

# ORBIA

Quarterly Report

October 31, 2022

## Greater profitability pressures than expected

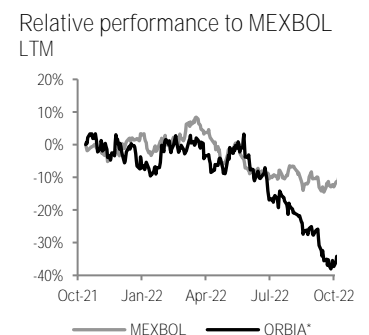
- Despite revenue's dynamism, the lower profitability of *Polymer Solutions*, *Wavin*, and *Netafim*, in a cost-pressure environment, and rising energy costs, led to a 28.4% YoY decline in EBITDA
- Although we find the valuation attractive (FV/EBITDA at 4.0x), backdrop challenges under a lower growth scenario and the company's exposure to Europe, make us be cautious in the short term

**Revenue's resilience, but sharp declines in profitability.** The 3Q22 figures were mixed, with revenues above expectations, but margins contracted even more than our conservative expectations. Revenues remained virtually flat at \$2.3 billion, while EBITDA contracted 28.4% YoY to \$381 million. On the positive side, results obtained in *Dura-Line* and *Koura* stood out, supported by favorable industry trends in the former, where even profitability advances were not only annual but also sequential, and a solid pricing environment in the latter, but with slight pressure on QoQ margins due to raw materials increases and logistics costs. Nevertheless, the good results were not enough to offset the weakness and strong pressures in *Polymer Solutions*, *Wavin*, and *Netafim*, which were impacted by lower demand in certain markets and rising costs. In particular, in *Polymer Solutions*, China confinements put strong pressure on PVC prices, while in *Wavin*, lower volumes dynamism in Europe affected the figures. At *Netafim*, we observed a demand slowdown in most markets, combined with higher raw material and transportation costs. **Although we believe the long-term outlook for Orbia is positive, backdrop challenges could continue to generate stock price volatility.** Despite the fact that the company has an outlined strategy which will allow it to continue with a long-term growth trend, supported by businesses' diversification, vertical integration, and a healthy financial structure (ND/EBITDA of 2.0x), environment challenges could continue to impact figures in the short term. We will have to be very cautious to build or increase positions, despite the very attractive valuation.

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BUY	
Current Price	\$36.22
PT	\$65.00
Dividend	0.07
Dividend Yield (%)	3.9%
Upside Potential	83.3%
Max - Min LTM (\$)	54.13-32.46
Market Cap (US\$m)	3,649.0
Shares Outstanding (m)	2,010
Float	58.5%
Daily Turnover (\$ m)	142.0
Valuation metrics LTM	
FV/EBITDA	4.0x
P/E	5.2x
MSCI ESG Rating*	B



Financial Statements				
USD, million	2020	2021	2022E	2023E
Revenue	6,420	8,783	9,128	8,307
Operating Income	720	1,449	1,198	1,286
EBITDA	1,318	2,047	1,972	1,832
EBITDA Margin	20.5%	23.3%	21.6%	22.1%
Net Income	442	772	683	588
Net Margin	6.9%	8.8%	7.5%	7.1%
Total Assets	10,211	10,587	10,492	11,377
Cash	875	782	957	1,096
Total Liabilities	7,032	7,182	7,008	7,212
Debt	4,618	4,397	4,880	4,954
Common Equity	3,180	3,405	3,484	4,165

Source: Banorte

Valuation and financial metrics				
	2020	2021	2022E	2023E
FV/EBITDA	6.3x	4.0x	4.3x	4.6x
P/E	8.6x	3.7x	5.6x	6.5x
P/BV	1.5x	1.4x	1.4x	1.1x
ROE	13.9%	22.7%	19.6%	14.1%
ROA	4.3%	7.3%	6.5%	5.2%
EBITDA/ Interest	10.5x	16.7x	8.6x	20.4x
Net Debt/EBITDA	2.8x	1.8x	2.0x	2.1x
Debt/Equity	1.5x	1.3x	1.4x	1.2x

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## ORBIA –Results 3Q22

USD million

Concept	3Q21	3Q22	Var %	3Q22e	Diff% vs Estim.
Revenue	2,287	2,291	0.1%	2,024	13.2%
Operating Income	388	234	-39.7%	265	-11.7%
Ebitda	532	381	-28.4%	405	-5.9%
Net Income	197	86	-56.2%	112	-22.7%

### Margins

Operating Margin	17.0%	10.2%	-6.8pp	13.1%	-2.9pp
Ebitda Margin	23.3%	16.6%	-6.6pp	20.0%	-3.4pp
Net Margin	8.6%	3.8%	-4.9pp	5.5%	-1.7pp
EPS	\$0.094	\$0.041	-56.2%	\$0.053	-22.7%

### Income Statement (Million)

Year	2021	2022	2022	Change	Change
Quarter	3	2	3	% y/y	% q/q

Net Revenue	2,287	2,662	2,291	0.1%	-13.9%
Costs of goods sold	1,626	1,889	1,767	8.7%	-6.5%
Gross profit	661	772	524	-20.8%	-32.2%
General expenses	273	306	290	6.1%	-5.3%
Operating Income	388	467	234	-39.7%	-49.8%
Operating Margin	0	0	0	(6.8pp)	(7.3pp)
Depreciation	144	143	147	2.1%	2.9%
EBITDA	532	609	381	-28.4%	-37.5%
EBITDA Margin	0	0	0	(6.6pp)	(6.3pp)
Interest Income (Expense) net	(71)	(71)	(100)	41.2%	40.6%
Interest expense	56	57	63	10.9%	9.6%
Interest income	2	8	6	201.8%	-31.0%
Other income (expense)	(6)	(6)	(11)	102.0%	71.7%
Foreign exchange gain (loss)	(11)	(16)	(32)	192.6%	102.1%
Unconsolidated subsidiaries	2	1	(1)	N.A.	N.A.
Income before taxes	319	396	132	-58.5%	-66.6%
Income taxes	93	100	25	-72.9%	-74.9%
Discontinued operations	(0)	(0)	0		
Consolidated Net Income	226	296	107	-52.6%	-63.8%
Non-controlling interest	29	30	21	-28.0%	-31.4%
Net Income	197	266	86	-56.2%	-67.5%
Net Margin	0	0	0	(4.9pp)	(6.2pp)
EPS	0	0	0	-56.2%	-67.5%

### Balance Sheet (Million pesos)

Total Current Assets	3,633	4,412	4,177	15.0%	-5.3%
Cash & Short Term Investments	655	898	897	37.0%	-0.1%
Long Term Assets	6,832	6,903	6,946	1.7%	0.6%
Property, Plant & Equipment (Net)	3,060	3,037	3,034	-0.9%	-0.1%
Intangible Assets (Net)	1,646	1,563	1,513	-8.1%	-3.2%
Total Assets	10,466	11,315	11,123	6.3%	-1.7%
Current Liabilities	2,583	3,198	3,035	17.5%	-5.1%
Short Term Debt	785	1,144	1,347	71.5%	17.7%
Accounts Payable	1,558	1,841	1,458	-6.4%	-20.8%
Long Term Liabilities	4,541	4,853	4,852	6.8%	0.0%
Long Term Debt	3,536	3,702	3,700	4.6%	-0.1%
Total Liabilities	7,124	8,051	7,887	10.7%	-2.0%
Common Stock	3,342	3,263	3,236	-3.2%	-0.8%
Non-controlling interest	679	700	678	-0.2%	-3.3%
Total Equity	2,663	2,563	2,559	-3.9%	-0.2%
Liabilities & Equity	10,466	11,315	11,123	6.3%	-1.7%
Net Debt	3,666	3,948	4,150	13.2%	5.1%

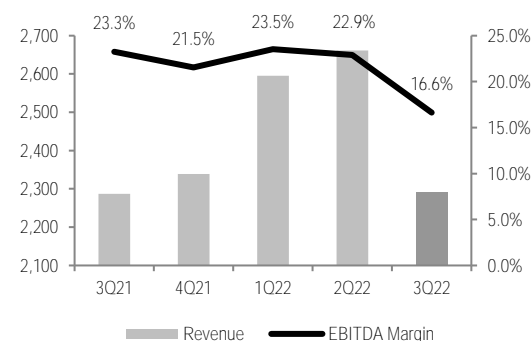
### Cash Flow

CF from Operating Activities	969.9	689.9	1,090.0
CF from Investing Activities	(223.9)	(303.3)	(519.1)
CF from Financing Activities	(736.3)	20.1	(41.1)
Change in Cash Balance	(183.3)	76.5	95.6

Source: Banorte, MSE

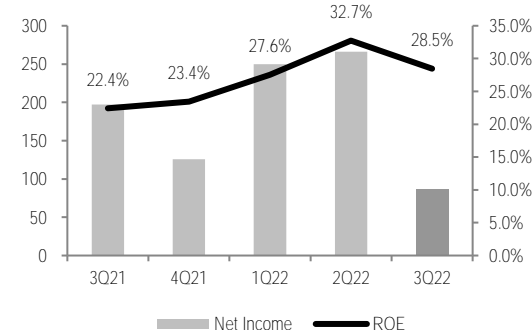
## Revenue & EBITDA Margin

USD, million



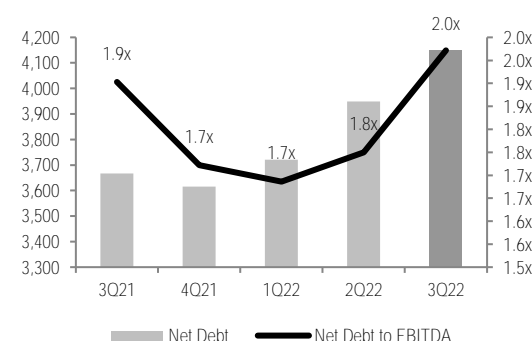
## Net Income & ROE

USD, million



## Net Debt & Net Debt to EBITDA ratio

USD, million



## Report Details by business group

### Vestolit (Polymer Solutions)

US\$ millions

	3Q21	Margin	2Q22	Margin	3Q22	Margin	% y/y	% q/q
Revenue	909	100.0%	1059	100.0%	837	100.0%	-7.9%	-21.0%
EBITDA	303	33.3%	279	26.3%	117	14.0%	-61.4%	-58.1%

Source:Orbia

### Wavin (Construction and Infrastructure)

US\$ millions

	3Q21	Margin	2Q22	Margin	3Q22	Margin	% y/y	% q/q
Revenue	753	100.0%	787	100.0%	700	100.0%	-7.0%	-11.1%
EBITDA	106	38.8%	99	12.6%	70	10.0%	-34.0%	-29.3%

Source:Orbia

### Netafim (Precision Agriculture)

US\$ millions

	3Q21	Margin	2Q22	Margin	3Q22	Margin	% y/y	% q/q
Revenue	272	100.0%	320	100.0%	224	100.0%	-17.6%	-30.0%
EBITDA	33	12.1%	59	16.4%	12	5.4%	-63.6%	-79.7%

Source:Orbia

### Dura-Line (Data Communications)

US\$ millions

	3Q21	Margin	2Q22	Margin	3Q22	Margin	% y/y	% q/q
Revenue	273	100.0%	360	100.0%	368	100.0%	34.8%	2.2%
EBITDA	33	12.1%	98	27.2%	104	28.3%	215.2%	6.1%

Source:Orbia

### Kuora (Fluor)

US\$ millions

	3Q21	Margin	2Q22	Margin	3Q22	Margin	% y/y	% q/q
Revenue	171	100.0%	224	100.0%	223	100.0%	30.4%	-0.4%
EBITDA	52	30.4%	86	38.4%	78	35.0%	50.0%	-9.3%

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, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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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	Reference
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<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	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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