

August 2, 2023

ORBIA

Quarterly Report

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Polymer Solutions impacts growth

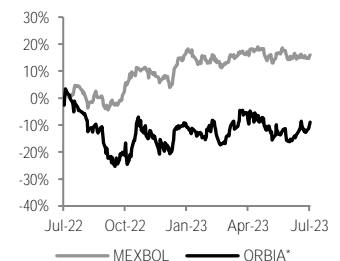
- Slightly below expectations due to greater weakness in Polymer Solutions. Year-over-year comparisons are complicated, but the sequential recovery in margins at *Netafim*, *Koura* and *Wavin* stands out
- Although the challenging backdrop continues, the company reiterated its guidance of \$1.65 billion in EBITDA 2023, while anticipating better growth in 2H23. We reiterate our BUY recommendation

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BUY	
Current Price	\$39.64
PT	\$65.00
Dividend (US\$)	0.03
Dividend Yield (%)	1.3%
Upside Potential	65.3%
Max – Min LTM (\$)	45.07-32.16
Market Cap (US\$m)	4,697.5
Shares Outstanding (m)	2,010
Float	58.5%
Daily Turnover (\$ m)	96.7
Valuation metrics LTM	
FV/EBITDA	5.9x
P/E	40.4x
MSCI ESG Rating*	BB

Positive signs, although in our opinion not a major catalyst. 2Q23 figures continue to reflect the company's efforts to address the prevailing challenging backdrop. Revenues declined 18.2% y/y to \$2.2 billion, while EBITDA contracted 27.1% y/y to \$0.4 billion, slightly below our estimates. The greatest weakness was recorded in the *Polymer Solutions* segment, due to a slowdown in demand in most markets, lower PVC resin prices and raw material disruption that led to a sequential adjustment in the profitability of the business. Although at *Netafim* and *Wavin* we observed year-on-year declines, the recovery in margins observed sequentially stands out, given a less adverse cost environment and efficiency strategies in operations. Meanwhile, in *Dura-line*, although we observed year-on-year declines in revenues, the costs stabilization supported the recovery in profitability, although the latter contracted slightly q/q. *Koura's* figures were favorable, reflecting the highest year-on-year gains in a more solid price environment - see tables on page 3. Net income fell 97% y/y to \$8 million, below expectations, due to operating weakness, exacerbated by foreign exchange losses and a much higher effective tax rate as a result of the strong peso. **In our opinion, the strategy implemented is the right one, although it will take some time for growth potential to be realized.** With the results, the valuation remains attractive, although the FV/EBITDA multiple increased to 5.9x vs. 5.3x previously. The ND/EBITDA ratio stood at 2.6x vs. 2.3x previously, still solid to take advantage of opportunities in the environment.

Relative performance to MEXBOL LTM



Winners of the 2023 award for the best economic forecasters in Mexico, awarded by Focus Economics.



AT CIBERTEL FORECASTER - MEXICO

Financial Statements USD, million	2021	2022	2023E	2024E
Revenue	8,783	9,648	9,645	10,951
Operating Income	1,449	1,328	1,089	1,485
EBITDA	2,047	1,909	1,664	2,031
EBITDA Margin	23.3%	19.8%	17.3%	18.5%
Net Income	772	665	885	1,103
Net Margin	8.8%	6.9%	9.2%	10.1%
Total Assets	10,587	11,624	12,405	13,488
Cash	782	1,546	1,396	1,488
Total Liabilities	7,182	8,301	8,155	8,117
Debt	4,397	5,065	5,482	5,530
Common Equity	3,405	3,323	4,250	5,371

Source: Banorte

Valuation and financial metrics	2021	2022	2023E	2024E
FV/EBITDA	4.3x	4.8x	5.6x	4.6x
P/E	4.4x	4.7x	5.2x	4.2x
P/BV	1.5x	1.6x	1.2x	0.9x
ROE	22.7%	20.0%	20.8%	20.5%
ROA	7.3%	5.7%	7.1%	8.2%
EBITDA/ Interest	8.6x	8.2x	9.1x	10.2x
Net Debt/EBITDA	1.8x	1.8x	2.5x	2.0x
Debt/Equity	1.3x	1.5x	1.3x	1.0x

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ORBIA – Results 2023

USD, million

Concept	2022	1Q23	Var %	2023e	Diff% vs Estim.
Revenue	2,662	2,177	-18.2%	2,342	-7.0%
Operating Income	467	297	-36.3%	332	-10.5%
Ebitda	609	444	-27.1%	482	-7.9%
Net Income	266	8	-97.0%	201	-96.0%
Margins					
Operating Margin	17.5%	13.6%	-3.9pp	14.2%	-0.5pp
Ebitda Margin	22.9%	20.4%	-2.5pp	20.6%	-0.2pp
Net Margin	10.0%	0.4%	-9.6pp	8.6%	-8.2pp
EPS	\$0.127	\$0.004	-97.0%	\$0.096	-96.0%

Income Statement (Million)

Year	2022	2023	2023	Change	Change
Quarter	2	1	2	% y/y	% q/q
Net Revenue	2,662	2,280	2,177	-18.2%	-4.5%
Costs of goods sold	1,889	1,620	1,542	-18.4%	-4.8%
Gross profit	772	660	635	-17.8%	-3.8%
General expenses	306	337	338	10.6%	0.3%
Operating Income	467	323	297	-36.3%	-8.0%
Operating Margin	17.5%	14.2%	13.6%	(3.9pp)	(0.5pp)
Depreciation	143	146	147	2.9%	0.7%
EBITDA	609	469	444	-27.1%	-5.3%
EBITDA Margin	22.9%	20.6%	20.4%	(2.5pp)	(0.2pp)
Interest Income (Expense) net	(71)	(101)	(135)	89.0%	33.7%
Interest expense	57	79	85	48.8%	7.6%
Interest income	8	20	18	121.1%	-10.0%
Other income (expense)	(6)	(4)	(10)	54.2%	150.0%
Foreign exchange gain (loss)	(16)	(38)	(58)	263.3%	52.6%
Unconsolidated subsidiaries	1	1	(1)	N.A.	N.A.
Income before taxes	396	223	161	-59.4%	-27.8%
Income taxes	100	143	129	29.4%	-9.8%
Discontinued operations	(0)				
Consolidated Net Income	296	80	32	-89.2%	-60.0%
Non-controlling interest	30	25	24	-20.9%	-4.0%
Net Income	266	55	8	-97.0%	-85.5%
Net Margin	10.0%	2.4%	0.4%	(9.6pp)	(2.0pp)
EPS	0.127	0.026	0.004	-97.0%	-85.5%

Balance Sheet (Million pesos)

Total Current Assets	4,412	4,649	4,499	2.0%	-3.2%
Cash & Short Term Investments	898	1,384	1,283	42.8%	-7.3%
Long Term Assets	6,903	7,128	7,208	4.4%	1.1%
Property, Plant & Equipment (Net)	3,037	3,199	3,261	7.4%	1.9%
Intangible Assets (Net)	1,563	1,640	1,640	4.9%	
Total Assets	11,315	11,777	11,707	3.5%	-0.6%
Current Liabilities	3,198	3,330	3,305	3.3%	-0.8%
Short Term Debt	1,144	1,208	1,401	22.4%	16.0%
Accounts Payable	1,841	1,718	1,558	-15.4%	-9.3%
Long Term Liabilities	4,853	5,273	5,171	6.6%	-1.9%
Long Term Debt	3,702	4,220	4,100	10.7%	-2.8%
Total Liabilities	8,051	8,603	8,476	5.3%	-1.5%
Common Stock	3,263	3,174	3,231	-1.0%	1.8%
Non-controlling interest	700	657	637	-9.1%	-3.0%
Total Equity	2,563	2,517	2,594	1.2%	3.1%
Liabilities & Equity	11,315	11,777	11,707	3.5%	-0.6%
Net Debt	3,948	4,044	4,218	6.8%	4.3%

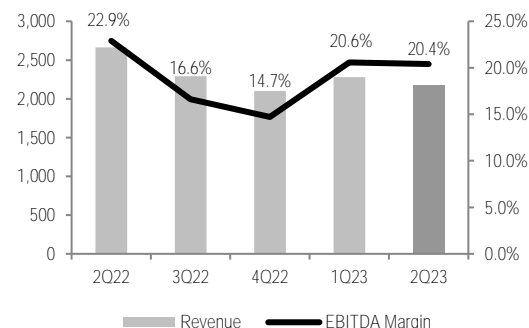
Cash Flow

CF from Operating Activities	689.9	236.0	719.0		
CF from Investing Activities	(303.3)	(145.0)	(308.0)		
CF from Financing Activities	20.1	(219.0)	(506.0)		
Change in Cash Balance	76.5	(182.0)	(281.0)		

Source: Banorte, MSE

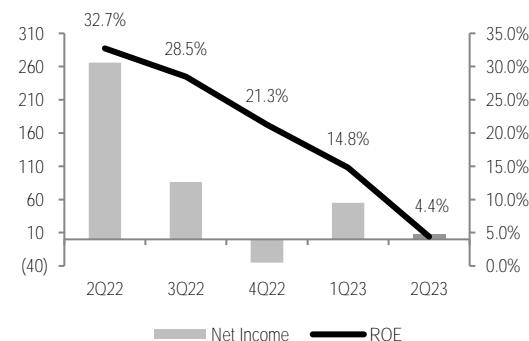
Revenue & EBITDA Margin

MXN, million



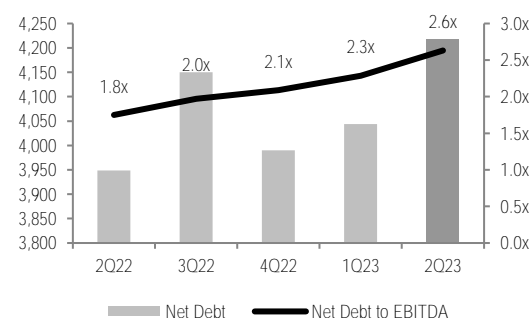
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA ratio

MXN, million



Report Details by business group

Vestolit (Polymer Solutions)

USD, million

	2Q22	Margin	1Q22	Margin	2Q23	Margin	% y/y	% q/q
Revenue	1,059	100.0%	770	100.0%	645	100.0%	-39.1%	-16.2%
EBITDA	279	33.3%	147	19.1%	102	15.8%	-63.4%	-30.6%

Source: Orbia

Wavin (Construction and Infrastructure)

USD, million

	2Q22	Margin	1Q22	Margin	2Q23	Margin	% y/y	% q/q
Revenue	787	100.0%	694	100.0%	698	100.0%	-11.3%	0.6%
EBITDA	99	38.8%	70	10.1%	74	10.6%	-25.3%	5.7%

Source: Orbia

Netafim (Precision Agriculture)

USD, million

	2Q22	Margin	1Q23	Margin	2Q23	Margin	% y/y	% q/q
Revenue	320	100.0%	275	100.0%	288	100.0%	-10.0%	4.7%
EBITDA	59	18.4%	28	8.1%	41	14.2%	-30.5%	46.4%

Source: Orbia

Dura-Line (Data Communications)

USD, million

	2Q22	Margin	1Q23	Margin	2Q23	Margin	% y/y	% q/q
Revenue	360	100.0%	345	100.0%	338	100.0%	-6.1%	-2.0%
EBITDA	98	27.2%	114	33.0%	109	32.2%	11.2%	-4.4%

Source: Orbia

Koura (Fluor)

USD, million

	2Q22	Margin	1Q23	Margin	2Q23	Margin	% y/y	% q/q
Revenue	224	100.0%	242	100.0%	263	100.0%	17.4%	8.7%
EBITDA	86	38.4%	102	42.1%	116	44.1%	34.9%	13.7%

Source: Orbia

Certification of Analysts.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmín Daniela Cuatrecos Mora and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

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Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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History of PT and Ratings

Stock	Date	Rating	PT
ORBIA	07/28/21	BUY	\$65.00
ORBIA	02/26/20	BUY	\$56.00
ORBIA	01/13/20	UNDER REVIEW	UNDER REVIEW
ORBIA	07/24/19	BUY	\$50

MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD			AVERAGE			LEADER

*The MSCI ESG Rating is an indicator that evaluates companies in Environment, Society and Governance (ESG) metrics.

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