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ANÁLISIS

**COVERAGE
INITIATED**



Rotoplas[®]
más y mejor agua

BUY	TP	DEC22	Ps.39.40
Price (AGUA) (Ps.)			24.86
Min./max. (2Y) (Ps.)			12.10 / 37.16
Dividend yield			0.0%
Total expected return			58.5%
Market cap (Mill.)			12,088
Enterprise value (Mill.)			14,578
Outstanding shares (Mill.)			486.2
Average daily amount 2Y (Ps. Mill.)			6.00

Prices as of 03/04/2022.
Source: Apalache and BMV

AGUA VS IPC
(base 100 last three years)

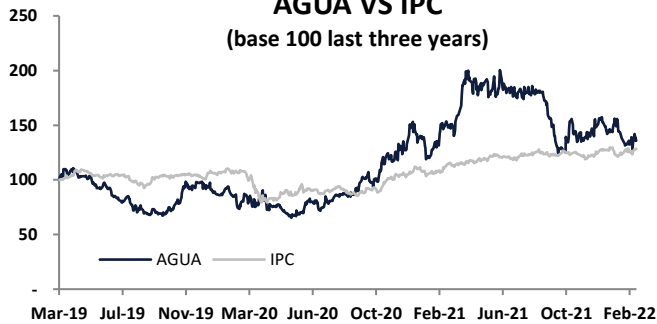


TABLE OF CONTENT

Executive Summary	2
Company’s Description	3
ESG	4
Investment Thesis	7
Main Risks	10
Valuation	11
Industry Outlook	14
Recent Results and Projections	18
History of AGUA	22
Disclaimer	24

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Recommendation: BUY

We started formal coverage of Grupo Rotoplas, S.A.B. of C.V. (BMV:AGUA*) with a fundamental BUY recommendation. In our opinion, the shares are strongly undervalued, presenting an attractive discount with respect to their intrinsic value. Our estimated price implies a return of 58.5%, exceeding the expected return for the S&P/BMV IPC (February AMIB Survey 57,488 points, ~7.8% over the close of February 28, 2022).

We have established a 12-month (December 22) Target Price (TP) of Ps.39.40 per share. We believe that the current discount of the share may derive from the poor performance of the construction sector in Mexico, which from January 2020 to December 2021 accumulates a decrease of 14.1% in the total value of production of construction companies, according to figures published by INEGI. Likewise, during the last months we have observed that the market maintains a punishment on the valuation of industrial groups, derived from the slow recovery of the economies of Latin America (markets where AGUA obtains 89.1% of its total income).

Statistically, the issuer's income has behaved in line with economic cycles, so as the economy begins to recover in the regions where it operates, the spread between the market price and its valuation. Likewise, we believe that, as the business in the United States becomes more relevant in revenues and the participation of services represents a greater percentage of these, the performance will be more resilient to the economic cycle, such that we maintain a positive perspective on the performance of action in the medium term, which, added to the FLOW program and the 360° strategy, is expected to trigger sustainable growth underpinned by ESG (environmental, social and governance) criteria, which have become a requirement required in the markets.

AGUA's marketability is “Medium”, it has a market capitalization of Ps.12,088 million and a float of 15.1%. At the end of 4Q21, Grupo Rotoplas has long-term credit ratings “AA(mex)” and “mxA-”, by Fitch and S&P, respectively, both with a stable outlook.

COMPANY'S DESCRIPTION

Grupo Rotoplas S.A.B. of C.V. (BMV: AGUA*) is a multinational company of Mexican origin, which is a leader in several Latin American countries and in the United States in water products and services. Currently, Grupo Rotoplas has more than 40 years of experience in the water industry, establishing itself as a pioneer in the development and distribution of products and services dedicated mainly to storage, conveyance, sanitation and improving water quality in markets in those who operate.

The products include cisterns, water tanks, industrial tanks, hydraulic pipes, biodigesters, purifiers, filters, among others, which are designed to store, convey and improve water.

In the case of services, Grupo Rotoplas is found in the niches of i) wastewater treatment and recycling plants (*Sytesa*); ii) residential and institutional purification services (*bebbia*); iii) drinking water fountains; and, iv) intelligent irrigation services for the Mexican countryside (*rieggo*). Unlike the products, the service platform contemplates the design, installation, operation and maintenance of the solutions.

During the last 20 years, the company has made investments to significantly increase the efficiency of its production, distribution and sales processes, through the improvement of the production and logistics infrastructure. Likewise, it has made efforts to optimize the development and implementation of a solid platform with state-of-the-art technology.

As a result of this operational efficiency strategy, at the end of 2020, the company managed to expand its operations, with 27 product lines marketed, which are sold through 27,500 points of sale. And, it has operations in 14 countries and a service platform that serves different industries.

Grupo Rotoplas currently has 19 production plants, 3 distribution centers and 1 research and development center, geographically located in Mexico, Peru, Argentina, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. In the case of the US market, AGUA has presence through its e-commerce platform and more recently with the septic solutions business.

The issuer has an operating model called "Rotoplas Style", which manages processes, personnel and systems through a centralized platform, in order to standardize its processes and reduce operating expenses, which is based on four pillars fundamental: to be passionate about the client, to be multipliers of performance, catalysts of innovation and developers of people.

Products and Services

	United States	Mexico	Central America	Peru	Brazil	Argentina
Products	-	Storage	Storage	Storage	-	Storage
	Treatment and Heating	Treatment and Heating	Treatment and Heating	Treatment and Heating	-	Treatment and Heating
	-	Flow	Flow	Flow	-	Flow
Services	<i>e-commerce</i>	-	-	-	-	-
	-	Purification	-	-	-	-
	-	Treatment and Recycling	-	-	Treatment and Recycling	-
	-	Irrigation	-	-	-	-

* Central America includes Guatemala, El Salvador, Costa Rica, Honduras and Nicaragua.
 Source: elaborated by Apalache Análisis with data from Grupo Rotoplas

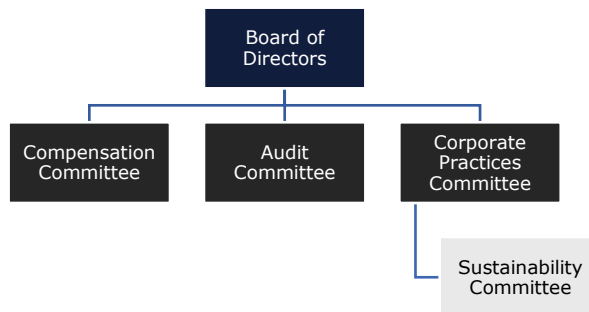
ESG

Grupo Rotoplas has made efforts with the objective of reporting the results regarding the most relevant Environmental, Social and Governance (ESG) issues since 2016. As a result of the foregoing, the company adheres to the presentation of its results to the main international reference frameworks: i) Global Reporting Initiative (GRI); ii) Sustainability Accounting Standards Board (SASB); iii) Task Force on Climate-related Financial Disclosures (TCFD), iv) contribution to the Sustainable Development Goals (SDGs) established by the UN, among others.

In this sense, during 2021, the company announced its 2021-2025 Sustainability Strategy called "360° Value Creation". This plan aims to prioritize the growth of the company in a sustainable manner through the creation of economic, social and environmental value. This strategy encompasses a business model focused on covering 6 guidelines that generate sustainable value creation in areas such as:

1. Corporate Governance

Rotoplas practices are strictly adhered to regulatory compliance established in the Securities Market Law, as well as the adoption of international practices. Additionally, the focus of the governance bodies established by the company is based on fiduciary duty; Therefore, its objective is to first seek the interest of the shareholders and different interest groups, through transparency and due diligence, so that there is greater trust, in favor of better decision-making.



2. Access to solutions

A project developed in conjunction with Water.org was started, whose main objective is to provide microcredit solutions to the communities of Oaxaca. In this way, the resources are provided to give communities greater access to quality water solutions, while maintaining a competitive price. On the other hand, the company seeks to deepen its participation through e-commerce and with the omnichannel strategy. Finally, strategies were established to improve the relationship with distributors, allies and plumbers, as well as to use digitization in all processes and solutions.

3. Circularity and climate change

Rotoplas issued the first sustainable bond in Latin America in 2017, with two tranches and ticker symbol AGUA 17X and AGUA 17-2X. They were issued in 2017 for US\$600 million for a term of 3 years with a maturity date in June 2020. Followed by this, the 17-2x bond, also, was issued in 2017 with two reopenings; the first in 2018 for Ps.1,000 million, and in 2020 for Ps.1,600 million. The company explained that the resources obtained from said bonds would be used to finance projects that improve access to water and sanitation. It should be noted that both are aligned with the International Capital Market Association (ICMA).

4. Availability of wáter

Through the use of treatment plants and drinking water service, the company encourages the reduction of the environmental footprint of its clients. In addition, to promote education and culture about the preservation and measures of water care. Finally, they participate in the public agenda for water issues.

5. Quality of life for the user

A marketing innovation macro-process is carried out that allows detecting the user's need and providing better satisfaction and experience by understanding the evolution of consumption habits with COVID-19, this in order to make better-informed decisions, as well as access alliances and social advancement to improve people's experience around water.

6. Boosting talent

Rotoplas is a company that puts the safety, health and well-being of its employees first, in addition to having a good climate and organizational culture. It promotes professional development and seeks to retain talent. Additionally, it provides equal opportunities, and promotes inclusion and diversity in the workplace.

AGUA DAY

In this sense, Rotoplas at the end of 2021 reported during "AGUA DAY 2021", a continuation of the same event a previous year, about the evolution of the 2020-2025 sustainable growth plan, presenting the results obtained during 2021 and the goals on ESG by 2025.

Environmental

- * More than 20% use of recycled resins for the manufacture of storage products.
- * More than 300 million liters purified through the *Bebbia* purification service.
- * Second year responding to the Carbon Disclosure Project (CDP) evaluation.

Social

- * Employee engagement went from 79 to 80%.
- * The Organizational Health Index (OHI) increased from 68 to 72 points (0-100 scale).
- * 20% of positions focused on science, technology, engineering and mathematics are held by women.
- * Efforts have been made to increase the diversity of the workforce.

Governance

- * The percentage of independent members on the board increased from 47 to 57%.
- * Internal auditors certified to carry out the best practices in manufacturing plants.
- * Sustainability metrics for capital allocation were established.
- * Improvement of ESG ratings.

Finally, for the 2025 sustainability goals, three fundamental pillars were detailed:

Profit

- * Increase from 0 to 100% the number of suppliers evaluated under ESG criteria.
- * Increase from 67 to 80 points in customer satisfaction with products and services (composite NPS Score).

People

- * Increase the impact on people with access to water and sanitation, going from 330 thousand to 1 million people.
- * Increase the percentage of women in the workforce, from 23% to 30%.

Planet

- * Become a carbon neutral company in the year 2040.
- * Reduce the intensity of CO₂ per ton of processed resin, going from 0.51 to 0.41.
- * Increase the amount of purified water through *Bebbia*, going from 164 thousand to 1.7 million cubic meters.

INVESTMENT THESIS

1. Cash generating capacity

The business model under which AGUA operates has a high cash-generating capacity, which allows it to allocate significant amounts of resources to the innovation and development of its products, which makes it easier for it to preserve its leadership in the regions where it has presence.

2. Capital reimbursement-oriented earnings strategy

AGUA has maintained a dividend payment discipline aimed at constantly benefiting its investors, through reimbursements of capital in cash and/or shares that increase the value of its investments.

3. Growing demand

The company expects that over the next few years the demand for the various products and services in its catalog will continue to increase in all the markets in which it operates, as a result of the fact that access to safely managed sanitation services continues to be deficient in many countries from Latin America. Likewise, it should be noted that the population dynamics in the countries where AGUA has a presence maintains a positive trend, so the demand for products related to construction and infrastructure will continue to grow.

4. Positioning and leadership

Grupo Rotoplas established itself as a market leader in terms of participation, backed by the quality of its solutions, in addition to the company's ability to meet the needs of its customers in a vast sector of water solutions. The positioning of the brand plays a highly relevant role in generating demand for its products, in which consumer confidence in water solutions is key in the purchase decision.

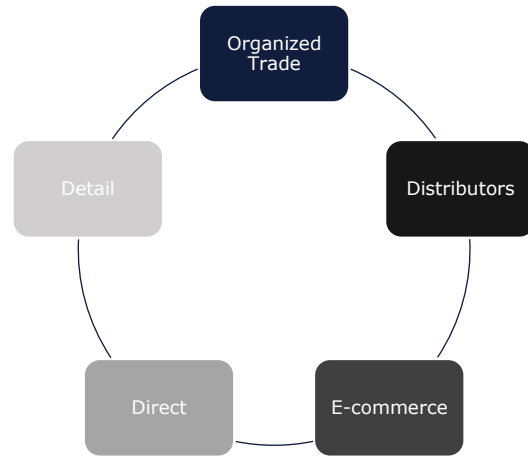
5. Unique distribution and service network

At the end of 2021, Rotoplas had 19 plants dedicated to the production of storage, pipeline and improvement solutions, which are strategically located in Mexico, Peru, Argentina and Guatemala. It also has distribution centers to serve the 14 countries in which it has presence.

The distribution channels are: Organized trade, distributors, e-commerce, direct and retail.

Organized trade: Includes self-service stores, department stores, price clubs and convenience stores.

- Distributors: Points of sale dedicated to the commercialization of construction products in general.
- E-commerce: Dedicated to sales through the company's own platform and marketplaces.
- Direct: Rotoplas direct sales solutions.
- Detail: Sales on board that includes hardware stores, plumbing, finishes, materialists and marketers.



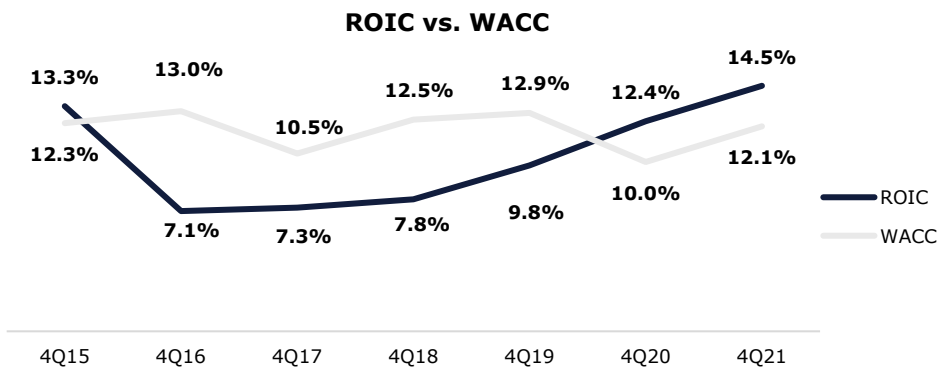
Source: Grupo Rotoplas

6. Sustainable Growth Strategy (FLOW)

Started in June 2019, the organizational transformation program called FLOW is aimed at achieving sustainable growth, through the joint creation of economic, social and environmental value. This organizational program consists of two stages:

1st stage (Aug 19 – Dec 20): achieve an ROIC 240bp higher than the weighted average cost of capital. Objective accomplished.

2da etapa (2021- 2025): i) double the sales obtained in 2020; ii) obtain an EBITDA margin equal to or greater than 20%; iii) maintain a Net Debt/EBITDA level less than or equal to 2.0x; and, iv) a ROIC close to 20%.



Source: Grupo Rotoplas

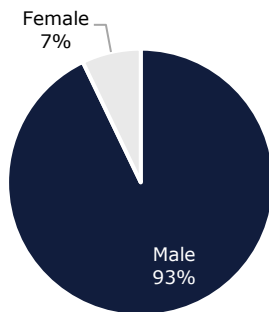
7. Soundness in Corporate Governance

The Board of Directors of Grupo Rotoplas is made up of 14 executives of the highest level, who together have more than 130 years of experience in the business sector in Latin America. 57% of the Board is made up of Independent Directors and 43% Patrimonial. On the other hand, 93% is made up of men and 7% represents a single woman.

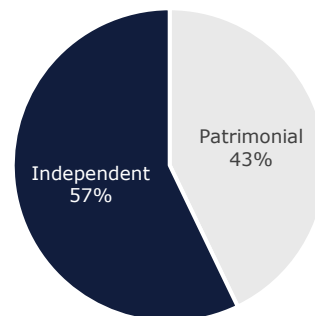
Name	Role	Age	Tenure (years)	Gender
Carlos Rojas Mota Velasco	Chairman of the Board	70	33	Male
Carlos Rojas Aboumrad	Director	40	10	Male
Mario Antonio Romero Orozco	Director	51	19	Male
Gonzalo Uribe Lebrija	Director	50	9	Male
Alfredo Elías Ayub	Director	72	8	Male
Pablo Iturbide Fernández	Director	34	7	Male
John G. Sylvia	Independent Director	64	19	Male
Francisco Amaury Olsen	Independent Director	72	9	Male
José María González Lorda	Independent Director	76	18	Male
Luis Fernando Reyes Pacheco	Independent Director	70	8	Male
Marina Díaz Ibarra	Independent Director	42	3	Female
Alberto Esteban Arizu	Independent Director	56	3	Male
Jerónimo Marcos Gerard Rivero	Independent Director	54	3	Male
Xavier García de Quevedo	Independent Director	75	<1	Male

Source: Apalache Análisis

Composition of the Board of Directors by Gender



Composition of the Board of Directors by Type of Director



Source: elaborated by Apalache Análisis with data from Grupo Rotoplas

MAIN RISKS

1. Market Risk

The increase in the cost of the main raw materials, considering that the products are made with oil-derived inputs, makes the issuer's margins dependent on fluctuations in said markets. Likewise, the change in consumer preference and the offer of products with better solutions could affect demand, which would be reflected in their income and profit margins.

2. Regulatory Risk

Being exposed to various markets, a change in the regulatory tariff laws by any country where the business operates, as well as the opposition of compensatory measures to import and export would imply an expense and limitations in foreign trade. Failure to cover additional costs in environmental, labor and safety matters could result in extraordinary costs and penalties for non-compliance.

3. Operational Risk

Climatic changes that substantially interrupt the operation or deteriorate/inflict damage on the infrastructure could momentarily stop the production of the supply chain and/or cause the station to no longer be able to generate innovative and quality solutions.

4. Financial Risk

The lack of capacity to manage financial resources, low negotiation possibilities to obtain financing sources, high rate levels, exchange rate fluctuations, as well as an inefficiency to manage the company's growth could affect the company's performance.

5. Emerging Risk

An inadequate analysis for investments and technological development would subtract added value from the company. Pandemic events, such as the most recent case of the Omicron outbreak, can affect the economy at a global and local level. Similarly, political movements that alter various processes from the operational level, climate change, as well as social movements would have a negative impact on the sales of products and services, as well as on the company's ability to adapt to be able to keep up with forefront and continue its development through an ESG scheme.

6. Requirement of high levels of Capex

The maintenance, expansion and improvement of production capacities require a significant outlay of resources, which require a significant investment in design and construction. Due to the foregoing, there is the possibility that the expected returns will not coincide with those obtained, a situation that would considerably reduce the margins, limiting the financial performance of AGUA.

VALUATION

In order to determine a Target Price (TP), we have used the most common valuation methodologies for an operating business with these characteristics. Based on this, we apply the discounted cash flow method (DCF), as well as target P/E and EV/EBITDA multiples, taking into account the following variables:

DCF/Year	1	2	3	4	5	6	7	8	9	10
NOPLAT	1,273	1,552	1,726	1,867	1,919	1,955	2,001	2,082	2,168	2,254
Depreciation & Amortization	531	548	576	595	616	637	658	681	704	728
Investment in working capital	216	83	(48)	91	42	18	16	20	24	28
CAPEX	(744)	(712)	(691)	(715)	(739)	(764)	(790)	(817)	(845)	(873)
Free Cash Flow (FCF):	1,277	1,471	1,563	1,839	1,838	1,846	1,885	1,965	2,051	2,136
Present Value FCF Years 1-10:	11,012									
Residual Value:	30,576									
Present Value of the residual:	12,768									
Total Present Value:	23,779									
Net debt:	2,018									
Minority interest:	110									
Implied capitalization value:	21,652									
Outstanding shares:	486									
Intrinsic Value:	44.53									

Source: Apalache

Discounted Cash Flow (DCF): We believe that the most appropriate tool to value AGUA is the discounted cash flow method, since with this method we can reflect how the company's operations will behave considering its 2021-2025 growth plan. We give this method a 40% weighting in the final valuation.

With our estimates, an Intrinsic Value per DCF (Ps.40.63) is observed approximately 63.4% above the current market price (Ps.24.86).

The main assumptions for calculating the weighted average cost of capital and residual growth were:

- 🏔 Risk-free rate: We take as reference the average price of the 10-year MBono for the last 12 months, to which we add the country risk premium for Mexico determined by the 12-month average of the EMBI (2.4%).
- 🏔 U12M sovereign risk premium: We calculate a sovereign risk premium of 3.7% based on the average of the last 12 months, to which we apply an adjustment of 50% derived from the issuer's ESG analysis, in which it obtained the highest possible rating according to the Apalache methodology (review the issuer's "ESG Addendum").
- 🏔 Residual growth: We assume that growth in perpetuity would be slightly below Mexico's long-term growth rate (2%), due to the volatility that the water industry could show.

Assumptions for the calculation of the WACC	
Risk-free rate U12M (M10):	7.2%
Risk premium over capital:	2.3%
3Y Monthly Beta:	0.41
Beta-adjusted risk premium:	0.9%
Sovereign risk premium U12M:	3.7%
(-) ESG discount to sovereign risk*:	50.0%
Cost of equity capital:	12.3%
Implied credit spread:	2.0%
Cost of debt before taxes:	9.2%
Effective tax rate:	30.0%
Cost of debt:	6.5%
Debt mix in target financial structure:	35.0%
WACC:	10.3%
Residual growth:	3.0%

Source: Apalache and various well-known sources

Any variation in our parameters to calculate the weighted cost of capital, which is currently 10.3%, could change our target price; therefore, we suggest revising our sensitivity matrix at different rates of residual growth and cost of capital.

Sensitivity of the TP calculated by DCF: Residual vs. WACC						
		Scenarios for Residual Growth				
		1%	2%	3.0%	4%	5%
Scenarios for WACC levels	11.3%	31.10	32.86	35.06	37.85	41.53
	10.8%	33.05	35.10	37.66	40.99	45.47
	10.3%	35.22	37.60	40.63	44.63	50.14
	9.8%	37.64	40.43	44.04	48.89	55.78
	9.3%	40.36	43.65	47.99	53.97	62.75

Source: Apalache

Target Multiples: Because AGUA belongs to the industrial sector, it has a considerable number of comparables in the international market. In the following table we can see that AGUA maintains “cheap” multiples relative to its peers and the benchmark average.

Figures in US\$

Company	Ticker	Price	Market cap (millions)	EV/EBITDA	P/E
Grupo Rotoplas	BMV: AGUA	1.2	577.8	11.0	24.9
California Water Service Group	NYSE: CWT	58.6	3,149.2	16.0	29.9
Evoqua Water Technologies Corp.	NYSE: AQUA	42.7	5,156.7	27.3	101.6
Severn Trent Plc	LSE: SVT.L	37.9	9,482.1	14.3	-
Pennon Group Plc	LSE: PNN.L	13.6	3,618.4	15.1	74.9
Companhia de Saneamento Básico do Estado de São Paulo	NYSE: SBS	8.4	5,707.3	6.3	11.3
Flowsolve Corporation	NYSE: FLS	30.4	3,959.0	16.5	31.6
American States Water Company	NYSE: AWR	88.1	3,256.0	20.1	33.3
SJW Group	NYSE: SJW	68.1	2,057.2	16.3	32.1
Middlesex Water Company	NYSE: MSEX	106.5	1,868.9	34.5	48.3
The York Water Company	NYSE: YORK	47.7	624.6	23.4	34.5
Benchmark*			39,457.2	16.9	35.0

*Average weighted by market capitalization

Source: Morningstar

This supports our opinion that the stock is trading below its fair value. For this reason, we have decided to value the company by Target Multiples EV/EBITDA (EV=Enterprise Value) and P/E

(E=Earnings), establishing each multiple as the average of the multiple of the last two years (for this exercise we are using the average of 2018-2019, derived from the atypical year raised in 2020) in order to know how much the company was paid in a stable market, and the average price of the benchmark of the last year, in order to be able to incorporate to our valuation the price at which companies in this segment are currently paid in the market.

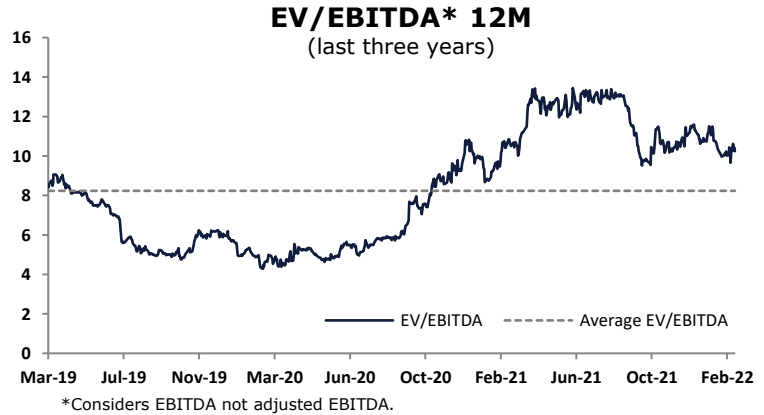
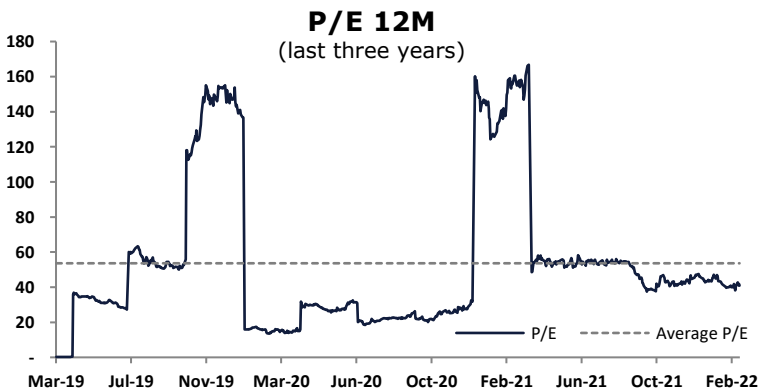
Sensitivity of the TP calculated by multiple: EV/EBITDA Target vs. Changes in EBITDA						
		EV/EBITDA target multiple scenarios				
		11.1x	11.3x	11.5x	11.7x	11.9x
Changes in EBITDA	5.0%	42.10	42.99	43.87	44.76	45.65
	2.5%	40.93	41.79	42.66	43.53	44.39
	0.0%	39.76	40.60	41.45	42.29	43.13
	-2.5%	38.59	39.41	40.23	41.06	41.88
	-5.0%	37.42	38.22	39.02	39.82	40.62

Source: Apalache

Sensitivity of the TP calculated by multiple: P/E Target vs. Changes in Earnings						
		Multiple target P/E scenarios				
		27.7x	27.8x	27.9x	28.0x	28.1x
Changes in Earnings	5.0%	34.47	34.59	34.72	34.84	34.97
	2.5%	33.65	33.77	33.89	34.01	34.13
	0.0%	32.83	32.95	33.06	33.18	33.30
	-2.5%	32.01	32.12	32.24	32.35	32.47
	-5.0%	31.19	31.30	31.41	31.52	31.64

Source: Apalache

We have assigned a final valuation weight of 20% to the Target P/E multiple and 40% to the Target EV/EBITDA.



Source: elaborated by Apalache Análisis with data from the BMV and AGUA

Recommendation In this way, we are establishing the 12-month Target Price (December 2022) of AGUA* at Ps.39.40 per share, which represents an expected total potential return of 58.5% compared to the closing price of March 4, 2022. Our recommendation fundamental for the moment is **BUY**.

Valuation Method	Price	Weig.	Multiples	L12M	N12M
DCF	44.53	40%	Valuation calculated with TP:		
Target P/E	33.06	20%	EV/EBITDA	12.3x	11.0x
Target EV/EBITDA	41.74	40%	P/E	42.1x	33.2x
Target Price 12 months	39.40	100%	Valuation calculated with actual price:		
Actual price	24.86		EV/EBITDA	8.3x	7.5x
TP yield potential	58.5%		P/E	26.5x	21.0x
Dividend yield	0.0%				
Total expected return	58.5%				
Recommendation:	BUY				

Source: Apalache

INDUSTRY OUTLOOK

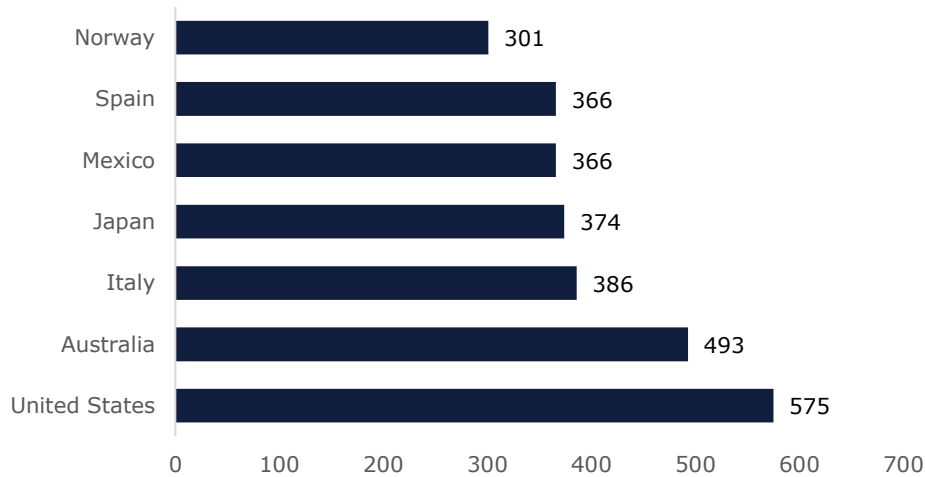
Water affects all aspects of development and is related to most of the Sustainable Development Goals (SDGs) established by the United Nations (UN). According to a report published by UN-Habitat, about 36% of the world's population, which represents a figure close to 2,400 million people, live in regions with water scarcity and it is estimated that approximately 52% will experience a severe water scarcity by 2050. That said, there was limited access to water supply in cities.¹

Within their forecasts, they estimate that by 2030 the use of water will present a growth of 40% derived from a combination of factors, such as: i) climate change; ii) human action; and, iii) demographic growth. It also points out that most public health crises in recent years have been driven by water, including floods, droughts, among others. Climate change is making the problem worse by intensifying floods and droughts, changing precipitation patterns, altering water supplies and accelerating the melting of glaciers which keeps sea levels rising steadily.

It should be noted that currently, the use of water is excessive in some countries. In the case of Mexico, the average consumption of water in the country is 366 liters per day per capita, this being one of the countries with the highest average consumption in the world.

¹ Source: ONU Habitat. (2021, March 22). *Comprender las dimensiones del problema del agua*. Retrieved February 17, 2022, from https://onuhabitat.org.mx/index.php/comprender-las-dimensiones-del-problema-del-agua?fb_comment_id=1919706488040991_2396617700349865

Average liters consumed daily per capita

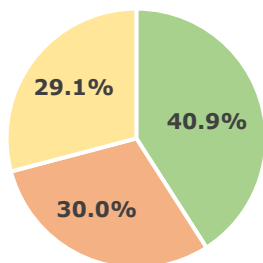


Fuente: elaborated by Apalache Análisis with information from ONU Habitat

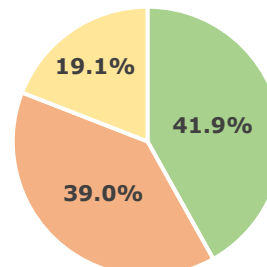
At a global level, it is estimated that the annual average water availability is 1,386 billion cubic hectometers (hm³), of which only 2.5% is fresh water. Of those 35 billion hm³ of fresh water, 70% is not available because it is found in glaciers, snow or ice, so that approximately 10.5 million hm³ is found as groundwater and only 0.14 billion hm³ as surface water.

According to the report on “Surface and Groundwater Quality Indicators 2012-2020” published by CONAGUA (which classifies the level of water contaminants in green, yellow and red), at the end of 2020, of 4,233 sites of surface water evaluated throughout the country, 30% (red) did not meet the ranges of Biochemical Oxygen Demand (BOD), Chemical Oxygen Demand (COD), Toxicity and/or Enterococci; 29.1% (yellow) did not meet the ranges in escherichia coli, fecal coliforms, total suspended solids and/or percentage of dissolved oxygen saturation; the remaining 40.9% (green) fully complied with the indicator ranges. Regarding groundwater, of 2,070 sites evaluated, 39.0% (red) had poor quality; 19.1% (yellow) had poor quality; and 41.9% (green) presented a good and/or regular quality.

Surface Water Quality



Groundwater Quality



Source: elaborated by Apalache Análisis with information from CONAGUA

That said, Mexico represents a market with a high growth potential for Rotoplas through its products and services, which mainly promote the healthy storage, use and transportation of water, derived from the little reserve found in the superficial part. of the land, which requires a significant development of infrastructure capable of moving the liquid to regions where it is required in an efficient and healthy manner.

In addition to this, during the last few years in Mexico, investment in drinking water, sewerage and sanitation has been decreasing by the different levels of government, with the federal government being the one that has reduced the budget for these programs to a greater extent, passing from Ps.23,519.4 million in 2012 to Ps.7,593.8 in 2020, a reduction of 67.7%.

Year	Drinking water	Sewerage	Sanitation	Efficiency improvement	Others*	Total
2010	5,572.4	7,584.8	1,908.7	4,863.3	2,133.2	22,062.4
2011	5,367.5	9,481.0	7,009.9	4,573.0	2,165.6	28,596.9
2012	8,132.4	4,018.1	15,869.3	3,750.6	2,517.6	34,287.9
2013	7,376.4	8,565.1	7,251.7	4,606.8	1,623.4	29,423.3
2014	6,148.2	6,287.5	4,616.9	6,287.6	1,827.8	25,168.1
2015	6,413.9	10,067.6	4,396.7	5,416.1	1,579.5	27,873.8
2016	9,109.4	8,736.8	4,998.4	5,280.4	1,258.5	29,383.5
2017	6,983.6	6,511.8	1,088.3	3,884.3	519.0	18,987.0
2018	8,404.7	9,049.3	1,956.7	403.6	202.1	20,016.4
2019	4,052.3	4,125.7	2,121.5	313.4	2,227.7	12,840.6
2020	5,394.9	3,512.8	1,436.0	172.7	2,600.6	13,117.0

*Considers studies, projects and supervision
Source: CONAGUA

Likewise, according to the most recent data (2019) from the World Resources Institute (WRI), of the countries where Rotoplas has presence, Mexico is the country with the greatest hydric stress in terms of the annual percentage of water available used, followed by Peru, these two geographies being the only ones with a "high" level of stress, which translates into inefficiency in the use of resources and a low level of freshwater reserves. In contrast, Brazil and the countries that make up the Central American region have less water stress, due to the large number of freshwater reserves, which generates an important area of opportunity for Grupo Rotoplas, due to the low development of the water infrastructure. in which it currently exists in Central America.

Score	Stress	Annual % of water used
(4-5)	Extremely High	>80%
(3-4)	High	40-80%
(2-3)	Medium-High	20-40%
(1-2)	Medium-Low	10-20%
(0-1)	Low	<10%

Ranking	Country	Water Stress	Score
43	Mexico	High	3.52
59	Peru	High	3.2
71	U.S.	Medium-High	2.89
76	Argentina	Medium-High	2.51
84	Costa Rica	Medium-Low	1.94
97	El Salvador	Medium-Low	1.49
113	Guatemala	Medium-Low	1.01
114	Nicaragua	Medium-Low	1.01
118	Brazil	Low	0.91
164	Honduras	Low	0.07

Source: elaborated by Apalache Análisis with data from WRI

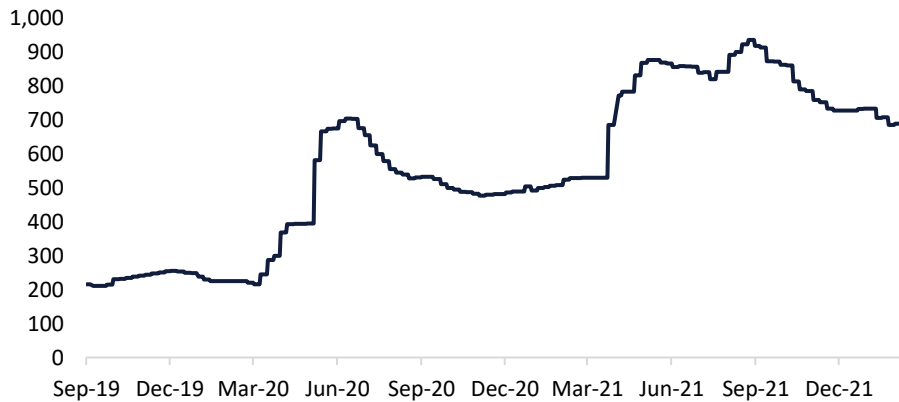
Due to these issues, we believe that the development potential of the private sector in activities related to drinking water, sewerage and sanitation will become an important part of the infrastructure, so we see a broadly positive and resilient outlook in the development of the section of WATER services, mainly in Sytessa, group company that could add greater consistency to the issuer's cash flow.

As a result of the scarcity of this resource, during 2020, water began trading on the Wall Street commodity futures market. The price of said future fluctuates as do inputs such as oil, gold, among others.

The Nasdaq Veles California Water Index, which trades under the ticker NQH2O, is an indicator that takes as a reference the prices of the main river basins in California, where water scarcity has increased. It should be noted that this value is used as a reference for the rest of the world in the markets of the water.²

This index has made it possible to make more precise estimates of the future price of water, taking as a reference the expectations of the main players in this market. That said, China and the United States are the main consumers of water globally.

Price of the NQH2O (US\$)



Source: elaborated by Apalache Análisis with information from NASDAQ.

Likewise, we consider that water is a vital factor for production and economies; therefore, the reduction of their stocks and/or the effects of climate change could generate a slowdown in economic growth. The World Bank estimates that the growth rates of the Gross Domestic Product (GDP) of some regions could be reduced by up to 6% of GDP during the year 2050, derived from water-related losses with respect to agriculture, health, income and property.³

² Source: EFE Verde. (2020, December 9). *El agua es desde el lunes un valor de cotización en el mercado de Wall Street*. Retrieved February 18, 2022, from <https://www.efeverde.com/noticias/agua-valor-cotiza-bolsa-wall-street/>

³ Source: Banco Mundial. (2019, July 1). *Agua: Panorama general*. Retrieved February 17, from <https://www.bancomundial.org/es/topic/water/overview#1>

Recent Results and Projections

Recent Results

During 4Q21, Net Sales grew 14.3% annually, reaching Ps.2,800 million, against Ps.2,450 million registered in 4Q20. Said increase was generated mainly by the strength and positioning of the product brands; ranking with growth above 10% in the three categories (storage, improvement and conduction). In the accumulated of 2021, Net Sales amounted to Ps.10,915 million, registering an annual growth of 26.3%. Said increase is mainly derived from an increase in volume and an increase in prices. It should be noted that, with this increase, the annual growth target of 17.0% for 2021 was exceeded.

Cost of Sales for 4Q21 amounted to Ps.1,697 million, which meant an increase of 18.6% compared to 4Q20. This increase derives mainly from unstable supply chains that caused increases in the costs of raw materials and freight. With respect to the annual accumulated, the Cost of Sales was Ps.6,761 million, presenting an increase of 34.0% vs. 2020. This growth is the result of the strategy to temporarily absorb the increase in the cost of raw materials during the first half of 2021 with the aim of strengthening market share.

As a result of the above, a Gross Profit of Ps.1,103 million was recorded, reaching a growth of 8.3%. Likewise, there was a contraction in the gross margin of 220 bps compared to the same period of the previous year, going from 41.6% in 4Q20 to 39.4% in 4Q21. And, during 2021, Gross Profit stood at Ps.4,153 million, registering a growth of 15.4%, with a gross margin of 38.1%, 350 bps. below that reported for 2020.

Operating Expenses for the fourth quarter of 2021 were Ps.776 million, which meant an increase of 10.2% compared to 4Q20. Regarding the Operating Expenses for fiscal year 2021, these amounted to Ps.3,089 million, presenting a growth of 21.0% vs. 2020, a figure lower than the growth in sales, demonstrating operational leverage.

Adjusted EBITDA for the quarter was Ps.508 million, registering a growth of 6.7% compared to 4Q20. Said increase is derived from Rotoplas' strategy, which consisted of increasing executed prices as of the second half of 2021. For fiscal year 2021, adjusted EBITDA was Ps.1,764 million, presenting an annual increase of 12.0%. It should be noted that adjusted EBITDA was over 98% of the company's annual target in absolute terms.

Net Income for 4Q21 amounted to Ps.102 million, which translates into a growth of 55.1% compared to 4Q20, ending 2021 at Ps.322 million, a decrease of 20.3% vs. 2020 due to the fact that in that year a non-recurring financial gain was recognized for the early closing of exchange rate hedges.

At the end of 4Q21, Debt with Cost (corresponding to the AGUA 17-2X Sustainable Bond) was Ps.4,007 million, registering a 2.7% annual decrease. As for Net Debt, this amounted to Ps.2,378 million, showing growth compared to the Ps.1,024 million recorded during 4Q20. Taking into consideration the leverage ratio, during 4Q21, Net Debt to Adjusted EBITDA was 1.3x, showing an increase compared to the 0.7x registered at the end of 2020, but within the debt guideline established by the company, of 2.0 x.

Capex at the end of 4Q21 showed an important growth of 77.0%, which means an increase of Ps.515 million compared to the Ps.291 million registered in 4Q20. During the year, Capex represented 4.7% of accumulated sales, derived from the updating of technologies, digitalization of businesses and the increase in production capacity in all regions.

At the end of the year, Rotoplas presented its guidance for 2022, which remained in line with the 2025 objectives established during 2020.

Metrics	Guidance 2022	Objectives 2025
Annual growth in Net Sales	≥ 15.0%	2x Sales (vs. 2020)
Adjusted EBITDA Margin	16.5% - 17.5%	16.2%
Net Debt / Adj. EBITDA	≤ 2.0x	≤ 2.0x
ROIC	ROIC = WACC + 200 pb	ROIC ~ 20%

Source: Grupo Rotoplas

Projections

For its part, our revenue growth projections remain attached to those presented by the issuer in its "FLOW" transformation program, where we see it very affordable to double the result obtained in 2020 by 2025, maintaining growing profit margins with respect to those presented in 2021. In this sense, we estimate that the consolidated revenues for 2025 will present an increase of 59.5% with respect to the revenues obtained in 2021 derived from the economic recovery in Latin America and the good performance that the US has been showing in the construction sector, which has been boosted by Biden's infrastructure plan and the postponement of tapering.

Due to the above, we estimate that the US market will increase its share of revenues, going from 12% in 2021 to 15% in 2025, also driven by the consolidation of the e-commerce platform that is being developed in that region, as well as the existing potential in the treatment of domestic wastewater.

For Mexico and Argentina, we estimate a similar growth scenario, with a significant increase in revenues from Mexico during 2025, once the group's services in Mexico are in a mature stage and can capture a greater market share.

As of the Others section, we see significant potential in revenues from this segment, mainly due to the development of Acuantia in Brazil and the flow and treatment & heating development in Peru.

Regarding profitability, we estimate a growth in operating and EBITDA margins as of 2022, as the stages of development and modernization of installed capacity that are currently being carried out are completed, which will translate into better margins. and a consolidation of the services section, which will contribute considerably to a greater generation of EBITDA.

Revenues and Profitability

Ps. millions

	2018	2019	2020	2021	2022 E	2023 E	2024 E	2025 E
Revenues	7,859	7,868	8,644	10,915	12,657	14,461	16,119	17,405
Products	7,050	7,463	8,033	10,429	12,093	13,650	15,054	16,082
% Net Sales	90%	95%	93%	96%	96%	94%	93%	92%
Services	726	623	612	487	565	811	1,065	1,324
% Net Sales	9%	8%	7%	4%	4%	6%	7%	8%
Net Profit	374	52	404	322	458	581	698	789
Net <i>mgn</i>	4.8%	0.7%	4.7%	3.0%	3.6%	4.0%	4.3%	4.5%
EBITDA	1,302	1,414	1,575	1,762	2,052	2,381	2,687	2,927
EBITDA <i>mgn</i>	16.6%	18.0%	18.2%	16.1%	16.2%	16.5%	16.7%	16.8%

Source: Grupo Rotoplas and Apalache Análisis

Revenues by Geographic Region

Ps. millions

	2018	2019	2020	2021	2022 E	2023 E	2024 E	2025 E
Revenue	7,859	7,868	8,644	10,915	12,657	14,461	16,119	17,405
Mexico	4,562	4,511	4,958	5,545	6,111	6,673	7,220	8,142
% Net Sales	58%	57%	57%	51%	48%	46%	45%	47%
Argentina	1,390	1,694	1,670	2,628	3,251	3,859	4,388	4,689
% Net Sales	18%	22%	19%	24%	26%	27%	27%	27%
Estados Unidos	0	0	982	1,294	1,650	2,021	2,374	2,670
% Net Sales	0%	0%	11%	12%	13%	14%	15%	15%
Otros	1,823	1,882	1,041	1,328	1,646	1,909	2,137	2,306
% Net Sales	23%	24%	12%	12%	13%	13%	13%	13%

Source: Grupo Rotoplas and Apalache Análisis

in Ps. millions

P & L				
	2020	2021	2022 E	2023 E
Income	8,644	10,915	12,657	14,461
COGS	5,045	6,761	7,556	8,454
Opex	2,553	3,089	3,567	4,076
EBIT	1,047	1,064	1,534	1,930
Net financial income (expenses)	(203)	(623)	(665)	(880)
Net profit (loss)	404	322	458	581
EBITDA	1,575	1,762	2,052	2,381
Operating Dep and Amort	350	379	519	451
Growths in:				
Net income		26.3%	16.0%	14.3%
Operating profit		17%	44.1%	25.9%
Net profit (loss)		-20.3%	42.2%	26.8%
EBITDA		11.9%	16.5%	16.0%
Margins:				
Operating	12.1%	9.8%	12.1%	13.3%
EBITDA	18.2%	16.1%	16.2%	16.5%
Net	4.7%	3.0%	3.6%	4.0%
Outstanding shares (millions)	486	486	486	486
Book value per share	12.9	13.5	14.4	15.6
EPS	0.8	0.7	0.9	1.2
EBITDA per share	3.2	3.6	4.2	4.9
Cash Flow Statement				
	2020	2021	2022 E	2023 E
Net profit	404	322	458	581
(-) +working capital	91	(927)	216	83
Other adjustments	763	853	117	(111)
NET CF FROM OPERATIONS	1258	248	791	553
Sale of PPE	179	1	1	1
PPE purchases	280	498	726	586
Others	56	(8)	72	74
NET CF FROM INVESTMENTS	(45)	(506)	(655)	(513)
Debt payments	-	-	-	-
Lease payments	351	355	365	376
Paid dividends	-	-	-	-
Paid interests	509	525	540	557
NET CF FROM FINANCING	(79)	(1,198)	(397)	(263)
CASH AT THE END OF THE PERIOD	3,092	1,629	1,367	1,145

Source: Apalache

Balance sheet				
	2020	2021	2022 E	2023 E
Cash & eq	3,092	1,629	1,367	1,145
Receivables	1,846	2,205	2,013	2,008
Inventory	833	1,575	1,446	1,409
Other current assets	219	222	1190	2,261
CURRENT ASSETS	5,990	5,852	6,016	6,823
PP&E	2,321	3,011	3,218	3,353
Right of use assets	226	221	221	221
Intangible assets	970	975	975	975
Other non-current assets	3,106	3,275	3,373	3,474
TOTAL ASSETS	12,613	13,112	12,614	12,586
Short term debt	187	9	(166)	(229)
Short term leaseings	48	59	78	78
Suppliers and other accounts payables	1,383	1,661	1,555	1,597
Other short-term non-financial liabilities	-	-	-	-
Other current liabilities	18	24	-	-
CURRENT LIABILITIES	1,742	1,987	1,710	1,695
Long term debt	4,054	3,998	4,551	5,014
Long term liabilities	185	180	239	239
Taxes payable long term	153	186	191	197
TOTAL LIABILITIES	6,199	6,441	6,784	7,241
Controlling interest	6,207	6,444	6,905	7,487
STOCKHOLDERS' EQUITY	6,294	6,555	7,020	7,606
Gross Debt	6,030	6,052	6,172	6,558
Net Debt	2,938	4,424	4,805	5,413
Operating indicators and financial ratios				
	2020	2021	2022 E	2023 E
Liquidity	3.7x	3.2x	4.1x	4.7x
Acid test	3.0x	2.2x	2.7x	3.2x
Leverage (TL/TA)	49.1%	49.1%	53.8%	57.5%
Gross Debt/EBITDA	3.8x	3.4x	3.0x	2.8x
Net Debt/EBITDA	1.9x	2.5x	2.3x	2.3x
Interest coverage	3.1x	3.4x	3.8x	4.3x
Days inventory	59	84	69	60
Days receivable	77	73	57	50
Days payable	99	88	74	68
Operating cycle (days)	38	68	52	42
ROA	3.2%	2.5%	3.6%	4.6%
ROE	6.4%	4.9%	6.5%	7.6%

Source: Apalache

HISTORY OF GRUPOROTOPLAS

1978 - 1996

- Foundation of the company in 1978.
- The first polyethylene water tank is launched on the market.
- Start of operation of a production plant outside of Mexico in Guatemala.

1999 - 2009

- Creation of the Research and Development Center, where they also expand their portfolio to purifiers, pumps and filters.
- Launch of the Tuboplus brand.
- Integration of the SAP ERP system in all the countries where it operates to optimize internal processes.
- Market launch of the Rotoplas Bio line, followed by the creation of the Shared Services Center.

2010 - 2015

- The Board of Shareholders buys the participation of Aqua International Partners.
- Market launch of water purification plants and wastewater treatment plants.
- Rotoplas begins trading on the Mexican Stock Exchange under the ticker symbol AGUA.
- Entering the United States market.

2016 - 2019

- Acquisition of Talsar in Argentina to strengthen particular solutions in the region.
- Acquisition of Advanced Innovation Center LLC in Chile.
- Integration of Systesa for greater portfolio diversification.
- First company to issue a sustainability bond in Latin America.
- Acquisition of Sanzfield Technologies Inc. in Canada.
- Enters the index of Dow Jones Sustainability MILA Pacific Alliance.
- Acquisition of solar panels, integrating them in the main plants in Mexico, investing more in sustainability.
- Acquisition of IPS, a leading Argentine water pipeline company.
- Launch of the Bebbia service.
- Start of the FLOW organizational transformation program.

2020 - 2021

- Launch of rieego in Mexico.
- Launch of Acuantia in the United States (septic solutions) and in Brazil (water treatment and recycling plants).
- Establishment of the 2020-2025 sustainable growth plan.

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