

ORBIA

Flash: ‘Orbia Day’, value creation and a vertically growth strategy

- Orbia defined its value strategy for the next 5 years through: (1) investments in profitable growth and innovation, (2) maximizing integration between different businesses, and (3) financial discipline
- Growth targets heading into 2027 include: (1) CAGR for revenues of 8-11%; (2) EBITDA between 11-14%; (3) leverage <2.5x; (4) ROIC between 13-15%; (5) constant and growing dividends
- The businesses positioning and the proposed strategy will allow the company to provide sustainable solutions to a market with evolving needs and important challenges. Reiterating BUY recommendation

Long-term value creation. After an evolution process for the different Orbia businesses, the company held an investor meeting where it announced the next 5 years 2022-2027 approach. The five segments *Polymer Solutions (Vestolit and Alphagary)*, *Wavin (Construction and Infrastructure)*, *Netafim (Precision Agriculture-Drip Irrigation)*, *Dura-Line (Data Transmission)* and *Koura (Fluorine)* remain essential for the group. Each one has positive perspectives and aligned strategies to provide sustainable solutions to markets with evolving needs and significant challenges –sanitation and water management, health and well-being, food, information access and connectivity needs, climate resilience and decarbonization–, and leveraging from the operations’ vertical integration, taking strategic advantages of the environment dynamics, and whose diversification supports results resilience.

The key highlights are focused on: (1) satisfying customer needs, through technological advancement and innovation, seeking to tackle the challenges and changes that the world is facing, through sustainable solutions; (2) invest in profitable growth, leveraging the positioning of the company's businesses in the respective industries; (3) maximize the value of integration across the company's various business segments and the value chains in which it participates; (4) creating shareholder value through efficient and orderly uses of capital; and (5) potentiating double-digit profits growth and return to shareholders through the constant distribution of dividends.

Objectives for sustained growth and constant remuneration to shareholders.

The company set out its goals for the next 5 years. By 2027 it is intended to achieve a compound annual growth rate (CAGR) for revenues between 8-11% – \$13-\$15 billion– and for EBITDA between 11-14% –\$3.1 -\$3.5 billion– which would imply a respective margin between 22% and 24% (vs 2022e of 20-21%). The ND/EBITDA leverage ratio should remain below 2.5x (vs 1.7x currently), even despite continued investments, which should be oriented towards profitable and orderly growth. This is due to a constant cash generation improvement,

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BUY	
Current Price	\$50.73
PT	\$65.00
Dividend	0.15
Dividend Yield (%)	6.0%
Upside Potential	34.1%
Max – Min LTM (\$)	59.2-46.5
Market Cap (US\$m)	5,055
Shares Outstanding (m)	2,010
Float	58.5%
Daily Turnover (\$ m)	173.7
Valuation metrics LTM	
FV/EBITDA	4.4x
P/E	6.9x
MSCI ESG Rating*	B

Relative performance to MEXBOL LTM



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efficiencies in working capital and digitalization, as well as improvements in processes and benefits in the supply chain given the vertical integration of the company. Besides, this should help return on invested capital (ROIC) indicators to remain stable between 13-15% (~14% in 2021) and improving on 2020 recorded levels close to ~7%. On the other hand, the company contemplates maintaining shareholders distributions through dividends and share repurchases, increasing in the proportion of progress in business, although prioritizing strategic investments.

Growth objectives by business segment

	CAGR 2022-2027	
	Revenue	EBITDA
Polymer Solutions	6-8%	8-10%
Wavin	5-7%	7-9%
Netafim	8-10%	10-12%
Dura-Line	10-12%	>15%
Koura	10-12%	>15%
ORBIA	8-11%	11-14%

Source: Orbia

Strategy to achieve growth objectives. The company's value creation strategy, which will help to achieve the main growth objectives, is focused on three pillars:

(1) Profitable growth and innovation investment, leveraging the leading position in all business segments, and the implementation cutting-edge and scale technology, while serving customers needs with new and differentiated solutions, with special emphasis on decarbonization technology.

(2) Maximize the integration advantages across all Orbia's businesses and the value chains in which the company participates. We must not forget that an important part of the advantages offered by a vertical integration such as Orbia's is the low-cost of production access, and where the raw material supply is ensured. Likewise, the company will continue to focus on obtaining relevant synergies between the businesses, both in terms of the use of a greater internal PVC consumption, plasticizers and stabilizers, collaboration in the use of platforms that allows cost efficiency, geographical and asset synergies.

(3) Create shareholder value through arranged, efficient and disciplined uses of capital. It is very interesting to mention that, most of the contemplated growth— between 70-80% – is expected to be achieved in already essential markets where the company develops. Contemplating the existing businesses expansion and in current markets, analyzing growth that aligns with opportunities with a cost below 4x EBITDA. This will allow to take important advantages of the existing business portfolio, looking for projects that are practical in execution, low risk, and within Orbia's control. On the other hand, we must not forget that inorganic growth is also an important tool for the strategy execution. New markets or innovative technologies acquisitions are not dismissed, but agreements should envision potential synergies and attractive prospects for medium term growth and profitability. As such, Orbia will maintain a transformation towards more efficient processes across all businesses, including an accelerated digital transformation, taking advantage of the *e-commerce* platform, pricing algorithms that help cost reduction, and customer centered.

Regarding Environmental, Social and Corporate Governance (ESG) criteria. The company's main message is that it continues to make progress and is fully committed to becoming carbon neutral and setting new goals. Meanwhile, the solid corporate governance structure will allow Orbia to achieve them transparently and with an aligned growth strategy.

An encouraging growth outlook, with businesses well positioned to take advantage towards the new environment dynamics. From our point of view Orbia is positioned at the right time and in the right place to take advantage of the need's evolution glimpsed for the following years. While clear and defined strategy doubts have weighed on the company's performance, the approach presented today seems to us to define the right path that should be reflected in a constant generation of profits and growth. Although we will be incorporating the company's strategic vision into our projections, it seems to us that the current valuation with a FV/EBITDA multiple of 4.4x, does not reflect the growth outlook, alongside a very solid financial structure. Therefore, we reiterate our BUY recommendation, recalling that in subsequent quarters the environment will continue to be favorable for [results](#).

Some details by business segment...

Polymer Solutions: First worldwide specialty PVC provider and sixth in resins producer globally. Focused on strengthening the position as a low-cost manufacturer by investing in growth and innovation. The company plans to expand its PVC capacity by up to 1 million tons in four phases during 2022-2026, details yet to be defined. They expect to climb to number 4 in the global market.

Wavin: Globally integrated market leader and provider of sustainability-linked piping and fitting products and services for the construction and infrastructure markets with scale. Well positioned for future growth through its multi-channel 'one-stop shop' route, geographic expansion, bolt-on acquisitions, globalization of existing product lines, new product and service launches.

Netafim: The largest global provider of precision irrigation products and services supported by growing demand for food, land, and water. With competitive advantages to increase its market share and expand its leadership position in high-value crops, digital farming, extensive crops, and greenhouse solutions. It maintains a core of continuous improvement and innovation, with superior product quality, agronomical solutions, and technical expertise. It has the world's most developed distribution network, with a wide range of offerings and end-to-end solutions which enables farmers increase crop yields and grow more with less.

Dura-Line: Market leader in the design and manufacturing of fiber conduit as well as customized solutions with scale and reach. Strategic partner for the world's largest telecom and cloud companies with the largest install base and multi-year contracts. Well positioned to capture a large growing demand in fiber network development to drive, significant, long-term growth. Future growth driven by increasing sales coverage and manufacturing footprint, expanding into new markets, and adding higher value products and services.

Koura. The world's largest *fluorspar* provider vertically integrated into high-value, and growth applications with a secure mine to market approach. Maintains an investment strategy in low-carbon footprint refrigerants and medical propellants to massively reduce greenhouse emissions for customers. Is also an important link to enable the world's rapid transition to sustainable energy with fluorinated battery materials.

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	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	July 28, 2021	BUY	\$65.00
ORBIA	February 26, 2020	BUY	\$56.00
ORBIA	January 13, 2020	Under Review	Under Review
ORBIA	July 24, 2019	BUY	\$50.00

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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