 39.00 |
| Current Market Price | | | | | | P\$ 21.92 |
| Potential Return Incl. Dividends | | | | | | 80.2% |
| Forward EV/EBITDA | | | | | | 11.5x |
| Forward P/E | | | | | | 44.4x |
| Average Cost of Debt | | | | | | 8.8% |
| LT Tax Rate | | | | | | 30.0% |
| After-Tax Cost of Debt | | | | | | 6.2% |
| Cost of Equity | | | | | | 16.8% |
| Market Risk Premium | | | | | | 6.0% |
| Risk-Free Rate | | | | | | 10.5% |
| Beta | | | | | | 1.05 |
| % Total Debt | | | | | | 40.0% |
| % Capital | | | | | | 60.0% |
| ESG Adjusted WACC | | | | | | 12.0% |

Sensitivity Analysis, EV/EBITDA vs. EBITDA

| | -10% | -5% | <i>Original</i> | +5% | +10% |
|-------------------------|--------------|--------------|-----------------|--------------|--------------|
| Projected EBITDA | 1,827 | 1,923 | 2,024 | 2,125 | 2,231 |
| Target EV/EBITDA | | | | | |
| 10.0x | 28.68 | 30.66 | 32.75 | 34.85 | 37.04 |
| 10.5x | 30.56 | 32.64 | 34.84 | 37.03 | 39.34 |
| 11.0x | 32.43 | 34.62 | 36.92 | 39.22 | 41.63 |
| 11.5x | 34.31 | 36.60 | 39.00 | 41.40 | 43.92 |
| 12.0x | 36.19 | 38.57 | 41.08 | 43.59 | 46.22 |
| 12.5x | 38.07 | 40.55 | 43.16 | 45.77 | 48.51 |

Sensitivity Analysis, P/E vs. Net Profit

| | -10% | -5% | <i>Original</i> | +5% | +10% |
|-----------------------------|--------------|--------------|-----------------|--------------|--------------|
| Projected Net Profit | 386 | 406 | 427 | 449 | 471 |
| Target P/E | | | | | |
| 41.4x | 32.82 | 34.54 | 36.36 | 38.18 | 40.09 |
| 42.4x | 33.61 | 35.38 | 37.24 | 39.10 | 41.06 |
| 43.4x | 34.40 | 36.21 | 38.12 | 40.03 | 42.03 |
| 44.4x | 35.20 | 37.05 | 39.00 | 40.95 | 43.00 |
| 45.4x | 35.99 | 37.88 | 39.88 | 41.87 | 43.96 |
| 46.4x | 36.78 | 38.72 | 40.76 | 42.79 | 44.93 |

(Figures in Millions of MXN\$)

| INCOME STATEMENT | 2023 | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenues | 12,146 | 11,691 | 13,174 | 14,814 | 16,508 | 18,269 | 20,211 |
| Cost of Sales | -6,593 | -6,306 | -7,094 | -7,963 | -8,858 | -9,786 | -10,808 |
| Gross Profit | 5,554 | 5,385 | 6,080 | 6,851 | 7,650 | 8,483 | 9,403 |
| General Expenses | -3,962 | -4,343 | -4,684 | -5,014 | -5,444 | -5,868 | -6,320 |
| Operating Profit | 1,592 | 1,041 | 1,396 | 1,836 | 2,206 | 2,615 | 3,083 |
| <i>Operating Margin</i> | <i>13.1%</i> | <i>8.9%</i> | <i>10.6%</i> | <i>12.4%</i> | <i>13.4%</i> | <i>14.3%</i> | <i>15.3%</i> |
| EBITDA | 2,131 | 1,640 | 2,024 | 2,512 | 2,930 | 3,387 | 3,907 |
| <i>EBITDA Margin</i> | <i>17.5%</i> | <i>14.0%</i> | <i>15.4%</i> | <i>17.0%</i> | <i>17.8%</i> | <i>18.5%</i> | <i>19.3%</i> |
| Financial Gains | 155 | 110 | 102 | 118 | 132 | 166 | 216 |
| Financial Cost | -1,406 | -686 | -920 | -1,080 | -1,130 | -1,175 | -1,452 |
| Pre-Tax Profit | 339 | 465 | 590 | 888 | 1,222 | 1,620 | 1,861 |
| Income Tax & Profit Sharing | -27 | -110 | -162 | -244 | -336 | -446 | -512 |
| Net Profit | 312 | 354 | 427 | 644 | 886 | 1,175 | 1,349 |
| BALANCE SHEET | 2023 | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E |
| TOTAL ASSETS | 12,552 | 14,006 | 15,252 | 16,241 | 16,606 | 17,842 | 19,148 |
| Current Assets | 3,638 | 4,641 | 5,452 | 6,117 | 6,118 | 6,047 | 6,892 |
| Cash & Temp. Inv. | 566 | 607 | 922 | 1,037 | 1,156 | 1,462 | 1,819 |
| LT Assets | 8,914 | 9,364 | 9,800 | 10,124 | 10,488 | 11,796 | 12,255 |
| P, P & E | 4,063 | 4,316 | 4,697 | 4,962 | 5,263 | 6,505 | 6,892 |
| TOTAL LIABILITIES | 6,501 | 7,530 | 8,914 | 10,029 | 10,481 | 11,421 | 13,059 |
| ST Liabilities | 1,699 | 2,244 | 3,378 | 3,893 | 3,694 | 3,635 | 4,273 |
| LT Liabilities | 4,802 | 5,286 | 5,536 | 6,136 | 6,786 | 7,786 | 8,786 |
| TOTAL DEBT | 4,028 | 4,151 | 5,293 | 6,140 | 6,312 | 6,957 | 8,268 |
| NET DEBT | 3,462 | 3,544 | 4,371 | 5,103 | 5,156 | 5,496 | 6,449 |
| TOTAL CAPITAL | 6,051 | 6,562 | 6,424 | 6,299 | 6,211 | 6,507 | 6,175 |
| Stockholder's Equity | 5,946 | 6,525 | 6,388 | 6,263 | 6,176 | 6,470 | 6,140 |
| Minority Interest | 105 | 37 | 36 | 35 | 35 | 37 | 35 |
| CASH FLOW STATEMENT | 2023 | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E |
| NET PROFIT | 312 | 354 | 427 | 644 | 886 | 1,175 | 1,349 |
| Inv. Related Activities | 1,136 | 1,060 | 1,005 | 1,053 | 1,101 | 1,149 | 1,201 |
| Pre-Tax Cash Flow | 1,540 | 1,894 | 255 | 515 | 606 | 118 | 519 |
| Working Capital Changes | -251 | -723 | -254 | -283 | 398 | 672 | -161 |
| Operating Cash Flow | 1,290 | 1,171 | 0 | 233 | 1,004 | 790 | 358 |
| Investment Cash Flow | -476 | -675 | -663 | -728 | -799 | -853 | -900 |
| Financing Cash Flow | -841 | -669 | 738 | 371 | -326 | 129 | 660 |
| Net Incr. (Decr.) in Cash & Temp. Inv. | -107 | -18 | 76 | -125 | -121 | 67 | 118 |
| Beg. of Period Cash and Temp. Inv. | 673 | 566 | 607 | 922 | 1,037 | 1,156 | 1,462 |
| End of Period Cash and Temp. Inv. | 566 | 607 | 922 | 1,037 | 1,156 | 1,462 | 1,819 |

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