

ALPEK (BUY, PT \$32.00)

Flash: Alpek agrees to buy Octal

February 1, 2022

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Alpek is announcing that it has signed an agreement to acquire OCTAL Holding SAOC, a major global producer of PET sheet. Octal owns direct-to-sheet (DPET®) technology, which eliminates several energy-intensive conversion steps, resulting in the lowest cost of PET sheet production method. It serves a long-term customer base spread across the Americas, the Middle East and Europe, through a logistics position strategically focused on Oman.

The acquisition adds more than one million tons (1.02 million) of installed capacity to Alpek, distributed among four sites: PET Sheet (400,000 tons) – Salalah Free Zone, Oman; PET Sheet Recycling (33,000 tons) – Cincinnati, USA –; Pet Thermoformed Packaging (11,000 tons) – Riyadh, Saudi Arabia–; and PET Resin (576,000 tons) –Salalah Free Zone, Oman–. This would increase Alpek's installed capacity by ~12.4% to ~9,205 million tons.

The transaction would amount to US\$620 million, on a debt-free basis, implying a 4.6x FV/EBITDA multiple (vs 5.0x of Alpek), considering an EBITDA for Octal of US\$135 million –T12 as of September 2021–, and that would represent ~16% additional to Alpek's 2021e EBITDA on a comparable basis of US\$850 million, undoubtedly accretive. The acquisition will be covered through cash on the company's balance sheet, free cash flow generated from existing businesses and bank loans, bearing in mind that Alpek's financial situation is very healthy with a ND/EBITDA ratio ~1.1x, that would increase with the transaction to a still very solid level of ~1.6x. The deal is subject to customary closing conditions, including approval by the relevant regulatory authorities, and expected to close in the first half of the year.

POSITIVE Implication: In our view, this acquisition is positive and should be welcomed by the market, as it is aligned with Alpek's long-term growth strategy, taking advantage of strategic opportunities that arise, in hand with a healthy balance sheet. The transaction would represent a vertical integration for the company and the strengthening of core businesses through value added products, cost optimization through DPET® technology, which incorporates a new sustainable cost advantage that Alpek can leverage in its current plants, and potential synergies through the integration of these plants into their existing asset base, as well as opportunities in CO2 emission reduction with a carbon footprint 25% lower than the industry standard. We maintain our positive stance for the company, awaiting more details on 4Q21 earnings release by February 15th.

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HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
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History of PT and Ratings

Stock	Date	Rating	PT/NAV
ALFA	10/20/2021	BUY	\$18.67
ALFA	09/29/2020	BUY	\$14.00
ALFA	07/18/2019	BUY	\$21.80
ALFA	04/24/2019	BUY	\$26.80

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