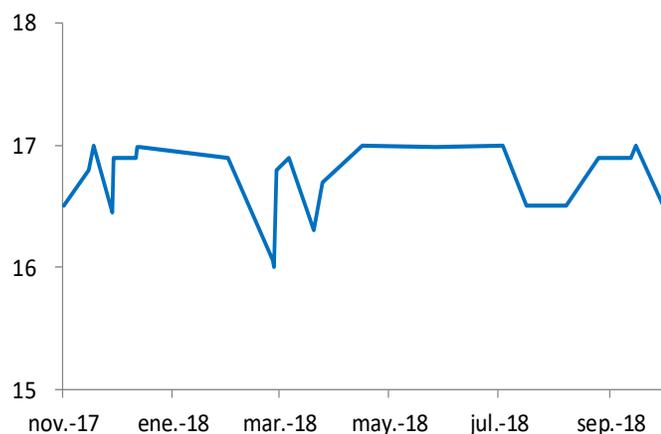


# Servicios Corporativos Javer, S.A.B. de C. V.

## Solid 3Q18 Results



RECOMMENDATION		BUY
12M Target Price (MXN\$)	\$	20.00
Expected Dividend (MXN\$)	\$	0.26
Current Price (MXN\$)	\$	16.50
Potential Return		22.8%
Market Cap. (Mn of MXN\$)		4,596
VE/EBITDA 2018E		6.7x
P/E 2018E		11.9x
P/BV (Current)		2.5x

### Summary and Recommendation

Javer reported solid 3Q18 operating results. The company's strategy of concentrating in the middle and residential segments resulted in higher revenues and had a highly positive effect on its profitability. However, net income was affected by an adjustment in the tax rate in 3Q17, while the free cash flow generation was negative due to the acquisition of additional land reserves.

Javer confirmed its guidance for the current year, which includes a double-digit revenue growth, an EBITDA increase of at least 7.5% and neutral cash flow generation. We believe that projected revenues and EBITDA are easily achievable taking into account the accumulated figures for 9M18. The cash flow target will depend to a large extent on the amount of land acquisition in 4Q18.

We reiterate our BUY recommendation with a 12-month target price of MXN\$20.0 per share. The potential yield is 22.8%.

### 3Q18 Results

Javer's revenues increased 17.3% YoY in 3Q18, reaching MXN\$2.0 billion. Units sold rose 6.2% YoY to 4,546. However, the sales mix improved quite substantially as the company showed a significant 28.9% YoY increase in middle income housing sales and 86.9% YoY in residential housing, which was partially offset by a 58.7% reduction in social interest. Subsidized units rose 65.6% YoY in 3Q18, representing 38.4% of total units sold. There were no land sales during the current quarter, compared to MXN\$6.7 million in 3Q17.

Infonavit credits represented 92.8% of units sold in 3Q18, compared to 95.4% in 3Q17. Other entities such as Fovissste and financial institutions contributed with the remainder 7.2% in 3Q18. Vertical housing contributed with 22.5% of total homes sold in 3Q18, from 21.4% in 3Q17.

The focus on the middle and residential segments also resulted in a higher average price per unit sold, which was MXN\$445,861 in 3Q18, or 2.0% higher compared to 3Q17. Javer mentioned that it began the titling of 5 new projects during the current quarter, most of them focused on the residential segment. The company also expects to open 8 new projects in total during the rest of the year, of which 6 will be in middle income housing and the rest

in residential housing, which will include two projects in Playa del Carmen. We believe this will continue to generate a higher sales mix in the future.

EBITDA was up 37.3% YoY in 3Q18, driven by the sales mix improvement, combined with a strict expenses control since these only advanced 11.1% YoY. The EBITDA margin improved by 1.3 percentage points to 13.6% in 3Q18.

However, net income decreased 17.2% YoY in 3Q18 due to an unfavorable comparison basis as the company made an adjustment to the tax rate in 3Q17.

Javer maintained a healthy financial structure with a net debt to EBITDA ratio of 1.8x at the end of the quarter.

Free cash flow was negative by MXN\$88.7 million in 3Q18, compared to a positive figure of MXN\$29.9 million in 3Q17, due to a faster acquisition of land reserves as part of the company's operating strategy for the 2019 period -2020, which was announced at the beginning of the current year. Free cash flow was negative by MXN\$7.2 million in 9M18, compared to a positive MXN\$216 million in 9M17.

At the end of 3Q18, the company had enough land reserves to build 90,994 units, of which 69.7% were directly acquired reserves and the rest are reserves held by land trusts.

Javer is currently analyzing several debt refinancing options that will allow it to optimize costs and terms.

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