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AGUAS ANDINAS S.A.

Valuation Date: October 25th, 2019
Current Price: CLP 360
Ticker: AGUAS/A

Recommendation: BUY
Target Price: CLP 434
Upside: 20.66%

Industry: Utilities
Sector: Water Utilities Services

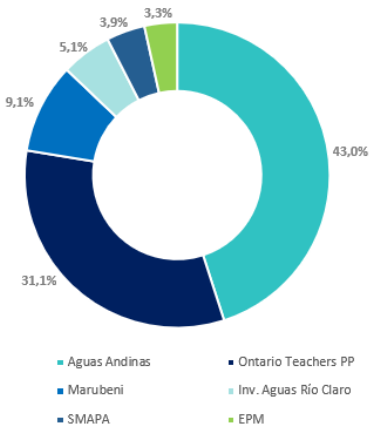
Aguas Andinas (Aguas/A) is one of the largest Latin American water utilities (in terms of market capitalization). It is the most important supplier of water in Chile.

BUY	
TICKER	AGUAS-A
STOCK PRICE	360 CLP
TARGET PRICE	434 CLP
UPSIDE	20.66%

PROFILE (In Ths)	
CLASS	AA+
OUTSTANDING SHARES	6,118,965
MAX 52 WEEKS	412 CLP
MIN 52 WEEKS	330 CLP
EV CLP	3,271,518
MARKET CAP CLP	2,401,693

VALUATION - IN CLP		
DCF	*85%*	429
MULTIPLES	*15%*	463
TARGET PRICE		434

Figure 1: MARKET SHARE



Source: Company Data

INVESTMENT SUMMARY

We issue a BUY recommendation on Aguas/A with a one-year target price of CLP 434 per share, representing a 20.66% upside from its October 25th, 2019 closing price of CLP 360. Our valuation is based on a mix of Discounted Cash Flow Model (85%) and EV/EBITDA Comparable Multiple Analysis (15%). Our recommendation is based on three key pillars:

Attractive Valuation Arising from a Short-Term Stock Price Overreaction

Aguas Andinas has two natural strengths that generate a competitive advantage over its peers: (1) It has the exclusive concession of the Metropolitan Region (MR) , the densest area in the country, which generates an advantage over its national peers, since it supplies 47% of Chile's population in the densest urban environment (figure 1). This translates into that the company's ROE is much higher than the 4.54% ROE of the second largest sanitary company in Chile, Esval. Both advantages allow the company to achieve a high and stable EBITDA margin of 60%, while its peers' average is 42% (considering local and international peers). During the period 2012-2018, Aguas/A obtained an EBITDA, EBIT and Net Profit Margin higher than its comparable peers. (2) Aguas/A is located right below the Andes Mountains, which generates a natural advantage over its peers. This is because the company does not need to incur in large operational costs to obtain its main resource, water, since it falls gravitationally to the company's plants. This translates into a higher ROE for the company, while Aguas/A's ROE is 21.2%, its international peers' ROE is 13.7%. Since the company has an unlimited concession to deliver its services, it is expected that this advantage will be maintained throughout the entire operational life of the company.

Additionally, Aguas/A has an attractive dividend yield, since it has a 100% dividend policy. In 2018, the company had a 5.89% dividend yield, a 2.86% spread to Chile's nominal 10-yr treasury rate (3.03%). We believe this gap will remain attractive due to the Central Bank's easing cycle.

Chilean sanitary companies are guaranteed a 7% return on regulated assets by the SISS. However, given the macroeconomic and social context, Chile's Public Works Ministry announced that it is considering reducing the rate to 5%, while Aguas/A announced that they are willing to reduce it to 6%. Since next step is a negotiation stage, we believe that the most likely scenario is that the allowed rate of return will decrease to 5.5%, a scenario that is incorporated in our projections from 2025 onwards. Analyzing the current share price, we could determine that the market is pricing a rate decrease from the current 7% to a 4.5%, that is, we believe that Aguas/A's current share price is being punished due to an overreaction of the market regarding regulatory matters, generating an upside opportunity.

Strong and Stable Cash Flows Endorsed by a Robust Legal Framework

Aguas/A is the largest water utility in the country. It has the exclusive right to produce and distribute drinking water and collect, treat and dispose sewage in the MR, Los Lagos and Los Ríos Regions. Effectively, Aguas/A operates as a regulated natural monopoly within its concession areas. It achieves 100% coverage in both drinking water and sewerage, well above the worldwide coverage level of 20%. Aguas/A has historically generated high and stable income, growing at a rate close to 4% per year. From 2014 to 2018, the company has consistently converted revenues into stable operating margins ranging from 41.9% to 47.6%. The company has also generated strong and positive operating cash flows, ranging from CLP 207.041 MM to CLP 245.501 MM during the same period. These cash flows are the main drivers that guide the stock price, which has quickly returned to normal levels after a falling due to specific shocks. Aguas/A is able to generate such stable income due to the nature of its core business, which is highly stable. The company's income depends mainly on water demand in Chile and especially in Santiago, which in turn depends on population's growth. Currently, Chilean population is expanding, for the next 30 years it is expected to grow at an annual compound rate of 0.45%, which will make the country go from having 18.7 MM people in 2018 to having more than 21.6 MM in 2050. This growth is mainly due to: (1) an increase in life expectancy of Chileans, and (2) an increase in the country's immigration levels. We project that population growth will result in an increase of the company's income at an annual compound rate of 2% during the 2019-2030 period. For this same period, we expect this to translate into a growth of the company's Free Cash Flow at a compound annual rate of 3.2%, which is greater than the 1.87% growth from the last 10 years. The company´s cash flows are sustainable over time, since they are backed by stable regulation. Even though the regulation is currently experiencing certain changes, once the corresponding decisions are made and published, the regulatory framework will return to its usual strength, once again ensuring stability in the company's operation.

A Defensive Position in a Volatile Chilean Market Environment

Currently, the macroeconomic environment in which Aguas/A operates is one of high volatility and low returns, Chile's main stock index behavior, IPSA, tracks Chilean companies with significant exposure to current macroeconomic tensions throughout the world, including the trade war between the US and China. Defensive stocks have taken an important place in the market, and, Aguas/A is an attractive alternative within this category given its intrinsic business' characteristics, which allows to preserve capital and deliver stable growth. Aguas/A's core business is highly defensive for three reasons: (1) Drinking water is a basic need; (2) Aguas/A is a natural monopoly in its concession area and accounts for 47% of Chile's population and (3) The company's profitability is protected by the DFL 70, which guarantees a 7% rate of return on regulated asset. Additionally, tariffs are inflation-adjusted every year.

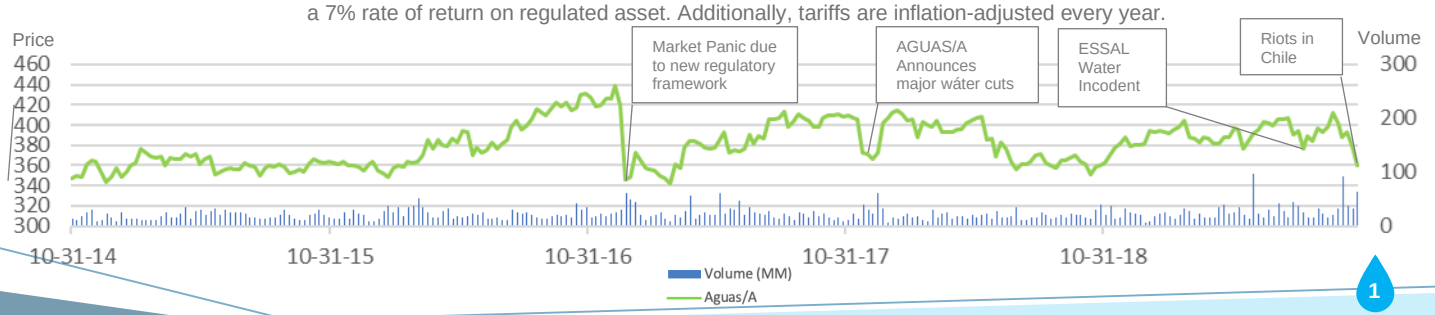
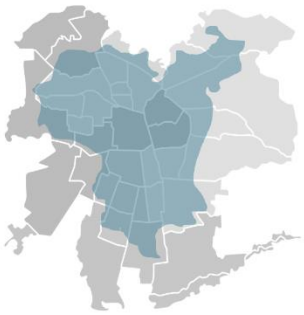


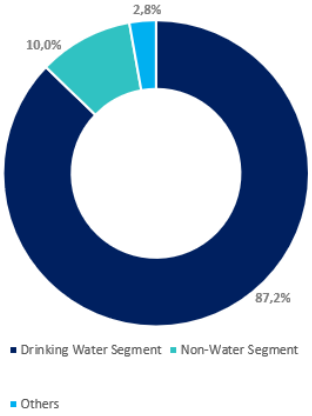
Figure 2: METROPOLITAN REGION CONCESSION



More than **71.000** hc in the M.R

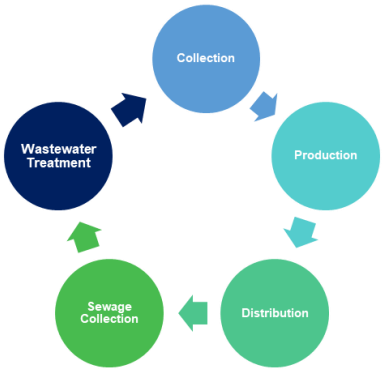
Source: Company Data

Figure 3: REVENUES BY SEGMENTS



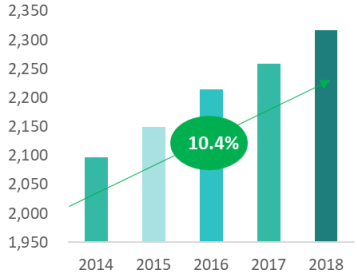
Source: Company Data

Figure 4: WATER CYCLE



Source: Company Data

Figure 5: TOTAL DRINKING WATER CUSTOMERS (Ths)



Source: Company Data

BUSINESS DESCRIPTION

Aguas/A is a Chilean Company engaged in the water utilities industry. It is the country's leading provider of the complete water cycle. The company supplies – together with its subsidiaries - more than 8.7 million customers (47% of Chile's total population), representing 2.3 million households both in the MR and in the Los Lagos and Los Ríos Regions. Aguas/A's concession allows it to produce and distribute drinking water, collect sewage and treat and dispose sewage in its 84,000 hectares concession area (71,000 hectares in the MR and 13,000 in the Los Lagos and Los Ríos Regions) for an unlimited time (figure 2). Highly regulated by the Chilean Water Regulator (SISS), the company holds a natural monopoly over its concession areas. Aguas/A has 100% coverage in drinking water, and 98% coverage in sewage, while worldwide coverage levels are closer to 20%.The company was originally founded in 1861 under the name of "Agua Potable de Santiago", in 1999 it was acquired by the Spanish company "Aguas Barcelona" and by the French "Grupo Suez", both world leaders in the sanitary sector with extensive experience in the field. In 2000, the company acquired 100% of Aguas Cordillera and 50% of Aguas Manquehue. The following year, it changed its name to Aguas Andinas S.A, remaining at the head of the Aguas Group. In 2002, Aguas/A bought the remaining 50% of Aguas Manquehue, controlling 100% of the company. Aguas/A supplied only the MR until 2008, when it took control of Essal's operations in the Los Lagos and Los Ríos Regions in Southern Chile (appendix 1).

BUSINESS SEGMENTS

Aguas Andinas has two business segments, however, 87.2% of its revenues comes from only one of them (water segment) being the most relevant (figure 3). These segments are:

Water Segment (water utilities industry) This segment includes drinking water production and distribution [39.3% of revenues] - and collection and treatment of wastewater [47.9% of revenues, corresponding to the main source of income for the company]. Aguas Andinas S.A. and its subsidiaries Aguas Cordillera S.A., Aguas Manquehue S.A. and Essal S.A. are included in this segment (appendix 2). These are the main activities of this company and generally both concessions are granted together, which favors the generation of economies of scale.

Non-water Segment (environmental services) Outsourcing services; physical, chemical and biological analysis of water, air and solids; integral engineering services and sale of products; and energy products. This segment represents about 10% of revenues. Included subsidiaries are Ecoriles S.A., Análisis Ambientales S.A., Gestión y Servicios S.A. and Aguas del Maipo S.A. (appendix 3). Although this segment represents a small income proportion, it is important because it allows Aguas/A to acquire greater knowledge to reach a circular economy goal.

WATER SEGMENT (figure 4)

Drinking Water Production This operation includes the conversion of collected raw water into drinking water, conducting the potable water to distribution points, and regulating and measuring the supply to final customers. To be able to provide drinking water production services, Aguas/A's main assets are the water use rights, collection and drinking water production facilities (figure 5).

Resource Sources The Maipo River - watercourse that flows from the MR to the Valparaíso Region until it reaches the Pacific Ocean in San Antonio – is Aguas/A's main water source. This river is characterized by presenting a large seasonal variation in its flows, so the company owns the "El Yeso" Reservoir - with an operational capacity reserve of 220 million cubic meters - which allows it to meet drinking water demand regularly both in times of drought and in events of great turbidity. Additionally, the company has a close proximity to the Andes Mountains, which allows water to easily reach the company's plants. This privileged geographical position means that the company incurs low operational costs to obtain water from both rivers and mountains.

Drinking Water Distribution This operation includes storage and distribution of drinking water through the networks to the consumption points. The main asset that the Aguas Group has to be able to provide the drinking water distribution service is its water network, through which it reaches 100% coverage of the population within the concession area. In 2018, Aguas Group's drinking water customers totaled 2,316,107 (including Essal's customers), which represents 36% of all households existing in Chile. This customer base has increased at annual average of 3% during the last three years, mainly due to the growth of the population.

Sewage Collection This operation refers to the processes of collecting used water, from domestic and industrial sources, and conducting it gravitationally and/or by pump to the treatment plants or to a final disposal point. Aguas Group's main asset to carry out wastewater collection is its sewerage network. As of December 2018, this network reached a 98% coverage of the population within the concession area.

Wastewater Treatment and Disposal Collected water, through the sewerage network, is treated in sewage treatment plants, so as to eliminate excess pollution by different processes. Subsequently, treated water is returned to natural channels.

Sewage Interconnection This service includes conduction of sewage through collectors to "El Trebal" and "La Farfana" treatment plants and the final disposal of these, already treated, in natural channels. The service is provided by Aguas/A to the RM concessionaires (including related and unrelated parties) that do not have a sewage disposal concession: Aguas Cordillera, Aguas Manquehue, SMAPA and Aguas Santiago.

TARIFFS – REVENUE KEY DRIVER

Aguas/A operates in a delimited area and based on a tariff established in the regulation (DFL 70), therefore, how this tariff is set is one of the main drivers of the business that directly impacts the firm's revenues (appendix 4). Aguas/A has one of the lowest tariffs compared to other OECD countries (figure 6) tariff that does not count with subsidies and it is self-financed. Aguas/A and its sanitary subsidiaries are supervised by the SISS (Superintendence of Sanitary Services) with their tariffs set in accordance with the Law of Tariffs for Sanitary Services every five years. The company is currently negotiating the tariff process for the 2020-2025 period. It is important to consider that the effect that this tariff change could have on future revenues should not negatively impact Aguas/A's operations, because it is established based on the operations of a cost-efficient model company and it considers the realization of future investments that are necessary for the company's operations, therefore, its manipulation is limited and aims to favor the continuity of Aguas/A's operations.

Figure 6: TARIFFS COMPARISON USD/m3

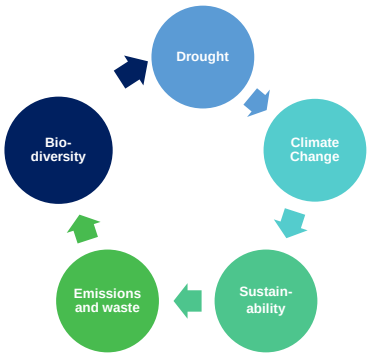
Source: Company Data

Figure 7: ESG PILLARS

Environment	Friendly	Neutral	Unfriendly
Social	Positive Impact	Minor Impact	Negative Impact
Governance	Good Practices	Standard Practices	Bad Practices

Source: Vigeo Eiris

Figure 8: COMPANY CHALLENGES



Source: Company Data

Figure 9: AGUAS ANDINAS AWARDS

FTSE4Good

GlobalCapital

MEMBER OF Dow Jones Sustainability Indices

Fundación Recyclápolis

Source: Company Data

REGULATED RETURN ON ASSETS

Aguas/A operates in a highly regulated environment, in addition to the tariff regulation, it also has a return on assets ensured by the regulation, which is considered in the tariff calculation. Currently, Aguas/A has been involved in different problems that have affected water supply and have jeopardized the company's reputation, like the massive water cut in Osorno – city in southern Chile within Essal's concession area (appendix 5) - and the water matrix breakdown in the center of Santiago. These events caused the Chilean Public Work Ministry to evaluate modifications to the laws on sanitary services, which can directly impact the company's profitability (appendix 6), and the SISS may require a higher level of investment from all companies in this industry. These regulatory pressures may result in a decrease in the allowed return on assets, or in certain capital expenditures that are not included in tariffs' computation, which ultimately results in a lower tariff charged by the company to its consumers. Although the decision of the SISS is not yet known, we believe that it will lower the allowed rate of return on assets from 7% to 5.5%, which would reduce the tariff by 19%. This impact should be effective for the period 2025-2030. While we believe that the company's cash flow will decrease by about 26% in 2025, the impact of these changes on the company's operating results will not be proportional, causing EBIT to decrease only 10% by 2025, maintaining the firm as an attractive investment alternative.

ESG ANALYSIS (figure 7)

ENVIRONMENT

Agua/A has the ISO 14001 certification, which is obtained through the proper management of environmental risks that may arise with from development of business activity. This is achieved through the treatment of 100% of wastewater, which allows transformation of waste into sustainable resources. Although the company's water recycling levels are low today (0.59% in 2016, rising to 0.7% in 2018), the company is currently evaluating investments of USD $500 million to reuse water. In addition, the company is currently trying to reduce emissions and waste levels generated. Between 2013 and 2018, Aguas/A has managed to reduce its CO2 emissions, per million CLP of revenue, by 31.4%. It is also working on reducing its energy consumption, achieving 12.6% higher energy savings in 2018 than in 2016. Aguas/A was the first Chilean company to issue a green and social bond, which is being used to finance different projects such as drinking water supply, resilient infrastructure and wastewater treatment. Aguas/A's sustainable approach allowed it to become one of the first three Chilean companies to enter the Dow Jones Sustainability Index of Emerging Markets (EM), which measures the performance of the top 10% companies within the largest 800 companies in EM, among other recognitions (figure 9 & appendix 7). Aguas/A's performance in the Environmental Pillar, although good, is considered limited, since the company has only set quantitative objectives on water efficiency and energy consumption.

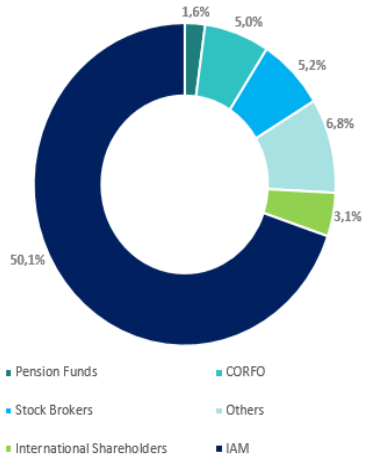
Main Environmental Risk: Drought Currently, Chile's central zone is being affected by the worst drought in the last 50 years (appendix 8). Generally, the company does not incur a high cost to obtain water, due to its proximity to the Andes Mountain and the Maipo River, however, the drought has caused Santiago's water availability to decrease (figure 8). This means that the company must change the way in which it obtains water resources, increasing the percentage obtained from underground sources compared to the amount from river flows, implying a higher electric cost. The amount of water extracted from underground sources has increased by almost 13% over the last 3 years, and we believe that it will continue to increase, guiding an average increase in the company's costs by almost 8% annually. This costs increase is reflected in our projections, and yet the company generates attractive enough cash flows to represent an investment opportunity. Additionally, the company is in an expansion plan to guarantee water supply in extreme conditions and increase the resilience level of the company, which is why the company currently invests twice as much as required by the SISS. We believe that the Capex-to-Customer ratio will increase by an average of 5.1% per year over the next 5 years, while for the 2025-2030 period, the company will keep its Capex-to-Customer ratio relatively constant, as it will be able to control the challenges faced by drought, since it will already have 48 hours of service autonomy.

SOCIAL

Social Responsibility Aguas/A's long-term social strategy is called "Santiago Deserves a 7 (SM7)" and consists of seven pillars that represent more than just the delivery of a service, instead seeking to support the community. The company interacts with the communities they serve or impact, through efforts such as roundtables, a dialogue channel with communities near the company's plants to detect problems or issues and try to solve them. The company also allocates funds to finance social projects developed by neighboring communities to the RM Biofactories. Additionally, the company has training programs to promote its employee's development. The company had an average of 68 hours of training per worker in 2018, compared to 45 hours in 2017. Unfortunately, this social responsibility is not visible to Aguas/A's consumers, and we believe the company should increase efforts to carry out actions that visibly impact its consumers in order to improve its reputation in terms of its social impact.

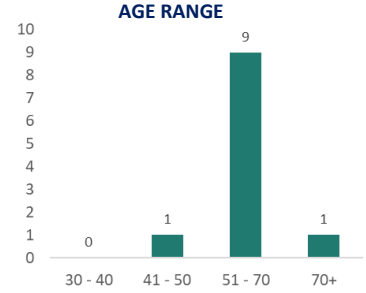
Reputation Given the basic service it provides and its private company nature, Aguas/A is constantly being targeted by public opinion. Therefore, any event that affects stakeholders has a great impact on the company's reputation. Recently, there have been certain events that have impacted Aguas/A's image, such as the massive water cut in Osorno due to water pollution and the water main ruptures in the center of Santiago. As this type of events directly affects consumers, the regulator applies different fines to try to compensate for the damage. Although Aguas/A is fined for the infractions it commits, during 2018 these fines corresponded to UTA 3,517 (CLP 2,000 million) which represents only 0.7% of its EBITDA, so the main risk the company face after a chaotic event is rather reputational. However, Aguas/A's share price is very sensitive to any event that affects the company's stakeholders, so the price falls rapidly after some negative impact on society is known. Given the stable cash flows presented by the company (due to its stable revenues), the share price tends to rise rapidly towards normal price levels in the days and weeks following. Even though the company is the only provider of the service in its concession area, it must take great care of its reputation, so as not to generate protests among consumers that lead to the removal of any of its concessions. The company should work on communication campaigns to inform its customers that it is inevitable that pipes break, but that they are working to have good response times, in order to improve customers' perception about the company.

Figure 10: COMPANY SHAREHOLDERS



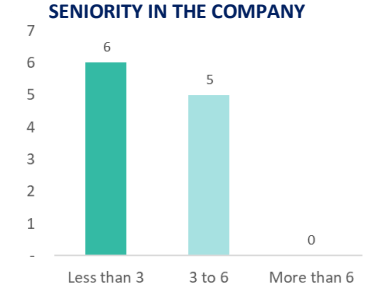
Source: Company Data

Figure 11: NUMBER OF DIRECTORS BY AGE RANGE



Source: Company Data

Figure 12: NUMBER OF DIRECTORS BY SENIORITY IN THE COMPANY



Source: Company Data

Figure 13: TYPES OF CONCESSIONS

Source: Company Data

CORPORATE GOVERNANCE

SHAREHOLDER STRUCTURE. The company has 6,118 MM outstanding shares. 95% of these shares correspond to series A (equivalent to 5,811 MM titles), while the remaining 5% corresponds to series B shares (equivalent to 307 MM titles). The main shareholder is "Inversiones Aguas Metropolitanas" - controlled by Aguas de Barcelona (56.6%) – who owns 51.2% of shares. Suez Group is Aguas/A's controller, since it holds 100% of the shares issued by Aguas de Barcelona (SGAB). SGAB has more than 150 years of experience in the industry and offers services to 32 million people in Spain, Chile, UK, Mexico, Colombia, Algeria, Peru, Brazil, Turkey and the US. Suez Group has more than 120 years of experience, has a presence in around 70 countries and has over 90 thousand employees worldwide (appendix 9). Additionally, Aguas/A is owned by four different institutions: international shareholders own 29.6%, different stock brokers (primarily representing retail investors) own 7.3%, CORFO (Chilean Economic Development Agency) owns 5% of Aguas/A's shares, AFPs (Pension Funds Managers) own 1.2%, and the remaining 6.8% of the property is owned by different institutional investors (figure 10). The company historically has had a 100% dividend policy. This policy remains in effect as long as the company's current level of capitalization continues, and it is compatible with the investment and financing policies set for each year.

CORPORATE GOVERNANCE STRUCTURE. Aguas/A's Board of Directors, consists of seven full members eligible each three years, each of which has its respective alternate. Board members cannot fulfill executive functions, but they can be company shareholders. The current Board of Directors has two independent directors, whose independence is defined according to the terms established by the Chilean Corporations Law. At the end of its three-year period, the Board of Directors must be renewed in its entirety. However, it may be revoked before the expiration of its mandate by agreement of the Ordinary or Extraordinary Shareholders Meeting; in that case, the same Board must elect the new Board. Therefore, the individual or collective revocation of one or more directors does not proceed. In addition, directors may be re-elected indefinitely. On August 8th, 2019 Guillermo Pickering, Director and CEO of Aguas/A, was replaced by Claudio Muñoz after the ESSAL incident (appendix 5). This action was taken as a good sign by the market because it shows that the company is committed to resolving its problems. Directors' average age is between 51-60 years and they have a vast experience in the business world, several of them hold executive positions in other organizations (figures 11 and 12). Their functions include approving policies, strategies and the company's shareholders structure. The implementation of these guidelines is delegated to senior management. In its sessions, the Board of Directors monitors the achievement level of goals associated with the strategy, and make decisions about the company's management in economic, social and environmental aspects. Narciso Berberana is the only board member who has previous experience in the sanitary sector, since he was part of the Suez Group for 23 years and was CEO of Aguas Andinas between 2016-2019 (appendix 10). Aguas/A has a Code of Conduct applicable to the company's directors, in relation to the possible situations of conflict of interest that they may face. It also contemplates scenarios that, despite not being specifically contained in the law, could affect the company's social interest if they are not resolved in a timely manner. Additionally, Aguas/A was the first company in Chile to certify its Anti-Corruption Management System under ISO 37001. During 2018, there were no confirmed cases of corruption in the company. (For our ESG assessment of other utilities companies in Chile, see appendix 11).

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

The Chilean water utilities industry is characterized by giving natural monopoly conditions to concessionaries, which are highly regulated, so it is constantly subject to legal pressures and regulatory changes. Therefore, income of firms in the industry depends mainly on a fixed tariff, established by a controlling regulatory body every five years. Its income also depends on the consumption of their services, which has a constant upward trend. The regulation model emphasizes two aspects: Concessions and Tariffs. In 2018, total revenues of the Chilean sanitary industry were CLP 1,223,189 million and Aguas/A represented 40% of them.

CONCESSIONS

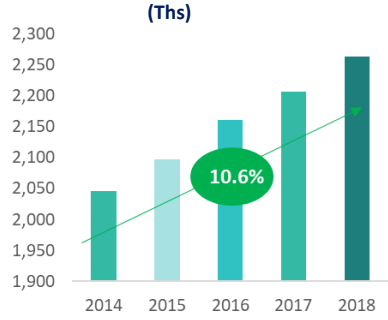
Chilean sanitary services companies are private, but the regulatory framework establishes the concessions granting conditions, which can be granted to exploit individual or integrated stages of the water cycle exclusively. These are conferred for a fixed operational territory, for an indefinite period or for a renewable period of 30 years, at no cost to the company that requests it. Each concession decree establishes the terms and rules of the agreement; as well as the regime of tariffs. Specifically, there are four types of concessions according to the type of activity exploited: Drinking water production, Drinking water distribution, Wastewater collection and treatment, and Wastewater disposal (figure 13). Drinking water and wastewater concessions are granted jointly to the same company. Concessionaires are responsible for delivering a high-quality user's service and maintenance of the drinking water and wastewater system to the point of connection with the customer. It is mandatory for the concessionaire to provide the service to everyone who requires it within the concession area. Therefore, investments committed to ensure coverage are an essential aspect in the definition of concessions. Before granting a concession, the regulator establishes a development plan for the concession area, in which it established all the investments (capital expenditures) that the concessionary company must make during the 5-year period. Chile's President is the only one empowered to remove a concession, and the SISS is the one who must proceed to find a new concessionaire for the area. Aguas/A has the four types of concessions indefinitely throughout the MR. Essal also has these indefinite concessions in Los Lagos and Los Ríos regions. These concessions guarantee them exclusivity, that is, they do not face any type of competition within the concession area, which gives them the character of natural monopoly within each area.

TARIFFS

Tariffs that regulate the Chilean water utilities sector are set by law every five years and are governed by a specific legal framework based on the following principles: dynamic efficiency (model company), intelligibility (market signals), equity, economic efficiency (marginal cost), self-financing. Within each period, tariffs levels are subject to additional adjustments linked to an indexing polynomial, if the accumulated variation since the previous adjustment is 3.0% or higher, according to calculations made based on various inflation rates, like the Consumer Price Index, the Imported Industrial Property Wholesale Price Index and the National Industrial Property Wholesale Price Index. The adjustment is made objectively, through a technical model that considers the total long-term cost of a model company and a minimum annual return on assets of 7% after taxes (appendix 4). Before the start of each new period (at least one year before the tariffs expire), the company may request the maintenance of the tariff's formulas for the next period. If the SISS agrees with this request, these formulas are maintained for another five-year period or until both parties agree to recalculate them. Aguas/A is currently negotiating the tariff process for the 2020-2025 period, results will be announced in February 2020.

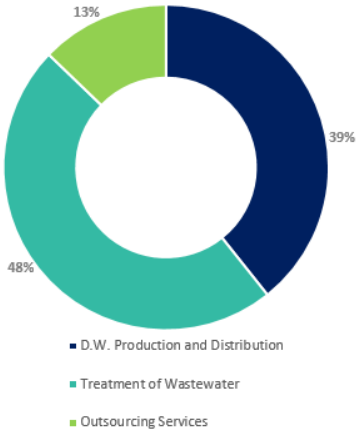
It is important to mention that Aguas/A achieves ROA levels close to 7% or even higher, so we can conclude that the company manages to have efficient costs that resemble those of a highly efficient company.

Figure 14: TOTAL SEWERAGE CLIENTS (Ths)



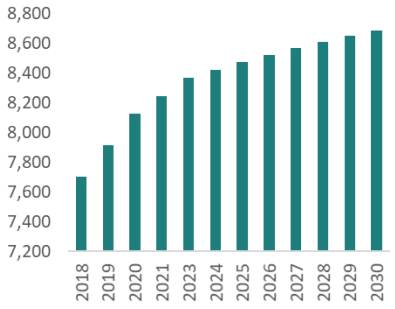
Source: SISS Data

Figure 15: INCOME BY SEGMENT



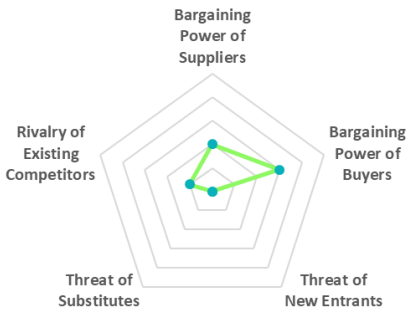
Source: Company Data

Figure 16: M.R. POPULATION (Ths)



Source: Company Data

Figure 17: PORTER FRAMEWORK



Source: Team Estimates

DEFENSIVE CHARACTERISTICS OF THE WATER UILITIES INDUSTRY

Aguas/A's operations are highly defensive due to the basic service it provides. The company's profitability is protected by the SISS, which guarantees a 7% rate of return on regulated asset. The SISS also protects the core business from inflation, as tariffs are inflation-adjusted every year.

COMPOSITION

Currently, Chile has 50 water utilities companies in operation, 26 of them cover 99.48% of the demand. There are three types of companies operating in this industry, two major companies (Aguas/A and Essbio), four medium-sized companies and 44 smaller companies. The first two concentrate 50% of the service nationwide while the other 50% is distributed almost evenly between medium and small companies. Aguas/A concentrates 43.6% of market share in terms of number of customers, and by law is prohibited from having more than 50% of market share, as well as expanding abroad. It is important to remember that Aguas/A presents a natural monopoly condition, so it does not have competition within its concession area. However, competition may arise with potential acquisitions from competitors both for new concessions that are tendered, and for the companies' ownership (figure 14).

The Chilean water utilities sector has experienced sustained growth in the number of clients served (figure 14) and in the coverage of drinking water and sewerage service, which demonstrates the performance improvement achieved by sanitary companies after a privatization process initiated in 1998. As indicated in the SISS Management Report for 2017, as of December, drinking water coverage reached 100% of the population. Likewise, during past years it has been possible to observe a significant increase in wastewater treatment coverage.

Water services demand is characterized by a moderate seasonality, more pronounced in seaside regions. In these locations the difference in consumption in the high period is 50% or more over the low period. In other regions, differences between 10% and 30% are observed.

MACROECONOMICS

The ongoing trade war between the US and China has affected almost every country's economic growth, including emerging market economies such as Chile. Currently, the prospects for Chilean economic growth have weakened, as trade tensions have increased global uncertainty. The increasing complexity of these conflicts and the predominance of greater pessimism in the markets, bring us to anticipate that the external impulse in the remainder of 2019 and for part of 2020 will be less than what was previously considered. During the second quarter of 2019, activity and domestic demand grew below expectations, which was due to lower growth of sectors such as mining, electricity, gas, water and agriculture. All this occurs in a context where inflation remains at reduced levels. Taking this into account, in September Chile's Central Bank decided to reduce the Monetary Policy Rate by 50 basis points, placing it at 2%. Later, in October the Central Bank reduced the rate by an additional 25 basis points, placing it at 1.75%. However, gross fixed capital formation was more dynamic than expected, especially the mining sector and the construction sector. For 2019, GDP is expected to increase between 2.25% and 2.75%, while in 2020 it is expected to increase between 2.75% and 3.75% and between 3% and 4% in 2021. The worst international scenario will have lasting, but not permanent effects and, therefore, would not affect the economy's medium-term growth capacity. As the Chilean stock market's performance is expected to remain at low levels over a one-year horizon, companies of a defensive nature and belonging to the value investment sector (with stable and consolidated flows), such as Aguas/A, appear as a good investment opportunity to protect capital and avoid high risks.

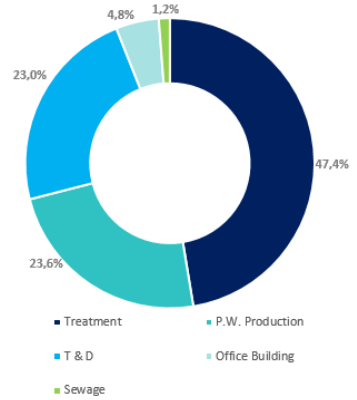
Population Growth The population's vegetative growth is the main driver of drinking water consumption. Currently, Chile's total population is increasing, but every year at a lower rate (figure 16). According to data provided by the Chilean National Statistics Institute (INE), during the past 30 years, total population increased at a CAGR of 1.2%, while for the next 30 years, total population is expected to increase at a CAGR of 0.45%. INE projects that there are 18,751,405 people in Chile, and by 2050, the number will come to 21.6 million. Growth rate decrease is due to a decrease in women's fertility. Currently, the fertility rate in Chile is 1.77 children per woman, rate which closely resembles developed countries rates and that is expected to continue to decline. This means that the size of families is getting smaller, and therefore, drinking water consumption per household is decreasing. However, total population in Chiles is increasing, and thus total water consumption is increasing. This is mainly because an increase life expectancy of Chileans - between 2018 and 2050 a 5-year gain in life expectancy is projected for both sexes -, and because of increasing levels of immigration that the country experiences due to poor economic conditions of other Latin American countries. It is expected that by 2050, the migration balance will be an influx of 11,000 people per year.

Housing Demand Increase The country's current economic conditions favor access to bank and mortgage loans, which encourages housing demand. Therefore, during 2019 a real investment growth of 4.6% is projected for the housing sector, while the growth recorded in 2018 was 4.1%. Housing demand increase is also explained by a change in households' composition, since the proportion of single-person households is constantly increasing, going from 11.6% of total dwellings in 2002, to 17.8% in 2017. However, although the number of households has been increasing, the number of people per household has decreased from 3.6 people in 2002 to 3.1 people in 2017. This indicates that total water demand is constantly increasing (In average, we project an increase of 1% per year), based on the greater number of projected homes, but that water consumption per client (dwelling) is decreasing, based on the lower number of people projected per family.

COMPETITIVE POSITIONING

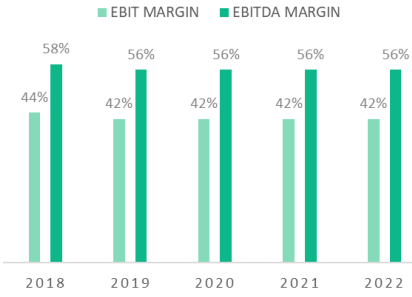
Unique Market Position Aguas/A has the exclusive right to produce and distribute drinking water, collect sewage and treat and dispose sewage in the MR, Los Lagos and Los Ríos Regions (figure 15). Effectively, Aguas/A operates as a natural monopoly within its concession area, thereby limiting the bargaining power of its customers. Suppliers' bargaining power is also limited, because Aguas/A does not need to buy its main input, water, but receives it mainly from the Maipo River flow. Our analysis reveals a profitable environment for Aguas/A's core business (figure 17 & appendix 12, 13). Aguas/A achieved a strong position in the Chilean market thanks to the acquisition of different companies, such as Essal, Aguas Cordillera and Aguas Manquehue, which allows it to be the main sanitary services company in Chile, with more than 43% of market share and supplying almost half of Chile's total population. The company has two natural advantages that generate a competitive advantage over its peers: (1) Aguas/A is located right below the Andes Mountains, which generates an advantage over its international peers. This is because the company does not need to incur large operational costs to obtain its main resource, water, since it falls gravitationally to the company's plants. This translates into a higher ROE for the company, while Aguas/A's ROE is 21.2%, its international peers' ROE is 13.7%. Since the company has an unlimited concession to deliver its services, it is expected that this advantage will be maintained throughout the entire operational life of the company. (2) It has the exclusive concession of the MR, the

Figure 18: ENERGY COST DISTRIBUTION



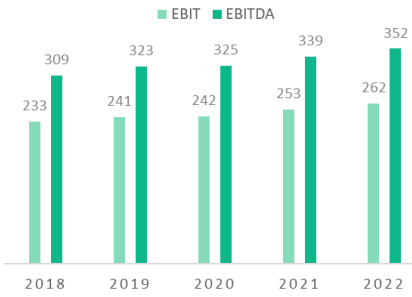
Source: Company Data

Figure 19: MARGIN ESTIMATES



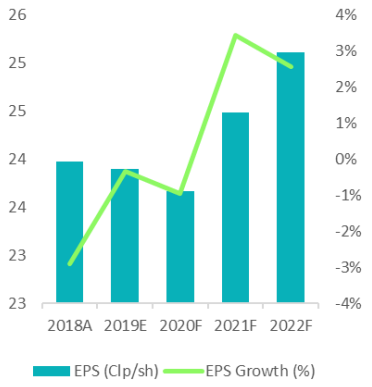
Source: Team Estimates

Figure 20: EBIT - EBITDA ESTIMATES (Bn of CLP)



Source: Team Estimates

Figure 21: EARNINGS PER SHARE



Source: Team Estimates

Figure 22: EXPECTED RATE CUT

TARGET PRICE	Market	Base case
Regulated Rate of Return	4.5%	5.5%
TARGET PRICE	361	434

Source: Team Estimates

densest area in the country, which generates an advantage over its national peers, since it allows to supply 47% of Chile's population.

Operational Efficiency. In 2018, Aguas/A had a 71.4% hydraulic efficiency - this means that the company had water losses of only 28.6%, while the sector's average was 33%. Currently, the company is working to reduce drinking water losses to no more than 20% of the total by 2022. Aguas/A achieves an efficient energy consumption in its operation – compared to 2017, La Farfana and Mapocho-Trebal Biofactories had energy consumption savings of 1.7% and 4.2% yoy%, respectively. Last year, Aguas/A's ROE was 21.2%, while its peers' average ROE was 13.7%. The main factor explaining this difference is Net Profit Margin, which surpass peers average to a large degree (while Aguas/A's Net Profit Margin was 40%, the industry average was 27,2%). This indicates that Aguas/A generates more value than its peers in cost control strategy (figure 18), thus its net income is higher, demonstrating greater operational efficiency due to its natural competitive advantage. This natural advantage allows water to fall to the company's plants without incurring in large costs. Most of peer companies need to incur high energy costs to be able to transport water to their plants, which allows Aguas/A to have lower operational costs and therefore charge a lower price for the service. According to data published by the SISS, Santiago's current tariff is the lowest of all the country's regional capitals. This is achieved without the help of state subsidies, which leverages Aguas/A's efficiency and competitiveness. Santiago's tariff is also one of the cheapest of all OECD countries.

Stable Cash Flow. Aguas/A has traditionally been seen as a steady cash flow business, given the regulated nature of the water utilities industry, which has helped generate the perception that the company's cash flows have a "bond-like" nature. Because of the basic service it provides, Aguas/A has a low risk, since it will always face a high demand for drinking water. The company's geographic conditions favor high efficiency, thanks to its proximity to the Andes Mountains. A strong indicator of the company's favorable cash position is its ability to finance most of its capital expenditures with internally generated funds. The company's CFO/CAPEX has historically been high, at an average ratio of 2.13x between 2014-2018. Aguas/A has managed to generate high and stable income throughout its life, growing at a rate close to 4% per year. It also generates high and stable EBITDA margin, with an average of 60% during the last five years and stable net income, growing at a 3% average during the same period (figure 19 & 20).

Clear Regulatory Framework. Regulation is a key element in the sustainability of Aguas/A's activities. These are developed under a single regulatory framework dictated by the General Law of Sanitary Services. Additionally, Aguas/A is supervised by the SISS, which also acts as a regulatory counterpart in the tariffs setting process. Currently, the regulatory framework that governs the company's operations is in an adjustment period, and therefore in a period of uncertainty. This is because the tariff for the period 2020-2025 is not yet known, neither is the decision of the regulator to decrease the allowed rate of return on assets. Once the corresponding decisions are made and published, the regulatory framework will return to its usual strength, once again ensuring stability in the company's operation. It is important to mention that we do not believe that these regulatory changes will have a very strong impact on the company's results, since the company is part of the negotiation process. In addition, the regulator sets new laws considering that the regulatory framework must remain sufficiently attractive in terms of return so that Aguas/A continues operating its concession area.

Hydraulic Efficiency. The company's hydraulic efficiency level has been increasing over time. While in 2014, water losses in the water network were of 30%, today they are of 28.6%, and the company is currently working so that in 2022 this loss is only 20% of total water. While the company's hydraulic efficiency is 71.4%, the sector average is 67%, which also demonstrates the greater operational efficiency of Aguas/A

INVESTMENT THESIS

We issue a BUY recommendation on Aguas/A with a target price per common share of CLP 434 representing a 20,5% upside from the closing price of CLP 360 per share as of October 25th, 2019. This target price gives 85% weight to a Discounted Cash Flow (DCF) approach and 15% weight to a Comparable Company Multiple Analysis. In addition, we used a Dividend Discount Model to assess the effect that a change in the allowed rate of return on assets would have on the value per share. Since the effect of including the DDM into the target price computation was minimal, we decided not to include this approach into the valuation, however, we obtained a similar target price of CLP 414 (figure 21). The company's functional currency is CLP (Chilean pesos), therefore we worked in a CLP model. The key drivers and main catalysts of our recommendation are:

Market Overreaction. Although our base scenario is very conservative, taking as inputs: (1) a stable upward trend in the company's demand, (2) an increase in the operational cost and (3) a decrease in the allowed rate of return on assets, our model obtains an upside for the share price. We believe that this is due to the fact that Aguas/A's share price is being severely punished by the events that have affected the stakeholders perceptions of the company (such as the water cut in Osorno and the water matrix breakdown in the center of Santiago), so the share price does not reflect the company's stable cash flows, but rather the potential for large fluctuations (although it presents a generalized upward trend) when considering the company's operational and reputational risks. Although the share price tends to fall rapidly after an operational problem, it always tends to rise back to its normal levels, showing that the company's fundamentals tend to take precedence over its reputational risk even in the short term.

Currently, a decrease in the allowed rate of return on Aguas/A's regulated assets is being assessed. A trend that has been present not only within this industry, but throughout the whole country, is the empowerment of different stakeholders affected by companies' operations. Stakeholders have an increasingly strong power to put pressure on the application of regulatory changes that benefit them, which has been greatly influenced by the rapid expansion of the use of social networks. A clear example are the violent attacks that affected Santiago on October 18th due to the rise in subway fares. We believe that increases in water tariffs could lead to similar reactions, so the belief that the regulator will decide to lower the allowed rate of return on assets of sanitary companies becomes even stronger.

Chile's Public Works Ministry announced that it is considering reducing the rate to 5%, while Aguas/A announced that they are willing to reduce it to 6%. Since next step is a negotiation stage, we believe that the most likely scenario is that the rate will decrease to 5.5% (figure 22), a scenario that is incorporated in our projections from 2025 onwards. Analyzing the current share price, we could determine that the market is pricing a rate decrease from the current 7% to a 4.5%, that is, we believe that Aguas/A's current share price is being punished due to an overreaction of the market regarding regulatory matters, generating an upside opportunity.

Capital Preservation Nature. As the Chilean stock market's performance is expected to remain at low levels over a one-year horizon, companies of a defensive nature and belonging to the value investment sector (with stable and consolidated flows), such as Aguas/A, appears as good investment opportunities to protect capital, which is why we expect Aguas/A's performance to increase in a one-year period. Aguas/A's core business is highly defensive for three reasons: (1) Drinking water is a basic need; (2) Aguas/A's natural monopoly in its concession area accounts for 47% of

Chile's population and (3) The company's profitability is protected by the SISS, which guarantees a 7% rate of return on regulated asset. The SISS also protects the core business from inflation, as tariffs are inflation-adjusted every year.

VALUATION

Our valuation arrives at a CLP 434 target price, driven by 85% of our DCF model price of CLP 429 and 15% of EV/EBITDA multiple analysis of CLP 463. The 85% weight assigned to DCF is based on the flexibility to incorporate estimated population growth, estimated consumption per household and tariffs with respect to growth and cash flow generation. Multiple valuation has a lower weight due to the lack of Chilean public companies comparable to Aguas/A.

10-Yr DCF Model

This valuation model was selected since it allows to have better control over the valuation parameters and forecasts,

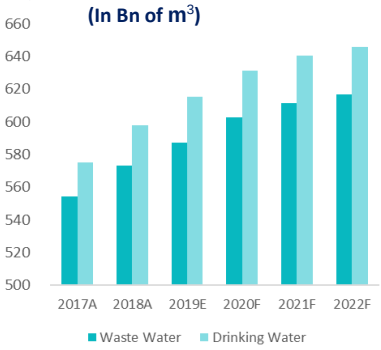
model. The first phase is based on a specific year-to-year forecast up to 2030, because model inputs are easy to project due to the company's core business stable nature and because 2030 is the end of the second projected regulatory period. We assumed a long-term constant growth rate of 2.79% for the terminal value cash flows, based on Chile's expected inflation rate. Based on the DCF analysis, estimated price per share is CLP 429 (figure 23).
We formulated a base case scenario using historical operating data, industry outlook, political regulations and company strategy. The accuracy of the implied enterprise value for the company depends on the following modelling inputs:
Each segment growth was forecasted using relevant volume drivers, Chile's population growth and consumption per household. Based on the results of our forecast, total water sales are expected to grow by 0.85% compounded annually from 2019 to 2030. This, added to price inflation adjustment, leads an income increase at an annual compound rate of 2% in the same period (figure 24). Proforma financial statements in appendix 16.

Figure 23: DCF SUMMARY

DCF SUMMARY - CLP IN MILLION	
Enterprise Value	3,509,966
Less: Net Debt	1,015,433
Equity Value	2,494,533
N° of Shares	5,811
Share Price CLP	429

Source: Team Estimates

Figure 24: VOLUME FORECAST (In Bn of m^3)



Source: Team Estimates

FREE CASH FLOW (CLP bn)	2019E	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
EBIT	**241**	**242**	**253**	**262**	**270**	**282**	**251**	**260**	**270**	**279**	**289**	**299**
Tax	-65	-65	-68	-71	-73	-76	-68	-70	-73	-75	-78	-81
EBIT(1-tax)	176	176	184	191	197	206	183	190	197	204	211	218
Add: Depreciation and Amortization	82	83	87	90	93	97	86	89	92	96	99	102
Less: Capital Expenditures	-142	-145	-163	-182	-202	-162	-145	-130	-128	-129	-129	-130
Less: Change in Net Working Capital	-3	15	4	-2	-2	-2	6	-2	-2	-2	-2	-2
Free Cash Flow	**113**	**129**	**112**	**98**	**86**	**138**	**130**	**147**	**159**	**169**	**179**	**189**

Tariff To forecast the next regulatory periods tariffs (2020-2025 and 2025-2030), we computed an implicit tariff based on historical data. Within each regulatory period, tariffs were only adjusted by inflation (as expressed by law). After the 2020-2025 period, we projected a decrease from 7% to 5.5% in the allowed rate of return on assets due to political pressures over the water utility industry (as explained above), which causes a decrease in the computed implicit tariff by 19%.

Operating Expenses We performed a historical analysis of operational expenses in which it was determined that these represent a very stable trend over time. For this reason, we decided to project operating expenses growth based on total water revenue. The proportion was adjusted in order to reflect higher raw material costs due to higher raw water purchases and higher electricity costs, which in turn are due to deeper excavations for groundwater collection.

Depreciation and Amortization We performed an historical analysis of D&A, in which it was determined that these represent a very stable trend during the period 2012-2018. For this reason, we decided to project D&A growth based on total water revenue.

Capital Expenditures Capex is one of the most relevant factors within the company, given its need to maintain high levels of investment in order to respond to any problem that arises in the company's operation, such as challenges raised by drought. Capex in the forecast period was computed based on the Capex-to-Customer ratio. The company is currently in an investment phase to improve service autonomy to ensure water supply continuity in the event of crisis due to drought (appendix 14). We assumed that the company will maintain high capex-to-customer ratio levels during the first 5 years of forecast near an average of CLP 68,412 (in comparison to the historical average of CLP 48,217), mainly because we project that the investment phase will continue and additionally because they will have to invest in groundwater average of CLP 55,147, because we consider that the investment phase for drought control will already be over, since the company will already have 48 hours of service autonomy.

Weighted Average Cost of Capital. We derived a WACC rate of 6.64% (figure 25). The cost of equity was computed using the Capital Asset Pricing Model, we selected as the risk-free rate the 10-year CLP Central Bank bond rate (3.08%) plus the CDS (0.71%), obtaining a 2.37% risk-free rate. We computed a beta of 0.91 by obtaining the unlevered beta from Damodaran and re-leveraging it using the capital structure of Aguas/A. The expected market risk premium was a cost of equity of 8.33%. The cost of debt of 3.44% was calculated based on relevant interest-bearing liabilities and current financial debt amortizations. Finally, we used Chile's corporate tax rate of 27% (appendix 15).

Terminal Growth. Terminal growth rate was computed as the expected inflation rate in Chile, based on the spread between the 15-yr BCP and BCU Bonds, resulting in a 2.79% long-term growth. We decided to project just nominal growth for the company's long-term cash flows to be conservative, because within each regulatory period, tariffs are only adjusted by inflation. Sensitivity range for growth was based on 1% to 4% to account for changes in inflation rate, real GDP and nominal GDP, since these could also be considered as long-term growth.

Comparable Multiple Analysis

While the DCF method is our main valuation approach, we also analyzed multiples of comparable firms. We identified EV to LTM EBITDA as the most appropriate multiple to compare Aguas/A to its peers, resulting in a one-year target price of CLP 463 per share, which has a 15% weight on our blended target price (figure 26). National peers are scarce in the water utility industry, since the other Chilean companies are mainly private and smaller, therefore we identified 11 appropriate peers that are engaged in the same industry and have similar business models (figure 27), but in four different countries: Chile, US, UK and Brazil (appendix 17). We used EV/EBITDA to isolate the effect of different tax regimes and because it is appropriate in analyzing the value of an infrastructure-intensive business as it isolates any distortions that may arise from differences in D&A among different companies. Also, these multiples allow the comparison to focus on operating results regardless of each company's capital structure.

An analysis of the EV/EBITDA ratio reveals that Aguas/A has been trading at a discount to the market. Aguas/A's EV/EBITDA ratio is 10.97x, while its peers' average is 12x. We believe our relative multiple reflect attractive value for Aguas/A given its superior net profit margin growth and high ROE in comparison with its peers (last year, Aguas/A's ROE was 21.2%, while its peers' average ROE was 13.7%).

Figure 25: WACC

WACC	
CAPM	
Central Bank Bond 10 yr	3.03%
Market Risk Premium	6.62%
Beta	0.91
Cost of Equiy	8.33%
Cost of Debt	
Est. Future Borrowing Rate	3.44%
Corporate Tax Rate	27%
After Tax Cost of Debt	2.51%
Equity	71.03%
Debt	28.97%
WACC	6.64%

Source: Team Estimates

Figure 26: MULTIPLE VALUATION

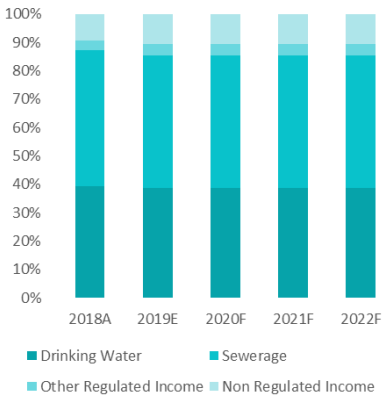
MULTIPLE VALUATION	
LTM EBITDA	308,943
EV/EBITDA	12.00
Share Price CLP	463

Source: Team Estimates

Figure 27: COMPARABLES ROE VS P/BV

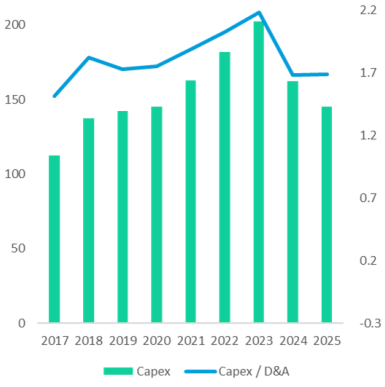
Source: Team Estimates

Figure 28: CAPEX ESTIMATE (In Bn of CLP)



Source: Team Estimates

Figure 29: CAPEX ESTIMATE (In Bn of CLP)



Source: Team Estimates

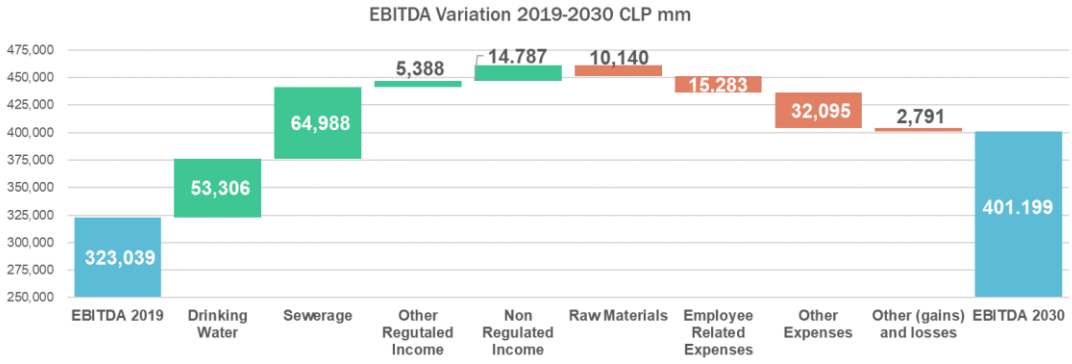
FINANCIAL ANALYSIS

Revenue Structure. In 2018, Aguas/A's total revenues were $530,405 MM, near 48% of it was generated by sewerage and 39% was generated by drinking water sales, this proportions have remained relatively constant over time. Therefore, we can see that the company is highly concentrated on the water segment. Aguas/A's total revenue has grown at a CAGR of 5.5% between 2009-2018, while we expect them to grow at a CAGR of 1.8% between 2019-2030, since we expect the allowed rate of return on assets to drop from 7% to 5.5% (in a baseline scenario) from 2025 onwards. This is due to regulatory pressures that the company is currently facing. We must remember that Aguas/A's revenue growth depends on the population's growth and on household consumption. As mentioned before, Chile's population is expected to increase, while a decrease in household consumption is expected. Since, 1995 water consumption per client has declined an average of 2.07% per year, dropping to the current monthly water consumption of 26.57 m^3. Therefore, Aguas/A's total income is expected to grow, but at a lower rate than previous years, since we expect Aguas/A's total water volume production to increase at a CAGR of 0.9% between 2019-2020, lower than the 1.6% CAGR growth from previous years.

Cost Structure. Aguas/A's main costs are raw materials, which represented 7.4% of total revenues in 2018, this percentage has been relatively the same throughout 2014-2018, because as income increases these costs also tend to increase. Raw material costs increased at a CAGR of 3.9% between 2009-2018, mainly due to the drought that is currently affecting the MR, since Aguas/A has been forced to incurr in raw water purchases (to ensure supply continuity to its customers during periods of low flow in the Maipo river). Further, there was a higher energy cost, the company's total energy consumption has grown in average by 4% annually during the last three years. Breaking down energy consumption for each activity, on average 47.4% is used in water treatment after it is collected, 23.6% is used in drinking water production, 22.97% in transport and distribution, 4.8% of energy is used in the company's offices and 1.23% in sewage activities. We estimate an increase in the volume of water sold of 0.9% during the forecasted period, thus, the cost of energy used in this activity will increase. In addition, Aguas/A estimates that by 2030 the Maipo River will contain 8% less water than its current flow, and that by 2045 it will be 12% lower; therefore, we project an increase in energy consumption due to an increase in drinking water production.

Expenses. Depreciation and Amortization is Aguas/A's main expense, from 2014 to 2018 this account has represented on average 14% of the annual income. Historically, it has had very small fluctuation, ranging from 13.62% - 15.03%, so we estimate that this expense would be 14,4% of the company's annual income. Since we project a 1.8% growth in annual income due population increase, we believe that the company's necessary D&A expenses will tend to rise in the future. Another important expense for the company is employees' salaries, this expense behavior is very similar to D&A, in the sense that its income proportion has been really stable, averaging 10.79% and fluctuating in the range of 10.29% - 11.15%. We project this average proportion will maintain in the future.

EBITDA Margin. Aguas/A has seen a steadily-growing EBITDA over the last 10 years (CAGR of 4.7%), its average EBITDA margin was 60% between 2012-2018, being stable and higher than its peers average of 42% during the same period. This is mainly because Aguas/A operates near the Andes Mountains, and the mix of its weather and altitude makes possible that Aguas/A can have lower operational cost than other companies that operate in OECD countries. This competitive advantage due to natural resources is also reflected in the average EBIT margin, 46%, also being stable and higher than its peers average of 29%. Margins have been stable due to the company's core business nature. For the future, we project an EBITDA Margin of 56.45% and an EBIT Margin of 42.04% because of the defensive nature of the main business.



Capex. To support volume growth and to assure a constant supply to its customers, Aguas/A is expected to make capital expenditures that will meet projected water volumes and at the same time make operations more efficient (appendix 14). Capex levels have grown at a CAGR of 13% between 2014-2018 (figure 28), and the company has been investing more than agreed with the regulator (development plan) in recent years. Capex to Depreciation and Amortization Ratio has shown an upward trend, mainly because they have had to invest in high amounts of fixed assets in order to cope with the drought that affects the MR. We expect Capex levels to increase at a CAGR of 1.82% between 2019-2030 (figure 29). This low growth rate is due to the fact that the company has already incurred in capex levels increase, so we believe that these levels will remain relatively constant over the next 10 years. Aguas/A's Capex to Depreciation and Amortization Ratio in 2018 is 1.59x, while the peer's average ratio during the year period was 2.67. This is mainly due to lower levels of investments that Aguas/A requires thanks to its proximity to the Andes Mountains, which makes water easily access the company's networks.

Operating Cash Flows. A strong indicator of the company's favorable cash position is its ability to finance most of its capital expenditures with internally generated funds. The company's CFO/CAPEX ratio has historically been at an average of 2.13x between 2014-2018. We project a relatively stable CFO/CAPEX ratio for the next 10 years, with an

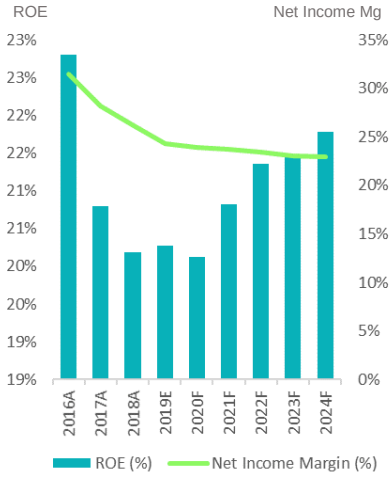
average of 1.97x, as we expect Aguas/A to maintain its ability to finance most of its Capex. This strong cash flows led to lower debt ratios, which in turn provides the company financial flexibility.

Figure 30: DU PONT ANALYSIS

ROE DECOMPOSITION	2017	2018	Peers
Net Profit Margin	28.16%	26.27%	17.10%
Asset Turnover	0.29	0.29	0.26
ROA	8.2%	7.62%	4.44%
Asset/Equity	2.59	2.68	3.5
ROE	**20.79%**	**20.19%**	**13.7%**

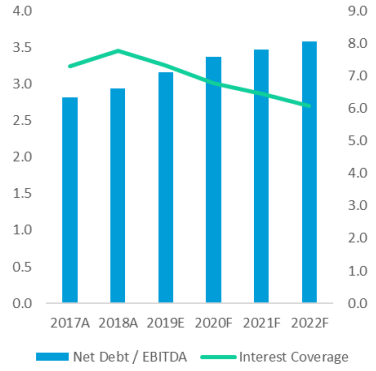
Source: Team Estimates

Figure 31: ROE ESTIMATES



Source: Team Estimates

Figure 32: LEVERAGE



Source: Team Estimates

Solvency and Liquidity. Aguas/A's financial statements show low liquidity ratios. In 2018, the current ratio was 0.7x, and the historical ratio (since 2014) has never been above 1x; while the cash ratio was 0.16 and historically it has never been above 1x either, which may jeopardize the company's ability to pay its current liabilities. However, the company's interest coverage ratios have historically been above peer's average and have remained at relatively constant levels. In 2018, its coverage ratio was 8.8x, while industry average was 4.9x, demonstrating that the company has a high capacity to pay interests.

Du Pont Analysis. Aguas/A's ROE and its components have been stable from 2014 to 2018. ROE's values for this period fluctuate from 26.27% to 31,46%. The main component of this indicator is the company's leverage, averaging 2.54x from 2014 to 2018 (figure 30). Aguas/A's ROE last year was 20.19%, while its peers' average ROE was 13.7% (figure 30). The main factor explaining this difference is Net Profit Margin, which surpass peers average to a large degree (while Aguas/A's Net Profit Margin was 40%, the industry average was 27.2%). This indicates that Aguas/A generates more value than peers in cost control strategy, thus its net income is greater than its competitors, which is consistent with EBITDA and EBIT margins analysis. This trend has remained constant for the period 2012-2018 and we expect it to continue, since the company's natural competitive advantage (proximity to the Andes Mountains) will be persistent throughout the entire operational life of the company.

During the last six years, asset turnover has been very similar to the peer's average, but has remained slightly higher, which indicates that the company sells a bit more for every dollar of its assets. But the higher turnover is due to the lower Capex that the company has in comparison to its peers thanks to its proximity to the Andes Mountains, which makes water easily delivered to the company's networks.

Aguas/A has much lower levels of leverage (measured by assets to equity) than its peers' average. This is also explained by lower capex levels, but it also reflects a better financial position of the firm, since its ROE is less amplified by its leverage, and still shows a higher ROE than the industry average.

However, analyzing the company's ROE over time, we realize that its main driver is financial leverage, which has increased greatly during the period 2012-2018 (showing an average growth of 6% every year), mainly due to the large investments that the company has faced, which have been financed by debt rather than with retained profits, due to the company's 100% dividend payment policy. Additionally, this decision is guided by the low levels of interest rates that Chile currently presents (historically, interest rate levels have never been so low in the country), which encourages companies to refinance their high-priced debt for much cheaper debt.

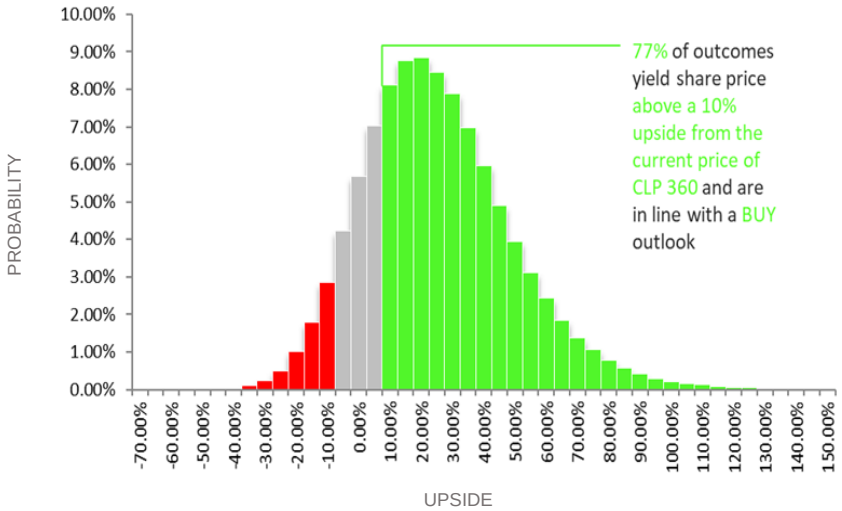
As for Aguas/A's future ROE, we project an average ROE of 21.18% for the period 2020-2025 and an average ROE of 18.7% for 2025-2030 (figure 31). Projected ROE is smaller than the historic trend because in our baseline scenario we expect the allowed rate of return on regulated assets to decrease, so the company's net margin is expected to decrease, thus making the company's ROE smaller. Nevertheless, Aguas/A's financial leverage has historically been in levels near 1.49x (between 2012-2018), which is well below its peer's average of 2.38x during the same period. When analyzing the evolution of the company's financial leverage, we can see that while debt's share of the capital structure has risen, net debt/EBITDA has remained relatively stable (figure 32). This reflects that debt has grown in line with EBITDA growth, which explains why the company's credit rating has remained so strong (AA+).

Dividend Payout Ratio. Currently, the company has a 100% dividend payout policy, which has remained constant between 2012-2018, while the peer's average dividend payout policy is near 65%. Covenants with bondholders (total liabilities/ net assets < 2.0) suggest this policy can only continue until 2022, so we believe that the dividend payout will have to decrease slightly to 90% by 2023. We estimate that this payout ratio would be sufficient to stay within the indebtedness covenant. However, the company will still have an attractive dividend yield and ROE between 2019 and 2030, with averages of 4.82% and 25%, respectively. Applying thin in our DDM, we estimate an equity value of CLP 414, still 15% above the current share price.

Key financial ratios in appendix 18.

MONTE CARLO SIMULATION

We decided to execute a Monte Carlo Simulation to determine the sensitivity of our model to variations in the main assumptions we made. For this, we tested the variables related to the projected income statement, we varied key variables for the model, like sales growth projections, cost of goods sold and other operating expenses. In the projected cash flows, we varied capex, the WACC and the long-term growth (terminal growth). For the cost of goods sold we stressed prices of raw materials. After running the simulation (considering 1,000,000 possible cases), we observed 77% probability of finding a target price above 10% upside, and only 7% probability of a downgrade to a SELL. From the simulation results, we concluded that the most sensitive variables in our model are tariffs, capex and WACC.



SENSITIVITY ANALYSIS

We analyzed the sensitivity of our model with respect to the WACC and the terminal flows' growth. As for the WACC, we wanted to include any change in the leverage level of the company, in the expected return on equity and any change in macroeconomic factors that could change the risk-free rate. At the same time, any drastic change in the long-term growth rate modifies the target price of Aguas/A, so it is a critical factor when valuing the company's future cash flows. On the one hand, with our current 2.79% of long-term growth rate, it is necessary that the WACC increases to 6.84% to change our recommendation to HOLD, and to 7.20% to downgrade our recommendation to SELL. On the other hand, with our current WACC of 6.64%, if the long-term growth rate falls to 2.19%, our recommendation changes to HOLD and if it falls to 1.79%, our recommendation downgrades to SELL.

Terminal Growth Rate (%)	Weighted Average Cost of Capital (%)				
	6.14%	6.39%	6.64%	6.89%	7.14%
1.79%	413	384	359	336	316
2.29%	457	423	392	366	342
2.79%	514	471	**434**	402	373
3.29%	591	536	489	448	413
3.79%	702	625	562	510	465

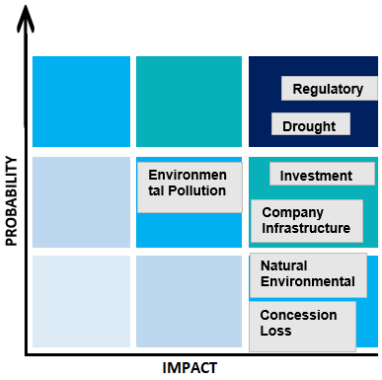
"A market downturn doesn't bother us. It is an opportunity to increase our ownership of great companies with great management at good prices."

Warren Buffett

INVESTMENT RISKS

BUSINESS RISKS (figure 33 & 34)

Figure 33: RISK MATRIX



Source: Team Estimates

Figure 34: RISK MITIGATION

Risk	Mitigating Factor
Drought	◦ Strong Investment Plan
Regulatory	◦ Negotiation Process with Regulator
Company Infrastruture	◦ 48 Autonomy Hours Project ◦ Asset Supervision
Investment	◦ Negotiation Process with Regulator
Environmental Pollution	◦ Biofactories
Natural Environmental	◦ 48 Autonomy Hours ◦ Biofactories
Concession Loss	◦ Strong Investment Plan ◦ Customers' compensations

Source: Team Estimates

Regulatory Risk *(high probability, high impact).*

Chile's Public Works Ministry is currently working on modifications to the laws on sanitary services, this can directly impact the company's profitability. The Osorno event that left Essal's customers without water for 10 days targeted the company's operations and has brought numerous consequences, especially at a reputational level. The latest events linked to the risks of the business have made that the SISS requires a higher level of investment to all companies involved in this industry. These regulatory pressures may result in a decrease in the allowed rate of return on regulated assets ranging from less than 7% to 5%. The new rate level is a trade-off between a rate that is sufficiently attractive for investors but also that is in line with the current market situation and Chile's economy. Other changes considered are: (a) an alternative way to charge for non-regulated services that use regulated assets, (b) a tariff adjustment based on the difference between the real demand and the protected demand that was initially used to calculate the tariff, and (c) Use the standard cost of the industry rather than the model firm cost to compute the tariff thus to avoid information asymmetry.

Drought *(high probability, high impact).*

Chile's central zone is currently being affected by the worst drought in the past 50 years, which has been one of the main concerns within the industry and this company. From January to September 2019, in Santiago it has rain 74.1 millimeters, compared to 136.7 millimeters last year. During the period 1981-2010, rain's average was 326.3 millimeters, therefore, the average rain in the MR has decreased by 77%. To mitigate this risk, the company has a constant evaluation of possible seasonal variations. In addition, a drought and climate change plan were implemented. Within the specific efforts to deal with drought, together with constant monitoring, agreements have been enhanced with other users and water rights owners, water rights have been purchased, it has been placed a focus on the efficient use of the actions, the company systematically proposes to citizens resilience plans against the effects of climate change. The main risk that drought imposes is a high increase in the company's investments, in order to cope with lower water levels that affect the area.

Company Infrastructure Risk *(medium probability, high impact)*

Due to climate change it is expected that Santiago gets less water and more intense days of rain, causing an increase in Maipo river turbidity. The main risk that the company can face is that the river's turbidity can get so high that the firm needs to stop its operations to avoid damage in its plants (this can also result in fines for the company). The second bigger infrastructure risk is the large underground network of pipes for water distribution and sewage collection. Since it is underground, it is very difficult to determine the current state of these assets, this is why there has been some incidents with this net (like the water main break-down in Santiago). To mitigate this risk, Aguas/A has 34 autonomy hours to ensure water supply in the event that it must cut its drinking water production.

Investment Risk *(medium probability, high impact)*

Development plans committed to the SISS require the company to meet a high investment level. However, the tariffs charged by Aguas/A - and which are regulated by law - have these new investments incorporated, ensuring a minimum return. The risk presented by the company is that the regulator decides not to incorporate new investments in the tariff calculation.

Environmental Pollution Risk *(medium probability, medium impact)*

The Company is subject to various environmental pollution risks, among which are: discharges into natural channels; possible contamination due to odor emission from sewage treatment plants; possible presence of hydrocarbons in surface sources; eventual landfill saturation where sludge from wastewater treatment plants is deposited; possible chlorine gas leaks; and eventual sewer system obstructions.

Natural Environmental Risk (low probability, high impact)

Natural disasters of great magnitude, such as earthquakes, floods or volcanic eruptions, could cause serious damage to aqueducts, drinking water and sewage matrices, or structural failures in reservoirs owned by the company, causing, in turn, the suspension of the services it provides and thus possible fines to the company.

Concession Loss Risk *(low probability, high impact)*

Chile's President is the only one who has the power to remove concessions based on data provided by the SISS. If the company has a problem, the SISS analyzes the damage that has been caused, based on different variables: (a) the company's failure to provide a quality service, (b) the continuity of the service, and (c) the damage the mistake caused for clients. Concession loss is a risk with low probability but with very large effects. Currently, the main concern of investors is whether the SISS will take away Essal's concession in Osorno. Although we believe that this will not happen (given that the government is the one that must operate the sanitary services while another concessionaire is being sought, so it should incur high costs), the fact that the concession is taken away has a relatively small for Aguas/A, since it impacts only 2.1% of Aguas/A's consolidated EBITDA, since Osorno represents only 25% of Essal's EBITDA.

APPENDIX 1 TIMELINE

1861	Founded as Agua Potable de Santiago (RM)
1917	Laguna Negra aqueduct (RM)
1946	Las Vizcachas Operations (RM)
1967	El Yeso Operations (RM)
1989	Become an PLC
1999	Private Company acquired by IAM (Suez and Agbar Groups)
2000	100% of Aguas Cordilleras and 50% of Aguas Manquehue
2001	Change to Aguas Andinas
2003	La Farfana, sewage plant
2008	Acquire ESSAL (Los Llagos and Los Ríos Regions)
2013	Mapocho sewage operations
2016	New corporate strategy
2017	Biofactoría Gran Santiago

Source: Company Data

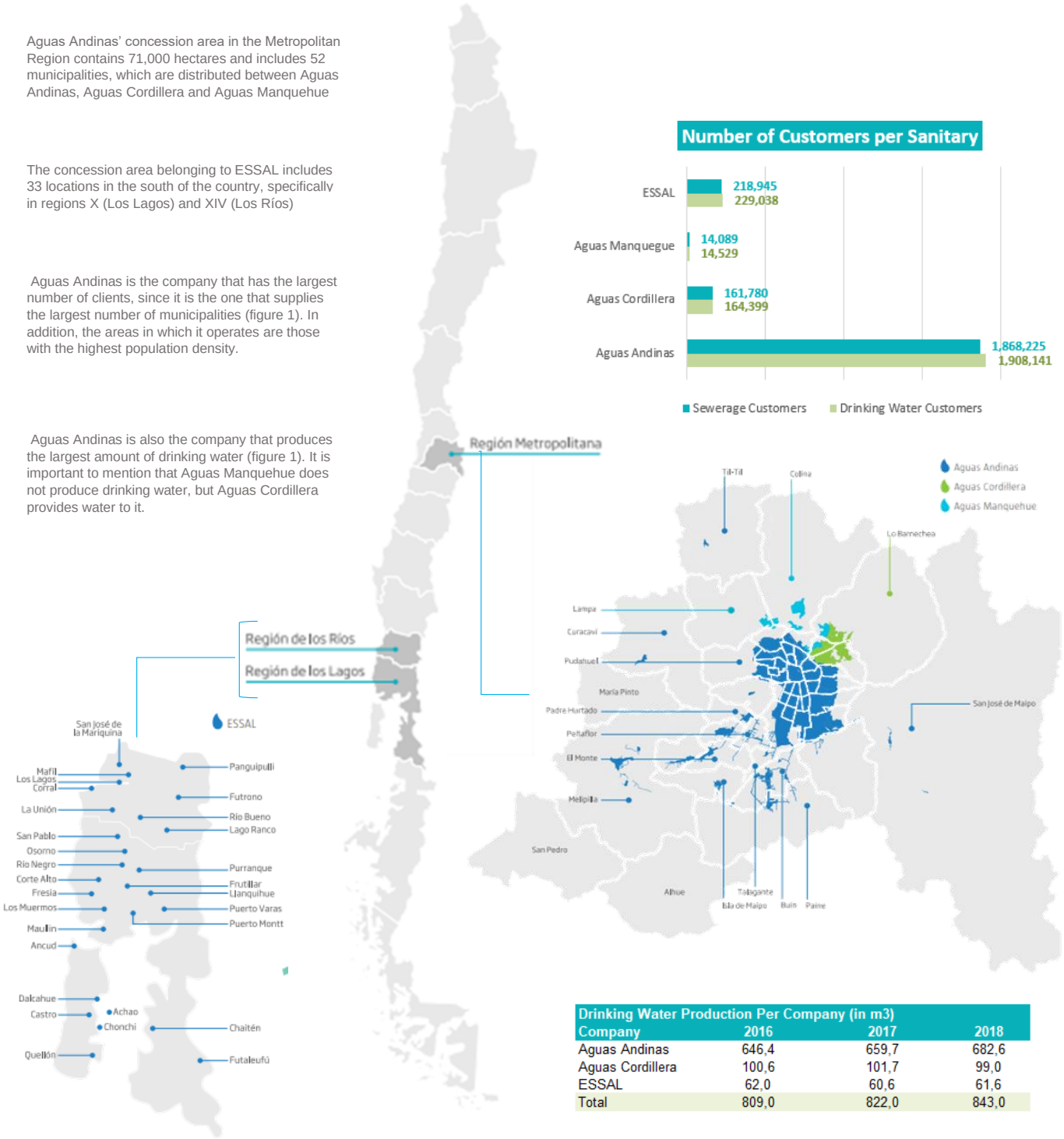
APPENDIX 2 WATER SUBSIDIARIES

Aguas Andinas' concession area in the Metropolitan Region contains 71,000 hectares and includes 52 municipalities, which are distributed between Aguas Andinas, Aguas Cordillera and Aguas Manquehue

The concession area belonging to ESSAL includes 33 locations in the south of the country, specifically in regions X (Los Lagos) and XIV (Los Ríos)

Aguas Andinas is the company that has the largest number of clients, since it is the one that supplies the largest number of municipalities (figure 1). In addition, the areas in which it operates are those with the highest population density.

Aguas Andinas is also the company that produces the largest amount of drinking water (figure 1). It is important to mention that Aguas Manquehue does not produce drinking water, but Aguas Cordillera provides water to it.



Drinking Water Production Per Company (in m3)			
Company	2016	2017	2018
Aguas Andinas	646,4	659,7	682,6
Aguas Cordillera	100,6	101,7	99,0
ESSAL	62,0	60,6	61,6
Total	809,0	822,0	843,0

Source: Company Data and 2018 Integrated Report

APPENDIX 3 NON-WATER SUBSIDIARIES

Análisis Ambientales (ANAM). It is the main analytical services laboratory of the Aguas Group for carrying out environmental analysis in water, biosolids and solid waste matrices. In 2017, ANAM obtained a contract to operate the effluent laboratory in one of CMPC's treatment plants (cellulose market). Another milestone of the year was the assembly of a flow bank, aiming to be one of the only flowmeter calibration laboratories in Chile. During the year, ANAM sales exceeded MM USD 14.0 per year, equivalent to a 10% growth in revenues in relation to the previous year.

Gestión y Servicios. This company is dedicated mainly to the commercialization of materials for drinking water and sewerage networks and, to a lesser extent, to the service of cleaning collectors and networks for the sanitary market. The company is currently developing new businesses, during the year it sold chemical products, such as polymers, defoamers and coagulants, achieving sales for more than MM USD 2.0 per year. In addition, the company initiated a new business line in the field of inspection, repair and replacement of sanitary materials in the networks of the sanitary industry. At the end of 2017, Gestión y Servicios established itself as one of the most important suppliers of sanitary materials for the development of projects in the real estate and sanitary markets of the Metropolitan Region, reaching sales for MM USD 14.0 per year.

EcoRiles. Company specialized in the advice and integral management of wastewater and riles, it is the first industrial effluent plants operator in the country, with operations throughout Chile. In 2018, projects for improvement and optimization of treatment processes were developed, becoming a strategic partner of its clients throughout the environmental cycle, generating revenues of USD 1.0 MM. In addition, important new clients from the dairy, salmon and sanitary markets entered, which contributed to the company's growth during the year. During 2017, EcoRiles maintained its leadership in the operation and maintenance of liquid industrial waste treatment plants, highlighting its participation in the dairy industry (more than 90%) and in the paper industry (more than 50%), with a national market participation close to 50%. Its annual income reached USD 22.0 MM.

Aguas del Maipo S.A. Aguas Andinas' participation in the energy field is based in this subsidiary that was created in 2011. This subsidiary has a Methanization Plant, which seeks to convert the biogas generated by the La Farfana Biofactory into a biomethane compatible with natural gas, which is injected directly into the natural gas networks of Santiago. This allows the displacement of a fossil fuel, such as natural gas, for another of unconventional renewable origin such as biomethane.

Source: Company Data and 2018 Integrated Report

APPENDIX 4 TARIFF SETTING

The tariffs that regulate the Chilean sanitary sector are set by law every five years and are governed by a specific legal framework that is based on the following principles:

- **Dynamic efficiency.** This principle reflects the concept of Model Company, whose objective is to make costs independent from the computation of which tariffs and costs of the real company. The Model Company is designed in order to efficiently provide the services required by the population, considering current regulations, geographical, demographic and technological restrictions within which its operation is framed. This concept also implies that every time tariffs are set, productivity improvements experienced in providing the service are incorporated.
- **Intelligibility.** The application of this principle is reflected in the formulation of a tariff structure whose objective is to deliver appropriate signals to guide consumption and production decisions of economic agents.
- **Equity.** Refers to non-discrimination between users, except for cost reasons. Tends to establish tariffs based on the costs of the systems and stages of service provision, eliminating cross-subsidies for users of the same system.
- **Economic efficiency.** Its objective is to charge under the concept of marginal cost, since in a market without failures the price reflects the opportunity cost of producing an additional unit of the good (marginal cost), or efficient tariff.
- **Self-financing**: This principle arises from the financing problem that affects natural monopolies when charging at a marginal cost, since efficient tariffs do not allow self-financing of the company. The legal framework recognizes this situation through the concept of Total Long-Term Cost, which represents the costs of replacing a Model Company that begins its operation, modeled to meet the annual demand corresponding to a five year period, considering a cost of capital rate equivalent to the average profitability of the long-term resettable instruments of Chile's Central Bank, with a term equal to or greater than eight years, plus a risk premium of between 3% and 3.5%. In any case, the cost of capital rate cannot be less than 7%.

The tariff-setting methodology attempts to mimic a competitive market. The maximum price that the company can charge in a competitive market is the one that covers investment costs and operating costs of an efficient business. So in the tariff-setting process the key are the expected demand and the determination of the model company operating costs and investment costs. Applying the minimum return on capital to the investment costs, yields the annual return on investment. The sum of the annual operating costs and the annual return on investment is known as the Total Long-Term Costs (CTLP), which is equivalent to the annual revenues required by the model company. Then:

$$Average\ Annual\ Tariff\ \left(\frac{\$}{m^3}\right) = \frac{Annual\ Return\ on\ Investment\ (\$) + Annual\ Operating\ Costs\ (\$)}{Expected\ Demand\ (m^3)}$$

	MODEL COMPANY VS AGUAS ANDINAS	
	Model Company	**Aguas Andinas**
State	New Company	Existing Facilities
Technology	High Technology	Combination of old technology and new technology
Costs	Cost Efficiency	Real Costs
Coverage	100% coverage in all services	100% coverage in drinking w ater and 98% coverage in sew age
Financing	Self-financing through fees	Self-financing through fees
Return	Minimum Return on Assets	Use of debt to finance investment, increasing return over capital

Tariff Setting Process 2020-2025 Period		
2018	November 30th	Publication of Methodology and Parameters
2019	January 30th	Comments are made on the parameters
	March 15th	SISS Response to Observations
	March 27th	Presentation of Replacement of Definitive Bases
	April	SISS Response to the Replacement of the Definitive Bases (Definitive Bases)
	May 15th	Background delivery for Tariff Study
	October 1st	Tariff Studies Exchange
	November 1st	Company Presents Discrepancies
	November 16th	SISS Convenes a Committee of Experts
	November 28th	Commission Reports its Opinion
2020	January 30th	SISS sets new tariff formulas
	February 28th	Aguas Andinas' Tariffs Expiration
	May 18th	Aguas Manquehue's Tariffs Expiration
	June 29th	Aguas Cordillera's Tariffs Expiration

Source: Company Data

APPENDIX 5 ESSAL'S WATER INCIDENT

Essal is Aguas Andinas' subsidiary (it owns 53% of this company) that operates in Los Lagos and Los Ríos regions. It caters 13 thousand hectares, 229,038 drinking water customers and 218,945 sewerage customers. During the last three years, Essal's average drinking water production has been 61.4 million m3 per year. It has 128 ponds that store 66,871 m3 and its distribution network length is 2,387 kilometers. Essal's collection and treatment water network length is 2.106 kilometers.

During this year's July, Essal spilled fuel oil in its drinking water production plant, which affected all of its customers in Osorno City, thus the company had to cut Osorno's drinking water supply for almost 10 days. Due to the seriousness of this incident, the SISS is currently evaluating whether Essal should continue to operate both drinking water production and distribution concessions in Osorno; however, water treatment and sewage collection concessions are not in revision. We believe that this will not happen considering that the government is the one that must operate the sanitary services while another concessionaire is being sought and Essal's concession is relatively small (not many players would be interested in participating in an auction for it). Essal's Osorno concession represents only 2.1% of Aguas/A's consolidated EBITDA, so losing the concession doesn't have a material impact in our Aguas Andinas valuation. These problems affect Aguas Andinas in terms of its reputation and in its share price (market overreaction) rather than its bottom line. In fact, Aguas Andinas' share price fell 6.3% the two days after the oil spill occurred.

The SISS is currently assessing the fines' value that can be charged to Essal, which could reach US$ 3.5m.

Even though this type of problems has a minimal effect on Aguas Andinas' bottom line, they have a great impact over the industry, since it can increase the risk that investors perceive, as they assume that the concession loss risk is higher.

Taking this into account and the recent manifestations that occurred in Santiago this past October 18th, we believe that the probability of the reduction of the allowed rate of return on regulated assets has increased considerably as changing the industry's regulation has become more urgent.

APPENDIX 6 INDUSTRY REGULATORY CHANGES

In 1998, the 19.549 law was dictated, initiating a privatization process for the sanitary concessions. According to DFL 70, article number 5, the Ministry of Public Works decree that the sanitary companies' cost of capital should be equal to the rate of return offered by the re-adjustable bond issued by the Central Bank in national currency, with a maturity of 8 or more years plus a risk premium of at least 3%, this should be no more than 3.5%. It also adds that the cost of capital should never be less than 7%. Currently, Senator Manuel José Ossandon proposed a change in this law, since an assured 7% return in today's macroeconomic context is extremely high. He also postulated that the crisis originated by Essal's Osorno incident should make the government to evaluate changes in regulatory laws of the water utilities industry. The latest updates in this process are still very general and uncertain, but they give an idea of where the attention is going.

The main changes proposed are:

- The cost of capital should be computed through the WACC methodology as this incorporates the mix of debt and equity of each firm. Also, to eliminate the minimum assured 7% as Chile's risk has decrease since the law implementation (1998). The new way to calculate the cost of capital should take into account that the return needs to be attractive according to the actual market, in order to ensure that private sanitary companies continue operating its concessions.

- Take care of information asymmetry, first on the subject of forecasted demand, as it is very difficult for the regulator to estimate it accurately, so companies in this industry can have large earnings. It has been proposed that the tariff of the next regulatory period should be adjusted to the difference in the actual demand and the estimated demand. If the real demand is larger than the forecasted one during the past cycle, then the tariff of the next cycle will be reduced. The SISS has informed that some companies earn more than the allowed rate of return on assets by 50%. To address this issue, it has been proposed that the SISS should have an industry standard cost model based on a regulatory accounting that the sanitary companies will need to submit to the SISS.

APPENDIX 7 AWARDS AND RECOGNITIONS

During 2018, Aguas Andinas' was awarded different recognitions due to achievements related to fields such as sustainability, innovation and excellence in public disclosure of information. Details of the main awards are:

Environment Recyclapolis National Award. Granted by Recyclapolis Foundation to the Chilean firm that is committed to take care of the environment and follows a sustainability strategy. Aguas Andinas received two distinctions due to its methanation plant in the Gran Santiago Biofactory, operational center from La Farfana.

Dow Jones Sustainability Indices. The company was selected for the fourth time to be part of the Dow Jones Sustainability Index of Emerging Markets. It aims to represent the top 10% of the 800 largest companies in the 20 emerging markets based on long-term economic, environmental and social criteria. Other Chilean companies that belong to this index are ENEL, CMPC, and Colbún.

FTSE4Good index. The company was selected to be part of this index, which is characterized by containing companies that are prepared to face ESG risks and that have demonstrated to have leading management practices.

Global Capital. Chilean firm dedicated to financial services and factoring, it awarded Aguas Andinas for second time the "sustainable and responsible capital markets of the year" award, for the emission of the green and social bond in Latin America.

ONU. The Biofactory of "Gran Santiago" is a new concept that Aguas Andinas is implementing as part of its plan to achieve a circular economy. This Biofactory is composed of La Farfana, Mapocho - Trebal and Rutal Plants and it is an integral and sustainable cycle that treat water and based on this process they are able produce biogas, clean water, and biosolid. This new concept made the ONU recognize the company for its efforts on reducing the effects of climate change.

Energy Efficiency Seal. The company received the energy efficiency seal from the Energy Ministry in the gold category.

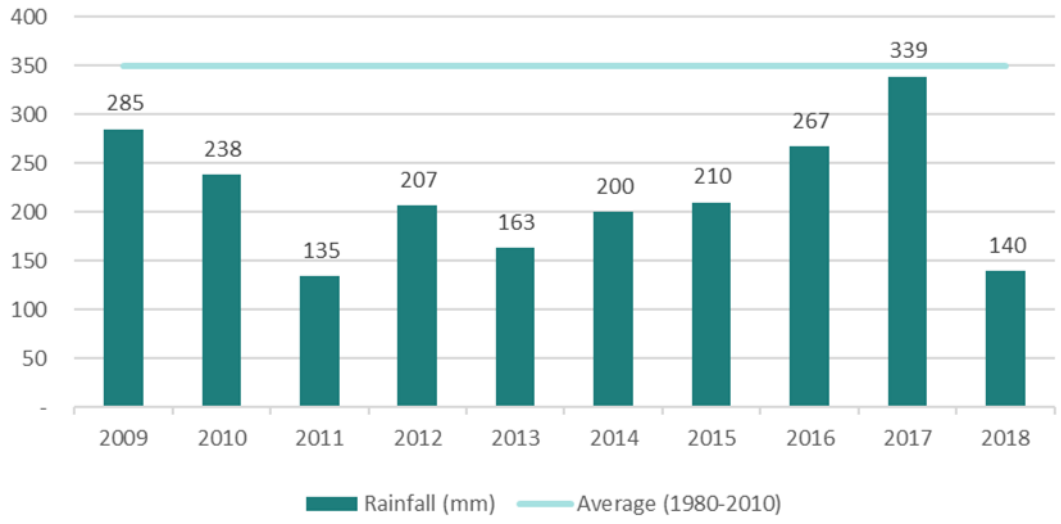
National Innovation Award. Avonni grant the national innovation award to Aguas Andinas for the methanation plant La Farfana.

Source: Company Data

APPENDIX 8 DROUGHT EFFECT

According to the World Bank, historical climate in Chile has been characterized by dry summers (from November to February) and depending on the area's latitude, relatively wet winters (from May to September). Due to Chile's extensive length, the country has a variety of climates depending on the area, ranging from Desert in northern Chile, Mediterranean in central Chile, and Antarctic in southern Chile. Recently, it has been recorded that average temperatures throughout the whole country have risen, also there is a glacial cover reduction trend, which in turn affects the rivers flow and declines by 15% - 30% the rainfall in coastal regions.

This same source projects climate change in Chile via multi-model ensembles. For the country's temperature, it projects an increase in monthly maximum temperatures by 3.5 - 3.9 °C, above the past average. Additionally, the number of days (throughout one year) where the temperature will be below 0°C will decrease in 12 - 42 days by 2040 - 2059, and the number of days where the temperature will be above 25°C will increase in 2 - 27 days by 2040 - 2059. Regarding to precipitation levels, it is expected it will decrease by 1.5 - 9.3 mm per month by 2040 - 2059, it also projects an increase in winds which ultimately will evaporate the water from the surface more rapidly.



Source: Company Data and DGA

APPENDIX 9 GRUPO SUEZ

Suez SA, formerly known as Suez Environment Company SA, is a French company operating in the environmental service and equipment industry. The company began its operations over 160 years ago, participating in great revolutions that defined how the industry works today, part of these revolutions included the Suez Canal construction. Today the company aims to revolutionize the industry by adapting a model to secure resources for future generations.

Its main activity is Waste Management, Disposal and Recycling services, the holding company has presence all over the world with the help of its subsidiaries, with whom Suez SA has achieved to build a strong market position and reach a valuation over US$ 9 billion. Suez SA operates in three main categories, Water Europe, Waste Europe and International, being this last one the most important in terms of revenue.

Leading the company's ownership, we found ENGIE SA, formerly known as GDF Suez, a French company that provides solutions in energy and environmental industries all around the world, with a capitalization over US $ 40 billion. To date, they own 49.58% of Suez's shares. Most of ENGIE SA shares are under ownership of the French Government.

Down the ladder, we found the Spanish Company "Sociedad General de Aguas de Barcelona" (AGBAR). Established in 1867, the company has achieved to consolidate as one of the most successful and influential environmental and utilities companies in Europe and the world, having influences in development, infrastructure, construction and maintenance, research and studies, and several other areas. The company went under an M&A deal which merged SGAB with "Aplicaciones del Agua", transforming SGAB in a group that manages public services. Throughout the 2000-2010 period, the company achieved to expand to other continents including America, Africa, China and also it expanded to other European countries.

In 1999, SGAB and Suez entered into Aguas Andinas' capital thanks to the privatization of the company EMOS (former Aguas Andinas). This operation transformed Santiago in SGAB's biggest area of operation, supplying almost 6 million inhabitants at the time. Although it required an investment of US$ 1 billion, the parent company has seen a great appreciation of their capital.

The main focus of Suez is to innovate so the world changes the actual way in which it uses resources and trough these innovations, achieve a circular economy that would benefit the people and the planet.

Within Latin America, Suez Group has presence in Mexico, Panamá, Colombia, Perú, Chile, Paraguay, Brazil, Argentina and Uruguay, it has been installed for almost 80 years giving its clients know-how and innovative technologies to carry out the resource revolution. In this region, Suez Group has 6,600 collaborators and it has built 550 treatment plants since its establishment.

Santiago, Chile, represents 6% of Suez Group total Latin America business and it has 1,000 industrial clients (most of them are connected and supervised by the group's monitoring centers).

Suez support its clients so they can solve the main challenges of drinking water distribution to the main cities, making available clean water for all the inhabitants in each country. The company also informs and operates new ways to use more efficiently the water for agriculture, and waste management, as in Latin America minimal amounts of water is re-used.

Some innovations that Suez tries to implement in Latin America are: (1) waste recycle to increase the proportion of recycled raw materials that are used production; (2) diminish the effect of raw resources scarcity and generate energy savings; (3) create new ways to meet water demand to save hydric resources; (4) limit underground water extraction; (5) monitor its clients performance through digitalization, to inform instantly in the case of an emergency that requires different decisions of the parent company; (6) monitor in real time the quality of water in the networks, to assure it is kept at the required levels, this helps to prevent leaks and reduce operational cost; (7) the use of technology to reduce sanitary and environmental risks; (8) produce energy from water and wastes to fight climate change, also to improve the facilities' energy efficiency and to use renewable energy sources.

Source: Company Data

BOARD OF DIRECTORS	
NAME	**SUMMARY**
Claudio Muñoz Chairman	Industrial Civil Engineer from University of Chile, President of Icare and director of Telefonica Movil Chile. Linked for more than 20 years to Grupo Telefonica Chile, where he was President and CEO from 2011 to 2018. He also served as President of Sofofa Training and Employment Corporation.
Rodrigo Manubens	Business Administrator from Federico Santa Maria University and Afolfo Ibañez University, Msc from London School of Economics and Political Science. Chairman of the Board of Banchile Seguros Generales and SegChile. Director of Santiago Stock Exchange, Banco de Chile, Orion Seguros Generales and SM Chile. He has been a member of the board of Edwards Bank and O'Higgins Bank. He was also director of Endesa Chile. Director of Aguas Andinas since July 2011.
Giogianna Cuneo	Publicist, majoring in Marketing from Universidad del Pacifico. She served as President of the Wine Producer Association of the Casablanca Valley. She is currently Executive Director of Viña Casas del Bosque and Tottus Supermarkets (part of Falabella Group).
Loreto Silva	Lawyer from University of Chile and partner of Bofill Escobar Law firm. He has oriented his career to the regulations of markets, construction and development of infrastructure projects of high complexity. In 2012, she was appointed Minister of Public Works. Previously, she was Undersecretary of Public Works and led the development of the National Water Resources Strategy. She is president of the board of ENAP, and has been director of numerous electricity and water companies. In adittion, she is Director of Comunidad Mujer and AvanzaChile Foundation.
Luis Mayol	Lawyer and Union Leader. He served as President of Puerto Caldera, Advisor and former Chariman of the Board of Copeval and served for almost three years as President of the National Society of Agriculture. In 2011 he was appointed Minister of Agriculture. Then, in 2018, he assumed as a Mayor of Araucania Region.
Narciso Berberana	CEO of multiuple enviromental services companies. Industrial Civil Engineer with a Master in New Business Management Technologies from School of Industrial Organization of Madrid and in Executive Development Planning at IE Madrid. Part of Agbar Suez Group for more than 23 years. As of 2016, he assumed as CEO of the Aguas Andinas group, a company of which he has been a director since April 2019. Firm defender of the circular economy. He is the creator of the Biofactories, the evolution of traditional wastewater treatment towards resource management - based on the principles of Industry 4.0 -. Precisely, among other recognitions, the United Nations awarded it at COP 24 Momentum for Change in 2018 as a concrete, global initiative that contributes to diminishing the effects of climate change. He designed the strategy to fulfill the dream of becoming a company with zero emissions, zero waste and self-sufficient energy that provides positive social value and biodiversity regeneration.
MAIN EXECUTIVES	
NAME	**SUMMARY**
Marta Colet	Bachelor of Business Administration and Management and MBA from ESADE. He has a wide and outstanding career in the Suez Group, where he has worked in different functions during the last nine years. Among others, she has held the positions of General Manager and Director of IAM, in Chile; Director of Concession Planning in Suez Spain and administrator of several companies of the Suez Group.
Ivan Yarur	Industrial Civil Engineer and Master of the University of Chile, Master of Science in Accounting and Finance from the London School of Economics and Political Science, London, United Kingdom. He joined Aguas Andinas in 2000. Between 2011 and 2013 he was General Manager of Inversiones Aguas Metropolitanas S.A. (IAM), matrix of Aguas Andinas.

Source: Company Data

ENEL CHILE

Enel Chile one of the biggest utilities company in the country, as it is the largest power company in Chile. Enel Chile has two subsidiaries: "Enel Generación Chile" and "Enel Distribución Chile". Enel Generación Chile has an installed capacity of more than 6,351 MW, with a generating park consisting of 103 units along the Central Interconnected System (SIC) and 8 units in the Norte Grande Interconnected System (SING), which place Enel as the main energy company in the country.

Regarding the distribution business, through Enel Distribución Chile they operate in a concession area of more than 2,105 km2, covering 33 communes in the MR. This represents 43% of the total sales of the country's distributors and makes them the largest electricity commercialization company in Chile.

ESG ANALYSIS:

Environment. Environmental protection, as for Aguas Andinas, constitutes a key pillar of Enel's strategy. This company also has the ISO 1400 certification, obtained mainly because of the implementation of environmental KPI monitoring systems, and the adoption of actions aimed at minimizing its environmental footprint, going beyond regulatory requirements. In addition, Enel implements specific measures to protect biodiversity in the areas surrounding its plants and facilities. Finally, the Group carries out environmental impact assessments each time a new project is developed, establishing measures to protect the environment and surrounding ecosystems throughout the entire project life cycle (construction, operation, disposal).

As Aguas Andinas, the company is currently controlling the emissions it generates. For 2018, the company set the goal "to apply a 5% reduction in waste generated during the year". To achieve this goal, the company carried out different actions, such as: Pilot Recycling Points (implementation of "Clean Points" in the Pehuenche and Rapel Plants), Waste Recovery and Reinforcement in waste management plants, and good practices on waste segregation. Due to these efforts, Enel Chile, as Aguas Andinas, is one of the first companies to be part of the Dow Jones Sustaintability Emerging Markets Index.

Social. Enel Chile is the first company in the country to offer intelligent measurement technology to its customers. In addition, it implemented the first and only electric bus in Chile that runs through the main streets of Santiago for free. In relation to the communities near the generation plants, they have achieved a good understanding, taking to Italy, to the International Meeting of the Enel Group, four women from the sector of Cerro Obligado, in Coronel, to present their eco-construction experience. In the north, together with the fishermen of Caleta Paposo of the Antofagasta Region, they inaugurated the first sustainable posts, built by the community. They developed the water management work together with the farmers of the Maule river basin, which made Enel Generación win the Recyclapolis Foundation National Environment Award.

One on Enel's main social objective is committing to the promotion of affordable and sustainable energy for the communities surrounding its facilities. For 2020, Enel Chile has set the goal to increase the number of beneficiaries by 70,000 compared to 2016. In 2018, around 29,000 people benefited from this objective, which adds up to the 141,000 previously favored. Enel Chile has benefited more than 170,000 between 2015-2018.

Reputation. Since the company also offers a basic service, this company is also constantly being targeted by public opinion. The impact that its operation has over different stakeholder, greatly affects the company's reputation. A clear example of this, is the intentional fire that was caused in Enel's building in the center of Santiago on October 18th, due to social unrest caused by the rise in energy tariffs.

Governance. Enel Chile is managed by a Board of Directors composed of seven members, who remain for a period of three years and that may be re-elected. In accordance with the Public Limited Companies Act, if a director's vacancy occurs, the Board of Directors must be fully renewed at the next Ordinary Shareholders Meeting, in the meantime, the Board of Directors may appoint a replacement. The existence of alternate members is not contemplated.

Enel Chile is committed to compliance with its norms and ethical behaviors, and the legislation of each of the businesses where it operates. The Company has a Code of Ethics through which it guides directors, managers, employees and workers actions. The Code sets out the commitments and ethical responsibilities, in the management of business activities.

As part of Enel Chile's commitment to implement the best practices worldwide, during 2018 Enel Chile and Enel Generación Chile, certified its anti-bribery management system under the international standard ISO 37001, a certification that Aguas Andinas also has.

ESVAL

ESVAL is a water utilities company that supplies Chile's Valparaíso Region.

ESG ANALYSIS

Environment. There is a moderate guarantee about ESVAL's ability to integrate relevant environmental factors into its strategy. ESVAL has formalized its commitment to protect the environment and prevent pollution in its Integrated Management Policy and in its Sustainability Report. This commitment addresses most of the topics relevant to the sector: prevention of pollution and industrial safety, protection of biodiversity, protection of water resources, reduction of energy consumption, waste management, local pollution management and environmental management. However, these commitments only address relevant issues in a general way and the company has only established quantitative targets to reduce water losses in the supply network and to reduce its energy consumption. In addition, ESVAL has not formalized commitments to reduce its atmospheric emissions derived from both energy consumption and sewage treatment plants. Thanks to these efforts, ESVAL also certified all its processes under ISO 14001.

Social. There is a reasonable guarantee about ESVAL's ability to integrate relevant Social factors into its strategy. The company has published a formalized commitment to non-discrimination in its Institutional Policy of Diversity, Inclusion and Universal Accessibility and undertakes to respect the freedom of association and the right to collective bargaining in its Internal Regulations. ESVAL has formalized commitments to promote career development and protect the health and safety of its workers in its Integrated Management Policy. However, the company has not formalized commitments to promote labor relations and manage reorganizations responsibly. The company is committed to promoting access to water and sanitation through its Supply Plan in Vulnerable Sectors and its Up-to-Date Program with ESVAL. ESVAL has formalized a commitment on water security and crisis management in its 2019-2023 Strategic Planning. In addition, the company is committed to maintaining responsible relationships with its customers through its Claims Management Policy and its Emergency Assistance Procedure for Alternative Supply and has set quantitative objectives to reduce the response time to customers.

Governance. There is a moderate guarantee about ESVAL's ability to integrate relevant Governance factors into its strategy. Directors' elections are held every two years, and the Board meets once a month. Most of the ESG issues relevant to the sector are discussed at the Board level. However, the Board of Directors has a low level of independence. The company has relevant processes for the management of ESG risks, and most of the ESG risks relevant to the sector are covered by internal control systems. As for shareholders, the series of shares C has no voting rights for director's election and restrictions have been identified to call an Extraordinary Shareholders Meeting. Finally, ESVAL does not publicly report enough information on the compensation of senior executives. The company has formalized its commitment to prevent corruption in its Crime Prevention Policy and in its Code of Ethics and has designated a Crime Prevention Officer for its implementation. Finally, the company has not formalized commitments on the prevention of anti-competitive practices, although this theme is of intermediate materiality for the sector.

Aguas Andinas:

Environment	Friendly	Neutral	Unfriendly
Social	Positive Impact	Minor Impact	Negative Impact
Governance	Good Practices	Standard Practices	Bad Practices

Enel:

Environment	Friendly	Neutral	Unfriendly
Social	Positive Impact	Minor Impact	Negative Impact
Governance	Good Practices	Standard Practices	Bad Practices

Esval

Environment	Friendly	Neutral	Unfriendly
Social	Positive Impact	Minor Impact	Negative Impact
Governance	Good Practices	Standard Practices	Bad Practices

Source: Company Data

APPENDIX 12 PORTER ANALYSIS

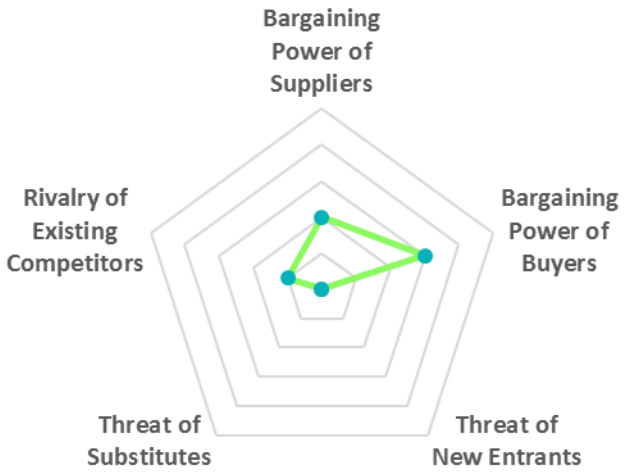
FORCE	DRIVER	ARGUMENT
Competitive Rivalry (Very Low)	Industry Grow th	This grow th derives from the increase in customer density, as w ell as from the population grow th rate. In Chile, the grow th rate is not so large as to foresee a great grow th in the industry.
	Entry Barriers	There are barriers to entry in terms of know ledge and investment. There are economies of scale and scope.
	Exit Barriers	Large investment in specific assets that can not be used for other purposes.
	Concentration, Diversity and Competition	The market has large (2), medium (4) and small (44) companies. Large companies control more than 50% of the Chilean market and supply the vast majority of the population.
Threat of New Entrants (No Threat)	Differentiation	It is difficult to differentiate, given the characteristics of the basic service provided. How ever, it is possible to offer complementary services that increase the efficiency of the service as a w hole.
	Capital Requirements	Capital intensive industry. It requires constant investments, as w ell as the maintenance of existing fixed assets.
	Experience	In the industry, there are participants w ith extensive experience and business know ledge backed by controlling partners w ith more than 150 years of operations in the field.
	Regulations and Concessions	It is a highly regulated industry and subject to constant revisions, both of its operations and of compliance w ith its proposed development plans prior to the delivery of the concession.
	Entry Barriers	There are barriers to entry in terms of know ledge and investment. There are economies of scale and scope.
Bargaining Pow er of Suppliers (Low)	Number of Suppliers	Suppliers' bargaining pow er is limited, because companies do not need to buy their main input, w ater, but receives it mainly from rivers flow s.
	Resource Specificity	The vast majority of resources correspond to industry-specific assets that cannot be reused in other projects. Within these w e consider pipes, ponds, reserves, etc.
Bargaining Pow er of Buyers (Moderate)	Consumer Concentration	Consumers in this industry are about 8 million people, how ever, these are individual customers (each one demands low purchase volume) and they have no direct relationship w ith service providers.
	Role of the SISS	The SISS plays a mediator role in tariff negotiations, representing all consumers' interests.
	Social Netw orks Importance	Consumers, despite being individual, have the pow er to carry out social actions at the expense of the operations of the companies providing the service.
Threat of Substitutes (No Threat)	Direct and Indirect Substitutes	Water is not a good w ith both direct and indirect substitutes. It is possible to find various mechanisms to obtain or capture this supply (for example, w ater desalination), how ever, the good remains the same.
	Elasticity of Demand	The demand for the service is quite inelastic because it corresponds to a good of necessity, so its consumption cannot be limited by price factors. As for cross elasticity, since there are no close substitutes, it does not represent a risk.

Source: Team Analysys

APPENDIX 12 PORTER ANALYSIS

ASSESSMENT

0 No Threat
1 Very low
2 Low
3 Moderate
4 High
5 Very High



Source: Team Analysis

APPENDIX 13 SWOT ANALYSIS

STRENGTHS

- It offers an integrated service, acting in each process linked to the water cycle.
- Company with a long history and with know-how of the industry.
- Intensive investment strategy.
- Strong financial position and stable results over time.
- Aguas/A and its subsidiaries have a 43.6% market share through indefinite concessions.

OPPORTUNITIES

- Low late payment levels.
- Regulatory framework in Chile is tested, stable and transparent.
- Government subsidy to low-income clients (18%).
- Once the concession is acquired, there is no competition in the sector
- Natural Monopoly

WEAKNESSES

- Loss of customer confidence due to recent events (such as the supply cut in Osorno).
- Service history with emblematic failures.
- Operational failure to respond to contingencies (only 34 autonomy hours).

THREATS

- The SISS acts as a regulatory counterpart in the tariff setting process.
- Drought.
- Changing weather conditions.
- Natural disasters.
- Mandatory service delivery.
- Fines for breach of service delivery and compliance with development plans.
- Possible decrease on the regulted return rate on assets.

Source: Team Analysis

Aguas Andinas' main future investments focus on are focused on increasing the company's autonomy hours and improving wastewater treatment levels. This is why the company is investing in the Pirque pond, and additionally, in 2018 it issued a green bond to finance 5 main projects explained below.

PIRQUE POND

Currently, a 1,500,000 m3 raw water pond is under construction in Pirque. With this, plus the existing water pond, Aguas Andinas will achieve 32 autonomy hours in Santiago, an increase of 290% from the current 11 hours.

CHAMISERO DRINKING WATER DRINKING PLANT

Plant expansion to respond to population demand on the areas of Chamisero and Chicureo.
Treated flow of 500 l/s.

CURACAVÍ SEWAGE TREATMENT PLANT

Plant expansion to increase treatment level.
4,150 m3/day in 2029.

TALAGANTE II SEWAGE TREATMENT PLANT

Plant expansion to increase treatment level.
52,877 m3/day in 2024.

BUÍN-MAIPO WASTEWATER TREATMENT PLANT

Plant expansion to increase treatment level.
13,832 m3/day in 2032.

EL MONTE SEWERAGE TREATMENT PLANT

Plant expansion to increase treatment level.
8,227 m3/day in 2032

Source: Company Data

APPENDIX 15 WACC ASSUMPTIONS

WACC was computed using CLP rates through the CAPM, the main assumptions we made are:

- We used the 10-year CLP Central Bank Bond as of 25th October 2019 and subtracted the 10-year CDS as the risk-free rate.
- Beta was computed using Damodaran's unlevered beta from the water utilities industry in developing countries and re-leveraging it with the company's actual D/E ratio and adjusting it to its debt. We decided to use Damodaran's data, because using the arithmetic or geometric mean could under or overestimate the company's beta, due to outliers in the weekly or monthly returns in both the Chilean Market Index (IPSACLX) and Aguas Andinas.
- Market premium was computed using Damodaran's data. We used Chile's market premium and adjusted it to the current date (since Damodaran's market premium was as of January 2019).
- We used Chile's corporate tax rate (27%) since we are considering that there is a revolving behavior between deferred taxes in assets and liabilities.
- The company's debt is mainly inflation linked; therefore, the company pays according to each period's inflation adjustment (cost of debt = 3.3%). The company's debt also has an AFR component, a financing alternative that consists of certain amount of money or works that the public sanitary services provider may require to those who request to be incorporated as clients, or, request an extension of service. These have defined forms and terms for money return. The return of the amounts contributed by clients is basically through the issuance of endorsable promissory notes at 10 or 15 years (cost of AFR debt = 4.0%). Weighing both rates by their respective proportion (80% debt and 20% AFR), we obtained a cost of debt of 3.44%.
- Company capital structure was computed with current market public data of the current structure of the company.

WACC	
CAPM	
Central Bank Bond 10 yr	3.03%
Market Risk Premium	6.62%
Beta	0.91
Cost of Equiy	8.33%
Cost of Debt	
Est. Future Borrowing Rate	3.44%
Corporate Tax Rate	27%
After Tax Cost of Debt	2.51%
Equity	71.03%
Debt	28.97%
WACC	6.64%

Source: Team Estimates

AGUAS ANDINAS CONSOLIDATED PROFORMA (in CLP bn) INCOME STATEMENT	2019E	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Revenues	**572**	**575**	**601**	**624**	**643**	**671**	**598**	**619**	**641**	**664**	**687**	**711**
Drinking Water	221	222	232	241	250	259	231	239	247	256	265	274
Sewerage	268	269	281	292	300	314	280	290	300	311	322	333
Other Regulated Income	22	22	23	24	25	26	23	24	25	26	27	28
Non-Regulated Income	61	61	64	67	69	72	64	66	68	71	73	76
Cost of Good Sold	**-42**	**-42**	**-44**	**-46**	**-47**	**-49**	**-44**	**-45**	**-47**	**-49**	**-50**	**-52**
Gross Margin	**530**	**533**	**557**	**578**	**596**	**621**	**554**	**574**	**594**	**615**	**637**	**659**
Selling, General and Administrative Expenses	-207	-208	-218	-226	-233	-243	-217	-224	-232	-240	-249	-258
EBITDA	**323**	**325**	**339**	**352**	**363**	**379**	**337**	**349**	**362**	**375**	**388**	**401**
Depreciation and Amortization	-82	-83	-87	-90	-93	-97	-86	-89	-92	-96	-99	-102
EBIT	**241**	**242**	**253**	**262**	**270**	**282**	**251**	**260**	**270**	**279**	**289**	**299**
Net Interest Income (Expense)	-25	-28	-31	-35	-39	-42	-46	-48	-50	-51	-53	-46
Other	-25	-25	-26	-27	-28	-29	-26	-27	-28	-29	-30	-31
Income Before Taxes	190	188	195	200	203	211	179	186	192	199	206	222
Taxes	-51	-51	-53	-54	-55	-57	-48	-50	-52	-54	-56	-60
Net Income	**139**	**138**	**142**	**146**	**148**	**154**	**131**	**136**	**140**	**145**	**150**	**162**

INCOME STATEMENT (As % sales)	2019E	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Revenues	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Drinking Water	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%
Sewerage	47%	47%	47%	47%	47%	47%	47%	47%	47%	47%	47%	47%
Other Regulated Income	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Non-Regulated Income	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
Cost of Good Sold	**-7%**	**-7%**	**-7%**	**-7%**	**-7%**	**-7%**	**-7%**	**-7%**	**-7%**	**-7%**	**-7%**	**-7%**
Gross Margin	**93%**	**93%**	**93%**	**93%**	**93%**	**93%**	**93%**	**93%**	**93%**	**93%**	**93%**	**93%**
Selling, General and Administrative Expenses	-36%	-36%	-36%	-36%	-36%	-36%	-36%	-36%	-36%	-36%	-36%	-36%
EBITDA	**56%**	**56%**	**56%**	**56%**	**56%**	**56%**	**56%**	**56%**	**56%**	**56%**	**56%**	**56%**
Depreciation and Amortization	-14%	-14%	-14%	-14%	-14%	-14%	-14%	-14%	-14%	-14%	-14%	-14%
EBIT	**42%**	**42%**	**42%**	**42%**	**42%**	**42%**	**42%**	**42%**	**42%**	**42%**	**42%**	**42%**
Net Interest Income (Expense)	-4%	-5%	-5%	-6%	-6%	-6%	-8%	-8%	-8%	-8%	-8%	-6%
Other	-4%	-4%	-4%	-4%	-4%	-4%	-4%	-4%	-4%	-4%	-4%	-4%
Income Before Taxes	33%	33%	32%	32%	32%	31%	30%	30%	30%	30%	30%	31%
Taxes	-9%	-9%	-9%	-9%	-9%	-8%	-8%	-8%	-8%	-8%	-8%	-8%
Net Income	**24%**	**24%**	**24%**	**23%**	**23%**	**23%**	**22%**	**22%**	**22%**	**22%**	**22%**	**23%**

KEY FINANCIALS	2019E	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
EBITDA %	56.4%	56.4%	56.4%	56.4%	56.4%	56.4%	56.4%	56.4%	56.4%	56.4%	56.4%	56.4%
Net Profit %	24.3%	23.9%	23.7%	23.4%	23.0%	23.0%	21.9%	21.9%	21.8%	21.9%	21.8%	22.8%
Revenue Growth	7.9%	0.5%	4.5%	3.9%	3.1%	4.3%	-10.9%	3.6%	3.6%	3.5%	3.5%	3.5%

Source: Team Estimates and Company Data

BALANCE SHEET	2019E	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
ASSETS												
Cash and Equivalents	33	34	36	37	39	41	41	42	43	43	44	45
Accounts Receivable	127	128	140	145	150	156	139	144	149	154	160	165
Inventory	4	4	5	5	5	5	5	5	5	5	5	5
Other Current Assets	8	8	9	9	9	10	9	9	9	10	10	10
Total Current Assets	**173**	**175**	**189**	**196**	**203**	**211**	**193**	**200**	**206**	**213**	**219**	**226**
Property, Plant and Equipment	1,500	1,562	1,638	1,730	1,840	1,905	1,964	2,005	2,041	2,074	2,105	2,132
Intangible Assets	261	261	261	261	261	261	261	261	261	261	261	261
Non-Current Financial Assets	8	8	8	8	8	9	9	9	9	9	9	9
Other Non-Current Assets	27	27	28	29	30	31	28	29	30	31	32	33
Total Non-Current Assets	**1,796**	**1,858**	**1,936**	**2,029**	**2,139**	**2,206**	**2,262**	**2,304**	**2,341**	**2,375**	**2,406**	**2,435**
Total Assets	**1,968**	**2,033**	**2,124**	**2,225**	**2,342**	**2,417**	**2,455**	**2,504**	**2,547**	**2,587**	**2,625**	**2,661**
LIABILITIES												
Current Accounts Payable	153	142	149	154	159	166	148	153	159	164	170	176
Short-Term Debt	34	35	35	35	36	36	36	37	37	38	38	38
Other Current Liabilities	21	24	22	26	24	28	19	29	21	31	23	32
Total Current Liabilities	**208**	**201**	**206**	**216**	**218**	**230**	**203**	**219**	**216**	**232**	**230**	**247**
Non-Current Accounts Payable	1	1	1	1	1	1	1	1	1	1	1	1
Long-Term Debt	1,018	1,091	1,176	1,264	1,361	1,405	1,464	1,480	1,508	1,515	1,536	1,536
Other Non-Current Liabilites	58	56	59	61	63	65	58	60	62	65	67	69
Total Non-Current Liabilities	**1,077**	**1,148**	**1,235**	**1,326**	**1,425**	**1,471**	**1,523**	**1,541**	**1,571**	**1,580**	**1,604**	**1,606**
Total Liabilities	**1,285**	**1,349**	**1,441**	**1,542**	**1,643**	**1,701**	**1,726**	**1,760**	**1,788**	**1,813**	**1,835**	**1,853**
EQUITY												
Common Stock	156	156	156	156	156	156	156	156	156	156	156	156
Additional Paid in Capital	164	164	164	164	164	164	164	164	164	164	164	164
Retained Earnings	325	325	325	325	340	355	368	382	396	410	425	442
Minority Interest	45	45	45	45	46	47	48	49	50	51	52	53
Other Charges to Equity	-6	-6	-6	-6	-6	-6	-6	-6	-6	-6	-6	-6
Total Equity	**683**	**683**	**683**	**683**	**699**	**716**	**730**	**744**	**759**	**775**	**791**	**808**
Total Liabilites and Equity	**1,968**	**2,033**	**2,124**	**2,225**	**2,342**	**2,417**	**2,455**	**2,504**	**2,547**	**2,587**	**2,625**	**2,661**

FREE CASH FLOW		2019E	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	Terminal
EBIT		**241**	**242**	**253**	**262**	**270**	**282**	**251**	**260**	**270**	**279**	**289**	**299**	
Tax		-65	-65	-68	-71	-73	-76	-68	-70	-73	-75	-78	-81	
EBIT(1-tax)		176	176	184	191	197	206	183	190	197	204	211	218	
Add: Depreciation and Amortization		82	83	87	90	93	97	86	89	92	96	99	102	
Less: Capital Expenditures		-142	-145	-163	-182	-202	-162	-145	-130	-128	-129	-129	-130	
Less: Change in Net Working Capital		-3	15	4	-2	-2	-2	6	-2	-2	-2	-2	-2	
Free Cash Flow		**113**	**129**	**112**	**98**	**86**	**138**	**130**	**147**	**159**	**169**	**179**	**189**	**194**
Terminal Growth Rate	**2.79%**													
Terminal Value													**5,040**	
WACC	**6.64%**													
Present Value Factor (Mid-Year)		96.8%	90.8%	85.2%	79.9%	74.9%	70.2%	65.8%	61.7%	57.9%	54.3%	50.9%	47.7%	
Present Value of Cash Flow		**110**	**117**	**95**	**78**	**65**	**97**	**86**	**91**	**92**	**92**	**91**	**90**	
EV		**3,510**												

Source: Team Estimates and Company Data

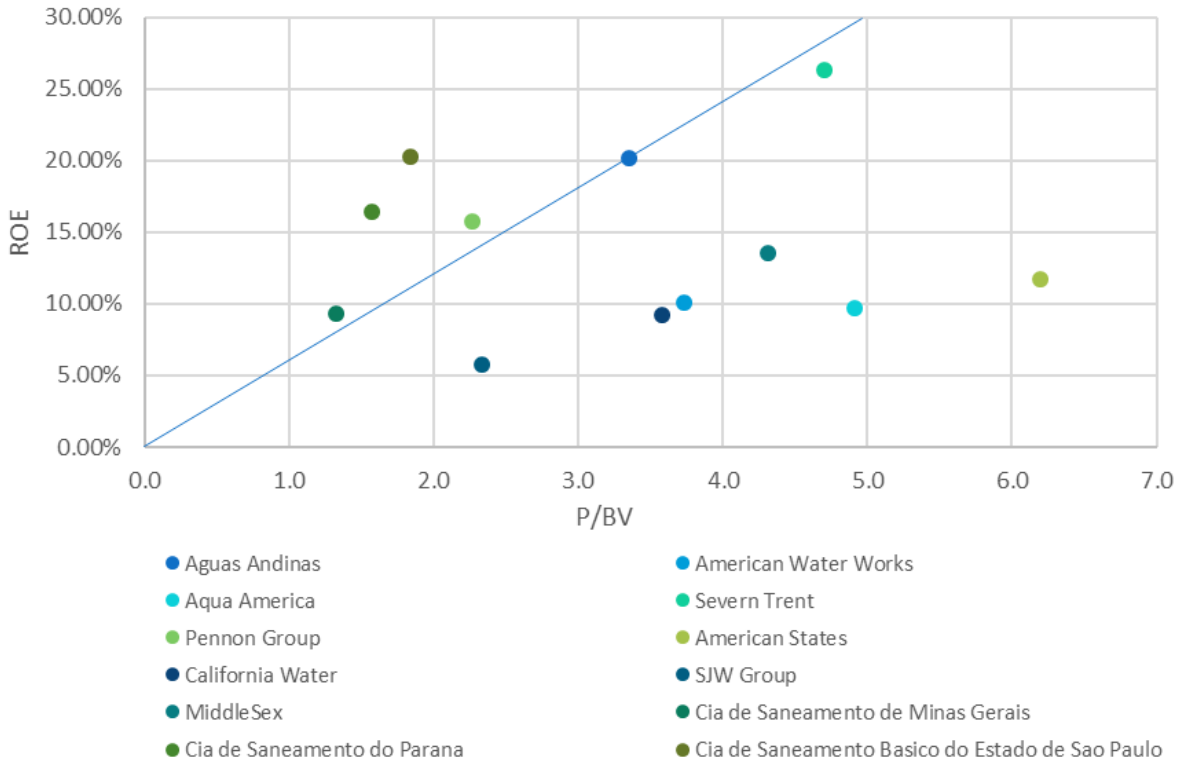
APPENDIX 17 COMPARABLE MULTIPLE ANALYSIS

Comparable Multiple Valuation considers EV to LTM EBITDA of the following companies

Company Name	Industry Clasiffication	Geographic Locations	Market Capitalization (USD MM)
American Water Works Company, Inc	Waste Water Treatment; Water Utilities	United States and Canada	22,379.30
Aqua America, Inc	Waste Water Treatment; Water	United States	9,718.60
Companhia de Saneamento Básico do Estado de São Paulo	Sewage Treatment Systems; Water Utilities	Brazil	8,243.20
Severn Trent Plc	Sewage Treatment Systems; Water	London	6,141.60
Pennon Group Plc	Sewage Treatment Systems; Water	London	4,109.60
American States Water Company	Waste Water Treatment; Water Utilities	United States	3,340.70
California Water Service Group	Sewage Treatment Systems; Water Utilities	United States	2,510.00
Companhia de Saneamento do Paraná - SANEPAR	Sewage Treatment Systems; Water Utilities	Brazil	2,018.50
SJW Group	Water Supply, Water Utilities	United States	1,983.30
Middlesex Water Company	Waste Water Treatment; Water Utilities	United States	1,056.10
ESVAL	Waste Water Treatment; Water	Chile	351.6

Source: Team Estimates

EV / LTM EBITDA PEERS Company	2015	2016	2017	2018
Aguas Andinas	10.77	10.19	11.26	10.67
American Water Works Company	11.32	12.85	13.75	15.09
Aqua America, Inc.	15.63	15.74	19.47	18.42
Companhia de Saneamento Básico do Estado de São Paulo			6.33	4.82
Severn Trent Plc				11.85
Pennon Group Plc				12.50
American States Water Company	11.64	13.49	15.05	20.29
California Water Service Group	10.40	12.74	13.66	14.70
Companhia de Saneamento do Paraná			5.83	4.76
SJW Group	8.29	11.24	11.68	12.97
Middlesex Water Company	11.67	15.70	15.56	20.42
ESVAL				7.66
Cia de Saneamento de Minas Gerais			5.39	7.27
INDUSTRY EV/EBITDA	**11.44**	**12.92**	**11.53**	**12.56**
HISTORIC INDUSTRY EV/EBITDA				**12.00**



We made a comparison between Aguas Andinas and its international peers based on ROE and Price-to-Book Value Ratio. We wanted to determine if the company is currently undervalued or overvalued in the market in relation to its comparable peers. We were able to determine that Aguas Andinas is overvalued in relation to one Brazilian company but in line with the others, since it has higher ROE and P/BV levels. However, compared to the US companies, Aguas Andinas is trading at a lower price, since, despite having higher ROE levels, it has lower P/BV levels. We can see that, in general, Aguas Andinas have similar P/BV ratios with its peers, but a higher ROE. This is due to the fact that the company is located right below the Andes Mountain, which acts as a natural competitive advantage, since it allows the company to have lower operational costs in water collection and thus achieve a higher ROE. Analyzing these multiple and ratio levels, we can determine that the other companies are good comparable and indicates that the company appears to be undervalued.

Source: Team Estimates

APPENDIX 18 KEY FINANCIAL RATIOS

RATIOS	2017A	2018A	2019E	2020F	2021F	2022F	2023F	2024F	2025F*	2026F
Profitabilty										
EBITDA Margin	59.1%	58.2%	56.4%	56.4%	56.4%	56.4%	56.4%	56.4%	56.4%	56.4%
EBIT Margin	44.5%	43.9%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%	42.0%
Net Income Margin	28.2%	26.3%	24.3%	23.9%	23.7%	23.4%	23.0%	23.0%	21.9%	21.9%
ROE	20.8%	20.2%	20.3%	20.1%	20.8%	21.4%	21.4%	21.8%	18.1%	18.4%
ROA	8.0%	7.5%	7.2%	6.9%	6.8%	6.7%	6.5%	6.5%	5.4%	5.5%
Liquidity										
Current Ratio	0.64	0.70	0.83	0.87	0.92	0.91	0.93	0.92	0.95	0.91
Quick Ratio	0.62	0.68	0.78	0.82	0.87	0.86	0.88	0.87	0.90	0.86
Cash Ratio	0.08	0.16	0.16	0.17	0.17	0.17	0.18	0.18	0.20	0.19
Efficiency										
Asset Turnover	0.28	0.28	0.29	0.28	0.28	0.28	0.27	0.28	0.24	0.25
Receivables Days	79	79	81	81	85	85	85	85	85	85
Inventory Days	38	35	38	38	38	38	38	38	38	38
Payable Days	339	361	304	281	281	281	281	281	281	281
Leverage Analysis										
Net Debt / EBITDA	2.8	2.9	3.2	3.4	3.5	3.6	3.7	3.7	4.3	4.2
Asset to Equity	2.6	2.8	2.9	3.0	3.1	3.3	3.3	3.4	3.4	3.4
Debt to Equity	1.6	1.8	1.9	2.0	2.1	2.3	2.3	2.4	2.4	2.4
Interest Coverage	7.3	7.8	7.3	6.8	6.4	6.1	5.7	5.6	4.7	4.7

$	2017A	2018A	2019E	2020F	2021F	2022F	2023F	2024F	2025F*	2026F
Drinking Water	195,091	208,467	220,953	221,932	231,882	240,821	249,732	258,844	230,660	238,934
Sew erage	240,399	254,084	267,963	269,205	281,274	292,117	299,773	314,045	279,850	289,948
Other Regulated Income	18,408	17,656	22,269	22,371	23,374	24,275	25,029	26,094	23,253	24,090
Non Regulated Income	55,642	50,198	61,115	61,392	64,145	66,617	68,688	71,611	63,814	66,110

%	2017A	2018A	2019E	2020F	2021F	2022F	2023F	2024F	2025F*	2026F
Drinking Water	38.3%	39.3%	38.6%	38.6%	38.6%	38.6%	38.8%	38.6%	38.6%	38.6%
Sew erage	47.2%	47.9%	46.8%	46.8%	46.8%	46.8%	46.6%	46.8%	46.8%	46.8%
Other Regulated Income	3.6%	3.3%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%
Non Regulated Income	10.9%	9.5%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%

Growth	2017A	2018A	2019E	2020F	2021F	2022F	2023F	2024F	2025F*	2026F
Drinking Water	2.46%	6.86%	5.99%	0.44%	4.48%	3.85%	3.70%	3.65%	-10.89%	3.59%
Waste Water	2.10%	5.69%	5.46%	0.46%	4.48%	3.85%	2.62%	4.76%	-10.89%	3.61%
Other Regulated Income	7.27%	-4.09%	26.13%	0.45%	4.48%	3.85%	3.11%	4.26%	-10.89%	3.60%
Non Regulated Income	13.60%	-9.78%	21.75%	0.45%	4.48%	3.85%	3.11%	4.26%	-10.89%	3.60%

%	2017A	2018A	2019E	2020F	2021F	2022F	2023F	2024F	2025F*	2026F
Water Segment	85.5%	87.2%	85.4%	85.4%	85.4%	85.4%	85.4%	85.4%	85.4%	85.4%
Non-Water Segment	14.5%	12.8%	14.6%	14.6%	14.6%	14.6%	14.6%	14.6%	14.6%	14.6%

* NewTariff Cycle (2025-2030), our base case scenario incorporates a downgrade from the current regulated rate of return from 7% to 5.5%

Source: Team Estimates and Company Data

APPENDIX 19 INVESTMENT RISKS

BUSINESS RISKS

Regulatory Risk *(high probability, high impact).*

Chile's Publi c Works Ministry is currently working on modifications to the laws on sanitary services, this can directly impact the company's profitability. The Osorno event that left Essal's customers without water for 10 days targeted the company's operations and has brought numerous consequences, especially at a reputational level. The latest events linked to the risks of the business have made that the SISS requires a higher level of investment to all companies involved in this industry. These regulatory pressures may result in a decrease in the allowed rate of return on regulated assets ranging from less than 7% to 5%. The new rate level is a trade-off between a rate that is sufficiently attractive for investors but also that is in line with the current market situation and Chile's economy. Other changes considered are: (a) an alternative way to charge for non-regulated services that use regulated assets, (b) a tariff adjustment based on the difference between the real demand and the protected demand that was initially used to calculate the tariff, and (c) Use the standard cost of the industry rather than the model firm cost to compute the tariff thus to avoid information asymmetry.

Drought *(high probability, high impact).*

Chile's central zone is currently being affected by the worst drought in the past 50 years, which has been one of the main concerns within the industry and this company. From January to September 2019, in Santiago it has rain 74.1 millimeters, compared to 136.7 millimeters last year. During the period 1981-2010, rain's average was 326.3 millimeters, therefore, the average rain in the MR has decreased by 77%. To mitigate this risk, the company has a constant evaluation of possible seasonal variations. In addition, a drought and climate change plan were implemented. Within the specific efforts to deal with drought, together with constant monitoring, agreements have been enhanced with other users and water rights owners, water rights have been purchased, it has been placed a focus on the efficient use of the actions, the company systematically proposes to citizens resilience plans against the effects of climate change. The main risk that drought imposes is a high increase in the company's investments, in order to cope with lower water levels that affect the area.

Company Infrastructure Risk *(medium probability, high impact)*

Due to climate change it is expected that Santiago gets less water and more intense days of rain, causing an increase in Maipo river turbidity. The main risk that the company can face is that the river's turbidity can get so high that the firm needs to stop its operations to avoid damage in its plants (this can also result in fines for the company). The second bigger infrastructure risk is the large underground network of pipes for water distribution and sewage collection. Since it is underground, it is very difficult to determine the current state of these assets, this is why there has been some incidents with this net (like the water main break-down in Santiago). To mitigate this risk, Aguas/A has 34 autonomy hours to ensure water supply in the event that it must cut its drinking water production.

Investment Risk *(medium probability, high impact)*

Development plans committed to the SISS require the company to meet a high investment level. However, the tariffs charged by Aguas/A - and which are regulated by law - have these new investments incorporated, ensuring a minimum return. The risk presented by the company is that the regulator decides not to incorporate new investments in the tariff calculation.

Environmental Pollution Risk *(medium probability, medium impact)*

The Company is subject to various environmental pollution risks, among which are: discharges into natural channels; possible contamination due to odor emission from sewage treatment plants; possible presence of hydrocarbons in surface sources; eventual landfill saturation where sludge from wastewater treatment plants is deposited; possible chlorine gas leaks; and eventual sewer system obstructions.

Natural Environmental Risk (low probability, high impact)

Natural disasters of great magnitude, such as earthquakes, floods or volcanic eruptions, could cause serious damage to aqueducts, drinking water and sewage matrices, or structural failures in reservoirs owned by the company, causing, in turn, the suspension of the services it provides and thus possible fines to the company.

Concession Loss Risk *(low probability, high impact)*

Chile's President is the only one who has the power to remove concessions based on data provided by the SISS. If the company has a problem, the SISS analyzes the damage that has been caused, based on different variables: (a) the company's failure to provide a quality service, (b) the continuity of the service, and (c) the damage the mistake caused for clients. Concession loss is a risk with low probability but with very large effects. Currently, the main concern of investors is whether the SISS will take away Essal's concession in Osorno. Although we believe that this will not happen (given that the government is the one that must operate the sanitary services while another concessionaire is being sought, so it should incur high costs), the fact that the concession is taken away has a relatively small for Aguas/A, since it impacts only 2.1% of Aguas/A's consolidated EBITDA, since Osorno represents only 25% of Essal's EBITDA.

FINANCIAL RISKS

Credit Risk *(low probability, low impact)*

Aguas/A and its subsidiaries have an atomized market, which implies that the credit risk of a particular customer is not significant. The company's objective is to maintain minimum levels of default accounts receivable. The company only provisions client's accounts that are older than 9 months, in 2018 the amount provisioned was 7.9% and in March 31, 2019 it was 7.91%. To mitigate this risk Aguas/A can cut water supply.

Liquidity Risk *(medium probability, medium impact)*

Liquidity risk is the possibility that the Group has difficulties in complying with its obligations associated with financial liabilities. Preventive measures are used to manage liquidity risk, such as diversifying sources of financing instruments. The actual proportion of financing sources is: 10% bank loans, 20% AFRs and 70% bonds.

Interest Rate Risk *(low probability, medium impact)*

Aguas/A has 89.76% of its debt at a fixed rate, which is composed of 69.86% short-term and long-term bonds, and 19.90% of refundable financial contributions. The remaining 10.24% of the debt is at a variable rate and corresponds to loans with local banks. This debt structure allows the company to have low interest rates in the long-term debt when they take the opportunity to refinance at a lower rate, like on these days when the rate in Chile and in the whole world were diminishing. And if they need to take more debt in the short run this proportion is short compared to the long-term debt.

Source: Team Analysis