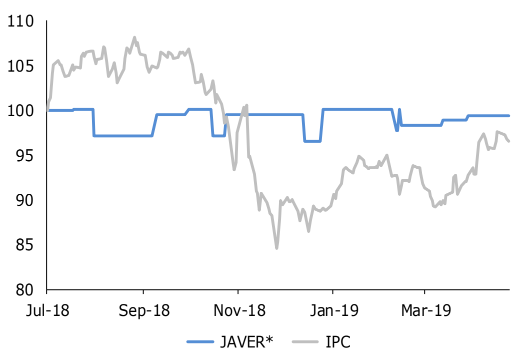
JAVER: 1Q19 RESULTS

Subsidy Reduction Partially Offset by a Stronger Mix; We Maintain our HOLD Recommendation

HOLD	
Target Price 2019E (MXN$)	$ 18.50
Current Price (MXN$)	$ 16.88
12M Max / Min (MXN$)	$ 15.91 -17.00
Expected Dividend (MXN$)	$ 0.00
Potential Return	9.6%
Market Cap. (MXN$ Mn)	4,707
Enterprise Value (MXN$ Mn)	7,249
Outstanding Shares (Mn)	278.8
Floating Shares	34.4%
ADTV (MXN$ Mn)	$ 0.04



Opinion and Recommendation:

- **JAVER reported slow operating results in 1Q19, which were in line with our expectations. Volume in the social interest segment was dragged down by the elimination of the subsidy program that was announced at the end of last year. However, the company could partially offset this impact by focusing on middle and residential housing, which translated into a significant improvement in its average sales price and a 180 bps expansion in the contribution margin.**

- **After these results, we reiterate our HOLD recommendation with a MXN$18.50 per share target price. We anticipate that JAVER's operating performance will improve during the second half of 2019 due to lower investments in land reserves, the macroeconomic recovery and the possible benefits of the new National Housing Policy, which is expected to mitigate the decrease in subsidies.**

1Q19 Results

Total number of units decreased 26% YoY to 3,498. The reduction in subsidies that was announced at the end of last year generated an annual contraction of 47% in the number of low-income houses. Worth mentioning that the company did not sell any subsidized houses during the current quarter, compared to 27% of total units in 1Q18. Middle-income segment volume fell 24% YoY. On the contrary, the number of residential homes rose 5% YoY since the company took advantage of its flexible business model.

As a result of this change in the sales mix, the average price reached MXN$461,700 in 1Q19, which represented a significant annual increase of 11% YoY.

The loans granted by Infonavit, including Cofinavit, represented 91% of the total units sold in 1Q19, below 95% in 1Q18. This was mainly due to the growth of the residential segment, which requires bank loans.

JAVER's total revenues were MXN$1,617 million in 1Q19, with a 19% YoY drop. Social interest housing represented 12% of

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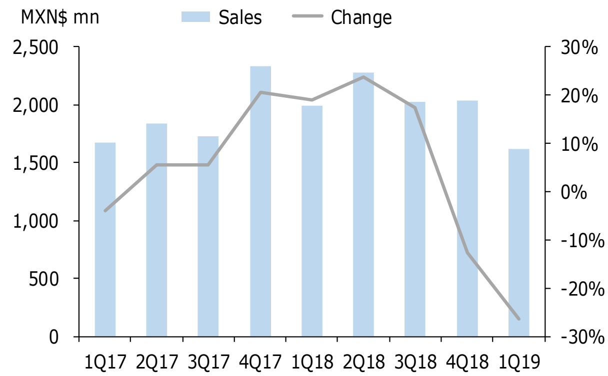
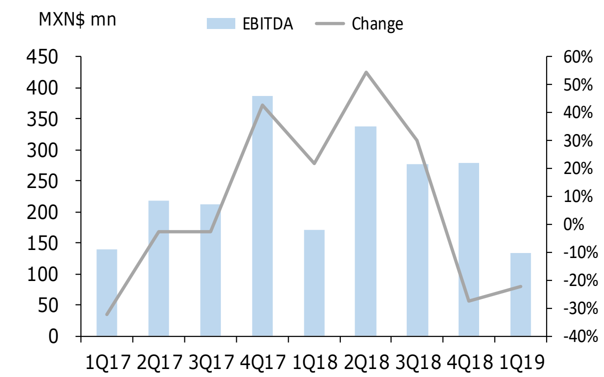
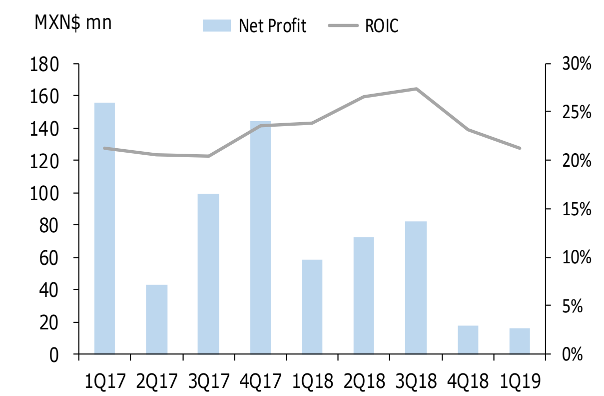
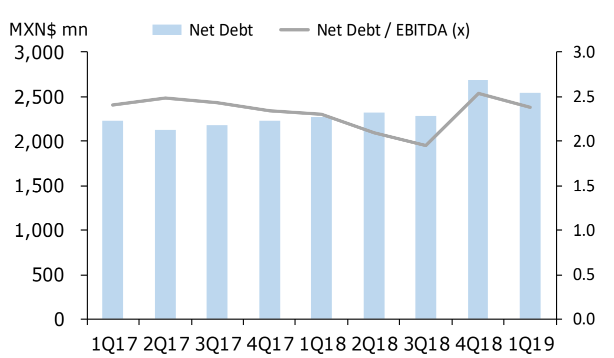
Quarterly Results









total units and 7% of revenues, medium interest contributed with 80% of volume and 69% of sales, while residential housing accounted for 8% of units but 24% of revenues.

The improvement in the sales price also boosted the gross margin of housing sales to 26.5% in 1Q19, from 24.8% in 1Q18. However, the company's expenses fell 6% YoY, with which the EBITDA margin was 8.2% in 1Q19, down from 8.6% in 1Q18. For this reason, EBITDA was down 22% YoY, closing at MXN$132 million.

JAVER closed the quarter with a MXN$16 million net profit, compared with a MXN$58 million net profit in 1Q18. This fall was due to lower sales volume. In addition, financial costs increased due to higher interest rates.

The company presented a MXN$55 million negative free cash flow in 1Q19. However, this figure was lower than the MXN$118 million negative in 1Q18, thanks to lower taxes and working capital efficiencies. The working capital cycle was 279 days in 1Q19, higher than the 243 days in 1Q18, as a result of the acquisition of land reserves in 4Q18 and the investments required in those areas. The company now has enough land reserves to build 96,421 units, of which 71% in the middle segment, 22% in low-income and the remainder 7% is for residential housing.

The financial structure remained solid with a net debt to EBITDA ratio of 2.48x at the end of the quarter, from 2.38 times in 4Q18 and 2.16 times in 1Q18. The company mentioned that it is still studying possible refinancing alternatives for its Senior Notes due 2021, which we believe will be positive news.

Subsidies / National Housing Policy

The subsidy program practically disappeared this year as only MXN$400 million were granted from April. The new National Housing Policy, which may be announced during the coming months, will likely include an increase in the amount of credits for low-income Infonavit beneficiaries, which could be favorable for the companies in the sector that are focused on the social interest segment.

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